FINANCIAL STATEMENTS

Caipo y Asociados
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INDEPENDENT AUDITOR'S 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, 2008 and 2007, and the related statements of income, changes in equity and cash flows for the years then ended, and the summary on significant accounting policies and other explanatory notes.

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 audits 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.

Basis of Opinion

As explained in note 2, the financial statements of Banco Central de Reserva del Perú as of December 31, 2008 and 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, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles described in note 2 to the financial statements.

February 23, 2009

Countersigned by:

Caipo y Asociados

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

BALANCE SHEET
AS OF DECEMBER 31, 2008 AND 2007
(Stated in thousands of nuevos soles)

ASSETS	**2008**	**2007**
GROSS INTERNATIONAL RESERVES:		
Cash in foreign currency	31,646	30,202
Deposits in foreign banks (note 5)	8,331,599	28,655,081
Securities of international institutions (note 6)	85,257,975	50,418,976
Gold (note 7)	3,082,442	2,778,635
Contributions to Latin American Reserve Fund (note 8 a)	1,158,994	1,042,795
Other available assets	113,939	96,312
	97,976,595	83,022,001
OTHER ASSETS ABROAD:		
Contributions in local currency to the International Monetary Fund (note 8 b)	3,084,639	3,011,008
Other assets abroad	80,135	78,388
	3,164,774	3,089,396
DOMESTIC CREDIT (note 9)	5,393,370	9
PROPERTY, FURNITURE, AND EQUIPMENT, NET (note 10)	137,081	146,838
OTHER ASSETS (note 11)	589,915	488,436
TOTAL ASSETS	**107,261,735**	**86,746,680**
MEMORANDA ACCOUNT (note 23)	30,970,276	15,487,227

See the accompanying notes to the financial statements.

LIABILITIES AND EQUITY	**2008**	**2007**
RESERVE LIABILITIES	115,099	94,161
OTHER LIABILITIES ABROAD:		
Counterpart of the contribution in local currency to the international Monetary Fund (note 12 a)	3,084,639	3,011,008
Other liabilities abroad (note 12 b)	504,646	491,509
	3,589,285	3,502,517
STERILIZED STOCK:		
Securities issued (note 13)	18,344,989	20,758,605
Deposits in local currency (note 14)	24,129,189	17,255,456
	42,474,178	38,014,061
MONETARY BASE (note 15)	22,310,521	17,779,265
DEPOSITS IN FOREIGN CURRENCY (note 16)	30,915,320	24,087,483
OTHER LIABILITIES (note 17)	706,959	887,629
READJUSTMENT IN VALUATION, ORGANIC LAW, ART. 89 (note 18)	3,630,411	163,623
TOTAL LIABILITIES	103,741,773	84,528,739
EQUITY:		
Capital (note 19 a)	591,375	591,375
Reserves (note 19 b)	591,375	226,902
Fair value reserve (note 6)	2,103,918	643,219
Retained earnings (note 19 c)	233,294	756,445
TOTAL EQUITY	3,519,962	2,217,941
CONTINGENCIES (note 22)		
TOTAL LIABILITIES AND EQUITY	**107,261,735**	**86,746,680**
MEMORANDA ACCOUNT (note 23)	30,970,276	15,487,227

STATEMENT OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Stated in thousands of nuevos soles)

	2008	**2007**
FINANCIAL INCOME:		
Interest on deposits in foreign banks (note 5)	785,098	1,286,177
Net yield on securities of international institutions (note 6)	2,733,007	1,806,012
Interest on international agreements and deposits at IMF	3,606	-
Dividends received from Latin American Reserve Fund	61,353	53,789
Yield on gross international reserves	3,583,064	3,145,978
Interest on domestic credit operations (note 9)	110,679	4,080
Other financial income (note 18)	69,180	222,502
TOTAL FINANCIAL INCOME	3,762,923	3,372,560
NON-FINANCIAL INCOME	16,573	6,971
FINANCIAL EXPENSES:		
Interest on other liabilities abroad (note 12 b)	(11,339)	(17,744)
Interest on securities issued (note 13)	(1,679,604)	(745,576)
Interest on local currency deposits (note 14)	(1,310,151)	(704,973)
Interest on foreign currency deposits (note 16)	(444,481)	(889,114)
Other financial expenses (note 18)	(21,938)	(44,567)
TOTAL FINANCIAL EXPENSES	(3,467,513)	(2,401,974)
OPERATING EXPENSES:		
Payroll and cost of social laws	(122,115)	(118,972)
Administrative expenses	(54,222)	(52,137)
Depreciation and amortization	(9,412)	(9,125)
Other expenses (note 20)	(37,921)	(24,649)
TOTAL OPERATING EXPENSES	(223,670)	(204,883)
MONETARY ISSUANCE EXPENSES AND COSTS:		
Expenses for transport and cost of printing notes	(29,073)	(22,565)
Cost of materials for production of coins	(36,931)	(26,160)
TOTAL MONETARY ISSUANCE EXPENSES AND COSTS	(66,004)	(48,725)
NET INCOME	**22,309**	**723,949**

