

INTRODUCTION

The word “Nación” encapsulates a range of connected meanings, realities and ideals. We use ‘Nación’ to refer both to the territory of a country as well as its inhabitants, governed by a single government. We also understand ‘Nación’ to mean a group of human beings whose shared origins and traditions bind and unite them.

So it is not by chance or through luck that the main role of Banco de la Nación (BN) is to create bonds between Peruvians who reside across the length and breadth of the country, employing mechanisms in every part that serve to uphold both a valid and just human right: access to financial services and solutions delivered with customer service quality.

In doing this, the Bank is effectively contributing to decentralization – one of the actions prioritized by the state. At the same time it promotes bank usage and inclusion of the least fortunate who would otherwise remain unaware of economic and development opportunities, sitting in line with the objectives and policies of Dr. Alan García’s government.

The sustained growth of the branch network and ATMs does not just constitute a simple expansion drive. In the case of our institution, it represents the arrival of modernity to many towns across the country, upcoming districts, and zones that can develop and improve their quality of life thanks to the boost they receive by becoming part of the financial system. Together with the arrival of the Bank comes progress.

In areas where we are the sole banking outlet (UOB in Spanish), we are satisfying demand for financial services from people who were previously excluded. However we are also opening the way for the arrival of other private entities. Our role is not just limited to delivering direct services; we also facilitate economic development in a tangible and efficient manner.

In this sense the scope of our operations is broad. The development of plans to strengthen branches in border areas serves as evidence of this, along with the design and ongoing search for a greater number of new improved products for UOB zones; the promotion of a banking culture or financial literacy; the development of mechanisms that facilitate the execution of local and regional governmental projects whereby the Bank acts as a partner for growth.

United as part of the state’s great national project for modernization, we have met increasingly high standards in service delivery and greater efficiency in operating processes. As a financial entity that carries out truly democratizing work, we have set ourselves a sizeable challenge: to operate under the same parameters as a private bank, whilst preserving our character as a state entity operating under its own statutes.

The 2008 financial period witnessed a series of changes and, above all, the culmination of important projects. For example, the development of products aimed at encouraging saving and investment, the notable expansion in services, indicators that show a dynamic and corporate, yet at the same time prudent, management of the institution.

The numbers, tables and analysis that make up this annual report tangibly reflect the change and ongoing process of transformation and improvement experienced at the bank. Our objective is that these positive changes become permanent and that they launch a definite unstoppable drive towards increasing bank usage and economic development with social inclusion.

However, the achievements of 2008 go beyond the delivery of services and management indicators. Promoting culture has been and is an institutional concern and this has been carried out through the Banco de la Nación Foundation.

One final aspect to consider that marks the working spirit of the current administration at BN is investment in human capital. An organizational culture that prioritizes customer service, greater use of modern technology, ongoing training and focus on the community, without losing sight of its social commitment, is one shared by everyone who forms part of this institution.

We have professionally fulfilled the important task of consolidation as a bank renowned for its excellent service quality, the integrity of its people and its contribution to the country's development. The results contained in this annual report illustrate that we are on the right path. And they are also the consequence of a work ethic governed by our institutional values: Commitment, Integrity with Efficiency, Innovation, Social Awareness and Trust.

LETTER FROM THE CEO

Banco de la Nación is a state enterprise that, as part of the Ministry of Economy and Finance, plays a fundamental role in the economic development of the country. Nevertheless, special characteristics distinguish it from other financial entities, evidenced by two fundamental principles that add to its functions as a state bank: social responsibility and a commitment to democratize and expand access to the banking system.

Our slogan “The Bank for everyone” is much more than a simple phrase. It is a clear and firm manifestation of the spirit that motivates not just the directors and top executives who are responsible for managing the bank, but the staff who attend to the public on a daily basis in our branches located in the most remote parts of the country.

We set ourselves various challenges upon taking up the reins of this institution. The first of these was to consolidate ourselves as a banking entity that integrates, connecting the most isolated and neglected populations with the modern world through the delivery of quality financial services. The Bank has grown over the years to the point where it has the largest branch network in the country. Today we can say with pride that we have in place over 400 branches and 550 ATMs serving inhabitants across all regions of the country, and it is our firm intention to continue growing, because wherever there is a Peruvian who needs access to banking services, we should be present.

A second objective that shows the special type of role the Bank plays in the national economy is the democratization of banking services. It is our job, and one of the leitmotifs of this administration, to facilitate access to the financial system for the most neglected populations, being those who do not benefit from private banking services in general or who are located in areas where private financial entities fail to operate.

It is in just such places where Banco de la Nación acts as the sole banking entity where one of our biggest strengths lies: being the financial arm of the state that provides equal opportunity to all Peruvians to save securely, to perform transfers and bank drafts, to pay duties and processing fees, amongst many other services.

There exist around 270 UOBs with each one representing an opportunity for thousands of people to integrate themselves into the financial system. But even more importantly, by expanding bank usage such branches contribute to the social inclusion of thousands of people.

In this way, in attending to the financial service requirements of inhabitants in towns such as Purs or Iñapari near the Brazilian border, the Bank invigorates the local economy, often assisting with the formal organization of commercial activities in the area, the reinforcement of porous borders and, most importantly,

it means inhabitants experience a more tangible state presence. BN's extensive banking network, of which just 20% is located in Lima, connects the entire country together indiscriminately, with growth focused on the creation of solidarity and services rather than towards commercial ends.

Decisive actions and important achievements have accompanied the meeting of objectives regarding inclusion and bank usage. For example, in 2008 we successfully took on the role of a second-tier bank aimed at serving the needs of small and micro enterprises (SMEs) through strategic alliances with important financial intermediaries such as municipal credit unions, agricultural credit unions, Edpymes (financial entity for development of small and medium enterprises), amongst others. Through the shared offices system, Banco de la Nación has allowed micro entrepreneurs from various parts of the country access to loans averaging S/.3,100 each, with a record number of more than 100,000 issued.

The Mobile Multired product is based on the same working and service philosophy. The initiative allows us to take our financial services to remote towns via mobile offices that, upon installation, give the population the opportunity to perform operations such as banking transactions, open savings accounts, payment of duties to Reniec (National Registry of Identification and Civil Status), amongst others. Likewise, BN's new mobile bank helped beneficiaries of the *Juntos* program to receive financial support more easily, without the need to spend time and money traveling to the city.

These activities of the Bank are complemented by a project that remains fundamental to us: to be the most modern and efficient state financial enterprise in the region. And we can say that we are taking firm and decisive steps in this direction.

Improving our financial and operating indicators, optimizing customer service quality, developing new products and services with the most advanced technological resources, are all actions that do not just benefit people in the country's interior, public employees, members of the armed forces and rural small and micro entrepreneurs. This modernization of operations and processes impacts on the lives of millions of Peruvians right across the country who for whatever reason must visit one of our branches and who can now gain easy access to banking services, receive remittances from abroad or carry out transactions in any part of Peru irrelevant of how remote.

We cannot fail to mention other relevant achievements of 2008. As a result of coordinated work involving different areas and departments of the bank, successful actions were taken such as the implementation of insurance that covers state employees in receipt of Multired loans for temporary disability, tax relief insurance and debit card insurance.

