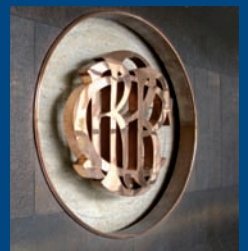




ANNUAL
REPORT | **2007**



CENTRAL RESERVE BANK OF PERU

Central Reserve Bank of Peru

The 1993 Political Constitution of Peru establishes that the Central Reserve Bank of Peru (BCRP) is a public autonomous entity whose role is to preserve monetary stability. According to the Article 84 of the Constitution, the Bank is responsible for regulating currency circulation and credit in the financial system, for managing international reserves, and for periodically and accurately informing the nation about the state of national finances. Moreover, Article 83 of the Constitution establishes that only the State can issue banknotes and coins, and that this is carried out through the BCRP.

Monetary stability is the main contribution that the Central Bank can provide to the country's economy since low inflation reduces uncertainty and generates confidence in the present and future value of our currency. This is essential to stimulate saving, to attract productive investments, and to promote in this way sustained economic growth in the country.

The independence of the Central Bank is a necessary condition for the management of monetary policy based on technical criteria. In this way, monetary policy decisions may be oriented to fulfilling the constitutional mandate of preserving monetary stability, without pressures that could turn the conduction of monetary policy away from said mandate. One of the elements guaranteeing this independence is that the Directors of the Central Bank cannot be removed, except in the case of serious misconduct or major offense, as established in the Central Bank's Organic Law.

The Bank is prohibited from extending credit to the treasury (except as regards purchasing securities issued by the treasury in the secondary market according to the limits established in the Bank's Organic Law), from granting selective credit and from establishing multiple exchange rates.

The Board of Directors is the highest authority of the BCRP and is integrated by seven members who exert their role with independence. Four of the board members, including the Chairman, are appointed by the Executive. The Congress ratifies the Chairman and elects the three other members of the Board by absolute majority of its members.



ANNUAL
REPORT **2007**



CENTRAL RESERVE BANK OF PERU

ANNUAL REPORT 2007

Banco Central de Reserva del Perú
Jirón Antonio Miró Quesada 441 - Lima

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CENTRAL RESERVE BANK OF PERU

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Quipu with twisted and
knotted cotton cords
Inca Culture (AD 1440-1532)

Board of Directors

■ **Julio Velarde Flores**
Governor

■ **Carlos Raffo Dasso**
Vice Chairman

■ **Beatriz Boza Dibos**

José Chlimper Ackerman

Alfonso López Chau Nava

Martha Rodríguez Salas *

Abel Salinas Izaguirre

Members of the Board

Board of
Directors

7

* Replacing José Valderrama León since September 3, 2007.



Seniors Officers

■ **Renzo Rossini Miñán**
General Manager

■ **Adrián Armas Rivas**
Economic Studies

■ **Marylin Choy Chong**
Central Manager for Technical Affairs

■ **Manuel Monteagudo Valdez**
Legal Department

■ **Juan Ramírez Andueza**
Financial Stability

■ **Communications**

■ **Carlos Ballón Avalos**
International Operations

■ **Teresa San Bartolomé Gelicich**
Human Resources (ad int)

■ **Arturo Pastor Porras**
Treasury

■ **Felipe Roel Montellanos**
Information Technology

■ **Javier Olivera Vega**
Administration

■ **José Ponce Vigil**
Accounting and Supervision

■ **Shoschana Zusman Tinman**
Consultant Attorney

■ **Pedro Menéndez Ritche**
Risk Department (ad int)

■ **Oscar Solís de la Rosa**
Audit Department

■ **Dehera Bruce Mitrani**
General Secretary

Introduction

In a context of optimistic expectations regarding the evolution of the economy and showing the highest growth rate in the last 13 years, domestic production in Peru grew 9 percent in 2007. The remarkable pace of growth observed in the country over the past eight consecutive years has contributed to consolidate sustained growth and to gradually reduce poverty. It is worth pointing out that per capita GDP has grown 34 percent in this period.

Driven by domestic demand which increased by a real 11.6 percent in 2007, this economic expansion reflects high rates of growth in private consumption and private investment, consumer and business optimism, a higher disposable income, increased employment, high prices for our main exports, and the expansion of credit. Private investment grew 23 percent after increasing 20 percent in 2006. This growth of investment has been coupled with the adoption of more modern technologies, as reflected in the significant growth observed in imports of capital goods.

It is also worth pointing out the dynamism of exports, which reached a new historical record level of US\$ 28 billion, favored by the positive evolution of prices in external markets (the prices of traditional and non-traditional exports grew 16 and 9 percent respectively), the diversification of products, and access to new markets which boosted the growth of non-traditional exports (19 percent).

The international environment was marked by continuous rises in the prices of fuels and some food products that translated into inflationary pressures in most countries. In Peru, these pressures had a direct impact on the price of food and an indirect impact on firms' production costs and inputs. In this context, given that last 12 months inflation increased above the target since October, the Central Bank adopted preventive measures to lead inflation back to the target range (between 1 and 3 percent). Thus, the reference interest rate was raised by 25 basis points in both July and September to prevent that the high growth of domestic demand would generate inflationary pressures, as well as to maintain inflation expectations anchored around the target range.

In 2007 international reserves increased by over 60 percent to over US\$ 27 billion, which has implied greater efforts in terms of the portfolio that the Central Bank manages according to safety, liquidity, and profitability criteria.

Furthermore, the dynamic performance of the economy and a growing process of dedollarization –associated with the positive evolution of macroeconomic fundamentals and with the revaluation of our currency– were reflected in a higher demand for means of payment and in the operation of electronic payment systems. In 2007, efforts were also made at the Central Bank to modernize the bank's operations and to contribute to generate a better understanding of the bank's role and of economic and financial issues, among other actions.

This document discusses the above mentioned aspects and, in line with the Central Bank's policy of transparency, also presents the financial statements of our institution which have been duly audited by a prestigious international auditing firm.





"Simili velour" four-end hood
Wari Culture (AD 600-1000)

Central Reserve Bank of Peru





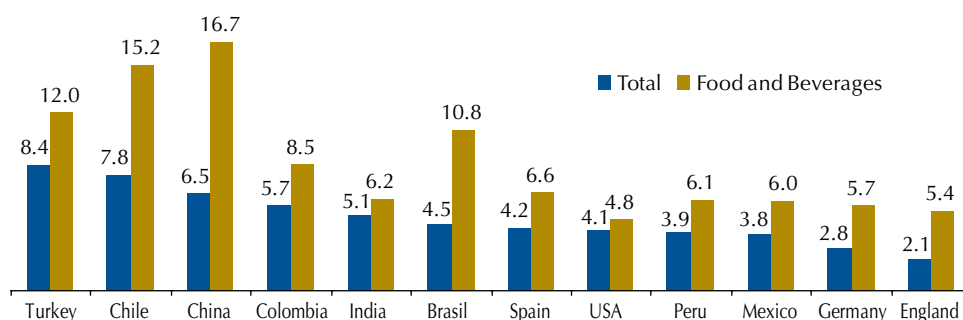
Cotton embroidered cloth
with netlike design
Chancay Culture (AD 1000-1470)

Macroeconomic Environment

In 2007 economic activity in Peru continued to show a robust growth mainly due to the dynamic performance of domestic demand, particularly private consumption and private investment, in a context of positive business and consumer expectations and surpluses in both the fiscal accounts and in the current account of the balance of payments.

In contrast, the external scenario was characterized by increased uncertainty in international financial markets as a result of the mortgage crisis in the United States and the price rises in foodstuffs and petroleum which, together with a greater weakening of the dollar, generated strong inflationary pressures worldwide.

GRAPH 1
Overall inflation and food and beverage inflation in December 2007
 (Las 12-month percentage change)



Data on inflation in China and Germany refers only to food.
 Source: Bloomberg.

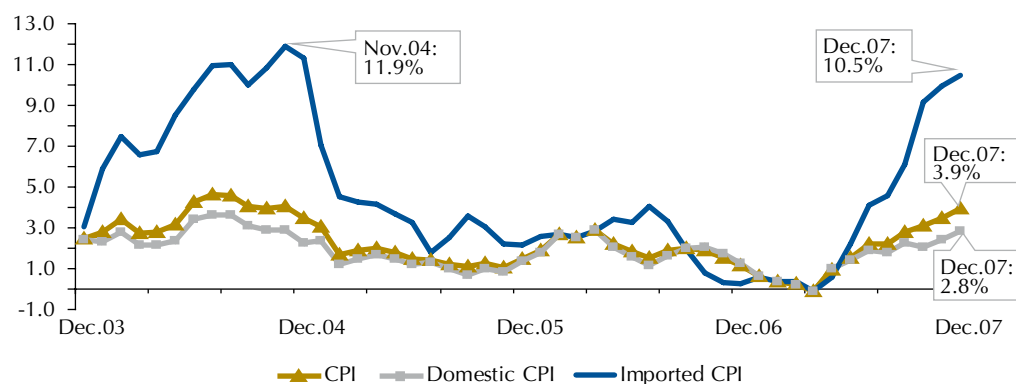
These external factors had a strong impact on domestic inflation –measured by the Consumer Price Index (CPI) of Lima Metropolitana– which reached 3.9 percent in 2007, the highest inflation rate observed in the country since 1998.

It is worth pointing out that Peru recorded the third lowest inflation rate in Latin America after Ecuador (2.7 percent) and Mexico (3.8 percent), and that Chile, China, Taiwan, United States, Singapore and Japan showed in 2007 the highest inflation rates of the last ten years, while inflation in the Eurozone (3.1 percent) reached the highest level since this region was created.

This higher inflation rate in Peru was mainly due to the effect of the higher prices of foodstuffs and imported inputs (wheat, maize, soybean oil, and petroleum), as reflected in the rate of imported inflation which reached 10.5 percent in 2007. Excluding food and beverages, inflation was 2.0 percent in 2007.

The higher prices of food in international markets are explained by both supply factors –reduction of sown areas and droughts in main producing countries– and demand factors –increased consumption in Asian countries. In Peru, this affected both the prices of some final goods included in the consumer basket (bread, food outside the household, evaporated milk) and firms’ production costs (fuels and related inputs, such as plastics and fertilizers, and inputs for the production of foodstuffs).

GRAPH 2
DOMESTIC AND IMPORTED COMPONENTS OF INFLATION
 (Last 12-month percentage change)



As mentioned above, the dynamism shown by domestic demand (11.6 percent), –particularly as a result of the evolution of private expenditure– reflected the growth of non-primary sectors, especially construction and non-primary manufacturing, which led the Peruvian economy to grow 9.0 percent in 2007 (the highest growth rate seen over the past 13 years).

TABLE 1
OVERALL DEMAND AND SUPPLY^{1/}
 (Real percentage changes)

	2005	2006	2007
I. Overall Demand (1+2)	7.4	8.3	10.6
1. Domestic Demand ^{2/}	5.7	10.0	11.6
a. Private consumption	4.6	6.2	8.3
b. Public consumption	9.1	8.7	4.8
c. Gross domestic investment	8.4	24.7	25.5
Gross fixed investment	12.0	18.9	22.7
i. Private	12.0	20.1	23.2
ii. Public	12.2	12.7	19.7
2. Exports ^{3/}	15.2	1.2	5.4
II. Overall Supply (3+4)	7.4	8.3	10.6
3. GDP	6.7	7.6	9.0
4. Imports ^{3/}	10.9	12.6	18.8

1/ Preliminary data.

2/ Includes change in inventories.

3/ Includes goods and non-financial services.

Source: INEI and BCRP.

This high growth of domestic demand is explained by consumers and business optimistic expectations given the country's macroeconomic robustness, favorable credit conditions, and the growth of formal employment seen in all the economic sectors and in most regions, as well as by increased announcements of investments in all production sectors.

In the external front, the surplus in the current account of the balance of payments was equivalent to 1.4 percent of GDP in 2007, lower than the 3.0 percent observed in 2006. This lower outcome is associated with a higher pace of imports (32 percent) due to increased domestic demand. Together with the current account result, a strong inflow of both short-term and long-term external capitals during this period caused the appreciation of the local currency.

TABLE 2
BALANCE OF PAYMENTS
(Millions of US\$)

	Millions of US\$		
	2005	2006	2007
I. BALANCE IN CURRENT ACCOUNT	1,148	2,755	1,505
<i>(Percentage of GDP)</i>	<i>1.4</i>	<i>3.0</i>	<i>1.4</i>
1. Trade Balance	5,286	8,934	8,356
a. Exports	17,368	23,800	27,956
b. Imports	-12,082	-14,866	-19,599
2. Services	-834	-781	-928
a. Exports	2,289	2,647	3,343
b. Imports	-3,123	-3,428	-4,270
3. Investment income	-5,076	-7,583	-8,418
a. Private	-4,211	-6,903	-7,985
b. Public	-865	-679	-433
4. Current transfers	1,772	2,185	2,495
of which: remittances	1,440	1,837	2,131
II. FINANCIAL ACCOUNT	141	639	8,558
1. Private sector	1,818	1,941	9,002
2. Public sector	-1,441	-738	-2,473
3. Short-term capital	-236	-563	2,030
III. EXCEPTIONAL FINANCING (I+II+III-IV)	100	27	67
IV. NET ERRORS AND OMISSIONS	239	-668	-476
V. BCRP NET RESERVES FLOWS (1-2)	1,628	2,753	9,654
(V= I + II + III + IV)			
1. Change in the NIRs balance	1,466	3,178	10,414
2. Valuation changes and monetization of gold	-162	425	760

Source: BCRP, MEF, SBS, SUNAT, Ministry of Trade Affairs, Cofide, ONP, FCR, Zofratatna, Banco de la Nación, Cavali ICLV S.A., Proinversión, BIS and companies.

