



financial statements



Caipo y Asociados

Av. Javier Prado Oeste 203
San Isidro, Lima-Perú

Apartado 14-003
Lima 14, Perú

Teléfono: 51(1) 611-3000
Fax: 51(1) 421-6943
Web: www.pe.kpmg.com

(FREE TRANSLATION FROM SPANISH. THE ACCOUNTING PRINCIPLES REFERRED TO ARE THOSE GENERALLY ACCEPTED IN PERU)

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Banco Central de Reserva del Perú:

We have audited the accompanying balance sheet of Banco Central de Reserva del Perú as of December 31, 2003, and the related statements of income, changes in net equity and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements as of December 31, 2002 were audited by other independent auditors whose report dated March 21, 2003 expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in Peru. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a selective basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As explained in note 2, the financial statements as of December 31, 2003 and 2002 of Banco Central de Reserva del Perú have been prepared in accordance with accounting principles generally accepted in Peru which comprise mainly international accounting standards including accounting practices contained in the Bank's Organic Law, which differ in certain aspects with accounting principles generally accepted in Peru, as stated in note 3 to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Banco Central de Reserva del Perú as of December 31, 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting practices described in note 2 to the financial statements.

As explained in notes 2 and 3 to the financial statements, during year 2003 the Bank modified its accounting policy related to the subvention of medical attention to its employees, pensioners and their relatives. As of December 31, 2003, the effect of this change of this accounting policy has been charged in a generic provision in the amount of S/. 48,252,000 and to results of the year in the amount of S/. 16,898,000, and credited to the actuarial liability in the amount of S/. 65,150,000.

June 4, 2004

Countersigned by:

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



**BALANCE SHEETS**

As of December 31, 2003 and 2002

(Stated in thousands of constant nuevos soles as of December 31, 2003)

Assets	2003	2002
External assets:		
Cash in foreign currency	35,335	179,838
Deposits in foreign banks (note 5)	12,123,649	11,218,630
Securities in international institutions (note 6)	20,364,295	20,736,770
Gold (note 7)	1,601,265	1,385,658
Contributions to Fondo Latinoamericano de Reservas (note 8)	1,084,396	1,088,534
Agreements with central banks	11,571	9,935
Other available assets	102,225	104,152
	<u>35,322,736</u>	<u>34,723,517</u>
Other external assets:		
Contributions in local currency to the International Monetary Fund (note 8)	3,283,258	3,109,982
Other external assets	30,053	32,801
	<u>3,313,311</u>	<u>3,142,783</u>
Domestic credit (note 9)	237,379	530,893
Property, furniture and equipment, net of accumulated depreciation (note 10)	143,223	148,303
Other assets (note 11)	1,369,992	1,594,064
Total assets	<u>40,386,641</u>	<u>40,139,560</u>
Off-balance sheet accounts (note 22)	<u>20,724,716</u>	<u>12,988,931</u>

See the accompanying notes to the financial statements.

Liabilities and Net Equity:	2003	2002
External liabilities:		
Obligations with international entities	40,378	71,027
Due to International Monetary Fund (note 12)	-	260,905
	<u>40,378</u>	<u>331,932</u>
Other external liabilities:		
Exchange value of contribution in local currency to International Monetary Fund (note 12)	3,283,258	3,109,982
Other external liabilities (note 12)	1,021,069	1,103,417
	<u>4,304,327</u>	<u>4,213,399</u>
Monetary base (note 13)	7,441,178	6,894,183
Other deposits in local currency (note 14)	1,206,466	357,077
Securities issued (note 15)	3,981,654	1,946,440
Deposits in foreign currency (note 16)	19,565,305	22,504,259
Other liabilities (note 17)	947,084	1,166,953
Readjustment in valuation, Organic Law Article 89 (note 18)	2,379,527	2,208,677
Total liabilities	<u>39,865,919</u>	<u>39,622,920</u>
Net equity (note 19):		
Capital	171,966	171,966
Reserves	171,772	173,214
Retained earnings	176,984	171,460
Total net equity	<u>520,722</u>	<u>516,640</u>
Contingencies (note 21)		
Total liabilities and net equity	<u>40,386,641</u>	<u>40,139,560</u>
Off-balance sheet accounts (note 22)	<u>20,724,716</u>	<u>12,988,931</u>



STATEMENTS OF INCOME
For the years ended December 31, 2003 and 2002
(Stated in thousands of constant nuevos soles as of December 31, 2003)

	2003	2002
Financial income:		
Interest on deposits in foreign banks	144,532	303,155
Interest on securities in international institutions	545,679	564,954
Interest on ALADI agreements	136	241
Interest on operations of domestic credit	11,033	14,028
Other financial income	63,998	16,127
	<u>765,378</u>	<u>898,505</u>
Other income:		
Dividends received from FLAR	33,440	53,853
Gain on sales of foreign currency and others	69,069	42,370
	<u>102,509</u>	<u>96,223</u>
Financial expenses:		
Interest on time and special deposits	212,478	258,629
Interest on demand deposits in Peru	94,481	150,740
Interest on BCRP certificates	139,126	103,053
Interest on loans from international organizations	1,310	13,715
Other financial expenses	28,624	13,331
	<u>476,019</u>	<u>539,468</u>
Operating expenses:		
Remunerations and cost of social laws	113,625	116,024
Administrative expenses	65,023	77,640
Provisions	16,898	125,567
Depreciation, amortization and write-offs	8,514	11,049
Other expenses in local currency	5	5
	<u>204,065</u>	<u>330,285</u>
Monetary issuance costs:		
Expenses for transport and cost of notes and coins	1,032	699
Cost of materials for production delivered to Casa Nacional de la Moneda	4,868	5,177
	<u>5,900</u>	<u>5,876</u>
Profit before result of exposure to inflation	181,903	119,099
Result of exposure to inflation (note 23)	(4,919)	(2,441)
Net profit for the year	<u><u>176,984</u></u>	<u><u>116,658</u></u>

See the accompanying notes to the financial statements.

STATEMENTS OF CHANGES IN NET EQUITY
For the years ended December 31, 2003 and 2002
(Stated in thousands of constant nuevos soles as of December 31, 2003)

	Capital (note 19.a)	Reserves (note 19.b)	Retained earnings (note 19.c)	Total net equity
Balances as of December 31, 2001	171,966	109,672	144,091	425,729
Adjustments of prior years	-	11,050	(932)	10,118
Transfer of result of exposure to inflation to reserves	-	630	(630)	-
Transfer of retained earnings to reserves	-	51,862	(51,862)	-
Amortization of accounts receivable from Treasury	-	-	(35,865)	(35,865)
Net profit for the year	-	-	116,658	116,658
Balances as of December 31, 2002	171,966	173,214	171,460	516,640
Transfer of result of exposure to inflation to reserves	-	(1,442)	1,442	-
Profit distribution as per Board of Directors' Minutes dated April 3, 2003 and August 7, 2003 and D.S. 103-2003-EF:				
Amortization of accounts receivable from Treasury (notes 9 and 19.c)	-	-	(103,239)	(103,239)
Transfer of accounts receivable to the Treasury (note 19.c)	-	-	(69,663)	(69,663)
Net profit for the year	-	-	176,984	176,984
Balances as of December 31, 2003	171,966	171,772	176,984	520,722

See the accompanying notes to the financial statements.