In addition, trusts have been set up with ministries, regional governments and local municipalities for the execution of various projects. On an international level, we signed some very significant cooperation agreements with financial

institutions from China and Russia, as well as agreements with the Czech Republic.

This document contains the results of this work along with mention of the challenges we face in the future. To have received the award for Best Corporate Governance in State Enterprises for the second consecutive year, as well First Prize for Financial Innovation – Cofinnova (International Congress on Financial Innovation), and A and A- ratings from Equilibrium and Apoyo, are honors that drive us to continue working with the same degree of tenacity.

Our commitment goes beyond that of any normal entity offering financial services. Our mission is to contribute to economic development with social inclusion, expand the benefits of access to financial services in a spirit of solidarity and democratization by operating where others fail to get to; to make the state bank an efficient organization that is constantly innovating and applying modern resources and technology to the benefit of users. All these objectives that we are meeting and will further consolidate are leading to the genuine integration of 28m Peruvians from all regions, both amongst themselves and with the international financial community. The goal driving all our work and which provides the focus for all our human resources and infrastructure, is to fulfill the mandate set to us by the government itself: to be the Banco de la Nación, the Bank for everyone.

Humberto Orlando Meneses Arancibia

CEO, Banco de la Nación

MISSION

“To deliver financial solutions through quality customer service, to add value, to contribute to decentralization, whilst increasing our range of services and promoting bank usage and inclusion”.

VISION

“To be a bank recognized for its service quality, the integrity of its staff and its contribution to national development”.

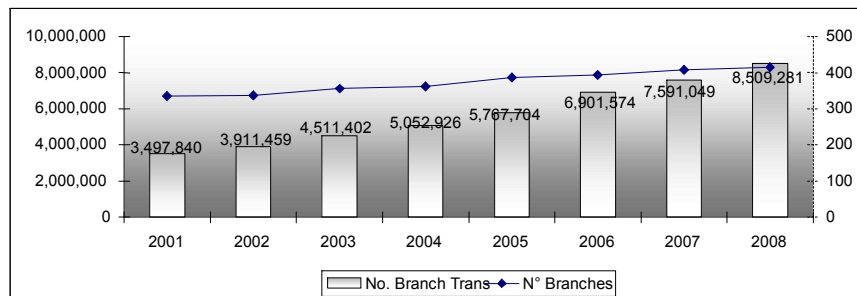
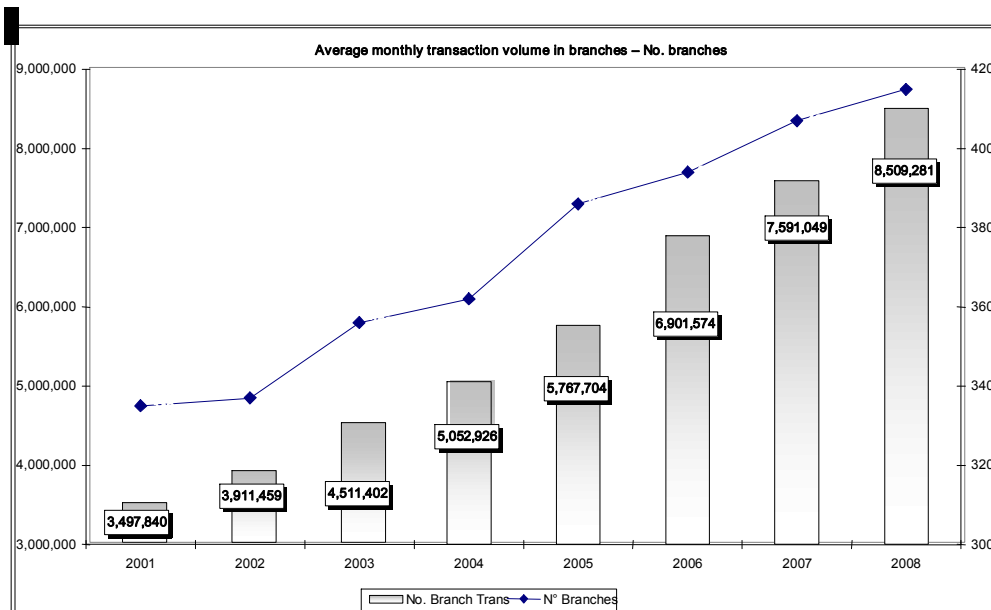
INSTITUTIONAL VALUES

- **Commitment:** Staff attitude reflected by their adherence to internal norms, loyalty, responsibility and identification with the institution, generating value for our customers and society.
- **Innovation:** Development and innovation of new products, services and processes aimed at increasing productivity and attention to the needs and requirements of our customers.
- **Social sensitivity:** The organization is non-discriminatory and is committed to reallocating its resources, consolidating its inclusive nationwide presence.
- **Trust:** Delivery of secure and transparent quality products and services that can have a positive impact on the perception and value of customers and wider society.
- **Integrity with efficiency:** Our staff act with honesty and transparency, ensuring the optimal use of institutional resources and fulfillment of objectives.

Data indicating Transaction Volume at Banco de la Nación

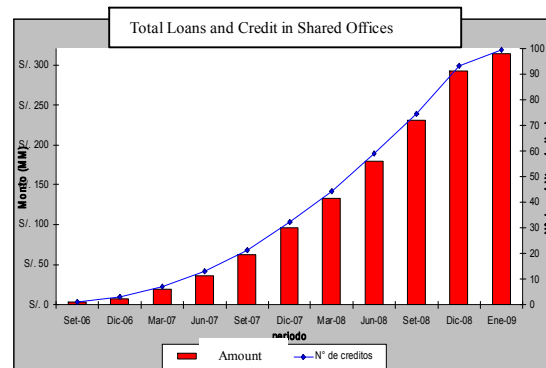
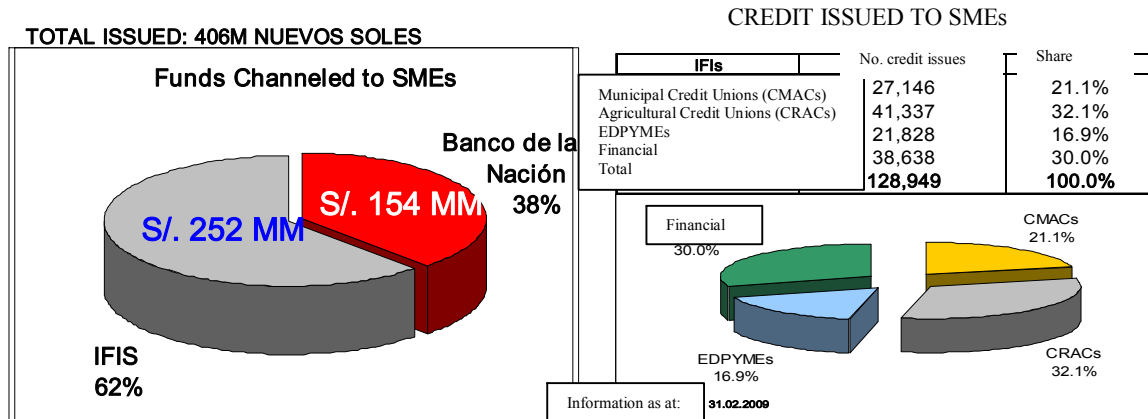
AVERAGE MONTHLY TRANSACTION VOLUME

	2001	2002	2003	2004	2005	2006	2007	2008
No. Branch Transactions	3,497,840	3,911,459	4,511,402	5,052,926	5,767,704	6,901,574	7,591,049	8,509,281
N° Branches	335	337	356	362	386	394	407	415



Credit in partnership with Financial Intermediaries (IFIs in Spanish)

In partnership with IFIs, Banco de la Nación has channeled S/. 383m Nuevos soles benefitting a total of 121,676 micro entrepreneurs in the most isolated and poorest parts of the country.