On the fiscal side, the economic result of the Non-Financial Public Sector was equivalent to 3.1 percent of GDP (1.0 percentage point higher than in 2006). The Central Government accounted mainly for this surplus (1.8 percentage points), while entities in the rest of the General Government –particularly local governments– and state enterprises accounted for 1.2 percentage points and 0.1 percent of GDP respectively.

TABLE 3
NON-FINANCIAL PUBLIC SECTOR OVERALL BALANCE

	Percentage of GDP		
	2005	2006	2007
I. PRIMARY BALANCE	1.6	3.9	4.8
1. Central government primary balance	1.4	3.6	4.7
a. Current revenues	18.3	19.7	20.4
i. Tax revenue	13.9	15.1	15.6
ii. Non-tax revenue	4.4	4.5	4.7
b. Non-financial expenditure	17.0	16.2	15.7
i. Current	14.2	13.4	12.7
ii. Capital	2.7	2.8	3.0
c. Capital revenues	0.1	0.1	0.1
2. Primary balance of other entities	0.2	0.3	0.1
II. INTERESTS	1.9	1.9	1.8
1. External debt	1.6	1.4	1.3
2. Internal debt	0.3	0.4	0.5
III. OVERALL BALANCE (I-II)	-0.3	2.1	3.1
1. Net financing abroad	-1.5	-0.7	-1.9
<i>(Millions of US\$) (a-b+c)</i>	<i>-1,167</i>	<i>-658</i>	<i>-2,147</i>
a. Disbursements	3.3	0.6	3.1
b. Amortization	4.6	1.3	5.2
c. Other	-0.1	-0.1	0.1
2. Net domestic financing	1.7	-1.4	-1.3
3. Privatization	0.1	0.1	0.1

Source: MEF, Banco de la Nación, BCRP, SUNAT, EsSalud, local governments, state-owned companies and public institutions.

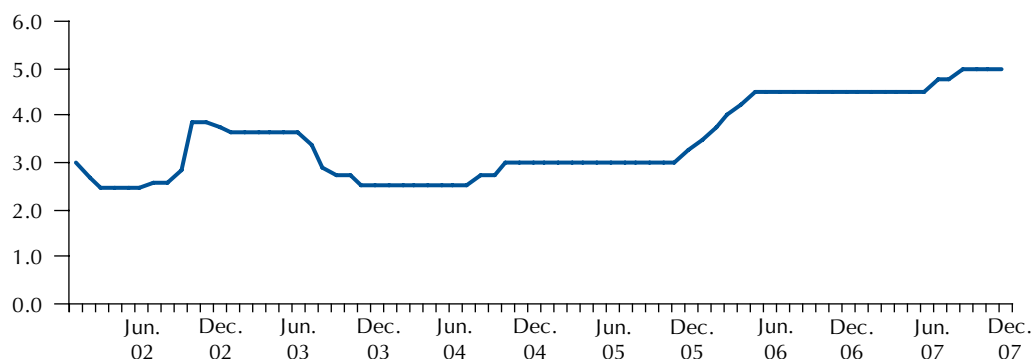
In 2007 the current revenues of the General Government grew by a real 13.6 percent due to increased domestic economic activity and to the favorable international prices of minerals, our main export products. These favorable conditions were reflected in the higher return of firms operating in the country, especially in the mining sector. In this way, the level of Central Government revenues recorded in 2007 (17.9 percent of GDP) is the highest observed since 1980.

The taxes that showed a more significant improvement were the income tax, which grew by a real 22 percent, and the internal value added tax (VAT), which increased 12 percent in real terms. The taxes associated with imports showed mixed conducts: while the external VAT increased by a real 20 percent due to the growth of imports during the year, tariffs declined by a real 24 percent mainly due to the reduction of tariff rates established at end 2006.

On the other hand, the Non-Financial Expenditure of the General Government was equivalent to 15.7 percent of GDP, increasing by a real 7 percent compared to 2006 mainly as a result of public investment which grew 20 percent in real terms.

In the financial sphere, short-term and long-term interest rates in soles in the money and capital markets have been increasing since September 2007. The changes in the short-term rates resulted from preventive adjustments implemented by the Central Bank in the reference rate in July and September 2007 (25 basis points in each case). On the other hand, long-term interest rates increased as a result of greater uncertainty in international markets and of investors' demand for higher yields –spreads– in emerging economies.

GRAPH 3
REFERENCE INTEREST RATE
(Percentage)



In 2007, in line with the robustness of the economy, financial entities showed a good performance, as reflected in their indicators of solvency, quality of portfolio, operational efficiency, and profitability.

The capital market showed a positive evolution both in terms of fixed and variable income instruments, as reflected in increased public and private long-term bond issues in nuevos soles and in the participation of new issuers. The indices of the Lima Stock Exchange (LSE) showed an important growth in 2007 (36.0 percent), as a result of which the LSE was one of the most profitable bourses in Latin America, surpassed only by the Sao Paulo Stock Exchange. The growing resources of institutional investors, particularly mutual funds, private administrators of pension funds (AFPs), and insurance companies, account for this evolution.

The growth of the monetary base in 2007 (S/. 3,916 million) was mainly associated with the BCRP exchange operations (amounting to S/. 21,914 million or US\$ 7,070 million), which included purchases of foreign currency (S/. 32,057 million or US\$ 10,306 million) that were partially compensated by net sales of dollars to the public sector (S/. 10,263 million and US\$ 3,275 million). Conversely, the monetary base shrank due to net placements of BCRP Certificates of Deposit (S/. 13,393 million) and higher deposits from the public sector at the central bank (S/. 6,751 million).



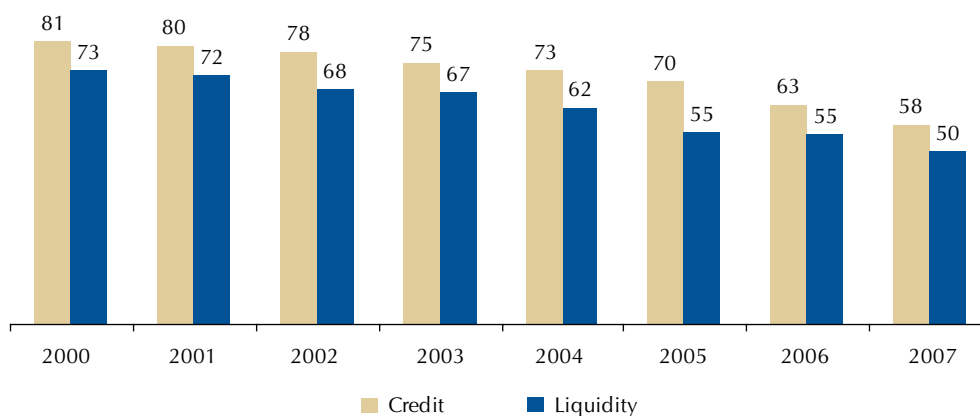
TABLE 4
BCRP OPERATIONS
(Millions of nuevos soles)

	2003	2004	2005	2006	2007
I. NET INTERNATIONAL POSITION	4,315	6,917	2,518	11,696	26,464
<i>(Millions of US\$)</i>	1,242	2,056	811	3,636	8,536
1. Foreign Exchange Operations	998	1,854	767	2,861	7,070
A. Over the Counter Operations	1,050	2,340	2,699	3,944	10,306
B. Public Sector	-51	-487	-1,935	-1,084	-3,275
C. Other	-1	2	3	1	39
2. Rest of Operations	244	202	44	775	1,466
II. NET INTERNAL ASSETS	-3,560	-5,252	-438	-10,016	-23,275
1. Deposits of the Public Sector	-921	-721	-2,821	-5,434	-6,751
2. Purchase of securities	-170	0	2,850	-2,850	0
3. BCRP Certificates of Deposit (CDBCRP)	-2,462	-4,158	578	-389	-13,393
4. Readjustable CDBCRP	319	0	-1,202	1,202	0
5. Overnight Deposits	65	-52	-8	-188	227
6. Reserve Requirements in domestic currency	7	-148	4	63	-157
7. Other	-398	-173	160	-2,420	-3,201
III. CURRENCY	755	1,665	2,080	1,680	3,189
Note: Balance at end period					
- CDBCRP	4,097	8,255	7,676	8,066	21,458
- Public Sector Deposits	1,196	1,918	4,738	10,172	16,924

Source: BCRP.

The levels of dollarization continued to decrease during 2007. The ratio of dollarization of liquidity in the private sector declined from 55 percent in 2006 to 50 percent in 2007 on average. Moreover, the ratio of dollarization of credit to the private sector decreased 5 percentage points in the same period, reaching a level of 58 percent in average terms in 2007.

GRAPH 4
DOLLARIZATION OF LIQUIDITY AND CREDIT TO THE PRIVATE SECTOR
(Average percentage in the period)



Monetary Policy Decisions

During the first half of 2007, the Board of Directors of the Central Bank maintained the monetary policy reference interest rate at 4.5 percent –the same rate since May 2006–, given that last 12-month inflation remained below the inflation target range (1% - 3%) during the first four months of the year, mainly as a result of the reversal in the price rises of food observed in the first months of 2006.

Since May 2007, inflation showed an upward trend, influenced mainly by rises in the international prices of food and petroleum. On the other hand, core inflation –indicator excluding the most volatile components of the consumer basket– also showed an upward tendency since mid-2007.

Therefore, the reference interest rate was raised by 25 basis points in both July and September, as a result of which this rate increased from 4.5 percent in June to 5.0 percent in December.

This gradual increase of the reference interest rate was a preventive action adopted to maintain inflation expectations anchored in a context marked by a robust growth of domestic demand (domestic demand grew 10.9 percent between January and July 2007).

In the second half of 2007 the BCRP communiqués on the monetary program emphasized that the Central Bank would continue to keep a close watch on inflation and on the factors affecting it, distinguishing between those factors with temporary effects and those with a permanent impact.

In the last quarter of the year, the Board of the BCRP decided to maintain the policy rate at 5.0 percent. This pause allowed the Central Bank to analyze the reaction of the economy and evaluate the impact of the turbulence seen in international markets as a result of the crisis of the subprime mortgage market in the United States.

TABLE 5
MONTHLY MONETARY PROGRAM: 2007
Interest rates (%)

	Operations in domestic currency		
	Reference Rate	Overnight Deposits	Direct repos and rediscounts
January	4.50	3.75	5.25
February	4.50	3.75	5.25
March	4.50	3.75	5.25
April	4.50	3.75	5.25
May	4.50	3.75	5.25
June	4.50	3.75	5.25
July	4.75	4.00	5.50
August	4.75	4.00	5.50
September	5.00	4.25	5.75
October	5.00	4.25	5.75
November	5.00	4.25	5.75
December	5.00	4.25	5.75



INFLATION TARGETING IN PERU

Implemented in several countries over the past 15 years, Inflation Targeting has contributed to reinforce the credibility of central banks in controlling inflation and, hence, to maintain expectations of inflation at low levels.

This monetary policy framework has been implemented in different countries with a variety of modalities and characteristics in terms of the inflation target established (which inflation index has been used), the calculation of inflation (if inflation is estimated at the end of a period or on average terms, or continuously or not), and the horizon period used to assess if the inflation target has been met (short-, medium-, or long-term period).

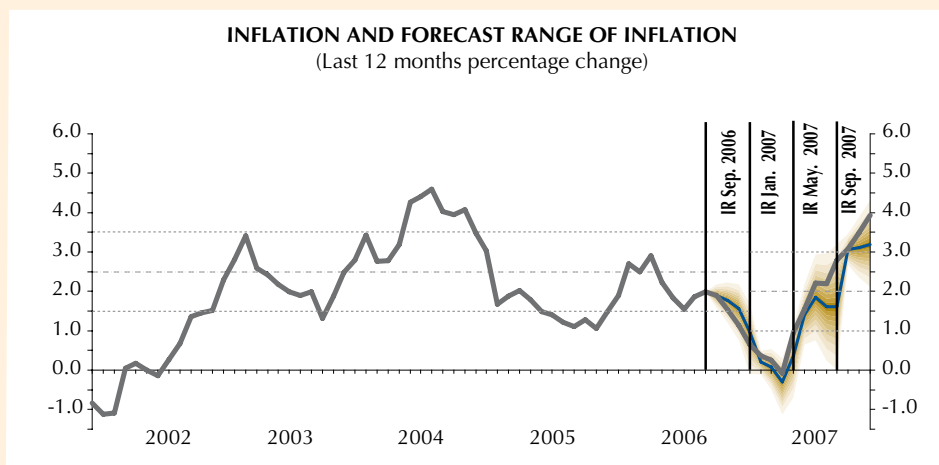
Since 2002 the BCRP replaced monetary base control by an Inflation Targeting scheme and established an annual inflation target of 2.5 percent, plus or minus one percentage point (1.5% - 3.5%).

At the beginning of 2007, the Board of the BCRP approved to reduce the inflation target from 2.5 to 2.0 percent, plus or minus one percentage point (1% - 3%) as of February. Likewise, the Board decided that the evaluation of whether the inflation target had been met would be carried out on a monthly basis (last 12-month inflation) instead of at end December.

The purpose of reducing the inflation target was to continue reinforcing confidence in the domestic currency and reducing the vulnerability of the Peruvian economy associated with dollarization, as well as increasing flexibility to deal with adverse macroeconomic episodes and to mitigate the magnitude and duration of its recessive impacts.

Moreover, the 2 percent inflation target reflects the increase in the prices of the main developed economies, avoiding on this way the relative depreciation of the Nuevo Sol.