STATEMENTS OF CASH FLOWS
For the years ended December 31, 2003 and 2002
(Stated in thousands of constant nuevos soles as of December 31, 2003)

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Net profit for the year	176,984	116,658
Adjustments to reconcile net profit for the year to net cash provided by operating activities:		
Provision for general expenses and acquisition of notes	522	890
Provisions, depreciation and amortization	25,412	136,616
Interest expenses, net	(70,323)	(41,058)
Cost of materials for production delivered to Casa Nacional de Moneda	4,868	5,177
Other provisions	(66)	(1,114)
Increase in other external assets	(170,528)	(243,824)
Decrease (increase) in domestic credit	190,275	(155,916)
Decrease in other assets	92,541	112,232
Decrease in external liabilities	(291,554)	(471,335)
Increase in other external liabilities	90,928	204,735
Increase in monetary base	546,995	579,562
Increase in other deposits in local currency	849,389	100,438
Increase in securities issued	2,035,214	87,543
(Decrease) increase in deposits in foreign currency	(2,938,953)	2,044,962
Increase in other liabilities	59,460	704,286
Net cash provided by operating activities	<u>601,164</u>	<u>3,179,852</u>
Cash flows from investing activities:		
Sales of property, furniture and equipment	38	-
Additions of property, furniture and equipment	(1,983)	(3,594)
Net cash used in investing activities	<u>(1,945)</u>	<u>(3,594)</u>
Net increase in cash and cash equivalents	599,219	3,176,258
Cash and cash equivalents at beginning of year	34,723,517	31,547,259
Cash and cash equivalents at end of year	<u><u>35,322,736</u></u>	<u><u>34,723,517</u></u>

See the accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2003 AND 2002

1. ECONOMIC ACTIVITY

Banco Central de Reserva del Perú (hereinafter the Bank) is an autonomous juridical entity of public law created on March 9, 1922 as Banco de Reserva del Perú, intended to preserve the monetary stability in Peru. Its activities are presently governed by Article 84 of the Peruvian political constitution dated December 29, 1993 and its Organic Law approved under Decree-Law 26123 dated December 24, 1992. Organic Law establishes that its functions are to regulate money supply, administer international reserves, issue notes and coins and report on the finances of Peru.

The Bank's legal address is in Lima and it has seven branch offices in other cities in Peru. The personnel employed by the Bank to carry out its activities as of December 31, 2003 and December 31, 2002 is 1,031 and 1,055, respectively.

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

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

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

- Grant financing to the Treasury, unless under the model of acquisition in the secondary market of securities issued by the Treasury, in which case the holding of such securities may not exceed in any moment, valued at their acquisition cost, five per cent of the balance of the monetary base at the close of the previous year.



- Extend guarantees, letters of guarantee or any other guarantees and use any form of indirect financing, as well as grant insurances of any type. The operations carried out in implementing agreements of payments and reciprocal credits are not subject to this prohibition.
- Allocate resources for the creation of special funds aimed at granting credits or making investment to promote any financial economic activity.
- Issue titles, bonds or contribution certificates which are of obligatory acquisition.
- Impose sector or regional coefficients in the composition of the loan portfolio of financial institutions.
- Establish systems of multiple exchange rates.
- Purchase shares, unless these are issued by international financial organizations or those needed to be acquired for the restoration of banking and financial companies; participate, directly or indirectly, in the capital of commercial, industrial or any other companies.

In conformity with the Bank's Organic Law and its By-laws, management has prepared financial statements as of December 31, 2003, which will be presented for approval to the Board of Directors before June 30, 2004. In management's opinion, the accompanying financial statements will be approved by Board of Directors without modifications.

2. MAIN ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in Peru, including accounting practices contained in the Bank's Organic Law. As stated in note 3, such practices differ in certain aspects with accounting principles generally accepted in Peru, which comprise mainly International Accounting Standards (IAS) approved and made official by Consejo Normativo de Contabilidad (Peruvian Accounting Standards Board) as of December 31, 2003, which include IAS 1 to 41 and pronouncements 1 to 33 of Standing Interpretation Committee (SIC).

The most significant accounting principles and practices applied to record operations and prepare the financial statements are the following:

(a) Basis for the Preparation of Financial Statements

All components of the financial statements have been adjusted to reflect the effect of changes in the purchasing power of the Peruvian currency (nuevo sol = S/.) and express the balances in constant nuevos soles as of December 31, 2003.

The financial statements have been adjusted to reflect the effect of changes in the purchasing power of the Peruvian currency, thus enabling the various transactions included therein to be stated in constant monetary units. The historical cost principle prevails when recording balances, with the adjustments representing the updating of these balances.

The factors used to calculate the adjustment are based on the nationwide wholesale price index as published by Instituto Nacional de Estadística e Informática (National Institute of Statistics).

Non-monetary balances have been updated taking into account the adjusting factors determined according to the age of each of the components. Monetary balances, including off-balance sheet accounts, have not been adjusted as they reflect the purchasing power of the currency at balance sheet date. The adjusted cost of assets should not exceed its valuation, as per criteria described in this note.

Year 2002 financial statements have been restated in purchasing power of currency as of December 31, 2003, in order to become comparable.

The loss of purchasing power of the Peruvian currency in years 2003 and 2002, according to the nationwide wholesale price index as published by Instituto Nacional de Estadística e Informática, was 2.0% and 1.7% respectively. Additionally, the gain corresponding to year 2001 was 2.2%.

(b) Use of Accounting Estimates

The preparation of the financial statements in accordance with generally accepted accounting principles requires Bank's management to make certain estimates and assumptions in order to report asset and liability figures, disclose the significant facts included in the notes to the financial statements, and report income and expense figures for the period. 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, the balances of the financial statements would be corrected in the year such changes of estimates and assumptions occur. The most significant estimates related to the financial statements, the accounting criteria of which are described below, correspond to depreciation of property, furniture and equipment, provision for severance indemnities, amortization of intangibles, provision for assets seized through legal actions and actuarial provisions for complementing retirement benefits. Likewise as from year 2003, estimates of additional benefits (widows, health and burial benefits) have been included.

(c) Financial Instruments

A financial instrument is any contract that gives rise to both a financial asset in one enterprise and a financial liability or equity instrument in another.

The financial instruments are classified as asset, liability or equity according to the importance of the contract that gave rise to the financial instrument. The interest, dividends, gains and losses generated by a financial instrument classified as asset or liability, are recorded as expense or income in the statement of income. The payment to holders of financial instruments classified as equity is recorded directly in net equity. The financial instruments are compensated when the Bank has the legal right to compensate them and the management has the intention of paying them on a net basis or negotiating the asset, and paying the liability simultaneously.

Assets and liabilities presented in the balance sheet correspond to: (i) external assets: cash in foreign currency, deposits in foreign banks, securities in international institutions, gold, contributions to FLAR, agreements with central banks and other available assets; (ii) other external assets: contributions in local currency to IMF and other external assets; (iii) domestic credit; (iv) other assets; and (v) liabilities in general. Recognition and valuation criteria of these instruments are disclosed in this note.

(d) Securities in International Institutions

Securities in international institutions held by the Bank are classified as held to maturity. These securities are recorded at acquisition costs. When book value

exceeds market value, differences are recognized by charging the corresponding provision for securities fluctuation to the results of the period. Likewise, premiums or discounts on the acquisition of these investments are amortized since acquisition date until investment maturity date.

(e) Precious Metals

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

Gold and silver holdings are valued at their listed price at the end of each day, as per Board of Directors' agreement of February 14, 2002. Gold valuation is obtained by using the average buy quote of the markets of London, New York and Zurich. Likewise, silver valuation is obtained by applying the average buy quote in the markets of New York and London; as well as the quotation published in Handy Harman.

(f) Provision to Cover Eventual Losses Arising from Credit Support to the Multi-purpose Banking Sector

The provision to cover eventual losses arising from credit support to the multi-purpose banking sector corresponds to a provision approved by the Board of Directors in order to cover potential losses arising from transactions carried out with the multi-purpose banking sector. During the course of year 2003, the Bank undid part of the provision to cover provision for actuarial reserve of retirement and health benefits for employees, pensioners and their relatives.

(g) Property, Furniture and Equipment

Property, furniture and equipment are stated at cost, plus the adjustment for effects of inflation (note 10). Minor maintenance and repair expenses are charged to results as incurred while significant repairs, improvements and renewals are registered as fixed assets.

Depreciation is calculated based on the straight-line method using rates considered sufficient as to absorb the cost plus the adjustment for effects of inflation, at the end of its estimated useful life considering the following useful lives:



	<u>Years</u>
Property	100
Furniture and office equipment and various equipment	10
Computing equipment	3
Vehicles	5

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

Useful life and depreciation method are periodically reviewed by management according to the forecasted economic benefits to be provided by the components of property, furniture and equipment.

(h) Assets Seized through Legal Actions

Assets seized through legal actions include mainly lands and properties received as payments of loans granted to banks that are currently being liquidated and are recorded at the adjudicated cost of seizure which does not exceed their estimated net realizable value.