Telex Transfers

A total of more than US\$46m was attributable to the sending and receipt of remittances, injecting liquidity and promoting development across the length and breadth of the country.

TRANSFER OF REMITTANCES VIA MONEYGRAM 2008				
Origin	Sent		Received	
	Transactions	Amount (US\$)	Transactions	Amount (US\$)
Lima	5418	2'257200.44	44423	19'486553.87
Provinces	8257	2'567351.18	64792	21'936457.94
Total	13675	4'824551.62	109215	41'423011.81

BOARD OF DIRECTORS

Humberto Meneses Arancibia

CEO of Banco de la Nación since December 20, 2007. Degree in Economics from National University of San Marcos. Masters in Business Administration from Monterrey Institute of Technology and Higher Education, Mexico. Studied at Harvard Business School: CPCL - Executive Education. Studied the Executive Management Program (PAD in Spanish), Piura University. Studied at Citibank School of Banking. Worked as Deputy Managing Director of the Central Bank, Director of the Lima Stock Exchange and as Technical Adviser at the Ministry of Economy and Finance. Managing Director of Banco de Desarrollo – Bandesco (Development Bank). Also lecturer in Finance at the Centrum Business School MBA – Catholic University of Peru. Was lecturer for Masters in Economics at National University of San Marcos and MBA lecturer at San Ignacio de Loyola University.

Participated in First Business Roundtable on Business Games, Policy and Business Strategy – University of Texas at San Antonio and Monterrey Institute of Technology and Higher Education, Mexico.

Armando Rubén Osorio Murga

Vice President of Board of Directors at Banco de la Nación since September 20, 2006. Economics degree from National University of San Marcos. Studied at the International Monetary Fund, Washington, USA, and at the Center for Latin American Monetary Studies, Mexico D.F. Also Masters in Administration and in Economics from San Martín de Porres University; and Doctorate in Business Administration from Federico Villarreal National University. Functionary at the Ministry of Economy and Finance, as well as the Superintendency of Banking, Insurance and Private Sector Pension Funds. Teaching experience gained at the Faculty of Administrative Sciences of the University of Lima since 1980.

Arturo Seminario Dapello

Law degree from Pontifical Catholic University of Peru, with studies in Accounting and Finance at IPAE (Peruvian Institute of Business Administration) and ESAN (Postgraduate Business Administration School). Director of Banco de la Nación since September 21, 2006, and director of Indecopi (National Institute for Defense of Competition and Protection of Intellectual Property) since September 25, 2006. Board member of Banco Internacional and of Financiera Peruana S.A. between 1985 and 1989. Former lecturer at University of Lima, leading to publication of five books on tax and financial legislation.

Hugo Javier Rodríguez Espinoza

Director of Banco de la Nación since 9th August 2006. Expert in development of financial and non-financial programs aimed at small and micro enterprises (SME). Degree in Finance and Intermediation of Microfinance at the Institut de

Formation Bancaire, Luxembourg – IFBL (Luxembourg Institute for Training in Banking). Course in Administration and Organization at ESAN. Business Director and Administration and Finance Director of Edpymes Proempresa and Executive Director of the Institute for the Development of the Informal Sector (IDESI).

José Berley Arista Arbildo

Director of Banco de la Nación since 9th August 2006. Read economics at Pontifical Catholic University of Peru. MSc in doctorate program for economics from University of California, Los Angeles. Worked for the Peruvian Central Bank, Ministry of Economy and Finance, the Tax Administration Service (SAT) within the National Tax Authority and the Municipality of Greater Lima. Currently Vice Minister of the Treasury at the Ministry of Economy and Finance.

MANAGERS

Julio del Castillo Vargas

Managing Director of Banco de la Nación since November 10, 2008. Degree in Economics from University of Lima and Masters in Finance from Pacífico University. Currently manager of finance department and formerly manager of risk department at Banco de la Nación. Former head of Strategic and Economic Market Information Service of Centrum – Catholic University of Peru. Worked as consultant for Proinversión (Private Investment Promotion Agency of Peru) and PromPeru (Commission for the Promotion of Peru). Teaches at the Postgraduate School and Business School of the University of Lima.

Carlota Arce Torres

Manager of New Core Banking at Banco de la Nación since April 4, 2008. Degree in Economics from the National University of Engineering. Postgraduate in Finance and Development Systems from the Institut D' Etude du Développement Economique et Social – IEDES in Paris, France. Former manager of Banking Services, Revenue, Collection and Technical Studies departments at Banco de la Nación. Worked as consultant on policy and taxation and Managing Director of Fiscal Policy at the Ministry of Economy and Finance.

Franklin Aranaga Meneses

Manager of Internal Audit Department at Banco de la Nación since January 1, 2007. Degree in Systems Engineering from University of Lima. Masters in Business Administration with major in General Management from ESAN University. Was responsible for Administrative Audit Project at the Office of the Comptroller of the Republic, at the Systems and Organization Division of Banco de Crédito del Perú and as consultant in Information Technology at Softtek del Perú.

José Santiago Lizárraga Hernández

Manager of Administration Division at Banco de la Nación since April 4, 2008. Law degree from National University of San Marcos. Postgraduate in Finance from ESAN. Masters in Banking and Finance from University of Lima. Joined Banco de la Nación on November 17, 2006 and has been manager of Planning and Development department and consultant to Senior Management. Former manager of Administration and Operations, Finance, and Managing Director of Banco Interamericano de Finanzas.

Carlos Guillermo Basadre Lacunza

Manager of Logistics department at Banco de la Nación since June 16, 2008. Degree in Business Administration from University of Lima. Former Deputy Executive Director of the National Program for Direct Support of the Extreme

Poor entitled “*Juntos*”, ex Logistics and Infrastructure manager of EsSalud, the state-owned health insurance provider, and of Consorcio Agrícola Industrial S.A. Worked as consultant for Ministry of Work and Employment Promotion and for National Institute of Health.

Gilda Iris Goicochea Samanez

Manager of Personnel department at Banco de la Nación (BN) since April 25, 2008. Certified public accountant from Federico Villarreal National University. Independent auditor authorized by Conasev (National Supervisory Commission for Companies and Securities). Manager of complementary bookkeeping at Banco de la Nación from September 2006 to April 2008. Former consultant of Peruvian Congress for the Second Vice-Presidency and Education Commission.

Eduardo Enrique Núñez Sarmiento

Manager of IT department at Banco de la Nación since November 10, 2008. Degree in Electronic Engineering from the National University of Engineering. Former head of Infrastructure and Communications division at BN. Worked at BN since 1976 entirely within technology field.