The graph below illustrates the evolution of last 12-month inflation and the range of inflation forecasts published in the various Inflation Reports. As the graph shows, executed inflation has been within the ranges projected in the Central Bank's forecasts, except in the last period because of the reasons explained above.





Fan woven with braided
vegetable fibers and feathers
Nazca Culture (BC 200-AD 700)

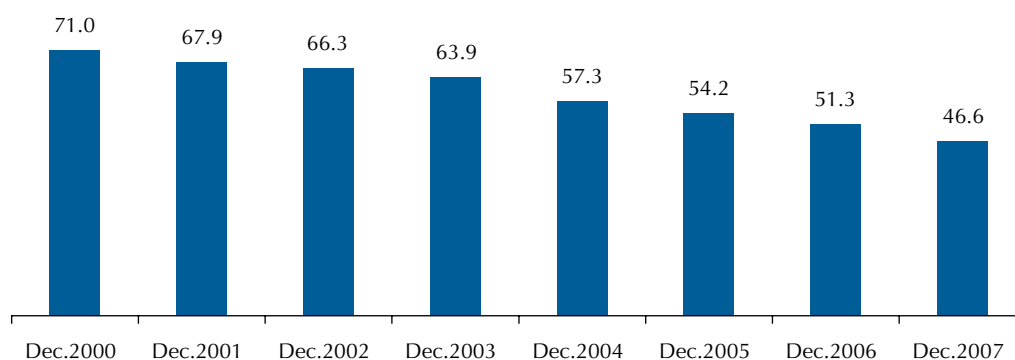


Quipu made of wool and hair
cords wrapped in colored threads
Inca Culture (AD 1440-1532)

Strengthening the Use of the Nuevo Sol

During 2007, the nuevo sol continued to strengthen against the dollar, which was reflected in lower levels of dollarization of both liquidity and credit to the private sector. The dollarization ratio of liquidity declined from 51.3 percent in December 2006 to 46.6 percent in December 2007. Credit to the private sector in foreign currency decreased from 60.5 percent to 56.8 percent during the same period.

GRAPH 5
DOLLARIZATION OF LIQUIDITY IN THE PRIVATE SECTOR
 (Percentage end of period)



Strengthening
 the Use of the
 Nuevo Sol

Low uncertainty regarding inflation also contributed to the placement of 30-year government bonds in domestic currency for the first time in our history, favoring in turn the extension of terms for loans in domestic currency, which can now be over 20 years.

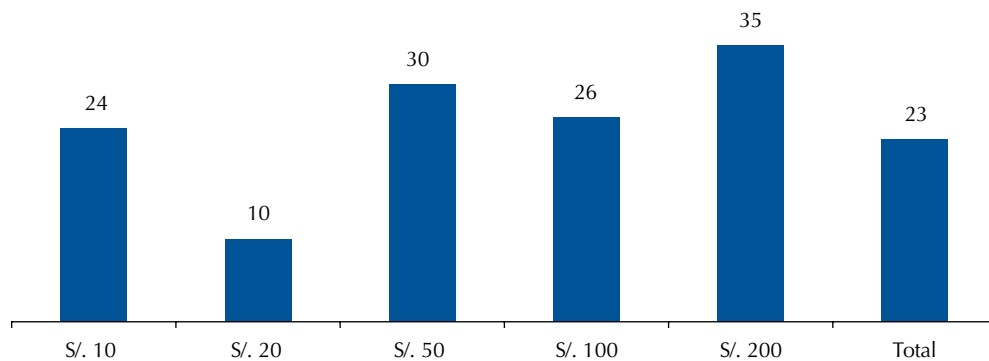
To contribute to increase confidence in the domestic currency, the BCRP continued to improve the quality standards and the conservation of banknotes during 2007. Together with the increased demand for currency associated with economic growth, this measure resulted in a greater dynamism in the supply of banknotes and the destruction of deteriorated notes.

a. Banknotes and coins in circulation

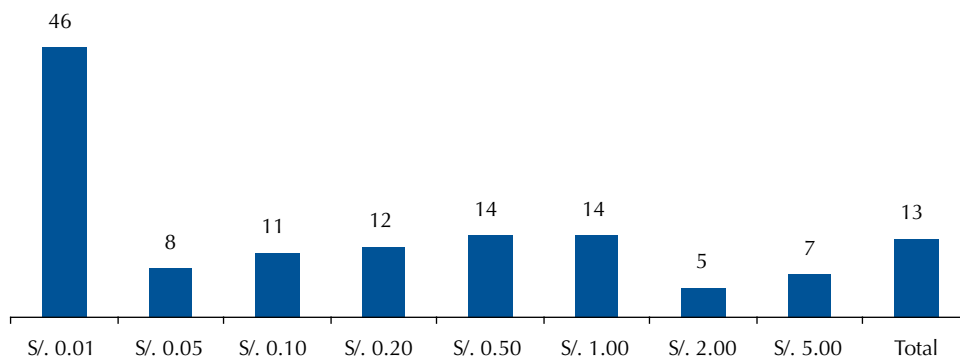
The balance of banknotes in circulation was S/. 16,104 millions in 2007 (26 percent higher than in 2006), while the balance of coins in circulation reached S/. 894 millions (10 percent higher than in 2006). This increase is explained by the country's economic growth and by people's and business higher preference for national currency.

In terms of units of banknotes and coins, 2007 closed with a balance of 302 million units of banknotes in circulation –23 percent higher than in 2006– and 1,683 million units of coins in circulation –13 percent higher. The increase in the circulation of S/. 200 nuevos soles banknotes (35 percent) and S/ 0.01 nuevos soles coins (46 percent) is worth highlighting.

GRAPH 6
PERCENTAGE CHANGE OF BANKNOTES IN CIRCULATION 2007/2006



GRAPH 7
PERCENTAGE CHANGE OF COINS IN CIRCULATION

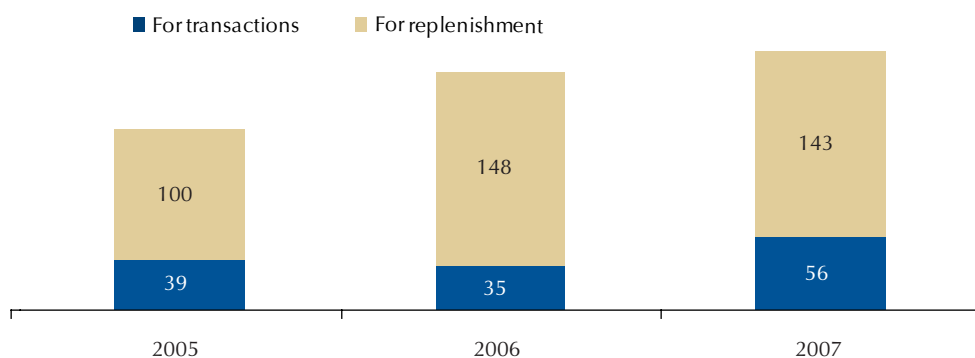


b. Replenishment

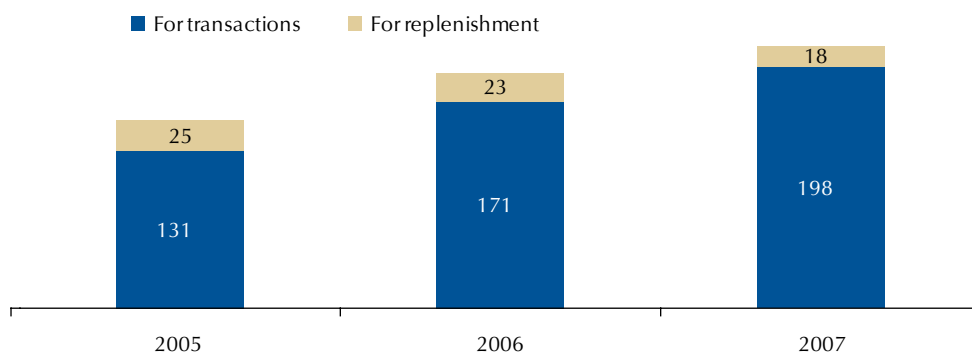
The replenishment of banknotes has shown an important increase during the last few years as a result of the improvement in the quality standard since January 2006. In this way, the replenishment of banknotes increased 48 percent in 2006 and remained above the 143 million units in 2007. On the other hand, the replenishment of coins reached 18 million units.



GRAPH 8
COMPONENTS OF THE NET FLOW OF BANKNOTES DELIVERED
 (Million units)



GRAPH 9
COMPONENTS OF THE NET FLOW OF COINS DELIVERED
 (Million units)



c. Supply of banknotes and coins

The Bank received 230 million banknotes in 2007, of which 105 million corresponded to the completion of contracts signed in 2005 and 125 million to contracts signed in 2007.

TABLE 6
ARRIVAL OF NEW BANKNOTES
 (Million units)

Denomination	Amount received
S/. 10.00	85
S/. 50.00	100
S/. 100.00	45
Total	230



To ensure an adequate supply of coins, a contract was established for the procurement of 277 tons of aluminum rolled strip coils, 486 tons of brass rolled strip coils, and 798 tons of nickel silver rolled (alpacca) strip coils. Moreover, the service of transforming 160 and 170 tons of brass and nickel silver into coins was also contracted.

Additionally, a contract was also established for the procurement of 118 million brass coin blanks (for S/. 0.10 and S/. 0.20 coins), 70.5 million nickel silver blanks for S/. 0.50 coins, and 35 million bi-metal blanks (for S/. 2.00 and S/. 5.00 coins). A significant part of these purchases will be delivered to the Bank in 2008.

d. Mint coin production

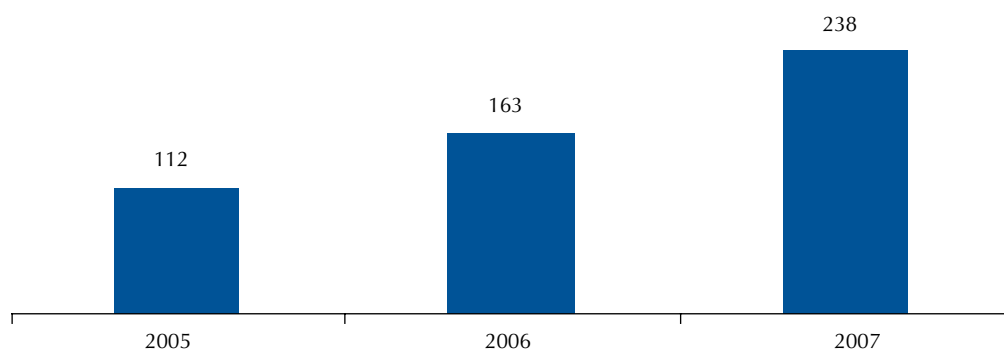
The National Mint produced 238 million coins during 2007, a production 46 percent higher than in 2006. It is worth pointing out that the production of coins in 2007 has been the highest observed since coins denominated in nuevos soles began to be locally minted in 1991. The highest volumes of coins produced were coins of S/. 0.01 and S/. 0.10 cents.

**TABLE 7
PRODUCTION OF COINS**

Denomination	Alloy	Amount (Millions of units)	Value (Millions of Nuevos Soles)
S/. 0.01	Aluminum	48.8	0.49
S/. 0.05	Aluminum	12.4	0.62
S/. 0.05	Brass	12.8	0.64
S/. 0.10	Brass	64.8	6.48
S/. 0.20	Brass	18.0	3.60
S/. 0.50	Nickel-silver	31.2	15.60
S/. 1.00	Nickel-silver	36.7	36.70
S/. 2.00	Bi-metal	7.0	14.00
S/. 5.00	Bi-metal	6.4	32.00
Total		238.1	110.13

Source: BCRP.

**GRAPH 10
COINS PRODUCTION
(Millions of units)**

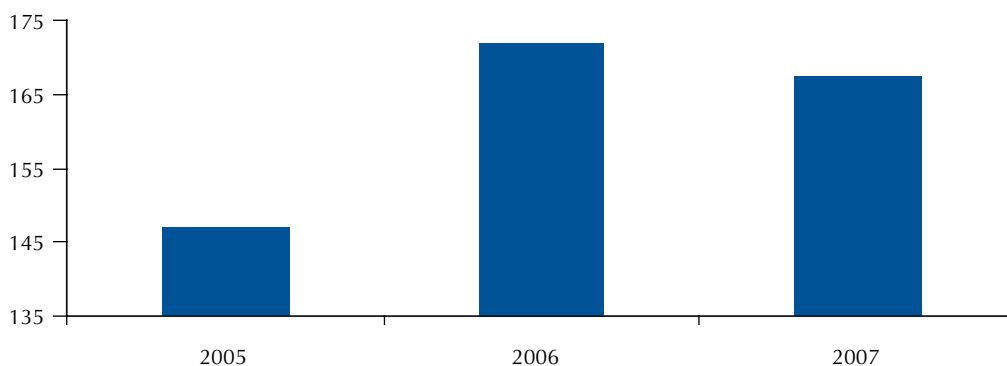


e. Counterfeit banknotes and coins

The amount of counterfeit banknotes and coins in domestic currency that have been withheld declined 1.9 percent in the case of banknotes and 53.6 percent in the case of coins compared to 2006. This reduction is explained by the actions implemented by the BCRP, including numerous campaigns to disseminate the security measures in banknotes and coins, as well as having improved the quality standard of banknotes since 2006, which has made it easier for the public to identify the security measures.

Moreover, supporting the work of the Policía Nacional del Peru and the Public Ministry, the intelligence work of the central office in charge of fighting against currency counterfeiting contributed to carrying out 34 successful interventions in 2007 (the number of interventions was 62 percent higher than in 2006). Local and foreign counterfeit currency, as well as machinery and instruments used to falsify notes and coins, were confiscated in these interventions.