See the accompanying notes to the financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Stated in thousands of nuevos soles)

	Capital (note 19 a)	Reserves (note 19 b)	Fair value reserve (note 6)	Retained earnings (note 19 c)	Equity
Balances as of January 1, 2007	295,687	110,349	-	549,655	955,691
Net changes in fair value of available-for-sale investments	-	-	643,219	-	643,219
Allocation to reserves for 2006 net income	-	185,339	-	(185,339)	-
Capitalization of reserves	295,688	(295,688)	-	-	-
Transfer of earnings to the Public Treasury	-	-	-	(137,414)	(137,414)
Allocation to reserves for retained earnings	-	226,902	-	(226,902)	-
Net income	-	-	-	723,949	723,949
Balances as of December 31, 2007	591,375	226,902	643,219	723,949	2,185,445
Actuarial provision adjustment (note 17 b)	-	-	-	32,496	32,496
Balances adjusted as of December 31, 2007	591,375	226,902	643,219	756,445	2,217,941
Net changes in fair value of available-for-sale investments	-	-	1,460,699	-	1,460,699
Transfer of earnings to the Public Treasury	-	-	-	(180,987)	(180,987)
Allocation to reserves	-	364,473	-	(364,473)	-
Net income	-	-	-	22,309	22,309
Balances as of December 31, 2008	**591,375**	**591,375**	**2,103,918**	**233,294**	**3,519,962**

See the accompanying notes to the financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Stated in thousands of nuevos soles)

	2008	**2007**
OPERATING ACTIVITIES:		
Net income	22,309	723,949
Adjustments to reconcile the net income to net cash and cash equivalents provided by operating activities:		
Depreciation of property, furniture and equipment	8,153	8,089
Provision for impairment of property, net of recoveries	12,604	-
Disposal of property, furniture and equipment, net	164	178
Fair value reserve	1,460,699	643,219
Decrease (increase) in assets:		
Other assets abroad	(75,378)	63,135
Domestic credit	(5,393,361)	-
Other assets	(101,479)	142,768
Increase (decrease) in liabilities:		
Reserve liabilities	20,938	(83,399)
Other liabilities abroad	86,768	(131,767)
Securities issued	(2,413,616)	12,900,990
Deposits in local currency	6,873,733	6,842,996
Deposits in bank, financial and other institutions	1,072,772	447,340
Deposits in foreign currency	6,827,837	4,097,264
Other liabilities	(180,670)	3,407
Readjustment in valuation, Organic Law, art. 89	3,466,788	(1,549,430)
Net cash and cash equivalents provided by operating activities	11,688,261	24,108,739
INVESTING ACTIVITIES:		
Sale of property, furniture and equipment	-	74
Additions of property, furniture and equipment	(11,164)	(10,297)
Transfers of earnings to Public Treasury	(180,987)	(137,414)
Net cash and cash equivalents used in investing activities	(192,151)	(147,637)
Net increase in cash and cash equivalents	11,496,110	23,961,102
Cash and cash equivalents at beginning of year	66,022,562	42,061,460
CASH AND CASH EQUIVALENTS AT END OF YEAR	**77,518,672**	**66,022,562**

See the accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2008 AND 2007

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 branches in seven cities in Peru. As of December 31, 2008 and 2007, the Bank headcount was 993 and 985, respectively.

The financial statements for the year ended December 31, 2008 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, 2007 were approved by the Board of Directors at the meeting held on March 6, 2008.

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, 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.

International Financial Crisis

In 2008, severe financial disruptions emerged worldwide leading to a recession situation in developed economies. These events have affected United States and European Union important banks, as well as other financial entities, resulting in several government interventions.

In response to this crisis, the Bank has remained alert and searched to make investment trying to reduce the banking risk in the portfolio, applying stricter criteria for placing deposits in foreign banks. Additionally, proportion of AAA-rated investments increased, particularly debt diversified between sovereign and supranational issuers (see notes 5 and 6).

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, 2008, are current IASs 1 to 41, IFRSs 1 to 6, and interpretations 1 to 33 issued by the Standing Interpretations Committee (SIC), and interpretations 1 to 14, prepared by 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 (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 (q).

(c) Significant Accounting Estimates and Criteria

The preparation of the financial statements requires the 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 of transforming gold coins to gold bars, depreciation of property, furniture and equipment, provision for impairment of the value of property, provision for severance indemnities, amortization of intangibles, provision for foreclosed assets and actuarial provisions for supplementing retirement, widowhood, health care and burial benefits.

(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 25. The recognition and valuation criteria of these items are disclosed herein in the corresponding notes.

(e) Securities of International Institutions

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 maturity of investments. The accrued value is used for determining the fair value of commercial papers.

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.

The price of gold per troy ounce was US$ 882.00 and US$ 832.80 as of December 31, 2008 and 2007, respectively. The price of silver per troy ounce was US$ 11.43 and US$ 14.76 as of December 31, 2008 and 2007, respectively.