Jorge Fernando Gómez Reátegui

Manager of department of Corporate Communications at Banco de la Nación since February 8, 2007. Degree in Business Administration from Uppsala University, Sweden. Masters in Hotel and Tourism Marketing from San Martin de Porres University. Masters in Quality Control from Complutense University of Madrid and the Ortega and Gasset Institute, Spain. Masters in Business Management from National University of San Marcos. Former Managing Director of IMB Sports S.A.C. and American Assist Peru. Currently teacher at Centrum – Catholic University of Peru.

Juan Hugo Lira Tejada

Manager of Risk department at Banco de la Nación since September 18, 2008. Bachelors in Law and Political Sciences from San Martin de Porres University. Masters in Business Administration and Masters in Finance from Pacífico University. Degree in Risk Management from Monterrey Institute of Technology. Worked as assistant manager of Treasury department in BNP Paribas-Andes bank, and assistant manager of Treasury department at Standard Chartered Bank. Former assistant head of Capital Markets department within Banco de Crédito del Perú.

Luis Aníbal Ferreyra Sulla

Manager of Accounting department at Banco de la Nación since 1995. Graduated as a public accountant from San Martin de Porres University. Worked at Banco de la Nación for 45 years. Held a range of positions since starting as

Office Assistant in the accounts department, working in different departments such as economic research, operations, audit, branch network, amongst others.

Katherine Aurora Chang Ocampo

Manager of General Administration department at Banco de la Nación since September 18, 2008. Read law at Universidad Femenina del Sagrado Corazón. Postgraduate in Administrative Law in Spain. Specialist in state contracts. Ex member of Peruvian delegation in charge of negotiations over the financial services chapter of the Free Trade Agreement between United States and Andean nations. More than ten years of experience in public administration. Lecturer and legal researcher at the leading law schools in Peru.

Rodrigo Teobaldo Zapata Seminario

Manager of Legal Department at Banco de la Nación since August 16, 2006. Graduated as a lawyer at the National University of San Marcos. Masters in Banking from Federico Villareal National University. Legal consultant for Superintendency of Banking and Insurance, head of legal department at Banco de Lima, director of Banco de Comercio and manager of legal department, head of the office for legal matters at the Superintendency for Health Service Providers (SEPS in Spanish).

Ricardo Norberto Villamonte Blas

Manager of Planning and Development department at Banco de la Nación since April 18, 2008. Postgraduate in Banking and Finance at National University of San Marcos, masters in Business Administration and doctorate in Economics and Business at the Autonomous University of Madrid. Planning manager at Social Development and Compensation Fund - FONCODES, finance manager at EsSalud and planning manager at Banco Industrial. Ex director general of social development policy at the Ministry for Women and Social Development.

Juan Carlos Galfré García

Manager of Financial Services department at Banco de la Nación since April 2005. Degree in Business Administration from National University of Trujillo. Masters in Development and National Defense at CAEN (National Center for Higher Education), in partnership with the University of Ricardo Palma. Ex manager of administration at EsSalud. Ex manager of Commerce at Banco Wiese Sudameris and Banco de Lima.

Carlos Díaz Mariños

Manager of Operations department at Banco de la Nación since January 25, 2007. Degree in Economics from Pontifical Catholic University of Peru. Masters in Business Administration from ESAN, masters in Banking and Finance from University of Wales, UK. PhD in Finance from University of Wales, Bangor, UK.

Consultant for general management of public-sector credit at Ministry of Economy and Finance. Ex manager of finance department at BN.

Óscar Salas Bracamonte

Manager of Branch Network department at Banco de la Nación since June 16, 2008. BSc in Marine Sciences from the Peruvian Navy. Masters in Business Economics from Federico Villareal National University. Masters in Quality Management from San Martin de Porres University, in partnership with Complutense University of Madrid and Ortega and Gasset Institute, Spain. Doctorate in Economics from Federico Villareal National University. Held management positions both in private and public sectors. Former logistics manager at BN.

CONSULTANTS

Víctor Raúl Trujillo de Zela

Management Consultant for the Office of CEO of Banco de la Nación since August 16, 2006. Graduated as a civil engineer from the National University of Engineering. Graduated in Development Economics from the University of Oxford. Worked as Deputy Regional Manager of International Cooperation for the Regional Government of Piura and is consulted for investigative and regular committees in Congress.

Idelfonso Avalos Sanjinez

Management Consultant for General Management at Banco de la Nación since September 18, 2008. Graduated in Economics and Finance. Postgraduate majoring in Finance and Change Management from ESAN. Banking and Finance expert for Friedrich Ebert Foundation, in partnership with Banco de la Nación. Worked as Manager of the Finance Department, ex Head of Budget Preparation and Evaluation, and Head of the Budget Division at BN.

I. SOCIAL RESPONSIBILITY

During 2008, in addition to demonstrating its position as one of the leading financial institutions in Peru that incorporates nationwide sectors into the banking system, Banco de la Nación has shown a great sense of social responsibility towards the surrounding community. Its level of responsibility is particularly broad given the location of its 418 branches spread right across the country.

The Bank is aware of the reality on the street stretching across the Andes and into the jungle. Banco de la Nación is conscious that when there exists a will to improve things, it must do so immediately.

The People's Terminals (Plazas de la Nación)

Extract 1:

The People's Terminal is a further attempt at improving the quality of life for all Peruvians.

Extract 2:

The installation of the People's Terminal in Izcuchaca led to an additional commitment being fulfilled. During August 2008 Banco de la Nación inaugurated a modern ATM within the district of Huancavelica.

An innovative project promoting digital literacy and inclusive education and citizenship was launched in the remote community of Izcuchaca in the district of Huancavelica. Through this, Banco de la Nación has demonstrated its belief in the connection between spoken language and the language of computers.

The People's Terminal is a further attempt at improving the quality of life for all Peruvians. The project converts public spaces in neglected premises into electronic platforms for the education and inclusion of inhabitants, contributing to the modernization of the local economy.

The idea is to make the bank's electronic platform available to dozens of mainly rural populations who are customers of the Bank but do not have Internet access or shared access to other advantages from the virtual world such as distance learning, email, messenger, opportunities to engage in e-business and connection to the global village.

Izcuchaca symbolizes the sense of social inclusion amongst the large family at Banco de la Nación. As part of the People's Terminal project, Banco de la Nación developed the first course for digital literacy learning and inclusive education and citizenship through the teaching of 600 people from the Huancavelica district.

Courses taught included English, IT, theater, miming, puppetry, breeding of guinea pigs, etc. All courses had a technical theme (Internet) via the virtual

terminals that ultimately serve to transfer the bank's existing technology to the community forums.

But the installation of the People's Terminal in Izcuchaca led to an additional commitment being fulfilled. During August 2008, Banco de la Nación inaugurated a modern ATM within the district of Huancavelica, which is now used by many micro and small entrepreneurs in the pottery business and whose products are famous across the entire central region of the country.

It is precisely this fame that encourages hundreds of domestic and foreign tourists to visit Izcuchaca. So Banco de la Nación met the demand for an ATM that benefits people and tourists who visit the area and need to carry out banking transactions.

Actions of Solidarity

Extract 1:

Banco de la Nación organized the campaign "BN Helps You" in order to deliver security and improve the wellbeing of its clients.

Extract 2:

An enthusiasm to contribute to the community makes every member of the Banco de la Nación family perform better.

One of the functions of Banco de la Nación is to deliver products and services that satisfy the financial needs of our community. However its principle commitment lies in educating and contributing to the development of society.