GRAPH 11
WITHHELD COUNTERFEIT BANKNOTES
(Thousand units)



GRAPH 12
WITHHELD COUNTERFEIT COINS
(Thousand units)



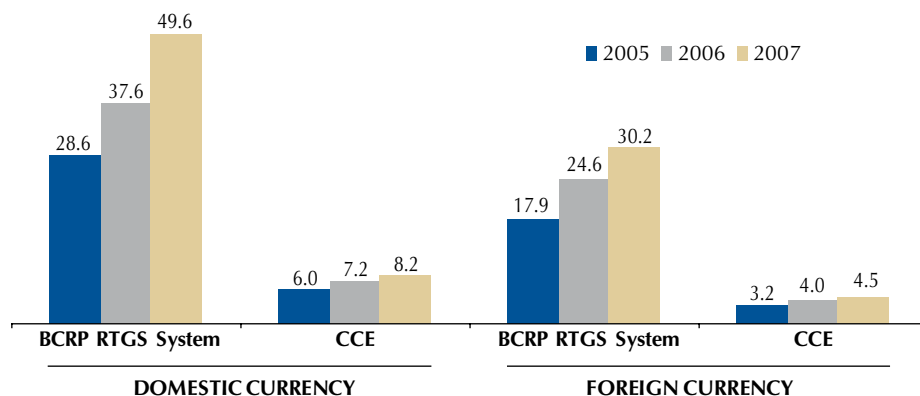


Wool Kilim-like tapestry
Chimu Culture (AD 1000-1470)

Expansion of the Use of Electronic Payment Systems

In 2007, the total value of the payments carried out through the Real Time Gross Settlement system (RTGS)¹ and the Cámara de Compensación Electrónica (CCE) increased by 25.9 percent compared to 2006. This was the result of a 28.7 percent increase of payments in domestic currency and a 21.5 percent increase of payments in foreign currency. In this way, payments in domestic currency represented 62.5 percent of interbank payments in 2007 (61.1 percent in 2006), while the rotation of payments in GDP terms rose from 2.9 times in 2006 to 3.3 times in 2007, reflecting that payments grew at a faster pace than economic activity.

GRAPH 13
ELECTRONIC TRANSFERS
(Monthly average in billions of S/.)



Expansion of the Use of Electronic Payment Systems

RTGS System

The BCRP ensures the safety and effectiveness of payment systems since interbank payment operations are settled through these systems. Therefore, following the recommendations of the Bank for International Settlements (BIS), the Central Bank has implemented measures aimed at fostering the use of electronic means of payment, at continuing to modernize the system, and at maintaining the safety and operational reliability of the RTGS system.

The transactions carried out through this system increased in 2007. The amount of transfers grew 28.2 percent in a context of continuous economic expansion. The number of operations increased 3.6 percent, with transactions in foreign currency and domestic currency accounting for 8.0 percent and 0.6 percent of this increase respectively.

¹ Including Multibank Settlement of Securities.



Cámara de Compensación Electrónica (CCE S.A.)

The Cámara de Compensación Electrónica operates under a net and deferred payment scheme, in which participants' orders are first compensated and then settled at the BCRP. Checks and credit transfers² are currently settled through this system.

After having grown 13.1 percent, the value of the operations processed through the CCE showed a lower dynamism than the operations carried out through the RTGS system. However, it is worth pointing out that credit transfers through the CCE increased 31.1 percent, although they still represent a low percentage of the low-value payments (5.1 percent) processed through the CEE.

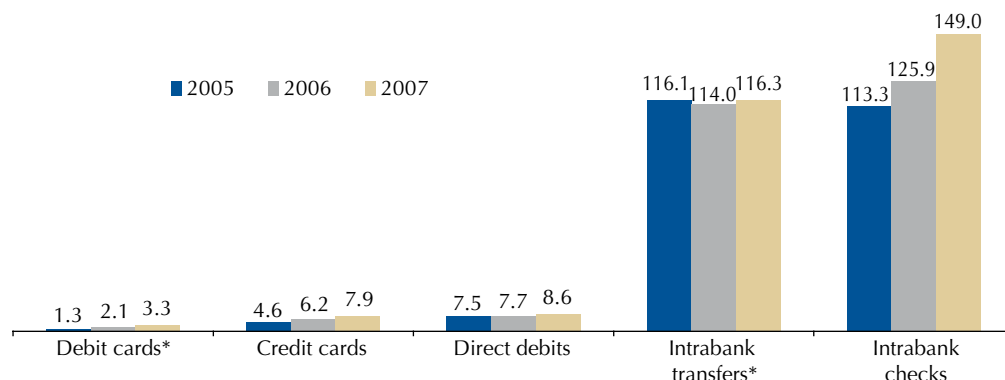
The volume of operations increased 6.8 percent in 2007, especially due to the higher acceptance of credit transfers (39.9 percent) and, to a lesser extent, to the expansion of checks (3.6 percent). However, the latter still accounts for 88.2 percent of the transactions processed through the CCE.

Payment mediums other than cash

In addition to the payments processed through the RTGS and the CEE, other payment systems via banks include debit cards, credit cards, and transfers and checks processed in a single bank (intrabank operations).

The main currency used in these payment mediums is the nuevo sol, which accounts for 61 percent of total transactions. Credit cards are the main payment means used for retail payments (with a value lower than S/. 150 on average), and concentrate 52 percent of the transactions processed through these systems.

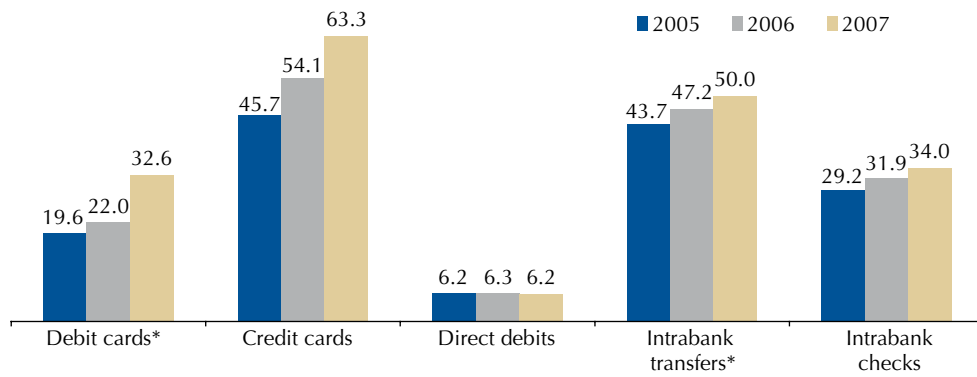
GRAPH 14
MEANS OF PAYMENT: VALUE OF THE OPERATIONS IN DOMESTIC CURRENCY
 (Billions of S/.)



*Preliminary data for 2007.

² Credit transfer: Payment instrument whereby a Participating Entity of Origin is instructed to transfer an amount of money to a Recipient Participating Entity in favor of a beneficiary.

GRAPH 15
MEANS OF PAYMENT: NUMBER OF OPERATIONS IN DOMESTIC CURRENCY
 (Millions)

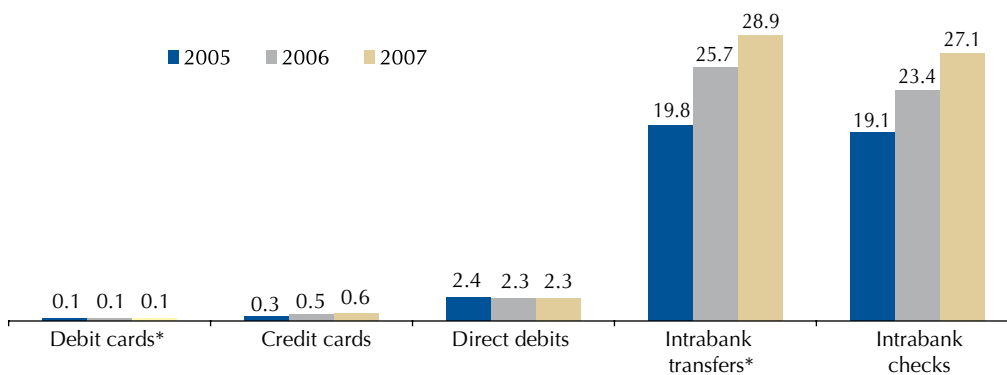


*Preliminary data for 2007.

On the other hand, credit cards in foreign currency are less used for retail payments, as reflected in the relative lower use of this instrument compared to the use of credit cards in domestic currency. It should be pointed out that payments in foreign currency are mostly used in intrabank transactions, with checks being the most commonly used instrument.

Expansion of the
 Use of Electronic
 Payment Systems

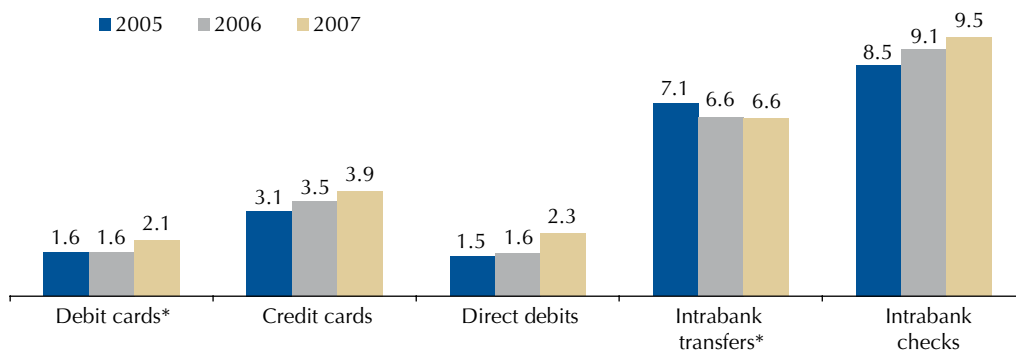
GRAPH 16
MEANS OF PAYMENT: VALUE OF THE OPERATIONS IN FOREIGN CURRENCY
 (Billions of US\$)



*Preliminary data for 2007.



GRAPH 17
MEANS OF PAYMENT: NUMBER OF OPERATIONS IN FOREIGN CURRENCY
 (Millions)



*Preliminary data for 2007.

Innovations in the payment system

Several actions were implemented during the year to increase the safety and efficiency of both high-value and low-value payment systems. Actions regarding the former included the approval of the new scheme for Multibank Settlement of Government-Issued Securities and the Amendments to the Operational Regulations for the RTGS system, while actions regarding the latter included approving the standardized procedure for incorporating non-bank participants into the CCE, as well as improving the compilation and accuracy of statistical data on payment systems other than cash.

Multibank Settlement System for Securities Issued by the National Government

This new settlement system started operating in July 2007 following coordinations between the Central Bank and CAVALI, and between the latter and CONASEV. Thus, in January 2007 the Board of CONASEV approved amending CAVALI’s Internal Regulations in order to allow the settlement of securities issued by the National Government through the RTGS system.

Securities issued by the National Government and listed in CAVALI are traded through the Centralized Public Debt Negotiation Systems and other systems of negotiation and recording of operations.³ The centralized system currently used is administered by Datos Técnicos S.A. (DATATEC).

³ Not supervised by the CONASEV.

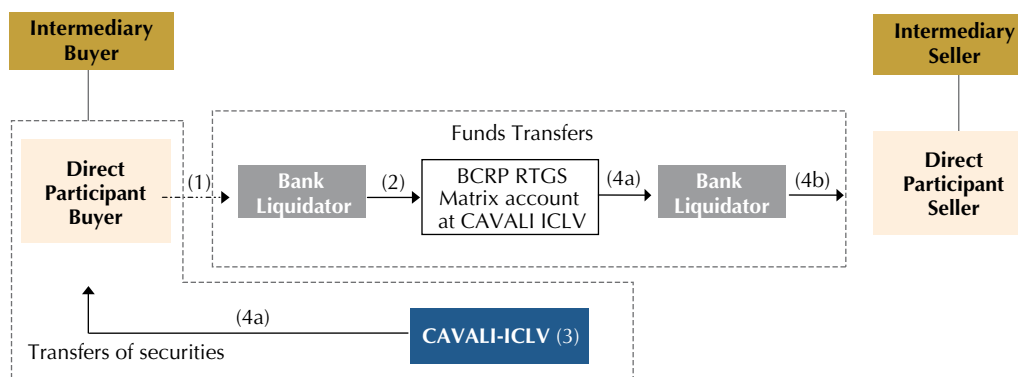


In order to implement a delivery versus payment (DVP) system to settle securities issued by the National Government, the recording system used for these securities (CAVALI) was connected to the RTGS system using a scheme similar to that of the Multibank Security Settlement System. This system is currently used to settle transactions of securities traded at the Lima Stock Exchange through the RTGS system.

The system uses the DVP model 1, in which securities and cash are settled at gross value (trade by trade). This modality was adopted given the nature of fixed-income operations, which imply greater systemic risk due to their high value. Therefore, securities and cash are exchanged simultaneously through this scheme.

Although this model requires participants to have more liquidity, the mechanism of intra daily facilities of the RTGS system⁴ allows maintaining a fluent flow of operations. These operations are currently settled the day after the transaction is made, but the system is prepared so that operations may be settled on the same day.

GRAPH 18
PROCESS OF OPERATION SETTLEMENT (T+1)



PROCESS

- (1) The Direct Participant Liquidator Buyer instructs the Bank Liquidator to deposit funds in the account of CAVALI-ICLV in the BCRP.
- (2) Bank Liquidator transfers funds to the account of CAVALI-ICLV in the BCRP through the RTGS System.
- (3) CAVALI-ICLV verifies the funds delivery and the availability of securities by the Direct Participant Liquidator and if its correct, proceed to the DVP liquidation.
- (4a) CAVALI-ICLV grants the the availability of securities to the Direct Participant Liquidator Buyer and through the RTGS transfers funds to the Bank Liquidator.
- (4b) The Bank Liquidator transfers the respective funds to the Direct Participant Liquidator Seller.