(g) Property, Furniture and Equipment

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

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

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

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

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

(h) Foreclosed Assets

Foreclosed assets include mainly land and properties received as payments of loans granted to banks under liquidation process and are recorded at the cost of adjudication which does not exceed their estimated realizable value, net of the corresponding provision. As of December 31, 2008 and 2007, 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, 2008 and 2007, 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) Impairment of Assets

When there are events or circumstantial economic changes indicating that the value of an asset might not be recoverable, the Bank reviews the value of the asset to verify that there is no impairment. When the book value of the asset exceeds its recoverable amount, the Bank recognizes an impairment loss in the statement of income for the assets held at cost.

The recoverable amount of an asset is the higher of its net selling price and its value in use. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Net selling price is the amount obtainable from the asset sale between a purchaser and seller. Recoverable amounts are estimated for each asset or, if it is not possible, for the cash-generating unit.

Whenever there is evidence that impairment loss does not exist anymore, or has decreased, the reversal of the loss is recorded. If such evidence exists, the reversal is recorded in the statement of income.

(j) Sterilized Stock

Sterilized stock is a Central Bank's liability in local currency comprised by securities issued and deposits from public 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.

(k) 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.

(l) 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.

(m) 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 for retirement, 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 pension subsidy for retirement, widowhood pensions, burial subsidy, and health-care services, see note 17 (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, see note 17 (b).

As of December 31, 2008, in order to determine the amount of provision for actuarial reserve, the Bank has considered the present value of obligations for the defined benefits, as well as the fair value of the Fund's assets, in conformity with IAS 19 *Employee Benefits*. The Fund's net assets considered to be deducted from the amount of actuarial reserve, are composed of the present value of deposits and loans, net of their obligations.

The supplementary pension subsidy for retirement and widowhood pensions, burial subsidy, and other supplementary retirement benefits, deducted by present value of the Fund's net assets are recorded under other liabilities.

(n) 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.

(o) 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.

(p) 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.

(q) 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 18).

Until December 31, 2007, proceeds from the sale of foreign currencies was obtained by subtracting from the equivalent in local currency collected from the sales of foreign currency of the month, the equivalent in local currency paid for the purchases of foreign currency of the same month (up to the amount in dollars of the sales at the average exchange rate of the purchases). Should the monthly amount of purchases would have been lower than the amount of monthly sales, the excess was multiplied by the difference between the average sale exchange rate and the exchange rate of foreign currency position.

As from 2008, proceeds from the sale of foreign currencies is obtained by subtracting from the equivalent in local currency collected from the sales of foreign currency of the day, the equivalent in local currency obtained after multiplying the amount in foreign currency sold by the accounting exchange rate as of the closing of the day. Should the equivalent in local currency collected from the sale be higher than the amount computed, a gain is recorded; otherwise, a loss is recorded.

(r) 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 amount of the provision is the present value of the expenditure required to settle the provision.

(s) 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.

(t) Restatement of Year 2007 Financial Statements

By means of a report presented to General Management, dated December 30, 2008, the Bank adjusted equity balances as of December 31, 2007 in order to consider the inclusion and presentation of assets related to the Fund as a deduction in the actuarial provision as determined in the actuarial study on obligations for employee benefits.

Accordingly, the Bank has adjusted balances of the actuarial provision and retained earnings as of December 31, 2007 amounting to S/. 32,496,000 because it was not considered in that year and to render it comparable with the balances presented as of December 31, 2008 (note 17 b).

(u) New Accounting Pronouncements

The Peruvian Accounting Board, by means of Resolution 040-2008-EF/93-01, approved the application of the following International Financial Reporting Standards and interpretations as from January 1, 2009:

(i) IAS 32 (revised in 2006) establishes the principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities. It applies to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends, losses and gains; and the circumstances in which financial assets and financial liabilities should be offset.

(ii) IFRS 7 – *Financial Instruments - Disclosures*. This IFRS is effective internationally as from January 1, 2007 and supplements the disclosure requirements of 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.

(iii) IFRS 8 – *Operating Segments* – This IFRS supersedes IAS 14 *Segment Reporting*. IFRS 8 specifies the way 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 hold assets, and about major customers, regardless of whether that information is used by management in decision-making. 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.

(iv) 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.

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, 2008 and 2007, the readjustment reached a credit balance of S/. 3,630,411,000 and S/. 163,623,000, respectively, (see notes 2 (q) and 18).

- The Bank prepares the statements of cash flows considering as funds the cash and cash equivalents, as indicated in note 2 (p). This accounting practice differs from what is defined by IAS 7 *Statement of Cash Flows* (GAAP in Peru).