Banco de la Nación organized the campaign **BN Helps You** in order to deliver security and improve the wellbeing of its clients, helping them detect forged bank notes ('Your Security Comes First'), providing bank-registered taxis ('Civic Taxi') as well as information on people's state of health and how they can improve it ('BN and La Positiva Take Care Of You').

It is still not possible to stop the rain, but it is possible to have the best umbrellas. Through the program '**Your Security Comes First**', customers receive training on how to detect forged notes. Without needing to attend workshops, the bank's branches also serve as training centers, delivering services and financial education to an increasing number of Peruvians.

An enthusiasm to contribute to the community makes every member of the Banco de la Nación family perform better. The **Civic Taxi** program, in association with the Peruvian Police Force (PNP) and Diprove (Auto Theft Prevention Division) provide direct security to customers. Taxis belonging to groups registered by the PNP stop outside the branches of Banco de la Nación offering their services accordingly. They provide greater security to people with without increasing the price.

Similarly, the health of bank users constitutes an institutional concern. By installing facilities for measuring blood pressure, height and weight, the public can remain informed of the state of their health and receive advice on how to help themselves improve their quality of life. The Program **'BN and La Positiva Take Care Of You'** was the result of efforts by both institutions to improve the quality of life of the community.

Soon, the company Bayer will join in to expand the 'BN Helps You' campaign. Through medical consultations in dermatology and gynecology amongst others, pensioners and retired people will be able to access such services free of charge, making their trip to the Bank both a pleasant and useful experience.

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Extract 1:

Banco de la Nación ran computing courses at the most disadvantaged schools in Piura, Lambayeque and Huanuco.

Extract 2:

We are not just a bank, we are a group of human beings who work tirelessly in the pursuit of social responsibility.

Employees at Banco de la Nación understand the reality of extreme cold. The Crucero district branch for example is situated in the province of Carabaya, Puno, at 4,129m above sea level where temperatures drop to zero. As a result, BN gave warm clothing to those in need, handing out more than 1,600 blankets to fellow citizens in zones affected by the cold snap.

Collaboration was also offered to the charitable organization *Traperos de Emaus* through the donation of a truckload of chairs, couches and furniture, enabling them to continue with their social work.

The Bishop of Huacho received a visit from BN and was given computers and office furniture to facilitate his work and improve the level of service given in the diocese.

Education and technology represent the drivers of development. Banco de la Nación delivered over 30 computers to the most disadvantaged schools in Piura, Lambayeque and Huánuco.

Students at schools n° 10075, Pampa La Victoria – La Cria in Lambayeque, Matías Manzanilla in Piura and Jorge Basadre in Huánuco can now make faster progress towards development.

So far the Bank has taken financial products and services all over, warm clothing to those who need it, and promoted education and technology to bring about progress. Now it is the turn of happiness.

The Bank family shared a Christmas full of affection and emotion with the children from sector X in Huaycan. The campaign, promoted by Banco de la Nación at the end of 2008, was entitled “To demonstrate that drawing a smile from a child is very easy”.

We work hand in hand with those around us, entirely for a better world. We are not just a bank, we are a group of human beings who work tirelessly in the pursuit of social responsibility.

Our objective is to test the correlation between the institution and the community and to strengthen links with those around us. The actions of the Bank exemplify

its institutional ideals and over time the satisfaction becomes evident on the faces of those people vital to its work.

With the right degree of effort, the forming of a model society becomes a tangible concept. Banco de la Nación strives for the development and harmony of its people by engaging in social responsibility.

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Telethon 2008

Extract 1:

The BN family gave their unconditional support to the 2008 Telethon. The Coast, Mountains and Jungle regions stood up and everyone contributed to its success together.

Extract 2:

Banco de la Nación demonstrated that it can do things as well or better than private banks, benefitting from greater experience at these events.

The Head of State, Alan García Pérez, called upon the public to raise funds for Hogar Clínica San Juan de Dios, which provides treatment, therapy and medical attention to physically and mentally disabled children from disadvantaged backgrounds.

Banco de la Nación undertook several days of hard work and nationwide coordination, including services delivered by the branch network, setting up of IT systems at the Government Palace, the official BN collection stand, the communication and circulation of accounts, coordination with the main producers and television stations, amongst other activities.

As a result the amount raised of 3mn nuevos soles was three times over the minimum target outlined initially. The Presidential press secretary announced that Banco de la Nación collected S/. 3'465,204 in accounts set up for this purpose. Similarly, the collaboration and goodwill of the BN family meant 20,342 nuevos soles was raised for the children of Hogar Clinica San Juan de Dios.

The BN family gave their unconditional support to the 2008 Telethon. The Coast, Mountains and Jungle regions stood up and everyone made a genuine contribution, allowing the target to be exceeded.

Mention should be made of the tireless work of the team of BN employees who were directly involved through the branches nationwide, the Multired Movil (network of mobile banking terminals) and the office set up in front of Executive Power headquarters. Aside from the monetary contributions from the BN family, the institution played its part through:

- The selfless work of 370 functionaries and employees of the Network.
- 85 offices, ensuring nationwide coverage.
- 5 Multired Móvil workstations that enabled increased funds to be raised in the cities of Trujillo, Cajamarca and Huancayo, as well as in the districts of Miraflores and San Miguel in Lima.
- A customer service terminal on the ceremonial courtyard of the Government Palace, visited by approximately 5,000 people.

- The architectural and interior design of the Banco de la Nación stand and modules in the Government Palace.
- Production of videos and support for telethon via the closed circuit television shown at BN.
- Graphic design and production of promotional t-shirts, caps and stickers with the account numbers of Banco de la Nación.
- Publication of articles in the media and advertisement of the Telethon through different forms of media nationwide.
- Production and audiovisual and photographic recording of the entire day of Telethon 2008.

Without doubt Sunday December 21, 2008 will remain etched into the history of Banco de la Nación, not just because of its financial contribution, but also for showing that it can do things as well or better than private banks, benefitting from greater experience at these events. It played its part in this great day as one of the official collectors and without doubt transformed itself into Banco de la Telethon.

II. DOMESTIC ECONOMIC ENVIRONMENT

The Peruvian economy made strong progress during 2008 amidst initial increased optimism on the part of consumers and businessmen as well as improved access to financing. This translated into GDP growth of 9.8%, with the commerce, construction and services sectors the strongest performers. Ultimately this boosted investment, employment, consumption and incomes, indicating buoyant domestic demand.

However, economic activity began to slow down in the fourth quarter of the year, linked to a deepening of the international financial crisis. The situation brought with it a rapid shift towards the productive sector (reduction in external demand, terms of trade, foreign investment), the review and raising of interest rates for credit issued by banks to the private sector, and a fall in optimism amongst economic actors.