⁴ Temporary purchases of dollars, Central Bank securities, and Public Treasury securities.



Transactions through this system, which began operating in July 2007, amounted to S/. 1,547 million in the year.

TABLE 8
TRANSACTIONS CARRIED OUT THROUGH MULTIBANK
SECURITY SETTLEMENT SYSTEM
(Millions of S/. and millions of US\$)

	2005	2006	2007	Chg% 07/06
Domestic currency				
Equities ^{1/}				
Value of the operations	135	1,944	3,131	61.1
Number of operations	281	2,306	2,554	10.8
Fixed Income ^{2/}				
Value of the operations	0	0	1,547	-
Number of operations	0	0	352	-
Foreign currency				
Equities ^{1/}				
Value of the operations	11	192	541	181.8
Number of operations	224	2,355	2,553	8.4

1/ It began operations in November 2005.

2/ Multibank Security Settlement System of government securities began operations in July 2007.

Amendments to the Operational Regulations of the RTGS System

The amendments made in terms of the Operational Regulations of the RTGS system (Circular N° 013-2007-BCRP) were associated with two aspects: a) Amendment of the RTGS fees, and b) Obligation of crediting funds to final beneficiaries and of confirming the bank of origin that the deposit has been made.

a. Amendment of the RTGS fee scheme

One of the main principles of Systemic Important Payment Systems recommends that these systems should provide efficient payment instruments (Basic Principle VIII, BIS)⁵. A payment system is efficient when the costs of making payments are minimized, and when the system encourages users to choose the most convenient instrument to carry out transactions.

In this sense, the BCRP modernized its IT platform, which allowed reducing operational costs and translated into lower rates for transfers. Thus, both the monthly fixed charge and the variable commission were reduced by 36 percent and 43 percent, respectively. The former was set at S/. 525.00, while the latter for transactions carried out before 15:00

⁵ "Principios básicos para los sistemas de pago de importancia sistémica", January 2001, Bank of International Settlements.

hours and transactions carried out after 15:00 was set at S/. 4.00 and S/. 6.00 respectively. This division by time blocks is aimed at deconcentrating transactions since banks tend to make settlements at the close of the day given their liquidity management policy.

The minimum amount for BCRP transfers on behalf of clients was also reduced from S/ 15,000 to S/. 10,000 and from US\$ 5,000 to US\$ 3,500, thus extending the services offered by the BCRP.

b. Obligation of crediting funds to final beneficiaries and confirming the bank of origin that a deposit has been made

The RTGS system currently provides facilities for the automation of bank operations through the special programs –or interfaces– that the Central Bank offers for this purpose. Thus, fund transfers may be automatically sent and received between the banks' internal applications and the RTGS system without having to modify or copy the information contained therein. These interphases are used in different degree by the participants of the RTGS system.

In order to promote the automation of payment processes and thus improve their efficiency, transfers to clients have to be credited in their accounts within the 30 minutes following the reception of funds.

Procedure for the approval of new participants in the CCE

Because of constant requests of non-bank financial entities, particularly municipal banks and financial firms, to participate in the clearance and settlement services provided by the Cámara de Compensación Electrónica (CCE), the BCRP decided to standardize the evaluation process of potential participants in the CCE in order to accelerate this process.

Non-bank financial entities are only entitled to use two settlement instruments: credit transfers and the payment of checks issued by other bank entities.

It should be pointed out that the services provided by the CCE to Municipal Savings and Credit Banks (CMAC), Rural Savings and Credit Banks (CRAC) and other non-bank financial firms allows them to have a better, more timely and more efficient flow of settlements, thus favoring their safer management of liquidity with a lower cost. Moreover, the participation of these entities in the CCE allows low income people living in areas other than main cities to have access to safer and more efficient financial instruments.

The risks generated by the use that these entities make of these settlement instruments were analyzed to determine the criteria for approving or rejecting the entities wishing to participate in the CCE. A risk rating was considered to be the most appropriate criterion. Entities are required to have a "B" or higher rating for a period of at least 12 months, given that entities with lower ratings may show deficiencies, such as a vulnerable business level, weak financial indicators, or an unstable environment to develop their activities.



Improved gathering and accuracy of statistical data on payment means other than cash

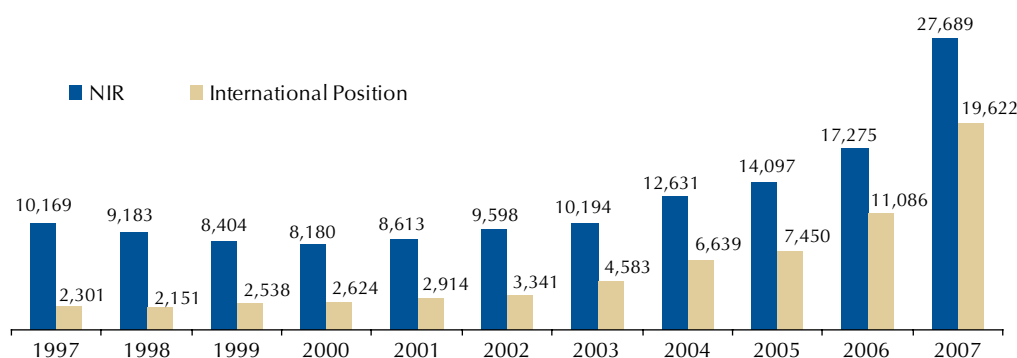
A greater breakdown and standardization of statistical data on payment means other than cash was approved through Circular N° 018-2007-BCRP.

Likewise, in order to promote competition among low-value payment systems, information was disseminated about the commissions charged for interbank payment services. It should be pointed out that although financial entities publish this information on their web sites, it is dispersed and not easily accessible.

Management of International Reserves

In 2007 Net International Reserves (NIR) and the International Position of the BCRP reached record levels. In this way, NIR increased US\$ 10,414 million, while the International position increased US\$ 8,536 million.

GRAPH 19
NET INTERNATIONAL RESERVES AND INTERNATIONAL POSITION
 (Millions of US\$)



Gross International Reserves (GIR)¹ at end 2007 reached US\$ 27,720 million, a sum US\$ 10,391 million higher than at end 2006.

This increase in the international reserves has improved the country's liquidity indicators. At the end of 2007, NIRs were equivalent to 17 months of imports, 4.2 times the short-term foreign liabilities, and 4.8 times the balance of broad money.

**HIGH LEVEL OF INTERNATIONAL RESERVES STRENGTHENED
 THE INTERNATIONAL LIQUIDITY POSITION**

NIRs in US\$ 27.7 billion

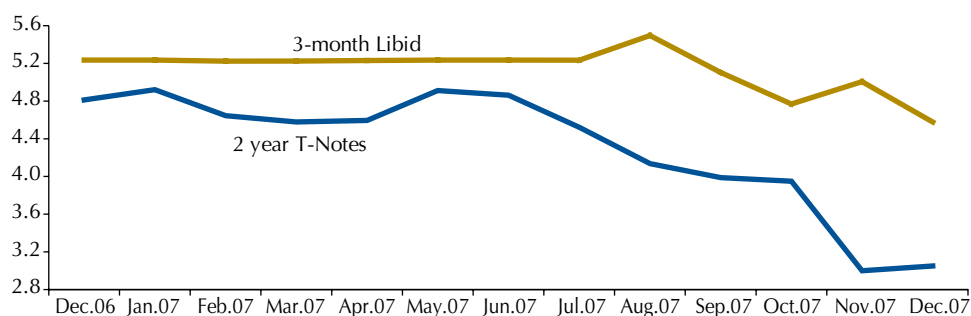
- 4.2 times the 1-year debt (short-term liabilities + amortizations).
- 4.8 times the broad money.
- 17 months of imports.

The US Federal Reserve (Fed) maintained the rate of federal funds at a constant 5.25 percent during the first eight months of the year. This policy stance varied in the last four months of the year given the crisis of the subprime mortgage market and some indications of economic slowdown. Therefore, the Fed decided to lower its reference rate on three

¹ Gross international reserves are obtained by deducting the value of silver from total liquidity.

consecutive occasions (the reference rate was reduced by 50, 25, and 25 basis points in the Fed’s meetings of September 18, October 31, and December 11 respectively), as a result of which the reference rate was 4.25 percent at the close of the year. This was also reflected in the Libor rate and in the yield of the US Treasury bonds.

GRAPH 20
3-MONTH LIBID AND 2 YEAR US T-NOTES
 Annual yield (%)



Source: Bloomberg.

An important increase in the volatility of the prices of fixed-income titles and investors’ increased risk aversion was seen in the second half of 2007 due to the crisis of the subprime mortgage market in the United States, which began to affect important financial institutions, as well as liquidity and credit in international markets.

In this scenario, the investment portfolio was managed so as to replicate more closely the Reference Portfolio. A rather conservative position was assumed given increased market risks, but maintaining some strategic deviations that would allow obtaining a greater return in the short-term.

It is worth highlighting that the priority principles based on which international reserves are invested are to preserve the capital and to guarantee reserve liquidity. Once these conditions have been met, the highest possible yield is sought. In general, international assets are managed in consonance with the characteristics of the sources of said resources in terms of amount, currency, maturity, and volatility. In this way, the Bank minimizes the market risks that could affect the value and availability of the assets it is responsible for managing.

Composition of international reserve assets

At end 2007, 61 percent of gross reserves or international assets were invested in high-quality credit liquid securities and 35 percent were invested in first-class banks abroad. The security portfolio was formed by debt bonds issued by the US Treasury and US Agencies, supranational organizations, and other governmental agencies with a long-term credit rating of AA- or higher.



Liquid international reserve assets² at end 2007 amounted to US\$ 26,871 million. The income³ generated by these assets was US\$ 987 million, higher than in 2006.

As regards the portfolio's currency structure, investments in securities denominated in currencies other than the US dollar decreased, while the share of investments in US dollars increased. Investments maturing in terms of three months or less declined, while those maturing in 12 or more months increased. Moreover, 64 percent of the portfolio is kept in entities with a long-term credit rating of **AAA**, and the rest is kept in entities rated **AA-** or higher. The average duration of the investment portfolio in 2007 was 1.32 years (higher than in 2006).

TABLE 9
GROSS INTERNATIONAL RESERVES
(Millions of US\$)

Heading	2006		2007	
	Amount	%	Amount	%
Deposits abroad	6,850	39.5	9,568	34.5
Securities	9,387	54.2	16,834	60.7
Gold	706	4.1	928	3.3
Others ^{1/}	386	2.2	390	1.4
TOTAL	17,329	100.0	27,720	100.0

^{1/} Includes contributions to the FLAR and balances from international agreements.
Source: BCRP.

In 2007 the return on BCRP international reserves was higher than the financial cost of the exchange interventions carried out to reduce the volatility of exchange. The return on BCRP international investments in 2007 was 8.6 percent, mainly due to the increase seen in the price of the securities in the investment portfolio at the end of the year and the appreciation of the euro against the US dollar.

² GIR minus capital subscription to the FLAR, balance of international agreements (ALADI), and gold holdings stored at the BCRP.

³ Includes accrued interests, accounting gains for the sale of securities, and amortization of premium or discount for holding of securities. Does not include exchange gains in the year.



TABLE 10
COMPOSITION OF LIQUID INTERNATIONAL ASSETS
 (Percentage structure)

	2006	2007
1. By currency and gold	100.0	100.0
US\$	80.1	85.6
Other currencies	17.8	12.7
Gold	2.1	1.7
2. By maturity	100.0	100.0
0-3 months	50.2	43.0
3-12 months	13.2	12.3
> 1 year	36.6	44.7
3. By long-term qualification	100.0	100.0
AAA	54.3	63.8
AA+/AA/AA-	42.5	36.2
A+	3.2	0.0

Source: BCRP.



Poncho woven with cotton and feathers
Wari Culture (AD 600-1000)



Four-end hood in "simili velour"
Wari Culture (AD 600-1000)

Transparency

The Central Reserve Bank of Peru (BCRP) takes an active role in disseminating information on its monetary policy framework. Under the Inflation Targeting Scheme, the Bank informs the public through different media about its monetary decisions and the reasons for adopting said decisions in order to reinforce their effectiveness.

Monetary policy decisions: The Board informs the public about monetary policy decisions through monthly communiqués or Informative Notes on the Monetary Program. The Board's decisions regarding the bank's reference interest rate and the rates on other monetary policy instruments (interest rates on rediscount operations, on overnight deposits, and reserve requirement rates), as well as changes in the limits of investments that Private Administrators of Pension Funds can make abroad are announced through these communiqués. They are published on the BCRP's website (www.bcrp.gob.pe) in both Spanish and English and also disseminated through press releases. This information is also sent to subscribers via electronic mail. Moreover, web conferences and telephone press conferences are also held with banks' representatives and with the media respectively.

A detailed explanation of the evolution of inflation and the macroeconomic variables influencing this evolution, as well as inflation forecasts, is offered three times a year through the **Inflation Report**. This report, which contains information as of January, May, and September, is discussed in meetings and conferences with bank representatives, economic analysts, academics, the media, business associations, and authorities both in Lima and in other cities of Peru.

Together with the **Inflation Report** of September 2007, a video on the press conference with the media was also disseminated for the first time through the Bank's web page this year. This video (in spanish only) is an additional element that contributes to promote a better understanding of monetary policy decisions, inflation forecasts, and the macroeconomic context.



The Bank's web page is also used to permanently and transparently inform the public about the administrative and budgetary management of the BCRP (especially through the section called Transparency). Moreover, the Bank's financial statements, which are audited by internationally recognized independent auditing firms, are also published in this section.