4. FOREIGN CURRENCY BALANCES

Balances in U.S. dollars as of December 31, 2008 and 2007 have been stated in nuevos soles at the purchase exchange rate established by the SBS as of those dates of S/. 3.137 and S/. 2.995 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, 2008 and 2007, are summarized as follows:

	In thousands of S/.	
	2008	**2007**
Assets:		
U.S. dollar	25,762,504	23,533,486
Euro	4,608,965	3,409,182
SDR	18,542	13,550
Peso Andino	20,000	20,000
Gold	983,291	928,441
Silver	491	634
Other currencies	38	99
	31,393,831	27,905,392
Liabilities:		
U.S. dollar	9,987,667	8,262,136
Euro	20,238	4
SDR	268	858
Peso Andino	20,000	20,000
Silver	205	264
	10,028,378	8,283,262
Net assets	**21,365,453**	**19,622,130**

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, 2008 and 2007, are summarized as follows:

	In US$	
	2008	**2007**
SDR	1.540300	1.580250
Pound sterling	1.460000	1.985200
Canadian dollar	0.822842	1.006036
Peso Andino	1.000000	1.000000
Euro	1.393400	1.459700

5. DEPOSITS IN FOREIGN BANKS

They comprise the following:

	In thousands of S/.	
	2008	**2007**
Time deposits	8,319,548	28,521,246
Interest receivable on time deposits	269	119,225
	8,319,817	28,640,471
Call deposits	11,770	14,382
Interest receivable on call deposits	8	18
	11,778	14,400
Demand deposits	4	5
Interest receivable on gold deposits	-	205
	8,331,599	**28,655,081**

As of December 31, 2008 and 2007, time deposits amounted to US$ 2,652,071,000 and US$ 9,522,954,000, 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 0.57% as of December 31, 2008 (4.81% as of December 31, 2007).

Interest receivable includes US$ 88,000 and US$ 39,883,000 as of December 31, 2008 and December 31, 2007 respectively, generated by term deposits, call deposits and returns on gold deposits in foreign entities.

6. SECURITIES OF INTERNATIONAL INSTITUTIONS

They comprise obligations from the U.S. Treasury, from members of the European Economic Community, and from Bank for International Settlements (BIS), as well as 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 3.41% as of December 31, 2008 (4.58% as of December 31, 2007).

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, 2008 the Bank has recorded S/. 2,103,918,000 (S/. 643,219,000 as of December 31, 2007) under the fair value reserve account in the equity.

7. GOLD

It comprises the following:

	In thousands of S/.	
	2008	**2007**
In Peru	1,525,681	1,375,252
Abroad	1,556,761	1,403,383
	3,082,442	2,778,635

As of December 31, 2008 and 2007, 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, 2008 and 2007, the balance of gold in the country is shown net of a provision of S/. 2,142,000 and S/. 2,045,000, 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, 2008, the contribution to FLAR amounts to US$ 369,459,000 equivalent to S/. 1,158,994,000 (US$ 348,179,000, equivalent to S/. 1,042,795,000, as of December 31, 2007). 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/.	
	2008	**2007**
Contributions to IMF for the equivalent in local currency of SDR 638,400,000	2,952,302	3,085,504
Revaluations to liquidate – contribution to IMF in local currency	132,337	(74,496)
	3,084,639	**3,011,008**

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 12 (a). The IMF determines Peru's contribution as a participating country, which amounts to SDR 638,400,000 as of December 31, 2008 and 2007. Peru's participation in the total contributions made by IMF member countries is 0.29% as of December 31, 2008.

Revaluations to liquidate - contribution in local currency to IMF corresponds to the revaluation (provision) for maintaining 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, 2008 was 0.615847 SDR, and 2.848 nuevos soles per U.S. dollar. The exchange rate as of December 31, 2008 was 0.649237 SDR and 3.137 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. DOMESTIC CREDIT

It comprises the following:

	In thousands of S/.	
	2008	**2007**
Repurchase agreements with certificates of deposit CDBCRP	1,475,000	-
Repurchase agreements with readjustable certificates of deposit CDRBCRP	103,900	-
Repurchase agreements with certificates of deposits subject to restricted negotiations CDBCRP-NR	3,833,200	-
Pre-collected interest for repurchase agreements	(18,739)	-
Total repurchase agreements in local currency	5,393,361	-
Others	9	9
	5,393,370	**9**

In 2008, securities purchase transactions committed to repurchase (repurchase agreements) represented, among money transactions, the most important means of liquidity injection in local currency to the financial system companies. This transaction consists on the purchase of securities at the beginning of the transaction, where financial system companies transfer the ownership of securities to the Bank; and at the maturity of the repurchase agreement, financial system companies repurchase the same securities and the Bank transfers them its ownership.

As of December 31, 2008, repurchase agreements in local currency accrued an annual average interest rate of 6.83%.

10. PROPERTY, FURNITURE, AND EQUIPMENT

It comprises the following:

	In thousands of S/.			
	Balances as of 12.31.2007	Additions	Disposals	Balances as of 12.31.2008
Cost:				
Land	24,784	-	-	24,784
Buildings and other constructions	156,726	741	-	157,467
Furniture and office equipment	4,804	124	259	4,669
Vehicles	2,717	268	1	2,984
Miscellaneous equipment	49,991	10,713	5,910	54,794
Units in-transit	802	119	802	119
	239,824	11,965	6,972	244,817
Accumulated depreciation:				
Buildings and other constructions	49,283	1,691	-	50,974
Furniture and office equipment	4,279	370	252	4,397
Vehicles	2,300	141	1	2,440
Miscellaneous equipment	32,562	5,951	5,754	32,759
	88,424	8,153	6,007	90,570
Provision for impairment	4,562	16,397	3,793	17,166
Net cost	**146,838**			**137,081**

In 2008, the appraisal value provided by independent appraisers of the property where the main office and the Museum of the Bank are located, resulted lower than their net book value; therefore, a provision for impairment has been recorded with charge to results amounting to S/. 16,397,000; while for other six properties located in the branch offices, the appraisal value resulted higher than the net book value, for which a reversal of the existing provision for impairment has been recorded, totally or partially, until the limit of the asset market value, resulting in an income of S/. 3,793,000.