Cuadro 1
PRINCIPALES INDICADORES MACROECONÓMICOS
MAIN MACROECONOMIC INDICATORS

	2007		2008													
	Dici	Año	Ene	Feb	Mar	Abr	May	Jun	Jul	Ago	Sep	Oct	Nov	Dic		Año
Producto Bruto Interno	10.1	8.0	11.1	13.0	7.3	14.2	8.4	12.0	10.2	10.4	11.8	9.2	8.4	4.9	8.8	Gross Domestic Product (%)
Variación % 12 meses																% Change year to year
Índice de Precios al Consumidor	3.9	1.6	4.1	4.8	5.5	5.5	5.4	5.7	5.8	6.3	6.2	6.5	6.7	6.7	5.8	Consumer Prices Index (%)
Variación % 12 meses																% Change year to year
Tasa de cambio																Exchange Rate
Promedio	3.0	3.1	3.0	2.9	2.8	2.7	2.8	2.9	2.8	2.9	3.0	3.1	3.1	3.1	2.9	Average
Variación % 12 meses	-7.0	-2.4	-1.0	-2.5	-5.7	-7.8	-5.9	-3.0	-4.4	-3.0	-2.5	3.2	3.7	4.5	-1.9	% Change year to year
Empleo urbano (Personas)*																Urban Employment (%)
Variación % 12 meses	8.8	8.2	8.8	9.1	8.8	8.8	10.0	8.5	9.3	8.4	7.4	7.2	7.0	% Change year to year
Precio del petróleo (WTI-Libor a base)	91.4	72.3	85.0	95.4	105.5	112.8	125.4	133.9	133.4	119.8	103.9	75.6	57.3	41.4	88.6	Oil Price (WTI-Libor per barrel)
Tasas de Interés (Promedio)**																Interest rates (%)**
TAFN	22.3	22.8	20.3	21.3	23.8	25.8	23.8	21.7	22.7	23.8	24.5	24.1	22.5	22.0	22.7	TAFN
TAFMEC	10.5	10.5	10.3	10.2	10.3	10.5	10.8	11.0	10.5	10.8	10.7	10.7	10.5	10.5	10.6	TAFMEC
TIPMEU	3.3	3.2	3.2	3.2	3.3	3.2	3.4	3.5	3.6	3.7	3.7	3.8	3.8	3.9	3.9	TIPMEU
TIPMEC	3.5	3.3	2.8	2.4	2.8	3.0	2.9	3.0	3.2	3.3	3.3	3.4	3.5	3.6	3.4	TIPMEC
Tasa Interés tasa IMR	5.0	4.7	4.4	5.0	5.2	5.4	5.5	5.7	5.9	6.2	6.4	6.6	6.5	6.5	5.8	Interest rate IMR
Tasa Interés tasa ME	6.9	5.7	5.7	6.6	7.3	7.2	7.8	4.5	2.5	4.9	2.8	3.2	3.9	5.0	4.5	Interest rate ME
Sector externo																External Sector
(Millones de Dólares)																(Millions of Dollars)
Salidas Comerciales	1,010	8,288	394	580	586	420	489	78	227	528	10	282	35	47	1,182	Trade Balance
Exportaciones	2,002	27,908	3,540	2,481	2,782	2,711	2,925	2,826	3,080	2,875	3,729	2,448	2,089	1,964	31,554	Exports of goods
Importaciones	1,002	19,598	2,146	1,881	2,196	2,309	2,426	2,792	2,791	2,496	2,717	2,721	2,024	1,907	28,422	Imports of goods
Saldo Negat. Gobierno Central (Millones de Nuevo Sol)																Fiscal Balance - Central Government (Millions of Nuevo Sol)
Reservas Externas del Gobierno Central	6,887	6,881	2,812	191	6,884	6,889	1,182	1,281	-4,288	-1,118	1,884	874	888	-1,794	8,287	Foreign Reserves of the Central Government
Ingresos Fiscales	4,188	52,425	5,037	3,945	4,520	6,254	4,520	4,754	5,588	4,948	5,380	4,918	4,246	4,618	36,227	Tax Revenue
Gastos no financieros	7,537	60,528	3,013	3,281	3,415	2,754	4,104	4,113	7,140	5,814	4,884	4,859	3,947	6,741	54,988	Non-financial expenditure
Indicadores Transaccional Internacionales																International Indicator
USDCI 3 meses (Promedio)	5.0	5.5	4.0	3.1	2.8	2.8	2.7	2.8	2.8	2.9	3.1	4.1	2.3	1.8	2.9	USDCI 3-month (%)
Reversión de los bonos del Tesoro (20 años)	4.5	4.8	4.3	4.5	4.4	4.4	4.5	4.7	4.5	4.5	4.3	4.2	4.5	2.8	4.3	U.S. Treasury bond (20 years)
Riesgo país Perú (EMBI+10y)	175	158	165	228	221	182	154	165	158	158	200	220	400	224	273	Country risk Perú (EMBI+10y)

* En miles en millones de U.S. dólares (Fuente: INEI)
 ** Promedio anual del mes
 Fuente: BCRP, BCRP (IMR), Reuters, Bloomberg, IBS, WFP, IBS.

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The rate of inflation at the end of December stood at 6.65% per annum, surpassing the target rate set by the Peruvian Central Bank (BCRP in Spanish) (2% +/- 1pp). Restrictive monetary policy remained in place up to September 2008 (increase of base rates of interest and raising of bank reserves), with the reverse approach being taken from October onwards in the face of turbulence from within the international financial system. Measures were implemented to reduce bank reserves of national and foreign currency deposits, improving liquidity in the financial system, and in an attempt to maintain the regular functioning of credit markets.

The Non-Financial Public Sector (SPNF in Spanish) managed a positive result of 2.1% of GDP at the close of 2008, 1.0% less than in 2007. In 2009 fiscal income will be adjusted due to the drop in prices of exported raw materials (minerals) and less dynamic internal demand. External accounts on the other hand reverted to the trend of previous years, registering an increase in import activity (expansion of internal demand) against exports.

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III. STRATEGIC DEVELOPMENT

Extract 1:

The Bank changes because its people change, with the ultimate goal of becoming a Services Bank.

Extract 2:

Our number one priority is to “deliver customer satisfaction” across the length and breadth of the country.

Strategic Plan

By the end of 2008 the execution of the strategic plan had been achieved by 71%. The general strategic objective to “Deliver customer satisfaction” formed our top priority, reflected by the good rate of progress (83%) in this area, and was followed closely by the “Running of efficient processes” (81%). Both objectives were symbolic of the new course and direction of the institution aimed at becoming a genuine Services Bank. The objectives of “Financial self-sufficiency” (66%), the “Reduction of all risk” (48%) and the “Creation of a results-driven organization” (42%) were complementary to those mentioned previously within the overall mission, and the progress of each is evidence of the hard work carried out as well as the scale of the difficulties and limitations facing them.

Work aimed at fulfilling all the objectives was based around the following development strategies:

1. Profitability of resources without compromising the quality and social role of the bank.
2. Modernize, standardize and decentralize the infrastructure of channels.
3. Redesign the critical processes of the business with integrated IT support.
4. Implementation of competency-based management.
5. Efficient risk management.

Summary of Progress per Objective 2008 General Strategy

<i>GENERAL STRATEGIC OBJECTIVE</i>	<i>Progress Rate</i>
DELIVER CUSTOMER SATISFACTION	83%
RUNNING OF EFFICIENT PROCESSES	81%
FINANCIAL SELF-SUFFICIENCY	66%
REDUCTION OF ALL RISK	48%
CREATION OF A RESULTS-DRIVEN ORGANIZATION	42%

Performance indicators and goals

Banco de la Nación set performance indicators to periodically measure the progress of the General Strategic Objectives, showing an 81% progress rate against the target set for 2008. This reflects the original vision of the Bank to establish itself as the state bank known for the quality of its services, the integrity of its people and its contribution to national development.