Additionally, Governor Julio Velarde spoke in **Congress** on several occasions in 2007. He participated twice in sessions of the General Budget and Accounts Commission to explain the macroeconomic assumptions of the 2008 budget and the auction of foreign currency carried out by the regional government of Ancash. He also discussed economic forecasts and the operational limits for Private Pension Funds' placements and the yield on these placements before the Commission of Economy, Banking and Finance. Likewise, Governor Velarde explained the limits for investments abroad by Private Administrators of Pension Funds to the members of the Commission on Social Security, as well as the evolution of exchange and its impact on foreign trade and the export sector to the Foreign Trade Commission.

Information was also provided in response to 32 transparency-related queries regarding economic and statistical data of public domain. All these queries were duly answered on a timely basis.



Dissemination of Economic and Institutional Information

According to the Peruvian Constitution, the Central Reserve Bank of Peru shall accurately and periodically inform the public about the state of national finances (Article 84).

The BCRP does this by publishing and disseminating various reports and macroeconomic statistics using different mediums, such as printed publications, the Bank's web page, and e-mail. Printed publications include the Inflation Report, the Weekly Report, the Annual Report, and the Revista Moneda. Additionally, the Weekly Economic Report, the Notas de Estudio, the Working Papers, and the Reports of the Regional Branch Offices are disseminated on the Bank's web page. Furthermore, Informative Notes on the evolution of the main economic variables and the main institutional events are sent to the media.



Dissemination of Economic and Institutional Information

New communication elements

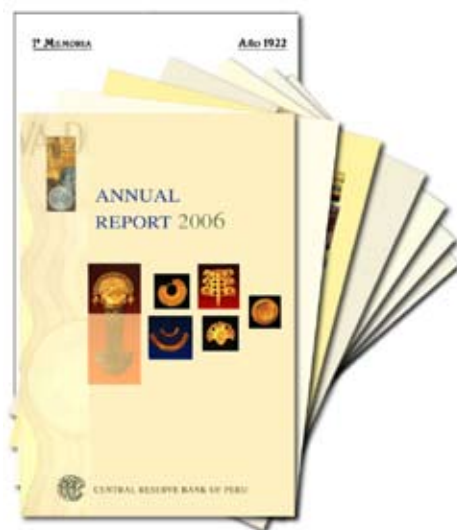
A new version incorporating dynamic graphs that improve the visual interface of statistical information was introduced in the section for queries on the statistical series through the web page in 2007, thus allowing users to view the graphs of chronological statistical series in three types of formats: bars, lines, and dots. Moreover, queries may also be exported to excel files now.

New tables with historical macroeconomic statistical data (annual and quarterly data) have been published, thus facilitating the analysis of our economy to economic analysts, scholars, and the general public.

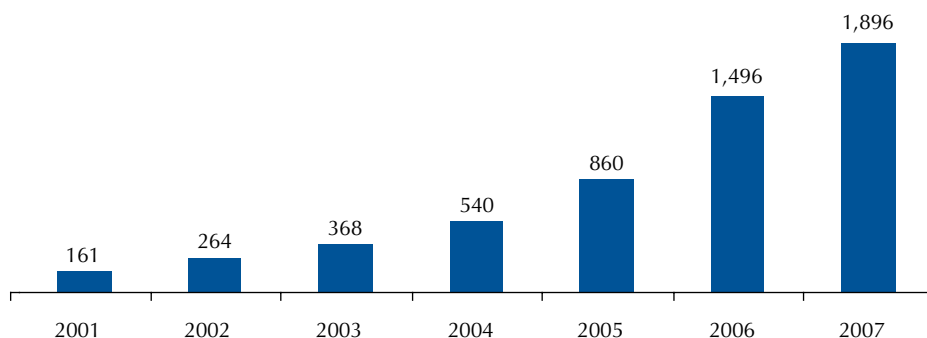
Accessibility from most web navigators and from different operational systems to the information published on the Bank’s web site has been improved. In addition to this, the web site complies with level A requirements of W3C guidelines as it is sought that the web pages may be accessed by visually handicapped users.

Moreover, the Annual Reports of the BCRP since 1922 were also published in electronic version to meet the needs for historical economic information on Peru in terms of the last 86 years (Annual Reports of the BCRP since 1922).

A greater number of people have access to the macroeconomic information that the BCRP provides free of charge through its web page (www.bcrp.gob.pe). Thus, in 2007, queries through the Bank’s web site increased by over 27 percent.



GRAPH 21
VISITS TO THE BCRP WEBPAGE
(Thousands)



In 2007 a new section containing more reference material and information on BCRP-related issues was added to the Bank's web page. The "Educational Material" section, which includes PowerPoint presentations and comic-like stories, is used as reference by students participating in the Bank's annual Essay Contest.

It is worth mentioning that the BCRP "comics" have been a great hit. Two other comics, "Beni and Clarita" and "El billete falso paga mal" have been published after "Sale el Sol". The former explains the role, mission and responsibilities of the central bank and describes its history, while the latter explains the security features of the banknotes that are currently in circulation.

To disseminate the institutional image of the Bank, a document entitled "The role of the BCRP", which summarizes the different role and characteristics of the Bank's various departments was elaborated.

In the financial sphere, in June 2007 the BCRP started publishing Financial Stability reports biannually. These reports analyze and evaluate payment systems and financial and capital markets from a macroeconomic point of view, as well as the factors that may affect the development and depth of these markets.

Other activities developed in the area of economic and institutional dissemination were the Institutional Seminars and Talks. The BCRP constantly organizes seminars and lectures on different economic topics of interest, both in Lima and in other cities in the country. Likewise, free talks on the mission and roles of the bank and on the security features of banknotes and coins are permanently offered. Thus, 42 lectures were given in 2007 to over 2,800 university students of different programs in the country (the number of students attending these lectures increased 67 percent compared to the previous year). On the other hand, 28,937 people attended the 596 talks offered by the bank on security features of banknotes and coins, and over 200,000 posters were distributed.

Cultural activities

During 2007, the BCRP continued to promote education and culture in our country through courses, contests, free visits to its museums, and by providing services through its specialized library on economics and finance.

Courses

University Extension Course for Economists. In 2007, 36 top students of different universities of the country participated in the 54th University Extension Course for Economists. The BCRP offers this course since 1963 with the aim of disseminating new economic knowledge. The course is also a channel through which qualified technical staff is recruited. So far, more than 1,700 professionals have completed this course. Many of these professionals have held or hold important positions in both the private and public sectors, or are currently prestigious professors or officials.



Updating Course and Selection of university students from province universities. Students are updated in the fields of macroeconomics, microeconomics, and mathematics. The best students of this course are selected to participate in the University Extension Course.

Course for university professors. This course is mainly addressed to professors of province universities and contributes to improve the teaching of economics in the different universities of the country.

In order to disseminate new knowledge in the field of finances at the same level of the most prestigious international universities, the Bank announced at end 2007 its **First Advanced Finance Extension Course**. The faculty responsible for this course will include national and international prestigious economists.

Contests

Contest for Junior economists. Carried out since 1998, this contest is aimed at promoting economic research. In 2007, the winning paper was “Evaluando la eficiencia de la política monetaria en el Peru” by Karl Melgarejo Castillo. The second prize was awarded to Gand Quintana Aguilar for his research entitled “Coordinación entre la política monetaria y fiscal en economías estocásticas”; and the third prize was shared by César del Pozo Loayza for his paper “Interdependencia dinámica entre gastos e ingresos públicos, implicancias para la consolidación fiscal; evidencia para el Peru: 1993-2006” and by Alfredo Mastrokalos Viñas and Luis Vergara Delgado for their paper entitled “Concentración y competencia en el mercado bancario. Análisis del caso peruano: 1994-2004.”

With the aim of contributing to the cultural development of the community, the Central Reserve Bank of Peru carries out several contests, including the following:

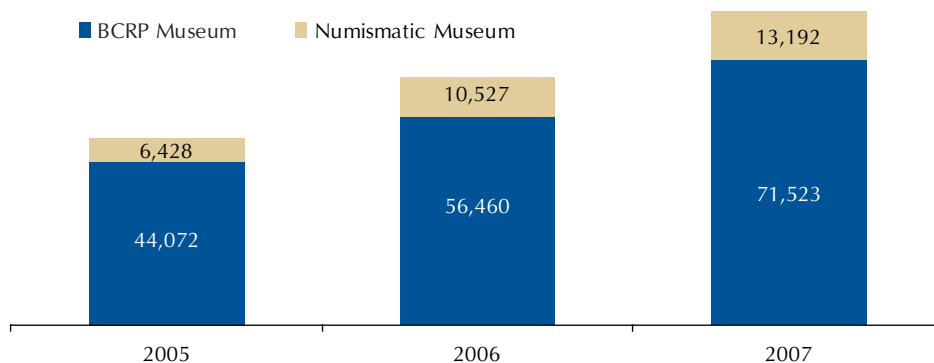
The “Julio Ramón Ribeyro” short novel contest. A total of 70 authors participated in this contest in 2007. Roberto Zeballos Rebaza, author of the winning novel “Tigre Hircana”, was awarded the prize of twenty thousand nuevos soles and the publication of his novel. The jury also agreed to give an honorable mention to “La Rosa del Virreynato”, written by Jeamel María Flores Habaud. Chaired by Luis Jaime Cisneros, the jury was also integrated by Abelardo Oquendo, Alonso Cueto, Mirko Lauer, and Marcel Velásquez. This literature award was established in 1995 as part of the Central Bank’s efforts to contribute to culture.

2007 Second BCRP Economic Essay Contest for school students. The winning essays, which discussed the topics of “solarization” and credit, were elaborated by students of schools of Sullana, Huacho, and Lima.

Museums

With the aim of disseminating our cultural heritage, several actions and alliances were implemented with public and private institutions. As a result of this, the number of visitors to the BCRP museums increased 26 percent compared to 2006. The BCRP Museum was visited by 71,523 people and the Numismatic Museum was visited by 13,192 people.

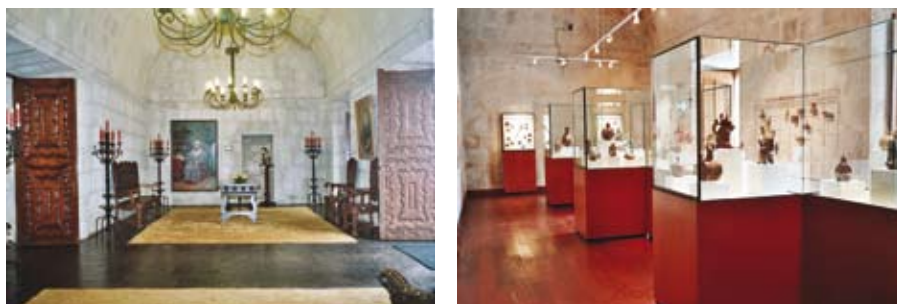
**GRAPH 22
VISITS TO THE BCRPS MUSEUMS**



Moreover, the Museum of the BCRP participated in several exhibits both in Peru and in other countries during 2007. The traveling exhibition “Nasca–Los artífices de las Líneas de Nasca” was presented in several cities of Japan, including Tokio, Nagao, Kyoto, and Yamanashi. Three traveling exhibitions were carried out in Peru in several schools and in the Art Museum of the Cultural Center of the UNMSM. The BCRP Museum also participated in two art exhibits in Lima and Arequipa.

The BCRP Museum increased its cultural activities with the presentation of theater plays for children and with its filmclub. In addition to this, a series of Visits to the BCRP Museums for school children of schools located in areas of extreme poverty were jointly organized with the Ministry of Education and the private firm Lima Visión.

The **Museum of the Regional Branch Office in Arequipa** was inaugurated on December 19 with the exhibition of a collection of 60 pre-Columbian pieces of pottery and metalworks of the Chavín, Virú, Vícus, Moche, Nazca, Recuay, Chimú, and Inca cultures. A collection of 132 coins, medals, and banknotes of different periods of the Peruvian history, as well as commemorative medals are also displayed in this museum.



Pictures of the Museum of the Regional Branch in Arequipa

Seven workshops for artisans were carried out at the Museum: four on the pottery of Cuzco and Ayacucho, and the other three on Andean textiles and “mates burilados”. The series of workshops was closed with an exhibit of traditional creches.

The BCRP also participated in five annual fairs, including the “V Feria de Los Museos a tu Alcance”, the “XII Feria Internacional del Libro”, and the “XXVIII Feria del Libro Ricardo Palma”.

The seminars “La Numismática en el Peru” and “Centro Histórico de Lima: Museos y Monumentos” were organized by the BCRP Museum and the National Institute of Culture in September and November.

Library

In 2007 the Library of the BCRP acquired 161 titles of periodical publications (5,958 items) and 2 full-text databases and increased its number of book collections by 758 units. The services offered by the Library were also more intensely disseminated through talks given at several universities and institutes in the country and through the Annual Exhibit of books of the World Bank. The number of internal users increased 281 percent and the number of visitors increased 11 percent compared to 2006.