Likewise, as established in Article 85 of the Organic Law, the Bank may not be the owner of more properties than those intended for its normal activities and those 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, 2003, all the assets seized through legal actions are aged over a year and the Bank has begun the arrangements established by law in order to formalize the sale of such assets, which implied coordination with Superintendencia de Bienes Nacionales (Superintendence of National Assets) and constitution of Junta Especial de Almonedas (Special Board of Almonedas). Up to December 31, 2003, the Bank performed public auctions that included the total assets seized through legal actions, selling approximately 55% of the total value of such assets.

In 2002, the Bank used part of the provision to cover eventual losses arising from credit support to multi-purpose banks to cover the total seized assets received in prior years (note 3.b).

(i) Notes and Coins

They correspond to notes and coins of legal tender issued by the Bank which are held by the public; they are recorded as a liability on the balance sheet at

their nominal value under the Monetary Base item. Uncurrent notes and coins kept in the Bank's safe are recorded in off-balance sheet accounts at their nominal value.

(j) Provision for Employees' Severance Indemnities

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

(k) Employee Benefits

As established in article 53 of its By-laws, the Bank supports Fondo para Enfermedades, Seguros y Pensiones de Empleados (Fund for Illness, Insurance and Pensions of the Bank's employees) with the resources necessary for complementing the expenses required for being operative, which according to IAS 19, is an employee benefit under a defined benefit plan.

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

- **Subsidy of Supplementary Pension**

For a plan of defined benefits, expenses related to supplementary pensions are recorded under the method of benefits per year of services, under which the cost of providing supplementary pensions are recorded to results for the period in order to distribute the cost over the employees' years of services.

- **Other Benefits Supplementary to Retirement**

As from year 2003, the Bank modified its accounting policies regarding the treatment of the subvention of medical attention and burial benefits to make it concurrent with IAS 19-Employee benefits under the Plan of defined benefits. In prior years, the Bank recognized in the results of period, the annual



disbursements transferred to the Fund as established in article 53 of its By-laws. Such an amount is approved by the Bank's Board of Directors in January every year, on the basis of the budget and programs presented by Consejo Directivo del Fondo (Fund's Administrative Council) and previous evaluation of actions carried-out and results obtained in the prior year.

In the period 2003, the effect of this change in accounting policy has been charged to the provision for covering eventual losses arising from credit support to the multi-purpose banking sector in the amount of S/. 48,252,000 and to results of the year in the amount of S/. 16,898,000 and recorded an actuarial liability in the amount of S/. 65,150,000 (note 17.b).

The value of the supplementary pension and the other benefits supplementary to retirement as determined by an actuary on a periodic basis, is measured at the present value of all future payments of pensions by using an average discount rate determined on the basis of the return of related assets. In determining the discount rate, the Bank has used the median of the rate of return of the last five years of the international reserves; it reached 5%. In determining this obligation, the Bank has used parameters established in the Fund's regulations.

(l) Interest and Commissions

Interest income and expenses are recognized in the results of the period when accrued and the commissions when received or paid.

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

(m) Printing of Notes and Operating Expenses

Operating expenses and the expenses of printing notes are recognized in the results of the period when accrued.

(n) Cash and Cash Equivalents

Cash and cash equivalents comprise external assets, which include funds, bank deposits, investments in securities of international institutions, gold held,

contributions to FLAR, agreements with central banks and other available assets.

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

(o) Exchange Difference and Readjustment of Foreign Currency

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, are credited in a special account, not considering them as gains or losses.

This valuation is made on a daily basis by applying to the balances of assets and liabilities in foreign currency and precious metals, the quotation with respect to the U.S. dollar and the exchange rate of the U.S. dollar compared to the Peruvian Nuevo Sol (note 4), obtaining balances in local currency which are compared with the balances before valuation. The result of such valuation of price and exchange rate is charged or credited to the Readjustment in valuation Organic Law Article 89 account, which as of December 31, 2003 and 2002 is recorded under liabilities in the balance sheet (note 3.a).

The Bank registers the gains and losses from the sale of foreign currencies to results for the year. Results from the sale of foreign currencies are obtained by multiplying the difference between the exchange rate of the transaction and the exchange rate of prior year-end by the amount of the transaction; such a result is stated with a balancing entry to the Readjustment in valuation Organic Law, Article 89 account.

(p) Provisions

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



(q) Contingencies

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 resources is remote.

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

3. DIFFERENCES WITH ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN PERU

The applicable accounting practices of the Bank as described in note 2 differ in certain aspects from accounting principles generally accepted in Peru which comprise mainly International Accounting Standards (IAS) made official by Consejo Normativo de Contabilidad.

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

- a) The Bank maintains as liabilities, the readjustments in the valuation of prices and exchange rates in local currency of the Bank's assets and obligations in gold, silver and foreign currency, SDRs or any other international currency; as of December 31, 2003 and 2002, the readjustment amounted to S/. 2,379,527,000 and S/. 2,208,677,000, respectively (note 2.o). In accordance with generally accepted accounting principles, the results of the valuations should be included in the Bank's results in the years when they were generated. Results from sale of foreign currencies are recorded as gain or loss in the year they are generated.
- b) At Board of Directors' Meeting held on December 3, 1998, session 3760, it was approved to make a generic provision to cover eventual losses arising from credit support to the multi-purpose banking sector of S/. 150,000,000 (at historical value) (note 2.f). In 2002, the Bank destined part of this provision to cover principally accounts receivable from banks being liquidated and from the 'Insurance of Credit for Exports' (SECREX, Spanish acronym) for approximately S/. 80,780,000 and to increase the provision for seized assets by approximately S/. 7,074,000 (note 2.h). As of December 31, 2003, the net balance

of S/. 65,150,000 of this generic provision was used to constitute part of the actuarial provision (note 17.c).

- c) Through the Fund, the Bank assumes the subvention of medical attention of its employees, pensioners and their relatives (note 2.k). As of December 31, 2002, the Bank did not determine nor did it record in its financial statements, the actuarial liabilities for the subvention of medical attention; the Bank recorded to results for the period, the annual disbursements for this subvention amounting to S/. 10,510,000. As of December 31, 2003, this actuarial liability was charged to generic provisions (notes 2.k and 17.b) in the amount of S/. 48,252,000 and charged to results of the year in the amount of S/. 16,898,000.

4. BALANCES IN FOREIGN CURRENCY

Balances in U.S. dollars as of December 31, 2003 and 2002 have been stated in nuevos soles at the purchase exchange rate established by Superintendencia de Banca y Seguros – SBS (Peruvian Superintendency of Banking and Insurance) of S/. 3.461 and S/. 3.513 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) Balances in foreign currency and in precious metals as of December 31 are summarized as follows:

	2003		2002	
	Origin currency	In thousands of US\$	Origin currency	In thousands of US\$
Assets:				
U.S. dollars	9,703,209,638	9,703,210	9,300,728,045	9,300,728
Gold in ounces	1,114,842	462,659	1,114,846	386,703
Special drawing rights	100,445,451	149,259	127,660,632	172,927
Euros	164,748,560	208,094	139,485,483	146,223
Yens	-	-	8,273,409,218	69,786
Pounds sterling	19,791,587	35,476	23,453,733	37,803
Canadian dollars	44,012,535	34,264	55,265,674	34,996
Pesos andinos	20,000,000	20,000	20,000,000	20,000
Silver in ounces	890,656	5,279	971,173	4,632
		10,618,241		10,173,798



	2003		2002	
	Origin currency	In thousands of US\$	Origin currency	In thousands of US\$
Liabilities:				
U.S. dollars	5,869,897,818	5,869,898	6,571,415,536	6,571,416
Gold in ounces	9	4	10	3
Special drawing rights	94,207,222	139,989	174,998,142	237,049
Euros	32,592	41	33,591	34
Pounds sterling	1,201	2	1,200	2
Pesos andinos	20,000,000	20,000	20,000,000	20,000
Silver in ounces	18,725	111	18 350	88
		6,030,045		6,828,592
Net assets		4,588,196		3,345,206
Net assets, in thousands of S/.		15,879,746		11,986,743

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

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

	Equivalent in US\$	
	2003	2002
Gold in ounces (note 2.e)	415.000000	346.866700
SDRs	1.485970	1.354580
U.S. dollars	1.000000	1.000000
Pounds sterling	1.792500	1.611800
Yens	0.009355	0.008435
Canadian dollars	0.778513	0.633232
Pesos andinos	1.000000	1.000000
Euros	1.263100	1.048300
Silver in ounces (note 2.e)	5.926700	4.770000

5. DEPOSITS IN FOREIGN BANKS

They comprise the following:

	In thousands of S/.	
	2003	2002
Time deposits	12,102,161	11,205,941
Call deposits	21,426	12,619
On-demand deposits	62	70
	12,123,649	11,218,630

As of December 31, 2003 and 2002, time deposits basically amount to US\$ 3,495,713,000 and US\$ 2,997,984,000, respectively. Deposits in foreign banks are deposited in first class banks and bear interest at rates of the international market.