An average progress rate of 95% was recorded in 2008 with respect to the ongoing targets of the bank. Targets for business accounts, the number of municipalities served, savings accounts, the volume of transactions at Banco de la Nación, and the number of active banking cards all scored over 100%. In contrast the volume of transactions at ATMs and number of ATMs in the network recorded the lowest progress rates with 81% and 83% respectively.

2008 Ongoing Targets

Concept	Projected	Executed	Progress rate
1. Number of Savings Accounts (thousands)*	2 157	3 023	140%
2. Number of Active Current Accounts (thousands)	100	216	216%
3. Volume of BN transactions (thousands)	189 874	209 919	111%
4. Volume of Transactions at ATMs (thousands)	68 661	55 596	81%
5. Number of Municipalities served	1 196	1 738	145%
6. Number of ATMs in network	680	563	83%
7. Number of Cards Activated (thousands)	1 768	1 848	105%
8. Percentage of Cards used in ATM network	57	55	96%
9. Branch Network	423	415	98%
10. Personnel	4 126	3 820	93%
TOTAL ACHIEVEMENT RATE			95%

* 477 413 savings accounts are attributed to the *Juntos* Program.

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IV. DECENTRALIZATION AND NATIONWIDE PRESENCE

Extract 1:

From north to south, east to west, Banco de la Nación integrates all Peruvians.

Extract 2:

We have the largest branch network nationally and have a presence in places private banks fail to reach

Extract 3:

68% of Banco de la Nación branches are located in areas where they serve as the sole banking outlet.

Extract 4:

Our expansion of the number of branches and ATMs signifies time saved, modernity, and social development and inclusion particularly in the more remote areas.

Extract 6:

We travel further every day, incorporating all Peruvians into the banking system.

Extract 7:

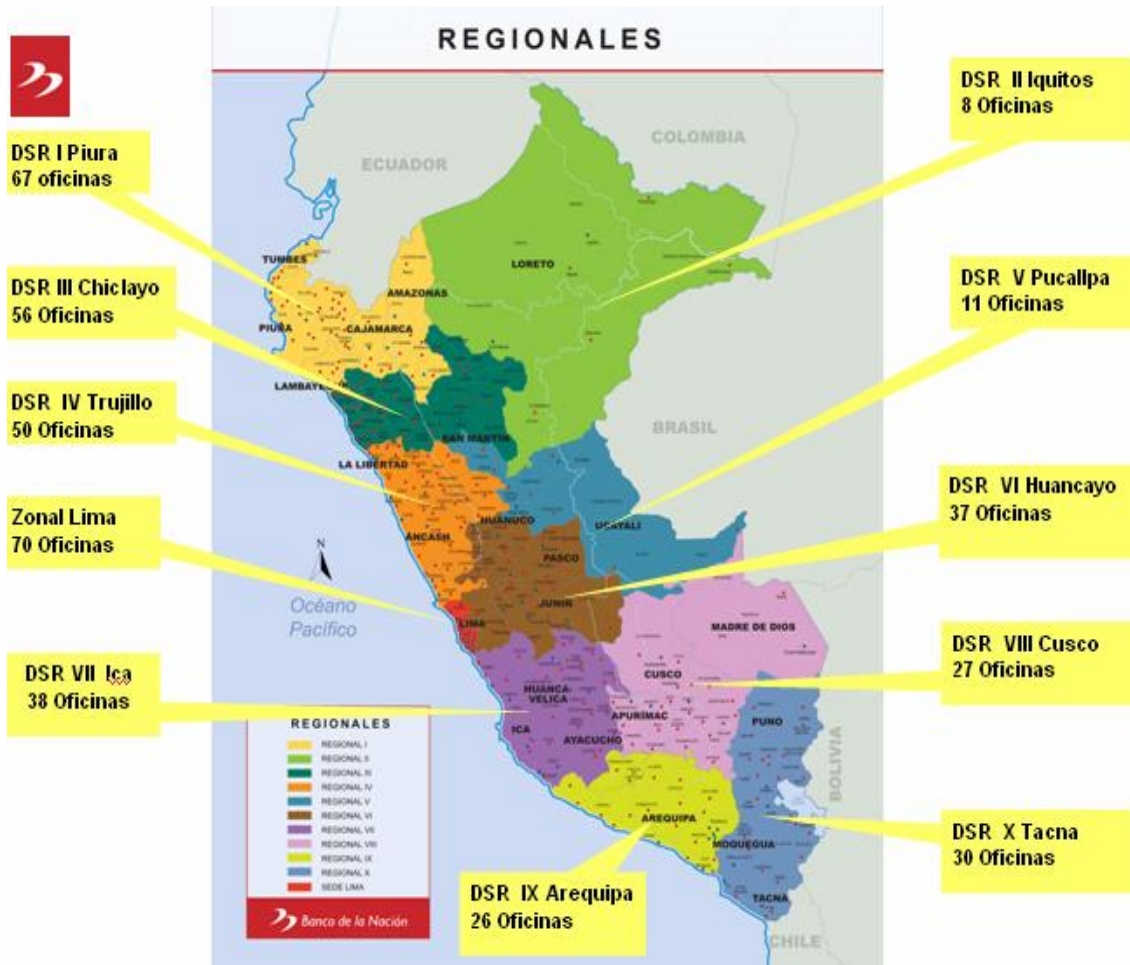
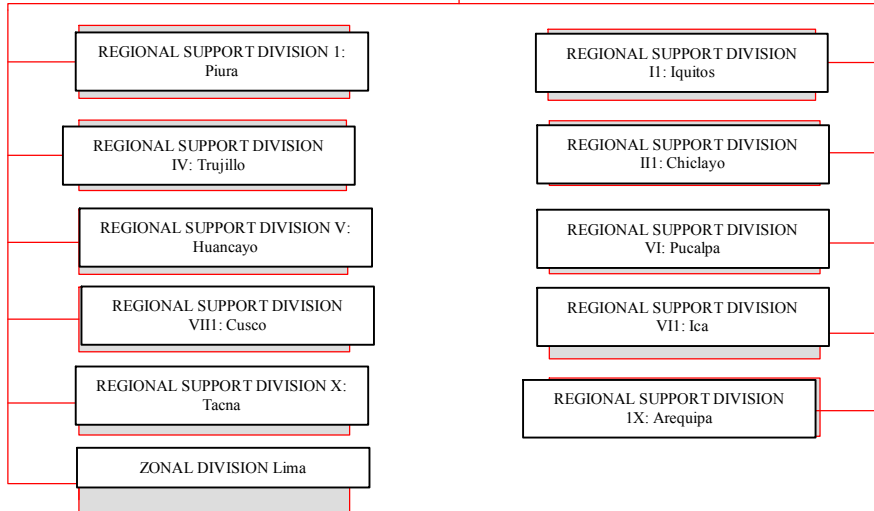
We grow by taking technology and development to the most remote areas of the country.

Branch Network

The main objective of the ongoing decentralization of Banco de la Nación has been to improve the delivery of services to the public sector and raise citizens' quality of life. As a result, decentralization has been incorporated as one of the requirements necessary to combat certain institutional challenges facing the bank; for example, the growing set of demands that are being placed on banking services and the increased expectations of the public with regard to the quality of services offered.