11. OTHER ASSETS

It comprises the following:

	In thousands of S/.	
	2008	**2007**
Contribution to international organizations, note 17 (a)	311,475	361,112
Collections	90,023	89,990
Silver	1,540	1,898
Raw material, semi-finished and finished products	37,067	18,779
CNM inventories in transit	32,287	6,071
Accounts receivable from personnel	812	900
Intangibles, net of amortization of S/. 9,803,000 (S/.10,637,000 in 2007)	1,679	1,720
Prepaid expenses and deferred charges	111,021	6,218
Foreclosed assets (*)	-	-
Miscellaneous	4,011	1,748
	589,915	**488,436**

The contribution subscribed to international organizations corresponds to the unpaid contribution as of December 31, 2008 of US$ 99,291,000 (US$ 120,571,000 in 2007) to FLAR, presented as other assets and liabilities, which will be paid with future distributions of profits of this organization, see note 17 (a).

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.

Raw material, semi-finished and finished products comprise the supplies acquired by the Bank for the minting of coins, work-in-process and finished products valuated at average cost.

Prepaid advances and deferred charges mainly comprise the cost of printing notes and minting coins, charged to expenses as coins are issued.

(*) Foreclosed assets as of December 31, 2008 and 2007 amount to S/. 982,000 and S/. 1,622,000, respectively. The Bank has recorded a 100% provision for them.

12. 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, 2008, the counterpart of the contribution in local currency to the IMF amounts to S/. 3,084,639,000 (S/. 3,011,008,000 as of December 31, 2007) 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

It comprises the following:

	In thousands of S/.	
	2008	**2007**
SDRs allocations	422,308	441,361
Revaluations to liquidate SDR allocations	18,930	(10,656)
Pesos andinos-FLAR allocation	62,740	59,900
Other	668	904
	504,646	**491,509**

SDRs allocations correspond to SDR 91,319,000 as of December 31, 2008 and 2007, assigned by IMF bearing charges or interest under the conditions established in the agreement with IMF. The rates corresponding to fiscal years 2008 and 2007 was 0.93% and 3.45%, respectively.

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.

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.

13. SECURITIES ISSUED

It comprises the following:

	In thousands of S/.	
	2008	2007
Banks	16,710,398	19,176,780
Banco de la Nación	324,822	700,950
Financial institutions	-	37,600
Other entities	1,594,280	1,542,870
	18,629,500	21,458,200
Indexation adjustment CDRBCRP	39,524	-
Discount on sale CDBCRP and CDRBCRP	(324,035)	(699,595)
	18,344,989	**20,758,605**

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 4.3% and 7.5% (between 4.08% and 6.15% at 2007 year end closing).

14. DEPOSITS IN LOCAL CURRENCY

It comprises the following:

	In thousands of S/.	
	2008	2007
Banco de la Nación	9,601,445	10,041,783
Governmental sector	13,966,436	6,882,011
Banks	23,000	20,000
Other entities and funds	538,308	311,662
	24,129,189	**17,255,456**

As of December 31, 2008 and 2007, the effective annual interest rates applied by the Bank for deposits of the governmental sector were in average 6.54% and 5.24%, respectively; for the deposits of Banco de la Nación, they were 6.54% and 4.96%, respectively, and for banks (overnight deposits), they were 5.75% and 4.25%, respectively.

15. MONETARY BASE

It comprises the following:

	In thousands of S/.	
	2008	**2007**
Notes and coins issued	20,457,923	16,999,439
Deposits of banks	944,350	198,955
Deposits of Banco de la Nación	720,000	410,000
Deposits of financial institutions	2,550	37,583
Other deposits and obligations	185,698	133,288
	22,310,521	**17,779,265**

Deposits of banks, Banco de la Nación and financial institutions comprise mainly the minimum legal cash reserve of 9% 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).

On December 30, 2008 the Bank published Circular 0054-2008-BCRP regarding provisions of legal cash reserves in local currency, according to which the minimum legal cash reserve rate decreased to 7.5% and the maximum percentage to be deducted from obligations subject to general regime decreased from 33% to 16.5% to calculate obligations subject to legal cash reserve in order to give more flexibility to the management of liquidity of entities subject to legal cash reserve, intended to preserve monetary stability.