6. SECURITIES IN INTERNATIONAL INSTITUTIONS

They comprise the following:

	In thousands of S/.			
	2003		2002	
	Book value	Estimated market value	Book value	Estimated market value
Notes of U.S. Agencies	5,823,420	5,860,904	7,578,670	7,732,162
Sovereign bonds	5,338,232	5,350,651	3,570,282	3,631,154
U.S. Treasury Notes	2,904,227	2,911,469	922,446	930,670
Commercial papers	2,540,566	2,541,450	2,354,343	2,386,999
Certificates of deposit	2,249,698	2,249,650	842,072	842,066
Medium Term Instruments	1,508,152	1,511,249	4,695,946	4,759,009
FIXBIS at discount	-	-	773,011	775,949
	20,364,295		20,736,770	

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



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

7. GOLD

As of December 31, 2003 and 2002, this item is represented by 1,114,842 and 1,114,846 troy ounces, respectively, and includes commemorative coins deposited in the Bank's safe and "good delivery" bars deposited in first class foreign banks; the latter bear interest in accordance with international market conditions.

8. CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS

The Bank makes contributions to the following international organizations:

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

As of December 31, 2003, the contribution to FLAR amounts to US\$ 313,319,000 equivalent to S/. 1,084,396,000 (US\$ 303,783,000 equivalent to S/. 1,088,534,000 as of December 31, 2002). This contribution allows Peru access to financing facilities of FLAR (note 17.a).

b) International Monetary Fund (IMF)

It comprises the following:

	In thousands of S/.	
	2003	2002
Contributions to IMF for the equivalent in local currency of SDR 638,400,000	3,057,764	2,834,727
Revaluations to liquidate – contribution to IMF in local currency	225,494	275,255
	<u>3,283,258</u>	<u>3,109,982</u>

The contribution to IMF grants Peru access to IMF's financing activities. The balancing entry of these contributions is recorded as liability with IMF (see note 12.b).

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 compared with the U.S. dollar and the U.S. dollar compared with the Peruvian nuevo sol between April 30 and December 31 of each year. These revaluations are cancelled at the end of each financial year of IMF which is April 30.

9. DOMESTIC CREDIT

It comprises the following:

	<u>In thousands of S/.</u>	
	<u>2003</u>	<u>2002</u>
D.S. 066-94-EF BCRP Capitalization Bonds	225,828	333,584
Reporting transactions with CD BCRP and Treasury Bonds	-	173,400
Treasury Bonds - D.S. 114-98-EF	11,542	23,900
Other	9	9
	<u>237,379</u>	<u>530,893</u>

In accordance with Supreme Decree 066-94-EF, dated May 31, 1994, the Ministry of Economy and Finance (Spanish acronym MEF) issued BCRP Capitalization Bonds series "A" (interest-bearing bonds) and "B" series (non-interest bearing) for S/. 613,796,000 (historical value). Such bonds were used to settle debts maintained by the Bank with the Treasury, transfer its debts with the state development banking in liquidation and offset accumulated losses that the Bank maintained as of May 31, 1994, and allow the Bank to reach the capital indicated in the Article 5 of its Organic Law. Likewise, under the decree stated above, such bonds are being paid with the transfer of profits generated by the Bank at the percentages stated in the respective legal regulations established by MEF (note 19.c). In 2003 period, the Bank amortized capitalization bonds of S/. 103,239,000 according to Supreme Decree 103-2003-EF and Board of Directors' agreement of August



7, 2003. It is to be mentioned that BCRP Capitalization Bonds series "B" have been fully paid.

As stated in note 1, the Bank, in accordance with Article 2 of its Organic Law, is intended to regulate money supply and preserve monetary stability in Peru. Accordingly, the Bank has the following instruments of monetary policy: Credits for Monetary Regulation, Purchase with re-purchase agreements of Certificates of Deposit (CD BCRP), Treasury Bills and Bonds, placement of Certificates of Deposit (CD BCRP) and Readjustable Certificates of Deposit (CDR BCRP) (note 15), among others.

10. PROPERTY, FURNITURE AND EQUIPMENT

The movement of the property, furniture and equipment account and corresponding accumulated depreciation for the year ended December 31, 2003 has been the following:

	In thousands of S/.				
	Balances as of 31.12.2002	Additions	Disposals	Transfers	
Cost:					
Lands	23,841	-	-	-	23,841
Buildings	147,548	406	-	-	147,954
Furniture and office equipment	4,740	36	(28)	-	4,748
Vehicles	3,127	-	(212)	-	2,915
Various equipment	35,009	1,361	(735)	209	35,844
In-transit units	123	116	(22)	(209)	8
	214,388	1,919	(997)	-	215,310
Depreciation:					
Buildings	43,885	1,477	-	-	45,362
Furniture and office equipment	1,865	747	(13)	-	2,599
Vehicles	2,222	496	(180)	-	2,538
Various equipment	18,113	3,919	(444)	-	21,588
	66,085	6,639	(637)	-	72,087
Net cost	148,303				143,223

11. OTHER ASSETS

They comprise the following:

	In thousands of S/.	
	2003	2002
Subscription to international organizations (note 17.a)	537,947	591,119
Interest and commissions receivable, net	208,274	263,736
Fund in foreign currency - Brady Plan (note 12.c)	448,439	534,509
Art collections	83,666	83,601
Revaluations to liquidate – Brady Plan Fund (note 12.c)	33,070	51,901
Silver	18,269	16,565
Almacén Casa Nacional de Moneda	15,486	15,707
Accounts receivable from personnel	4,783	9,119
Intangibles, net of amortization of S/. 10,258,000 and S/. 8,382,000, respectively	4,448	5,863
Various	15,610	21,944
	1,369,992	1,594,064

The subscription signed with international organizations corresponds to the unpaid contribution of US\$ 155,431,000 (US\$ 164,967,000 in year 2002) to FLAR, which will be paid with future distributions of profits of this organization (note 17.a).

Fund in foreign currency – Brady Plan corresponds to SDR 93,625,000 (SDR 120,375,000 in year 2002) that the Bank received and was deposited in Banco de la Nación (National Bank of Peru) to be used by MEF. The amount of the Fund in foreign currency – Brady Plan will decrease as the Bank receives from MEF the respective transfers to make the corresponding re-purchase transactions as stated in the respective agreement. During 2003, the Bank received transfers of funds in U.S. dollars from MEF equivalent to SDR 26,750,000 intended to reduce financing of IMF (note 12.c).

Art collections correspond to works of art and numismatic collections of coins and notes acquired or donated to the Bank and maintained for display.

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



12. DUE TO INTERNATIONAL MONETARY FUND

The Bank has the following liabilities with IMF:

(a) Due (Extended facility)

As of December 31, 2003, the Bank has no obligations to the IMF since all the debt was paid out according to established payment schedule. As of December 31, 2002, due to IMF amounted to S/. 260,905,000 corresponding to SDR 53,557,000 at an effective annual interest rate ranging from 2.53% to 3.09%.

(b) Exchange Value of Contributions in Local Currency to IMF

As of December 31, 2003 the exchange value of the contribution in local currency to IMF amounts to S/. 3,283,258,000 (S/. 3,109,982,000 as of December 31, 2002) corresponding to SDR 638,400,000; this obligation is not subject to interest and does not have an agree-upon maturity date (note 8.b).