Main Events

Several activities were carried out in 2007 with the participation of the Bank's highest authorities:

- XIII Meeting of Central Bank Governors of the MERCOSUR, Bolivia, Chile, and Peru. This meeting was held on September 21 to share experiences on central bank management, particularly in the current context of volatile markets.
- Conference on Economic and Legal Aspects of Central Bank Independence (September 19). Lecturers included representatives of the European Central Bank, the International Monetary Fund, and the Bank for International Settlements. The governors of the Central Banks of Bolivia, Chile, Uruguay, and Peru participated in this conference.
- Doctor Martha Rodríguez Salas was sworn in as Director of the Central Bank on September 11. Ms. Rodríguez replaces José Valderrama León, who resigned.
- A technical cooperation agreement for the improvement of monetary policy-related aspects was signed between the BCRP and the Swiss Secretariat for Economic Affairs (SECO) on August 17. The agreement was signed by SECO representative, Jorge Alain Reding, and by Governor Julio Velarde and the Manager of the BCRP, Renzo Rossini.
- Doctor Vittorio Corbo, Governor of the Central Bank of Chile, lectured on “Stability and growth: The importance of the independence of central banks” on July 19.
- Marcelo Giugale, World Bank Director for Bolivia, Ecuador, Peru and Venezuela, offered the lecture “Peru: An opportunity for a different Peru” on June 20.
- Doctor Ugo Panizza, UNCTAD Geneva, introduced the Report “Informe de Progreso Económico y Social de América Latina (IPES) 2007 - Vivir con Deuda” on June 18.
- Participants from several Latin American countries and BCRP officials participated in the workshop “Financial Derivatives”, organized by the Center for Latin American Monetary Studies (CEMLA) and the BCRP on June 4-8.
- Doctor Julio Velarde, Governor of the BCRP, was elected Chairman of the Board of Governors of the Center for Latin American Monetary Studies (CEMLA) for the period 2007-2009 on May 17.
- Doctor Javier Silva Ruete, Executive Director of the IMF, lectured on “Growth in Asia and in Latin America” on May 4.
- The book entitled *El Banco Central de Reserva y la Economía Peruana, El BCRP visto y vivido por dentro*, by Teodoro Hampe, was presented on April 3, together with the personal testimony of José Morales Urresti.
- The Minister of Foreign Trade and Tourism, Ms. Mercedes Aráoz, lectured to the students of the BCRP University Extension Course and BCRP officers on “The Free Trade Agreement between Peru and the United States and prospects for other FTAs” on March 9.



- The Seminar “Hacia una Ley del Trabajo que genere empleo adecuado en el Peru” was lectured by doctors Gustavo Yamada, Universidad del Pacífico; Miguel Jaramillo, GRADE; and Mister Jorge Toyama, specialist in labor issues on February 9.

International Meetings

During 2007, the BCRP participated in several international meetings, including:

- XXVI Meeting of the Latin American Network of Central Banks and Finance Ministries, Meeting of CEMLA Governors, Meeting of G-24, and 2007 Annual Meetings of the International Monetary Fund and the World Bank, held in Washington D.C., USA, on October 16 - 22.
- The Ordinary Session of the Board of the Latin American Reserve Fund (FLAR), held in Bogotá, Colombia, on September 17.
- The Annual Meeting of the Bank for International Settlements and Meeting of Central Bank Governors, held in Basel, Switzerland, on June 23 -25.
- XLIX Extraordinary Meeting of the Board of the Latin American Reserve Fund (FLAR), held in Bogotá, Colombia, on June 18.
- XII Meeting of Central Bank Governors of MERCOSUR, Bolivia, Chile, and Peru, organized by the Central Bank of Paraguay and held in Asunción, Paraguay, on May 25.
- XXV Meeting of the Latin American Network of Central Banks and Finance Ministries organized by the Inter American Development Bank and held in Washington D.C., USA, on May 17 and 18.
- Meeting of the Board of the Latin American Reserve Fund (FLAR), XLIV Meeting of Governors of Central Banks in the American Continent, LXXXIII Meeting of Governors of Central Banks of Latin America and Spain, XL Meeting of ALADI’s Council for Financial and Monetary Affairs, Central Bank Governance Forum organized by the BIS. All these meetings were held in Montevideo, Uruguay, on May 16 -18.
- Annual Meeting of the Assembly of Governors of the Inter American Development Bank, held in Guatemala on March 16-20.
- XI Meeting of Governors of Central Banks of MERCOSUR, Chile, Bolivia, and Peru, organized by the Central Bank of Brazil and held in Sao Paulo, Brazil, on February 2.



Operational Efficiency

In October 2007 the Bank became the first public entity that obtained the ISO 9001:2000 certification for its procurement process. A Quality Management System (QMS) oriented to users, to prevent risks, and to continuous improvement was then implemented. The instruments used in the system include planning, surveys and direct interviews with users, the implementation of a Help Desk, access to updated information on the processes, performance indicators, as well as follow up and corrective actions in terms of the system's operation.

This quality certification is in line with the Bank's strategic plan, which includes having modern internal processes and an organization and culture of excellence among its objectives.

Moreover, the National Mint also obtained the ISO 9001:2000 certification for the production of coins and coin blanks.



Developing Human Talent

In 2007 the Central Bank continued to provide its staff with training to improve human talent in the organization. The Bank's officials participated in several international and national courses and seminars, especially in the fields of economics and finance.

In this sense, it is worth pointing out the events carried out by the International Monetary Fund (IMF), the Latin American Reserve Fund (FLAR), the Deutsche Bundesbank, the Study Center Gerzensee, the Centro de Estudios Monetarios Latinoamericanos (CEMLA), the Federal Reserve Bank of New York, the Kiel Institute for the World Economy, the Bank of Spain, the Central Bank of Argentina, and the Bank of England, among others.

The knowledge our professionals obtained in different courses abroad was also internally disseminated to other Bank workers through different lectures.

A total of 30 thousand hours of training activities were carried out in the country, of which 11 thousand hours were internal training. A total of 985 employees worked for the Bank at the end 2007.

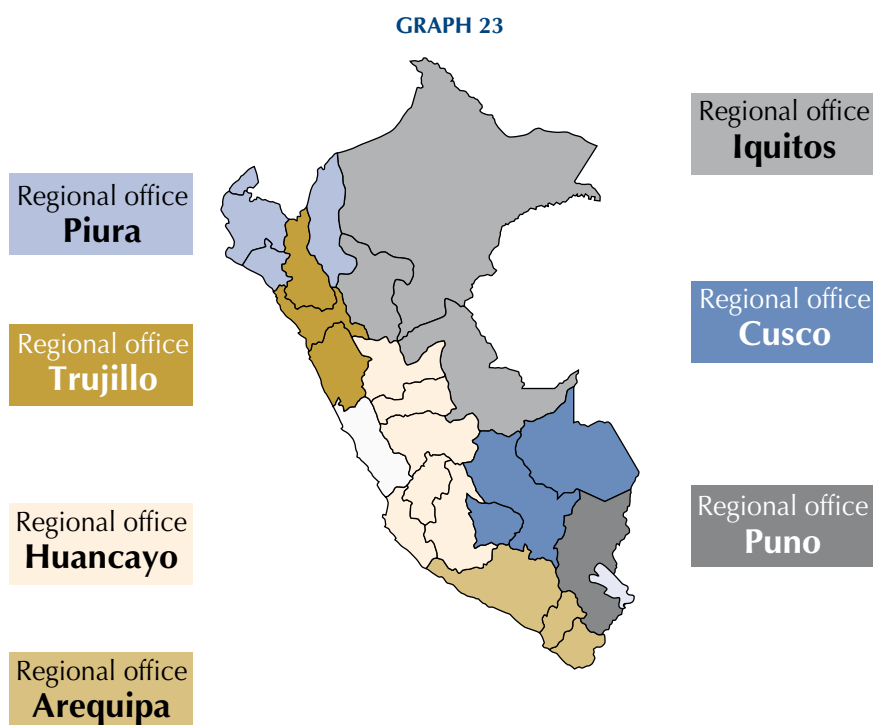
TABLE 11
ACTIVE BANK STAFF

Position	Number
President	1
General Manager	1
Consulting Lawyer	1
Manager	14
Deputy Manager/Head of Branch/Advisor	43
Head of Department/Technical Supervisor	104
Specialist	270
Administrative Specialist	172
Secretary	76
Supervisor/Technician	107
Operator	130
Assigned / Featured / Licenced	66
Total	985



Regional Branch Offices

The seven regional branch offices of the BCRP are located in the cities of Arequipa, Cusco, Huancayo, Iquitos, Piura, Puno, and Trujillo. The main role of the regional branch offices is to elaborate and disseminate studies and reports on the regions' economic and financial aspects, to supply and withdraw currency in the regional financial system according to the Bank's policy of currency management, and to represent the BCRP in the corresponding jurisdiction.



These decentralized BCRP offices publish a monthly Economic Summary for each of the regions included in their jurisdictions, which together cover all the departments of the country. This report analyzes the evolution of the main economic-financial activities in each region.

In 2007 the regional branch offices of the BCRP contributed to disseminate the Bank's economic information in their jurisdictions. In this sense, two Regional Economic Meetings were carried out in the cities of Arequipa (June 1 and 2) and Cajamarca (September 7 and 8). Participants included the city's main authorities, the region's representatives to Congress, public officials, academics, and national and regional media.

Moreover, the Inflation Report was presented in the cities of Arequipa, Cuzco, Chiclayo, Piura, Tacna, and Trujillo. Lectures on the prospects of the Peruvian economy, macroeconomics, and monetary theory were also offered in the cities of Tacna and Ayacucho.

Furthermore, 358 talks on the security features of banknotes and coins were offered in different cities in the country, thus training a total of 11,800 people of the financial, commercial, industrial, and service sectors, as well as the general public on this topic.

The Central Bank of Reserve of Peru has museums in its regional branches of Trujillo, Piura, and Huancayo, and also in Arequipa since December 2007. A total of 23,700 people visited these museums in 2007. The Museum of the Regional Branch of Trujillo, which was visited by 18,700 people, is worth pointing out due to its important historical value.

As regards currency management, the BCRP regional branch offices received currency remittances for a total of S/. 2,793 million to meet the demands of the regional financial system and to cover the public's needs of banknotes and coins in the regions.



Appendices





Poncho woven with cotton and feathers
Chimu Culture (AD 1000-1470)

Summary of the BCRP Communiqués on the Monetary Program 2007

January 4: The Board of the Central Bank approved to maintain the reference interest rate for the interbank market at 4.50 percent, considering that no inflationary pressures are expected in the short term and that the factors that have driven inflation below the target range are transitory. These include the lower prices of fuels, of public utilities and of some food products which are expected to have a one-time impact on the inflation rate.

The Board of Directors also approved the following annual interest rates for active and passive operations between the BCRP and the financial system: a. Direct temporary purchases of securities and rediscount operations: 5.25 percent; and b. Overnight deposits: 3.75 percent.

Likewise, the Board of Directors approved the following annual interest rates for operations in dollars between the BCRP and the financial system: a. Rediscount operations: 1-month LIBOR plus one percentage point; b. Overnight deposits: overnight LIBOR minus 3/8 of one percentage point; c. Swap: a commission equivalent to a minimum annual effective cost of 5.25 percent; and d. Reserve requirements in foreign currency subject to remuneration: 2.75 percent.

The Board also announced the schedule of the sessions when the monetary program for each month will be approved in 2007: February 8, March 8, April 3, May 3, June 7, July 5, August 2, September 6, October 4, November 8, and December 6; as well as the dates when the inflation reports will be published: February 9, June 8 and October 5.

February 8: The Board of the Central Bank approved to maintain the reference interest rate for the interbank market at 4.50 percent, considering that no inflationary pressures are expected in the short term and that the factors that have driven the inflation rate below the target range are transitory. These include the lower prices of fuels, of public utilities and of some food products.

The Board also approved to raise the interest rate on reserve requirements of deposits in foreign currency subject to remuneration from 2.75 to 3.0 percent, and to initiate procedures to raise the maximum limit for investments abroad by Private Administrators of Pension Funds from 12.0 to 13.5 percent.

March 8: The Board of the Central Bank approved to maintain the reference interest rate for the interbank market at 4.50 percent, considering that no inflationary pressures are expected in the short term and that the factors that have driven the inflation rate below the target range are transitory. These include the lower prices of public utilities and some food products.

April 3: The Board of the Central Bank (BCRP) approved to maintain the reference interest rate for the interbank market at 4.50 percent. However, the Board expressed concerns about the possible inflationary impact that a growth of domestic demand exceeding the rates forecast by the Bank might have in a 12-18 time horizon. Therefore, should this trend persist, the Board would be inclined to withdraw monetary stimulus on a timely basis when deemed appropriate.



May 3: The Board of the Central Reserve Bank of Peru (BCRP) decided to maintain the interbank reference rate at 4.5 percent, but expressed concerns about a possible inflationary impact in a 12-18 month horizon due to a very high increase of domestic demand. Therefore, should inflationary pressures be observed, the Board will be inclined to withdraw monetary stimulus.

The Board also approved to raise the interest rate on reserve requirements of deposits in foreign currency subject to remuneration from 3.0 to 3.25 percent, and to initiate procedures to raise the maximum limit for investments abroad by Private Administrators of Pension Funds from 13.5 to 15.0 percent.

June 7: The Board of the Central Reserve Bank of Peru (BCRP) decided to maintain the interbank reference rate at 4.5 percent, as inflation is in the lower band of the inflation target (between 1 and 3 percent) and core inflation remains stable at 1.5 percent. This evolution reflects a balance between a strong dynamism of domestic demand and improved productivity in the economy. The Board follows closely the evolution of these variables and their impact on inflation in a 12-18 month horizon in order to make any preventive adjustment in the monetary policy stance should this be required.

July 5: The Board of the Central Reserve Bank of Peru approved to raise the interbank reference rate from 4.50 to 4.75 percent. This preventive measure was adopted considering the lags with which monetary policy operates and in order to continue maintaining expectations anchored at low inflation levels, given the robust growth observed in terms of domestic demand. The Board will continue to oversee the evolution of inflation and its determinants, differentiating the factors that have temporary impacts from those with permanent effects. Moreover, given current macroeconomic data, the Board considers that this adjustment in the reference interest rate does not imply the beginning of a sequence of interest rate rises.