The balances of notes and coins issued are as follows:

	2008		2007	
Face value	**Units**	**In thousands of S/.**	**Units**	**In thousands of S/.**
Notes:				
10	80,294,963	802,950	73,406,819	734,068
20	66,473,909	1,329,478	61,785,322	1,235,706
50	64,686,443	3,234,322	60,417,384	3,020,869
100	126,960,261	12,696,026	100,621,457	10,062,146
200	6,923,783	1,384,757	5,254,315	1,050,863
		19,447,533		**16,103,652**
Coins:				
0.01	193,290,746	1,933	140,064,155	1,401
0.05	225,529,470	11,276	207,616,001	10,381
0.10	678,356,475	67,836	611,889,358	61,189
0.20	178,613,636	35,723	160,796,742	32,159
0.50	237,204,527	118,602	209,734,491	104,867
1.00	258,260,247	258,260	220,583,127	220,583
2.00	72,070,162	144,140	65,398,773	130,798
5.00	74,148,233	370,741	66,506,625	332,533
		1,008,511		**893,911**
Commemorative coins	Miscellaneous	1,879	Miscellaneous	1,876
		20,457,923		**16,999,439**

16. DEPOSITS IN FOREIGN CURRENCY

They comprise the following:

	In thousands of S/.	
	2008	**2007**
Banks	19,753,110	13,167,021
Governmental sector	10,269,755	10,205,175
Banco de la Nación	800,996	520,216
Financial institutions	753	5,337
Other financial system institutions	90,706	189,726
Private sector	-	8
	30,915,320	**24,087,483**

Foreign currency deposits to checking account of the entities subject to legal cash reserve of the local Financial System are part of the funds destined to cover the required legal cash reserve that the Bank demands for their obligations subject to legal cash reserve in foreign currency.

The required legal cash reserve may be covered too with cash in foreign currency of the entity subject to legal cash reserve, and is broken down from a minimum legal cash reserve of 9% of the obligations subject to legal cash reserve in foreign currency and an additional reserve that is the portion of the required legal cash reserve exceeding the minimum legal cash reserve. The additional reserve ranged between 22% and 24% in 2008 (between 23.9% and 24.6% in 2007).

The portion of the required legal cash reserve that corresponded to the minimum legal cash reserve and the one established for the obligations subject to reserve under a special regime does not bear interest.

The obligations subject to legal cash reserve were classified in two regimes: general and special. Legal cash reserve funds corresponding to additional reserve of the general regime, if deposited in the Bank, accrued interest until December 22, 2008 at a rate of remuneration equivalent to the London Interbank Offered Rate (LIBOR) less 7/8 of a percentage point and since December 23, 2008, at the rate equivalent to 50% of one-month LIBOR.

On December 30, 2008, the Bank published Circular 0055-2008-BCRP referred to provisions of legal cash reserves in foreign currency, according to which the minimum legal cash reserve rate was reduced to 7.5% and the marginal reserve rate of obligations subject to the general system was reduced to 30%, in order to give more flexibility to the management of liquidity of entities subject to legal cash reserve, intended to preserve monetary stability.

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 by the Bank of deposits from these organizations. These deposits bore interest rates at year-end ranging between 0.18% and 4.47% (between 4.75% and 5.23% at 2007 year-end). As of December 31, 2008, the Public Treasury's resources and those of FCR deposited in the Bank amount to US$ 3,162,742,000, equivalent to S/. 9,921,522,000 (US$ 3,387,530,000, equivalent to S/. 10,145,654,000, as of December 31, 2007).

17. OTHER LIABILITIES

It comprises the following:

	In thousands of S/.	
	2008	**2007**
Contributions subscribed to international organizations pending payment (note 11)	311,475	361,112
Interest and commission payable	213,907	264,333
Actuarial liability	120,533	121,341
Secure deposit fund	7,496	81,388
Funds for diseases, insurance and pension of BCRP employees	14,908	20,471
Other provisions	20,950	19,388
Accounts payable	1,121	1,856
Miscellaneous	16,569	17,740
	706,959	**887,629**

(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, 2008, the balance of the pending contribution amounts to US$ 99,291,000 (US$ 120,571,000 in 2007), see note 11.

(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, 2008, the provision for actuarial obligation corresponding to supplementary pension subsidy for retirements, widowhood pensions, burial benefits and ongoing risks reserve of health care services calculated by an actuary was S/. 150,329,000, deducting the value of the Fund's net assets amounting to S/. 29,796,000; thus, the actuarial obligation amounted to S/.120,533,000, see note 2(m).

Until December 31, 2007, the provision for actuarial reserve corresponded to the amount calculated by the actuary; however, in compliance with IAS 19 *Employee*

Benefits, the fund's net assets fair value shall be deducted from this amount. For this reason in the presentation of the 2007 balance sheet, the balance of the provision for actuarial reserve decreased and the balance of the retained earnings account increased to S/. 32,496.000.

The actuarial computation as of December 31, 2008 and 2007 was determined by an independent actuary based on the following instruments and sources: (i) SP 2005 mortality charts (in 2007 mortality charts established by SBS were used), (ii) CSO life tables (Commissioner Standard Ordinary) for burial benefits, and (iii) 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/.	
	2008	**2007**
Balance at the beginning of the year	121,341	149,068
Increase debited to results (note 20)	19,116	24,464
Transfers to the Fund	(19,924)	(19,695)
2007 provision adjustment credited to retained earnings	-	(32,496)
Balance at the end of the year	**120,533**	**121,341**

(c) Deposit Insurance Fund

As of December 31, 2008, it comprises balances in time deposit and current accounts in foreign currency for US$ 2,390,000 equivalent to S/. 7,496,000 (US$ 27,175,000 equivalent to S/. 81,388,000 in 2007). The average interest rate of said deposits in foreign currency was 2.54% and 5.03%, as of December 31, 2008 and 2007, respectively.