(c) Other Foreign Liabilities

They comprise the following:

	In thousands of S/.	
	2003	2002
Promissory note IMF-MEF Brady Plan (note 11)	448,439	534,509
Revaluations to liquidate – Promissory note Brady Plan	33,070	51,901
SDRs allocation	437,393	405,490
Revaluations to liquidate – SDR allocation	32,256	39,373
Assignment Pesos Andinos FLAR	69,220	71,665
Other	691	479
	<u>1,021,069</u>	<u>1,103,417</u>

The promissory note IMF-MEF Brady Plan corresponds to the obligation of SDR 93,625,000 (SDR 120,375,000 in year 2002) due to IMF that was given to MEF (note 11).

SDRs allocation as of December 31, 2003 and 2002 corresponds to SDR 91,319,000 assigned by IMF that bears charges or interest under the conditions established in the agreement with IMF.

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

13. MONETARY BASE

It comprises the following:

	<u>In thousands of S/.</u>	
	<u>2003</u>	<u>2002</u>
Notes and coins issued	7,308,852	6,752,466
Local currency deposits of banks	59,784	98,323
Local currency deposits of financial institutions	18,382	24,095
Other local currency deposits and obligations	54,160	19,299
	<u>7,441,178</u>	<u>6,894,183</u>

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



The balances of notes and coins issued are as follows:

Nominal value	2003		2002	
	Units	In thousands of S/.	Units	In thousands of S/.
Notes:				
10	47,842,335	478,423	43,702,210	445,763
20	30,363,318	607,266	28,793,990	587,397
50	27,442,804	1,372,140	26,818,430	1,367,740
100	39,884,037	3,988,404	34,204,809	3,488,890
200	1,287,543	257,509	1,357,214	276,872
		6,703,742		6,166,662
Coins:				
0,01	33,964,708	340	32,570,830	332
0,05	167,994,386	8,400	167,759,623	8,556
0,10	413,554,719	41,355	375,811,373	38,333
0,20	119,403,448	23,881	112,791,453	23,010
0,50	133,858,518	66,929	124,799,166	63,648
1,00	141,134,973	141,135	137,912,151	140,670
2,00	46,475,692	92,951	40,509,005	82,638
5,00	45,652,243	228,261	44,431,653	226,601
		603,252		583,788
Commemorative coins	Various	1,858	Various	2,016
		7,308,852		6,752,466

14. OTHER LOCAL CURRENCY DEPOSITS

They comprise the following:

	In thousands of S/.	
	2003	2002
Public sector	315,488	279,671
Banks	9	66,370
Private sector	10,134	9,871
Banco de la Nación	880,834	1,165
Development banking	1	-
	1,206,466	357,077

As of December 31, 2003 and 2002, the effective annual interest rates used by the Bank for time deposits of the Public Sector were 3.81% and 4.03%, respectively; for deposits of Banco de la Nación the interest rates were 2.36% and 3.56%, respectively; and for banks (*overnight*) interest rate was 3.00% as of December 31, 2002.

15. SECURITIES ISSUED

They comprise the following:

	In thousands of S/.	
	2003	2002
Banks	3,024,400	1,508,020
Financial institutions	-	14,076
Other entities	1,072,684	460,844
	4,097,084	1,982,940
Discounts on sale CD BCRP and CDR BCRP	(115,430)	(36,500)
	3,981,654	1,946,440

The securities issued principally comprise 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 up to three years. Such certificates are placed below par value and bore an implicit annual interest rate ranging from 2.29% to 6.69% at 2003 year-end closing, (between 2.49% and 7.24% at 2002 year-end closing).

16. DEPOSITS IN FOREIGN CURRENCY

They comprise the following:

	In thousands of S/.	
	2003	2002
Banks	9,298,321	10,920,909
Public sector	9,555,258	10,390,514
Banco de la Nación	532,885	1,041,434
Other institutions of the financial system	164,813	136,060
Financial institutions	1,739	2,770
Private sector	12,289	12,572
	19,565,305	22,504,259



Foreign currency deposits of local financial institutions are part of the funds destined to cover the legal cash reserve that the Bank requires for the total obligations in foreign currency subject to legal reserve. This required legal cash reserve may be covered in addition with cash in foreign currency deposited in local companies of the financial system. This required legal cash reserve is broken down from a minimum legal cash reserve of 6% of the obligations subject to legal cash reserve and an additional reserve fluctuating between 25.5% and 26.0% in year 2003 (between 26.0% and 27.1% in year 2002). The funds covering the minimum legal cash reserve do not earn interest. The deposits in the Bank covering the additional reserve in foreign currency bear interest at a rate equivalent to the three-month LIBOR rate minus 1/8 of one percent.

The Bank has signed agreements with Dirección General del Tesoro Público from MEF and Fondo Consolidado de Reserva Previsional (FCR) whose conditions were set forth for the Bank to receive deposits from these organizations. These deposits bore interest rates at end of period ranging from 0.5600% to 1.9577% (between 1.0625% and 1.9187% at 2002 year-end closing). As of December 31, 2003, Treasury's resources and those of FCR deposited in the Bank amount to US\$ 2,705,352,000, equivalent to S/. 9,363,223,000 (US\$ 2,854,138,000, equivalent to S/. 10,227,118,000 as of December 31, 2002).

17. OTHER LIABILITIES

They comprise the following:

	In thousands of S/.	
	2003	2002
Contribution subscribed pending payment to international organizations	537,947	591,119
Interest and commissions payable	38,492	164,276
Actuarial liability	189,980	121,686
Other provisions	13,919	79,189
Accounts payable	2,114	36,617
Various	164,632	174,066
	<u>947,084</u>	<u>1,166,953</u>

(a) Contribution Subscribed Pending Payment to International Organizations

Under Agreement N° 93 dated March 22, 2000, modified by Agreement 102 of April 10, 2001, of the FLAR Meeting of Representatives, member countries of FLAR agreed to increase the capital stock to US\$ 2,109,375,000 through the capitalization of profits up to 2010; the Bank is responsible for contributing US\$ 468,750,000 (note 11). As of December 31, 2003, the balance of the pending contribution amounts to US\$ 155,431,000 (US\$ 164,967,000 in year 2002).

(b) Actuarial Obligation

It includes actuarial obligation corresponding to subvention for the Bank's pensioners' supplementary pensions and other supplementary retirement benefits. In Board of Directors' Meeting held on December 23, 2003, the recording of the actuarial obligation for supplementing retirement, widow, health and burial benefits was approved (note 2.k). The actuarial computation as of December 31, 2002 was determined by an independent actuary who took into consideration the following:

- Use of the following life tables of Chile: employee life expectancy for men: 85 years (RV-85-H), and for women: 85 years (RV-85-M), when they are entitled.
- Application of the 5% annual discount rate.
- Calculations based on past due annuities with immediate installment payments on a monthly basis.
- Age of retirees established on the basis of full years.

(c) Other Provisions

As of December 31, 2002, provisions included principally a generic provision of S/. 65,141,000 made in 1998 to cover eventual losses arising from support to the multi-purpose banking sector. This provision was made in accordance with the agreement reached in the meeting of the Board of Directors of December 3, 1998 (note 3.b).

18. READJUSTMENTS IN VALUATION, ORGANIC LAW ARTICLE 89

This item corresponds to differences arising from readjustments in the valuation in local currency of assets and obligations of the Bank in gold, silver, foreign currency, SDRs or any other international currencies and are debited or credited to this account without considering them as profit or losses (note 2.o).



	In thousands of S/.	
	2003	2002
Initial balance	2,208,677	1,517,646
Valuation of U.S. dollars	(175,490)	183,224
Valuation of contribution and obligations IMF	(11,014)	(79,870)
Valuation of other foreign currencies	140,030	170,748
Valuation of metals (gold and silver)	247,632	474,253
Transfer to results for the period	15,569	(25,282)
Result of exposure to inflation	(45,877)	(32,042)
Final balance	2,379,527	2,208,677

19. NET EQUITY

(a) Capital

As of December 31, 2003, the capital authorized, subscribed and paid-in of the Bank under its Organic Law and Decree Supreme 059-2000-EF amounts to S/. 171,966,000 (S/. 100,000,000 at historical values). This capital is not represented by shares, its value being stated only in the Capital account in the balance sheet. Likewise, as established by Supreme Decree, countersigned by MEF, the Bank's capital may be readjusted.