The Board also approved the annual interest rates on the following active and passive operations between the BCRP and the financial system: a. Direct repo and rediscount operations: 5.50 percent, and b. Overnight deposits: 4.00 percent. Likewise, a commission equivalent to a minimum annual effective cost of 5.50 percent was approved for Swap.

August 2: The Board of the Central Reserve Bank of Peru (BCRP) approved to maintain the interbank reference rate at 4.75 percent, but expressed concerns that the rises in the international prices of fuel and in some inputs used in the production of food products might reflect in inflationary expectations. These rises have a transitory impact on inflation. The Board will continue to oversee the evolution of inflation and its determinants, differentiating the factors that have temporary impacts from those with permanent effects.

Therefore, should expectations about inflation increase or should domestic demand increase to a level exceeding the gains resulting from productivity, the BCRP will implement additional preventive adjustments in the reference interest rate.

September 6: The Board of the Central Reserve Bank of Peru (BCRP) approved to raise the monetary reference rate from 4.75 to 5.0 percent. This preventive measure is taken considering the lags with which monetary policy operates in order to continue maintaining

expectations of low inflation anchored, in view of the robust growth shown by domestic demand in a context marked by an increase in the price of imported inputs. The Board will continue to oversee the evolution of inflation and its determinants, differentiating the factors that have temporary impacts from those with permanent effects.

The Board also approved the annual interest rates on the following active and passive operations between the BCRP and the financial system: a. Direct repo and rediscount operations: 5.75 percent, and b. Overnight deposits: 4.25 percent. Likewise, a commission equivalent to a minimum annual effective cost of 5.75 percent was approved for Swap.

October 4: The Board of the Central Bank approved to maintain the monetary policy reference rate at 5.0 percent. The Board also said that the Bank will adopt additional preventive adjustments in the reference interest rate should expectations about inflation increase or should domestic demand grow at a faster pace than productive capacity and productivity gains.

November 8: The Board of the Central Bank approved to maintain the monetary policy reference rate at 5.0 percent. The Central Bank pointed out that inflation's recent increase above the target is basically associated with rises in the international prices of some basic food inputs. Therefore, the Bank continues to keep a close watch on international economy developments and on their repercussions on inflation in the country.

December 6: The Board of the Central Bank approved to maintain the monetary policy reference rate at 5.0 percent. The Central Bank pointed out that inflation's recent increase above the target is basically associated with rises in the international prices of some food inputs, but said that inflation in November has decreased to 0.11 percent, a rate compatible with the inflation target.

The Board also announced the schedule of the sessions when the monetary program for each month will be approved in 2008: January 10, February 7, March 13, April 10, May 8, June 12, July 10, August 7, September 11, October 9, November 13, and December 11.



Circulars

In 2008 the Central Bank issued 28 Circulars, which regulated and/or referred to the following: monetary instruments (2 circulars), reserve requirements (2), payment systems (3), reserve requirements (1), payment systems (3), interest rates (1), first-class banks (1), investments abroad by private administrators of pension funds (1), ALADI's agreement (1), information and reports (3), new coins in circulation (1), and the monthly announcement of the Index of Daily Readjustment established by article 240 of Law 26702, General Law of the Financial and Insurance Systems and Organic Law of the Superintendency of Banking and Insurance (12).

The Circulars issued in 2007 were the following:

Monetary instruments

- **Circular 005-2007-BCRP - March 16, 2007**
Approves the **Regulations on repo operations in foreign currency in the form of auction that the Central Bank carries out**. The Regulations establish that the financial entities authorized to operate in the national market may participate in the auctions, and determine the procedures for said operations.

Reserve requirements

- **Circular 019-2007-BCRP - September 28, 2007**
The following **provisions for reserve requirements in domestic currency** are established: the reserve requirement exoneration limit applicable to securities and subordinated debt under special regime is eliminated; obligations not subject to reserve requirements shall include the loans with an average term of two or more years received from foreign financial entities other than central banks, governments, international financial organizations and foreign governmental entities; the scope of reserve requirement regulations is modified in the case of institutions subject to the reserve requirement regime; precisions are made in the case of loans from foreign entities to local entities that are exonerated from reserve requirements and on the procedure for signing reserve requirement reports. This replaces Circular 011-2006-BCRP.
- **Circular 020-2007-BCRP - September 28, 2007**
The following **provisions for reserve requirements in foreign currency** are established: the reserve requirement exoneration limit applicable to securities and subordinated debt under special regime is eliminated; obligations not subject to reserve requirements shall include the loans with an average term of two or more years received from foreign financial entities other than central banks, governments, international financial organizations and foreign governmental entities; the scope of reserve requirement regulations is modified in the case of institutions subject to the reserve requirement regime; precisions are made in the case of loans from foreign entities to local entities that are exonerated from reserve requirements and on the procedure for signing reserve requirement reports. This replaces Circular 017-2006-BCRP.



Payment System

- **Circular 007-2007-BCRP - April 25, 2007**
Approves the **Regulations on the Multibank Settlement System for securities** issued by the National Government. These regulations apply to settlements carried out through the RTGS System.
- **Circular 013-2007-BCRP - July 23, 2007**
Modifies the **Operational Regulations of the Real Time Gross Settlement System** (RTGS System). Establishes the reduction of commissions applicable to the use of the RTGS System and reduces the minimum amount of transfers on clients' account from S/. 15,000.00 to S/.10,000.00 and from US\$ 5,000.00 to US\$ 3,500.00 as of August 1, 2007. A maximum period of 30 minutes is also established as of August 1, 2007 for the recipient bank to credit the deposit to the final beneficiary and for the confirmation of said deposit to the originating bank. Moreover, the use of interphases between banks' internal systems and the RTGS System is also established for the automatization of operations. Circulars 040-96-EF/90, 026-2001-EF/90 and 016-2004-EF/90 are hereby declared null and void.
- **Circular 018-2007-BCRP - September 7, 2007**
Establishes that the financial institutions that must submit information on payment instruments and mediums other than cash are the financial entities that provide payment services and the Banco de la Nación. Circular 004-2003-EF/90 is hereby declared null and void.

Interest rates

- **Circular 021-2007-BCRP - September 28, 2007**
Modifies conventional compensatory **maximum interest rates** in domestic and foreign currency on operations between individuals unrelated to the financial system. Circulars 006-2003-EF/90 and 007-2003-EF/90, as well as the announcement of interest rates published in the official daily El Peruano on July 6, 1991, are hereby declared null and void.

First-Class Banks

- **Circular 027-2007-BCRP - December 14, 2007**
Updates the list of **First-Class Banks**, including its main offices, branches and subsidiaries that are banks, and in which the main office has at least two thirds of the capital. Circular 025-2006-BCRP is hereby declared null and void.

Investment limit for Private Administrators of Pension Funds

- **Circular 003-2007-BCRP - February 16, 2007**
Raises the **investment limit** for investments of pension funds administrated by Private Administrators of Pension Funds in instruments issued by Governments, financial and non-financial entities whose economic activities are mainly carried out abroad. Circular 027-2006-BCRP is hereby declared null and void.



- **Circular 009-2007-BCRP - May 11, 2007**

Raises the **investment limit** for investments of pension funds administrated by Private Administrators of Pension Funds in instruments issued by Governments, financial and non-financial entities whose economic activities are mainly carried out abroad. Circular 003-2007-BCRP is hereby declared null and void.

ALADI's Agreement

- **Circular 026-2007-BCRP - December 4, 2007**

As of January 2, 2008 the **Reimbursement Code** for obligations issued in 2008 will consist of 20 figures instead of 17. In this sense, as of said date the institutions authorized to operate through ALADI's Agreement on Reciprocal Payments and Credits shall conform to the regulations established in the three Appendices included in this Circular. Circulars 012-99-EF/90 and 017-2001-EF/90 are hereby declared null and void

Information and reports

- **Circular 010-2007-BCRP - May 31, 2007**

Establishes that banks, financial firms, and the Banco de la Nación shall **inform the BCRP on exchange operations** in the national financial system on a daily basis. Circular 008-2001-EF/90 is hereby declared null and void.

- **Circular 017-2007-BCRP - September 3, 2007**

Establishes that the provisions set forth in Circular 010-2007-BCRP shall come into force on November 30, 2007.

- **Circular 024-2007-BCRP - November 12, 2007**

Establishes that as of November 30, 2007, entities in the financial, insurance, private pension and mutual investment fund systems shall submit their financial statements and complementary information through the **SIB-FTP System**.

New coins in circulation

- **Circular 015-2007-BCRP - August 17, 2007**

Authorizes the circulation of S/. 0.05 aluminium coins as of August 20, 2007.

- **Circular 028-2007-BCRP - December 26, 2007**

Amends the **Regulations on the Custody System**, and establishes that only the deteriorated banknotes deposited by banks shall be arranged by the front side and by their vertical series of numbers, and that this requirement is eliminated for banknotes in conditions of circulating. Circular 012-2002-EF/90 is hereby declared null and void.

Daily Readjustment Index

As established in article 240 of Law 26702, General Law of the Financial and Insurance System and Organic Law of the Superintendency on Banking and Insurances, the BCRP announces the daily readjustment index on a monthly basis.

- Circular 001-2007-BCRP	January 2, 2007
- Circular 002-2007-BCRP	February 2, 2007
- Circular 004-2007-BCRP	March 5, 2007
- Circular 006-2007-BCRP	April 2, 2007
- Circular 008-2007-BCRP	May 2, 2007
- Circular 011-2007-BCRP	June 1, 2007
- Circular 012-2007-BCRP	July 2, 2007
- Circular 014-2007-BCRP	August 1, 2007
- Circular 016-2007-BCRP	September 4, 2007
- Circular 022-2007-BCRP	October 1, 2007
- Circular 023-2007-BCRP	November 5, 2007
- Circular 025-2007-BCRP	December 3, 2007





Decorative stripe in semi-basket
weave and brocade
Wari Culture (AD 600-1000)

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.

Financial
Statements

69

February 20, 2008

Countersigned by:
BALANCE SHEET

Caipó y Asociados S. C.

W. Rubinos

Wilfredo Rubinos 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
	<u>83,022,001</u>	<u>55,712,498</u>
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
	<u>3,089,396</u>	<u>3,152,531</u>
DOMESTIC CREDIT	<u>9</u>	<u>9</u>
PROPERTY, FURNITURE, AND EQUIPMENT, NET (note 9)	<u>146,838</u>	<u>144,882</u>
OTHER ASSETS (note 10)	<u>488,436</u>	<u>631,204</u>
TOTAL ASSETS	<u>86,746,680</u>	<u>59,641,124</u>
MEMORANDA ACCOUNT (note 22)	<u>15,487,227</u>	<u>19,939,346</u>

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)

	<u>2007</u>	<u>2006</u>
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
	<hr/>	<hr/>
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
	<hr/>	<hr/>
TOTAL FINANCIAL INCOME	3,372,560	2,252,010
	<hr/>	<hr/>
NON-FINANCIAL INCOME	6,971	5,895
	<hr/>	<hr/>
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)
	<hr/>	<hr/>
TOTAL FINANCIAL EXPENSES	(2,401,974)	(1,472,884)
	<hr/>	<hr/>
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)
	<hr/>	<hr/>
TOTAL OPERATING EXPENSES	(204,883)	(208,384)
	<hr/>	<hr/>
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)
	<hr/>	<hr/>
TOTAL MONETARY ISSUANCE EXPENSES AND COSTS	(48,725)	(26,982)
	<hr/>	<hr/>
NET INCOME	723,949	549,655
	<hr/> <hr/>	<hr/> <hr/>

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)

	<u>2007</u>	<u>2006</u>
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)
	<hr/>	<hr/>
Cash and cash equivalents provided by operating activities	24,108,739	5,133,772
	<hr/>	<hr/>
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)
	<hr/>	<hr/>
Net cash and cash equivalents used in investing activities	(147,637)	(40,286)
	<hr/>	<hr/>
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
	<hr/>	<hr/>
Cash and cash equivalents at end of year	66,022,562	42,061,460
	<hr/> <hr/>	<hr/> <hr/>

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:



	<u>Years</u>
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
	<u>27,905,392</u>	<u>17,667,365</u>
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
	<u>8,283,262</u>	<u>6,579,296</u>
Net assets	<u>19,622,130</u>	<u>11,088,069</u>

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
	<u>28,640,471</u>	<u>21,932,991</u>
Call deposits	14,382	18,645
Interest receivable on call deposits	18	18
	<u>14,400</u>	<u>18,663</u>
Demand deposits	5	28
Interest receivable on gold deposits	205	-
	<u>28,655,081</u>	<u>21,951,682</u>

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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
	<u>235,322</u>	<u>10,810</u>	<u>6,308</u>	<u>239,824</u>
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
	<u>90,440</u>	<u>8,089</u>	<u>5,543</u>	<u>92,986</u>
Net cost	<u>144,882</u>			<u>146,838</u>

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

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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
	<u>21,458,200</u>	<u>8,065,500</u>
Discount on sale CD BCRP	(699,595)	(207,885)
	<u>20,758,605</u>	<u>7,857,615</u>

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:

Face value	2007		2006	
	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

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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
	<u>15,487,227</u>	<u>19,939,346</u>

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
	<u>10,151,724</u>	<u>15,447,412</u>

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	<u>10,151,724</u>	<u>15,447,412</u>

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	In thousands of S/.				Total
	From six six months	Up to months to one year	From one to five years	Over five years	
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 risk 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 adequately 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, and 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%.



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Banco Central de Reserva del Peru
Jiron Antonio Miro Quesada 441 - Lima
Telephone: 613-2000
Webpage: <http://www.bcrp.gob.pe>

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