18. 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 (q).

	In thousands of S/.	
	2008	**2007**
Balance at the beginning of the year	163,623	1,713,053
Valuation of U.S. dollars	3,197,371	(2,303,370)
Valuation of other foreign currencies	(22,020)	384,453
Valuation of metals (gold and silver)	303,691	515,123
Valuation of IMF contribution and obligations	(10,536)	8,002
Transfer to the results of the year (*) and other	(1,718)	(153,638)
Balance at the end of the year	**3,630,411**	**163,623**

(*) Included in other financial income and expenses in the statement of income 2008 and 2007.

19. EQUITY

(a) Capital

As of December 31, 2008 and 2007, the Bank's capital authorized, subscribed and paid-in by the Peruvian State under its Organic Law and Supreme Decree 059-2000-EF, 108-2004-EF, 136-2006-EF and 136-2007-EF amounts to S/. 591,375,000.

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 within 30 days after the balance sheet is approved, shall issue and provide the Bank (for the amount not covered) with securities of negotiable debt that will accrue interest.

On its Meeting of March 27, 2008, the Board of Directors agreed to distribute the Bank's profits, corresponding to year 2007 amounting to S/. 723,949,000 from which S/. 364,473,000 was used to increase the reserve.

On Meeting of March 15, 2007 the Board of Directors agreed to allocate a reserve of S/. 185,339,000. Under Supreme Decree 136-2007 EF, the capitalization of the balance of the reserve account of S/. 295,688,000 was approved. Also, the Bank's Board of Directors, dated March 15, 2007, agreed to record a reserve for a total of S/. 226,902,000 using the balance of the accumulated results of 2006, (see note 19 (c)).

(c) Retained Earnings

Under Article 92 of its 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.

In December 2008, an adjustment was made to the provision of actuarial reserve recorded in 2007, to consider the inclusion and presentation of the assets related to the Fund, which implied to increase the balance of the retained earnings account to S/. 32,496,000 (decreasing in contrast the other liabilities item) that will be disposed according to the current legal standards. The balance of the retained earnings account, after this adjustment amounts to S/. 233,294,000.

On its meeting of March 6, 2008, the Board of Directors approved year 2007 financial statements. Subsequently, on March 27, 2008, the 2007 profit amounting to S/. 723,949,000 was distributed pursuant to Article 92 of the Organic Law, having transferring S/. 180,987,000 to the Public Treasury and S/. 364,473,000 for the allocation of a reserve (Article 92, (b) of the Organic Law). The remaining S/. 178,489,000 are recorded in the retained earnings account.

Year 2006 financial statements were approved in the Board of Director's Meeting 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, transferring of S/. 137,414,000 to the Public Treasury and S/. 185,339,000 for the allocation of a 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.

20. OTHER EXPENSES

As of December 31, 2008 and 2007, this account in the statement of income is comprised mainly by the adjustment of the provision for actuarial reserve for S/. 19,116,000 and S/. 24,464,000, respectively. Also, in 2008, it includes the provision for impairment of the value of properties amounting to S/.16,397,000, see notes 10 and 17 (b).

21. 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 2004 through 2008, 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.

22. 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, which has been confirmed by the Supreme Court through resolution dated May 8, 2008. The defendants requested changes in such precautionary measure with the objective to be replaced in the Bank. This request has been declared inadmissible by the Eighth Civil Court according to Resolution dated august 4, 2008, which was executed since it has not been appealed by the defendants. Also, as a result of the disciplinary process initiated against the judges that pronounced a claim on December 15, 2006, the Judiciary has imposed them a sanction that will be examined by the Executive Committee of such Entity. 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 court order 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, 2008.

23. MEMORANDA ACCOUNT

It comprises the following:

	In thousands of S/.	
	2008	**2007**
Notes and coins in stock	26,385,198	10,151,724
Securities held in custody	3,034,790	3,229,312
Securities deposited in guarantee	1,242,884	1,155,816
Notes and coins removed from circulation to be destroyed	1,201	1,201
Banks under liquidation	55,078	52,136
Money in process of production by Casa Nacional de Moneda	435	108
Miscellaneous	250,690	896,930
	30,970,276	**15,487,227**

Memoranda account include different transactions recorded for control purposes only.