(b) Reserves

Under articles 6 and 92 section b) of its Organic Law, the Bank should make a reserve through the annual transfer of 75% of its net profits to reach an amount equivalent to 100% of its capital. As of December 31, 2002, the Bank's reserves reached 100% of its capital. This reserve may be capitalized. In the event of losses, the reserve should be used to offset such losses. If this is insufficient, the Treasury, within 30 days after the balance sheet is approved, should issue and provide the Bank with titles of negotiable debt that will accrue interest for the amount not covered.

(c) Retained Earnings

Under article 92 of its Organic Law, the Bank should distribute annually 25% of its net profits to the Treasury and 75% to constitute the reserve referred

to in subsection b) of this note. Annual distribution of net profit is determined on the basis of historical balances, as established in Communication 001-96-EF/93.1 from Contaduría Pública de la Nación (National Accounting Office).

Accordingly, at Board of Directors' Meeting held on April 3, 2003, year 2002 financial statements were approved and on April 24, 2003, 25% of profits were distributed in conformity with article 92 of its Organic Law. Year 2001 remaining profit and year 2002 remaining profit (75%) were distributed in conformity with Supreme Decree 103-2003-EF as approved by Board of Directors' Meeting held on August 7, 2003.

Year 2002 profit plus year 2001 remaining profit totaling S/. 172,902,000 (S/. 169,512,000 at historical values) were distributed in year 2003 as follows:

- (i) S/. 103,239,000 (S/. 101,215,000 at historical values) to the Treasury. This amount was applied by the Bank to partly amortize the account receivable from the Treasury, related to BCRP Capitalization Bonds Series "A" and "B" – D.S. 066-94-EF as follows:
- S/. 29,525,000 (S/. 28,946,000 at historical values) corresponding to 25% of year 2002 profit.
 - S/. 18,912,000 (S/. 18,541,000 at historical values) from the balance of the year 2002 remaining profit.
 - S/. 54,802,000 (S/. 53,728,000 at historical values) from the balance of the year 2001 remaining profit.
- (ii) S/. 69,663,000 (S/. 68,297,000 at historical values) from the balance of the year 2002 remaining profit was transferred to the Treasury for accounts receivable for the FONEX line.



Likewise, in year 2002, at Board of Directors' Meeting held on June 6, 2002, Bank decided to distribute S/. 87,728,000 (S/. 84,570,000 at historical value) from net profit of year 2001 amounting to S/. 143,462,000 (S/. 138,298,000 at historical value) to be distributed as follows:

- S/. 35,866,000 (S/. 34,575,000 at historical values) to the Treasury. This amount was applied by the Bank to partly amortize the account receivable from the Treasury, related to BCRP Capitalization Bonds Series "B" (note 9).
- S/. 51,862,000 (S/. 49,995,000 at historical values) was transferred to increase the reserve.

20. TAX MATTERS

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

The tax authorities are entitled to review and, if necessary, amend the taxes calculated by the Bank during the last four years, as from the date the related tax returns are filed (years open to examination). Tax returns for years 1999 through 2003 inclusive, are open to examination. Since discrepancies may arise over the proper interpretation of a point of tax law applicable to the Bank, it is not possible to anticipate at the date of the financial statements whether additional tax liabilities will arise as a result of eventual examinations. Any additional tax, fines and interest, if arising, will be recognized in the results of the period when the disagreement with tax authorities is resolved. Management and legal advisors consider that no significant liabilities will arise as a result of any possible tax examinations.

21. CONTINGENCIES

As of December 31, 2003, the Bank has certain lawsuits filed against it in the normal course of activities. The Bank's management and its legal advisors consider that no significant liabilities will arise as a result of the resolution of such lawsuits, given the results obtained to date.

22. OFF-BALANCE SHEET ACCOUNTS

They comprise the following:

	In thousands of S/.	
	2003	2002
Notes and coins in stock	15,540,054	7,927,864
Securities deposited in guarantee	3,096	15,857
Securities held in custody	3,694,392	3,495,682
Notes and coins taken out of circulation to be destroyed	1,210	123,695
Fund for illness, insurance, and pensions of employees	74,869	68,620
Banks under liquidation	55,884	55,374
Money in process of production by Casa Nacional de Moneda	880	729
Other	1,354,331	1,301,110
	20,724,716	12,988,931

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

The Other item corresponds principally to accounts recording Brady Plan collateral guarantees, nominal value of Treasury Bills, among others. As of December 31, 2002, it also comprises agreements with central banks.

The Notes and Coins in Stock item comprises:

	In thousands of S/.	
	2003	2002
New	12,238,502	5,616,333
Available	1,420,379	1,051,615
To be classified	1,293,610	183,621
To be incinerated and/or smelted	586,941	521,704
In transit	622	554,591
	15,540,054	7,927,864



The movement of Notes and Coins in Stock for the year ended December 31 has been as follows:

	In thousands of S/.	
	2003	2002
Initial balance	7,927,864	10,741,236
Acquisition of notes and coins	11,225,009	1,991,761
Destruction of notes and coins	(2,924,032)	(4,178,400)
Outgoing from circulation, net of income	(688,787)	(626,733)
Final balance	15,540,054	7,927,864

23. RESULT OF EXPOSURE TO INFLATION

The monetary position as of December 31 is as follows:

	In thousands of S/.	
	2003	2002
Monetary asset	40,141,612	39,887,158
Monetary liability	(39,865,919)	(39,622,920)
Monetary asset, net	275,693	264,238

The monetary position in years 2003 and 2002 presented an exposure to inflation, for monetary assets exceeding liabilities of the same nature which gave rise to a loss of S/. 4,919,000 and S/. 2,441,000, respectively.

24. ANALYSIS OF MATURITIES

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

	In thousands of S/.				Total
	Up to six months	From six months to a year	From one to five years	Over five years	
Assets:					
Cash in foreign currency	35,335	-	-	-	35,335
Deposits in foreign banks	12,123,649	-	-	-	12,123,649
Securities in international institutions	7,353,688	3,822,942	9,187,665	-	20,364,295
Gold	1,601,265	-	-	-	1,601,265
Agreements with central banks	11,571	-	-	-	11,571
Other available assets	70,627	-	-	31,598	102,225
Other external assets	1,211	1,197	9,059	18,586	30,053
Domestic credit	190,488	7,882	39,000	9	237,379
Other assets	324,940	163,302	644,384	237,366	1,369,992
	21,712,774	3,995,323	9,880,108	287,559	35,875,764
Contributions to the Latin					
American Reserve Fund	-	-	-	-	1,084,396
American Reserve Fund to IMF	-	-	-	-	3,283,258
Property, furniture and equipment, net	-	-	-	-	143,223
Total assets					40,386,641
Liabilities and net equity:					
Short-term obligations with international institutions	40,379	-	-	-	40,379
Other external liabilities	64,063	64,063	354,074	538,869	1,021,069
Monetary base	132,326	-	-	7,308,852	7,441,178
Other local currency deposits	1,007,001	75,341	124,124	-	1,206,466
Securities issued	1,517,989	1,622,945	840,720	-	3,981,654
Foreign currency deposits	17,990,290	-	1,575,015	-	19,565,305
Other liabilities	170,461	114,864	417,473	244,285	947,083
	20,922,509	1,877,213	3,311,406	8,092,006	34,203,134
Exchange value of contribution in local currency to IMF					
	-	-	-	-	3,283,258
Readjustment in valuation Organic Law, article 89					
	-	-	-	-	2,379,527
Net equity	-	-	-	-	520,722
Total liabilities and net equity					40,386,641



25. TRANSACTIONS NOT REPRESENTING CASH FLOWS

Transactions no representing cash flows in 2003 and 2002, which have not been incorporated in the corresponding statement of cash flows, are shown as follows:

	In thousands of S/.	
	2003	2002
Amortization of accounts receivable from the Treasury (note 19.c)	103,239	35,865
Transfer of accounts receivable to the Treasury (note 19.c)	69,663	-

26. FINANCIAL INSTRUMENTS

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

Interest Rate Risk

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

The dimension of the risk is a function of:

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

Substantially all of the Bank's financial assets are interest-bearing. The Bank's financial liabilities include interest-bearing and non-interest bearing liabilities according to the market rates.

The disclosures regarding these liabilities are found in notes 12 through 18. The Bank's assets and liabilities that bear interest are based on rates established in accordance with rules in the market.

The structure of maturities of the Bank's financial assets and liabilities is disclosed in note 24.

Foreign Exchange Risk

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

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

Credit Risk

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

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

Fair Value

The information below discloses the fair value of financial instruments held by the Bank. The fair value comprises the quantity of which an asset could be exchanged between expert buyers and sellers duly informed or an obligation can be paid between debtors and creditors with enough information, under the terms of a free market transaction. As the fair value of financial instruments represents the best estimate made by management, these estimates are made



taking into consideration the current economic conditions and characteristics of market risks, which may change in the future.

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

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



Caipo y Asociados

Av. Javier Prado Oeste 203
San Isidro, Lima-Perú

Apartado 14-003
Lima 14, Perú

Teléfono: 51(1) 611-3000
Fax: 51(1) 421-6943
Web: www.pe.kpmg.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and General Management
Banco Central de Reserva del Perú - BCRP

We have audited the Legal Basis and Implementation of Budget of Banco Central de Reserva del Perú – BCRP, an autonomous juridical entity of public law, for the 2003 budget period. The preparation of the Statement of Scheduling and Implementation of Income and Expenses and their corresponding exhibits, based on the integration and consolidation of the budget information originated by the Bank is the responsibility of the Bank's management. Our responsibility is to express an opinion on this Legal Basis and Budget implementation based on our audit.

We conducted our audit in compliance with Directive 013-2001-CG/B340, approved under Resolution of the Comptroller's Office 117-2001-CG dated July 27, 2001, and in accordance with government auditing standards issued by Contraloría General de la República (General Comptroller's Office of Peru) and auditing standards generally accepted in Peru. Such standards require that we plan and perform our audit in order to obtain reasonable assurance about whether the Legal Basis and Budget Implementation is free of material misstatement. Our special examination of the budget information includes examining, on a test basis, evidence supporting the amounts and disclosures in Legal Basis and Budget Implementation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Legal Basis and Budget Implementation of the Bank presents fairly, in all material respects, the integration and consolidation of the budget information of Banco Central de Reserva del Perú – BCRP for the 2003 budget period, in accordance with applicable laws and regulations currently in force.

This report was prepared solely for information and use of Board of Directors and General Management of Banco Central de Reserva del Perú – BCRP, and Contraloría General de la República, and should not be referred to any other person or authority, nor used with another purpose.

June 4, 2004

Countersigned by:

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





**STATEMENT OF SCHEDULING AND IMPLEMENTATION OF INCOME AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2003
AT HISTORICAL VALUES
(In nuevos soles)**

ITEMS	INITIAL AUTHORIZED BUDGET	MODIFICATIONS	FINAL AUTHORIZED BUDGET	BUDGET IMPLEMENTATION
I. CURRENT INCOME	860,551,000	(3,845,156)	856,705,844	856,705,844
TAXES				
RATES				
CONTRIBUTIONS				
SALE OF GOODS				
SALE OF SERVICES	2,000,000	5,409,486	7,409,486	7,409,486
RENTALS OF PROPERTY	858,551,000	(9,254,642)	849,296,358	849,296,358
FINES, SANCTIONS AND OTHER				
OTHER CURRENT INCOME				
II. CURRENT EXPENSES	227,729,240	(43,712,102)	184,017,138	184,017,138
PERSONNEL AND SOCIAL OBLIGATIONS	132,405,220	(14,526,963)	117,878,257	117,878,257
PENSION PLAN OBLIGATIONS	24,000	(8,010)	15,990	15,990
GOODS AND SERVICES	57,423,200	(25,557,690)	31,865,510	31,865,510
OTHER CURRENT EXPENSES	37,876,820	(3,619,439)	34,257,381	34,257,381
III. CURRENT ACCOUNT SAVINGS OR DISSAVINGS (I - II)	632,821,760	39,866,946	672,688,706	672,688,706
IV. CAPITAL INCOME, TRANSFERS AND FINANCING	0		0	0
CAPITAL INCOME				
SALE OF ASSETS				
AMORTIZATION OF GRANTED LOANS (REIMBURSEMENTS)				
OTHER CAPITAL INCOME				
TRANSFERS				
TRANSFERS				
FINANCING				
BALANCE				
V. CAPITAL EXPENSES	521,133,000	(50,233,518)	470,899,482	470,899,482
INVESTMENT	30,000	(30,000)	0	0
FINANCING INVESTMENT	511,827,000	(41,642,532)	470,184,468	470,184,468
OTHER CAPITAL EXPENSES	9,276,000	(8,560,986)	715,014	715,014
VI. ECONOMIC RESULT (III + IV - V)	111,688,760	90,100,464	201,789,224	201,789,224
VII. DEBT FINANCING AND SERVICE	0		0	0
RESOURCES FOR OFFICIAL OPERATIONS OF DOMESTIC				
CREDIT (NET)				
FINANCING				
DOMESTIC CREDIT OPERATIONS				
DEBT SERVICE				
(-) DEBT INTEREST AND CHARGES				
(-) DEBT AMORTIZATION				
RESOURCES FOR OFFICIAL OPERATIONS OF FOREIGN				
CREDIT (NET)				
FINANCING				
FOREIGN CREDIT OPERATIONS				
DEBT SERVICE				
(-) DEBT INTEREST AND CHARGES				
(-) DEBT AMORTIZATION				
FINANCIAL OR BUDGET IMPLEMENTATION RESULTS (VI+VII)	111,688,760	90,100,464	201,789,224	201,789,224

See the accompanying notes to the Legal Basis and Budget Implementation.

LEGAL BASIS AND IMPLEMENTATION OF BUDGET OF INCOME AND EXPENSES DECEMBER 31, 2003

1 BACKGROUND AND BASIS OF PRESENTATION

Implementation of income and expenses has been prepared as established by Instruction 7 – “Información contable que deberán presentar las empresas públicas a la Cuenta General de la Republica” (Accounting information to be submitted by state-owned companies for Cuenta General de la República – Section b) budget information, as approved by Resolution of the General Comptroller’s Office 067-97-EF/93.01 dated December 29, 1997, concerning the financial and budget information by each and all the entities of the Central Government and by each and all groups of Decentralized Offices, Regional Governments, Local Governments, Autonomous Organizations, Governmental Institutions, Welfare Associations and at the level of the budget requirement established under the Framework Law to Process the Cuenta General de la República (Public Account of the Republic).

The information required for their preparation has been obtained from the Bank’s accounting records and has been substantially prepared on the accrual basis at historic values.

This information includes items whose grouping and bases of presentation are different from those used in the preparation of the financial statements in conformity with accounting principles generally accepted in Peru, including the accounting practices established in the Bank’s Organic Law and those approved by the Board of Directors. In accordance with Article 91 of the Bank’s By-laws, during the last month of a budget period, the utilization of the committed expenses pending execution expires, according to the criteria that the Special Budget Committee approves. As of December 31, 2003, the budget for the year 2003 includes a balance of S/. 2,541,155 related to expenses committed but not accrued.

Additionally, Resolution of the General Comptroller’s Office 117-2001-CG dated July 27, 2001, establishes that audit firms should present an exhibit of adjustments for those items subject to consolidation with related organizations of the Public Sector.



2. MODIFICATION TO THE STARTING INSTITUTIONAL BUDGET

The budget initially approved was amended in its income and expenses in a net amount of S/. 90,100,464. This measure comprised a decrease in current income of S/. 3,845,156, corresponding to a decrease in rentals of property and an extension of services rendered of S/. 9,254,642 and S/. 5,409,486; respectively (see EP-1 Chart); a decrease in expenses of S/. 93,945,620 corresponding to current expenses and capital expenses of S/. 43,712,102 and S/. 50,233,518 respectively (see EP-1 Chart). The decrease in current expenses of S/. 43,712,102 includes mainly the lower expense for goods and services of S/. 25,557,690; while the decrease in capital expenses includes a decrease in financing investment of S/. 41,642,532.