Notes and coins in stock comprise:

	In thousands of S/.	
	2008	**2007**
New	21,885,314	4,466,487
Available	914,881	1,037,616
To be classified	2,749,420	4,407,072
To be incinerated and/or melted	835,074	240,549
In transit	509	-
	26,385,198	**10,151,724**

The rollforward of notes and coins in stock for the year ended as of December 31, 2008 and 2007 has been as follows:

	In thousands of S/.	
	2008	**2007**
Balance at the beginning of the year	10,151,724	15,447,412
Acquisition of notes and coins	25,636,113	5,259,613
Destruction of notes and coins	(5,944,155)	(7,206,900)
Removal from circulation, net of income	(3,458,484)	(3,348,401)
Balance at the end of the year	**26,385,198**	**10,151,724**

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

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

24. ANALYSIS OF MATURITIES

The structure of maturities of the Bank's financial assets and liabilities in force as of December 31, 2008, according to contractual or estimated maturity, are as follows:

	In thousands of S/.				
Class	**Up to six months**	**From six months to one year**	**From one to five years**	**Over five years**	**Total**
Assets:					
Cash in foreign currency	31,646	-	-	-	31,646
Deposits in foreign banks	8,331,599	-	-	-	8,331,599
Securities in international institutions	20,617,241	15,329,453	48,517,589	793,692	85,257,975
Gold	3,082,442	-	-	-	3,082,442
Other available assets	84,252	-	29,687	-	113,939
Other assets abroad	984	984	6,399	71,768	80,135
Domestic credit	5,290,736	102,625	-	9	5,393,370
Other assets	150,893	22,004	326,975	90,043	589,915
Subtotal	**37,589,793**	**15,455,066**	**48 880,650**	**955,512**	**102,881,021**
Contribution in dollars to FLAR	-	-	-	1,158,994	1,158,994
Contributions in local currency to IMF	-	-	-	3,084,639	3,084,639
Property, furniture, and equipment, net	-	-	-	137,081	137,081
Total assets					**107,261,735**
Net liabilities and assets:					
Reserve liabilities	115,099	-	-	-	115,099
Other liabilities abroad	-	-	668	503,978	504,646
Monetary base	1,852,598	-	-	20,457,923	22,310,521
Deposits in local currency	23,839,628	280,836	8,725	-	24,129,189
Securities issued	14,276,047	2,708,571	1,360,371	-	18,344,989
Foreign currency deposits	30,915,320	-	-	-	30,915,320
Other liabilities	323,591	27,736	355,632	-	706,959
Subtotal	**71,322,283**	**3,017,143**	**1,725,396**	**20,961,901**	**97,026,723**
Counterpart of the contribution in local currency to FMI	-	-	-	3,084,639	3,084,639
Readjustment in valuation, Organic Law, Art. 89	-	-	-	3,630,411	3,630,411
Equity	-	-	-	3,519,962	3,519,962
Total liabilities and equity					**107,261,735**

25. 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 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 the liquidity of reserves. Once these conditions are met, return is to be maximized.

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.

Risks Management.

Reference portfolio (Benchmark): This reference portfolio is a fundamental tool 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: comprising investments that replicate Governmental Sector deposits in the Bank.

- Investment: investments including securities 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. 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 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.

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 exchange rate of foreign currency transactions pending at closing.

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) as the Bank intervention currency in the domestic foreign exchange market. The Euro is the second important currency in terms of the composition of international reserves by currency, as indicated in note 4.

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

The Bank faces this risk considering the structure of the maturities of liabilities to determine the composition of the maturities of its assets, as a result of which the overall portfolio has a 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 significant interest rate of financial assets and liabilities; and
- The structure of maturities of the Bank's portfolio of financial instruments.

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 12 through 17.

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 24.

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.

Fair value

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

As the fair value of financial instruments represents the best estimate made by the Bank's Management, these estimates are made taking into consideration the current economic conditions and characteristics of market risks, which may change in the future.

The following methods and estimations were used by the Bank's Management to estimate the fair value of financial instruments:

- Cash, term deposits, certificate of deposits and commercial papers are not considered to be a significant interest rate risk; hence their book value approximates their fair value.
- The fair value of securities 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.
- 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.

26. SUBSEQUENT EVENTS

With the standards mentioned below, the Bank seeks to provide greater flexibility to the management of liquidity of the entities subject to legal cash reserve:

a. On January 30, 2009, the Bank published Circular 002 -2009-BCRP regarding provisions of legal cash reserve in local currency, according to which the minimum legal reserve rate decreased from 7.5% to 6.5%, the rate for minimum reserve in checking account at Banco Central from 2.0% to 1.5%, and the maximum percentage to be deduced from obligations subject to the general regime from 16.5% to 7.7%.

b. On January 30, 2009, the Bank published Circular 003 -2009-BCRP regarding provisions of legal cash reserves in foreign currency, according to which the minimum legal reserve rate decreased from 7.5% to 6.5% and the rate for minimum reserve to be maintained in the checking account at the Bank from 2.0% to 1.5%.

On February 5, 2009, the Bank approved to reduce the reference interest rate of monetary policy from 6.50% to 6.25%. Additionally, it was agreed to reduce interest rates of credit and deposit operations (out of auction) in local currency of the Bank with the financial system.

- Temporary direct purchase of securities and credits of monetary regulation: 7% annually.
- Overnight deposits: 5.50% annually.

  Temporary purchase of dollars (swap): a commission equivalent to the minimum annual effective cost of 7%.

This decision is supported in the observation of lower inflationary pressures, within an environment of lesser growth in the world economy and the drop of international prices of food and fuel.