The Bank's starting budget was approved by the Board of Directors' minutes 3958 dated December 12, 2002, and was later amended by means of minutes 3977, 3989, 3991 and 4013 dated April 30, July 24, August 7, and December 23, 2003 respectively; this amendment did not change the total amount of the extended budget of expenses. Additionally the Bank's Board of Directors, under Article 90 of the Bank's By-laws, should approve the year-end budget within the first three months of the following year. The implemented budget was approved by Board of Directors' meeting held on February 19, 2004.

At Special Budget Committee held on May 31, 2004 it was agreed to modify the year 2003 budget surplus. This decision was taken after comparing the budget implementation of March 2004 with March 2003; a difference was found as a result of this comparison. This difference resulted from the fact that during the first half of the year 2003, the provision for vacations was deducted from the budget implementation; this deduction was not appropriate. Therefore, the result of the budget implementation completed as of December 31, 2003 changed from a surplus of S/. 203,461,430 to S/. 201,789,224. It is to be noticed that the modification does not affect the Bank's accounting results of fiscal year 2003 nor does it affect year 2004 budget. The corresponding minutes of Special Budget Committee were submitted to Board of Directors in session held on June 3, 2004.

Likewise, Management decided to take the following measures in order to avoid similar situations concerning future budget allocations, which was accepted by Special Budget Committee:

- The Accounting and Budget areas will review daily the implementation of the budget in order to verify that allocations of the budget are appropriately made, specially the remuneration allocation.

- The Accounting area has just finished the issuance of the accounting procedures related to payment operations of remunerations and others.
- The Bank will implement the Personnel Module from Integrated Administration System (SIA, its Spanish acronym) which implies that it would not be possible to make manual modifications of the budget since the process will be automatic and will be completely implemented by the end of June of this year.

NOTES TO THE LEGAL BASIS AND BUDGET IMPLEMENTATION 31 DE DICIEMBRE DE 2003

1. BACKGROUND, LEGAL FRAMEWORK AND ACTIVITIES

Banco Central de Reserva del Perú is an autonomous juridical entity of public law created on March 9, 1922 as Banco de Reserva del Perú, intended to maintain the monetary stability in Peru. Its activities are presently governed by Article 84 of the Peruvian political constitution dated December 29, 1993 and its Organic Law approved under Decree-Law 26123 dated December 24, 1992. Organic Law establishes that its functions are to regulate the money supply, administer international reserves, issue notes and coins and report on the finances of Peru.

The Bank's legal address is in Lima and it has branches located in seven (7) cities of Peru. The personnel employed by the Bank to carry out its activities as of December 31, 2003 and December 31, 2002 is 1,031 and 1,055, respectively.

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



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

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

- Grant financing to the Treasury, unless under the model of acquisition in the secondary market of securities issued by the Treasury, in which case the holding of such securities may not exceed in any moment, valued at their acquisition cost, five per cent (5%) of the balance of the monetary base at the close of the previous year.
- Extend guarantees, letters of guarantee or any other guarantees and use any form of indirect financing, as well as grant insurances of any type. The operations carried out in implementing agreements of payments and reciprocal credits are not subject to the prohibition aforementioned.
- Allocate resources for the creation of special funds aimed at granting credits or making investment to promote any financial economic activity.
- Issue securities, bonds or contribution certificates which are of obligatory acquisition.
- Impose sector or regional coefficients in the composition of the loan portfolio of financial institutions.
- Establish systems of multiple exchange rates.
- Purchase shares, unless these are issued by international financial organizations or those needed to be acquired for the restoration of banking and financial companies; participate, directly or indirectly, in the capital of commercial, industrial or any other companies.

The Bank, under the Peruvian Constitution and its Organic Law 26123 is an autonomous organization and it has a budget assignation independent from other government entities and finances its budget with own resources. The Bank's budget is prepared in accordance with its Organic Law, by-laws and institutional policies contained in the Directive of scheduling, preparation, approval, implementation, evaluation, modification and closing of the

traditional budget as well as scheduling orientation on the requirements of Banco Central de Reserva del Perú for the period 2003, approved by General Management by means of memorandum GG-019-2002 dated July 9, 2002. Likewise, the Board of Directors, if deemed convenient, may apply the regulations enacted in the Law of Government Budget Management 27209 and the Law of the Annual Budget in all those matters not in conflict with its Organic Law.

2. LEGAL FRAMEWORK OF THE BUDGET INFORMATION

The Bank's Board of Directors, under Article 87 of the Bank's By-laws, approves or modifies the project of budget before the end of the first two weeks of December. Then, the Bank's Board of Directors, under Article 90 of the Bank's By-laws, approves the year-end budget within the first three months of the following year.

The Bank's annual budget was approved in the minutes of the Board of Directors 3958 dated December 12, 2002. Subsequently, the reduction and extension of the budget was approved in the minutes of the Board of Directors 4022 dated February 19, 2004; likewise, budget amendments for the re-distribution of previously approved items (internal transfers), which did not modify the total of the income and expenses budgeted, were approved in the minutes of the Board of Directors 3977, 3989, 3991 and 4013 dated April 30, July 24, August 7, and December 23, 2003 respectively.

Additionally, and in accordance with Article 90 of the Bank's By-laws, the modification of closing budget corresponding to Banco Central de Reserva del Perú was approved in the minutes of the Board of Directors 4022 dated February 19, 2004.

The regulations constituting the legal basis for the Bank's budget for period 2003 are as follows:

- Decree Law 26123, Organic Law of Banco Central de Reserva del Perú.
- Law 26419, Law ratifying the Bank's autonomy.
- Law 27209, Law of Management of the Government's Budget.



- Directive for scheduling, preparation, approval, implementation, evaluation, modification and closing of the traditional budget as well as orientations of the scheduling of the requirements of Banco Central de Reserva del Perú for period 2003, as per memorandum from General Management GG-019-2002 of July 9, 2002.
- Instructive N° 7 Accounting information to be submitted by state-owned companies to Cuenta General de la República- Section b) budget information, as approved by Resolution of the General Comptroller's Office 067-97-EF / 93.01 dated December 29, 1997.

3. PROCESS OF BUDGET PREPARATION, CONTROL AND EVALUATION

The preparation, control and evaluation of the budget are carried out by the Bank's personnel assigned to the Management of Accounting and Supervision to perform the work of the financial planning.

The budget is prepared in coordination with the Managements of Economic Studies and International Operations, who provide financial information regarding the assumptions based on the projections of major macro-economic variables such as, exchange rate, interest rate, annual inflation rate, legal reserve, level of net international reserves, quotation of foreign exchange and precious metals, annual flow of net purchase of foreign currency and levels of income earning assets and liabilities bearing expenses. Such information is channeled by the Management of Accounting and Supervision to the sub-management of Accounting and once reviewed it is sent to the Department of Budget responsible for scheduling and preparing the financial budget, current income and consolidating it with the information of operating expense programmed by the Management of Administration. Once the annual budget project is prepared, General Management reviews and sends it to the Special Budget Committee for their pronouncement, and then it is submitted to Bank's Board of Directors for their approval.

The budget use and results being obtained are evaluated monthly by the Management of Accounting and Supervision and the Management of Administration to identify the most significant variations between the budgeted figures and those obtained in their implementation, which may give rise to its restructuring and/or adoption of corrective measures. Quarterly evaluations are reviewed by the General Management, the Special Committee of the Budget and approved by the Bank's Board of Directors.

The budget preparation, approval and implementation are carried out on the basis of the structure of budget allocations. The Management of Accounting and Supervision prepares, on a monthly basis, the report on budget evaluation.

Under General Management Resolution “Directive of scheduling, preparation, approval, implementation, evaluation, modification and closing of the traditional budget as well as scheduling orientation on the requirements of Banco Central de Reserva del Perú for the period 2003”, approved by means of memorandum GG-019-2002 dated July 9, 2002, it is established to report each three months the corresponding evaluation on the budget information to Contraloría General de la República, Comisión de Presupuesto (Peruvian Congress Budget Committee) and Cuenta General de la República.