As a result, and as a function of the country decentralization whereby the Bank can act as the financial arm of the state, regional governments, local governments, universities and private individuals, a new organic structure was implemented governing the administration of the bank's offices nationwide. The aim was to increase their administrative autonomy in order to speed up the delivery of financial and non-financial services, brought about through the creation of ten Regional Support Divisions (DSR in Spanish). This decentralization process will be carried out in three stages, with the first stage already complete.

**OFFICE NETWORK
DEPARTMENT**



Banco de la Nación's institutional presence can be described as follows:

- **A branch network that covers a large geographical area across the country** by means of 415 functioning offices, of which 350 (84%) are located in provincial cities and 65 (16%) in Lima and Callao. In 2008 the branch network of Banco de la Nación grew by 2.01%.
- **282 branches (68% of the total) are located in areas where they serve as the sole banking outlet** (UOB in Spanish); furthermore, 82 UOB offices are located in departments suffering from extreme poverty where the Bank provides a state presence and helps to promote bank usage and bring about the social inclusion of the poorest citizens.

BRANCHES AS SOLE BANKING OUTLET PER REGION

DSR	TOTAL
REGION I - PIURA	57
REGION II - IQUITOS	6
REGION III - CHICLAYO	45
REGION IV - TRUJILLO	41
REGION V - PUCALLPA	9
REGION VI - HUANCAYO	27
REGION VII - ICA	30
REGION VIII - CUSCO	22
REGION IX - AREQUIPA	14
REGION X - TACNA	25
ZONAL LIMA	6
TOTAL	282

- In 2008 in Lima and Callao the branch G&K opened in the district of Magdalena del Mar. Meanwhile the **majority of new branches were opened in cities belonging to the following provinces:**

- | | |
|-----------------------|-------------|
| ➤ Crucero branch | Puno |
| ➤ Santo Tomás branch | Cajamarca |
| ➤ Baños branch | Cajamarca |
| ➤ Víctor Larco branch | La Libertad |
| ➤ Tongod branch | Cajamarca |
| ➤ Yauyucan branch | Cajamarca |
| ➤ San Lorenzo branch | Loreto |

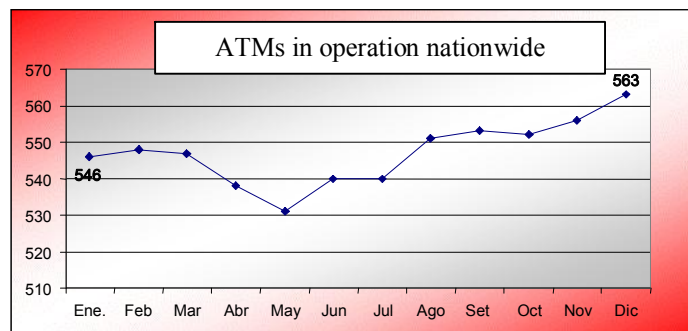
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ATM Network

ATMs (Automatic Teller Machines) have helped users of the Bank to perform routine transactions. The Banco de la Nación cash machines provide this service to thousands of Multired card holders and any card holder from other banks affiliated to Visa International.

The network of Banco de la Nación ATMs provides a time-efficient and modern way to withdraw money, and can now offer a wider range of transactions. It should be noted that the bank's ATMs are strategically located in order to best satisfy the demand of its customers and the general public.

Banco de la Nación increased by 18 the number of cash machines in operation nationwide. At the close of the financial period the total number of bank ATMs stood at 563.



The expansion of these facilities led to greater operational efficiency in the areas concerned and helped to shorten queues at the counters, expanding the volume of customer service delivered to the public nationwide.

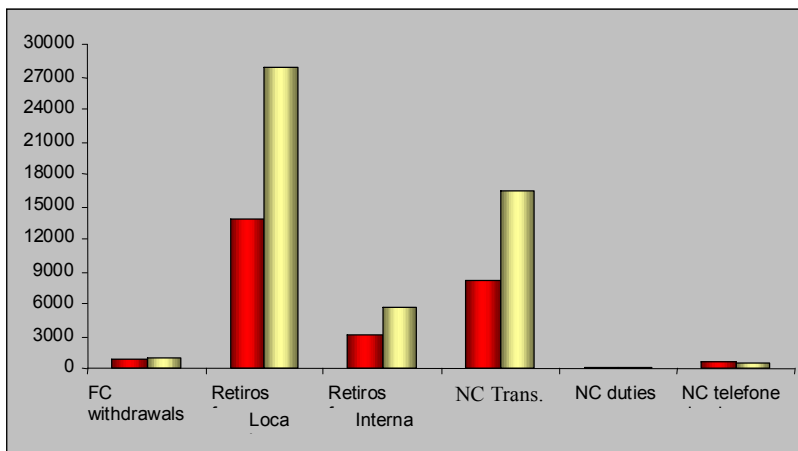
In June new transactions were implemented in addition to money withdrawal and balance enquiry services, such as the payment of police fines, telephone services, credit cards, transfers to other savings accounts and cash withdrawals for debit and credit cards from other banks affiliated to the Visa franchise. The latter was particularly welcomed by the public.

OTHER SERVICES CARRIED OUT BY THE ATM NETWORK

Growth in usage of new services

Other services	Dec. '07	Dec. '08	Var %
FC withdrawals*	843	895	6.2%
Local external withdrawals	13778	27868	102.3%
Internatl. External withdrawals	3030	5646	86.3%
Transf. of LC*	8136	16397	101.5%
LC duties	80	120	50.0%
LC telephone	554	535	-3.4%

* FC – Foreign Currency, LC – Local Currency



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Virtual Transactions nationwide

Extract 1:

Avoid bothersome waits as well as save time by using Banco de la Nación's Virtual Multired service.

Extract 2:

Cover yourself against risks and feel secure and safe by performing your banking transactions using the Virtual Multired.

The operational presence of Banco de la Nación is enhanced by access to our services using the Virtual Branch. Whether in Peru or abroad, Banco de la Nación customers are able to access the Virtual Multired at any location with a connection to the internet, with the Bank ensuring that international standards of information security are always maintained. Services offered through this medium include:

- ✓ Internet banking for savings account holders with Classic Multired or Global Multired cards and business account holders.
- ✓ Internet banking for Visa-affiliated cardholders from other banks to pay taxes attributable to the National Registry of Identification and Civil Status (Reniec in Spanish) and the Ministry for Transport and Communications.
- ✓ Transactions via mobile telephone (WAP service channel) for users of Movistar and Claro networks.

VIRTUAL MULTIRED TABLE (SCREENPRINT)

NUMBER OF CUSTOMERS WITH VISA DEBIT CARD

(Transactions at ATMs, over-the-counter and POS)

Table N° 1

Period	B.N. NETWORK		POS
	ATMs	OVER THE COUNTER	
Dec-07	1,349,102	880,577	60784
2008			
Jan. '08	1,246,873	878,236	52809
Feb. '08	1,324,168	911,805	57528
Mar. '08	1,331,917	893,834	59972
Apr. '08	1,193,725	938,950	56915
May. '08	1,306,319	971,525	61731
Jun. '08	1,202,997	980,791	57778
Jul. '08	1,374,614	1,026,909	66774
Aug. '08	1,357,974	1,028,003	65513
Sep. '08	1,303,965	1,080,545	64709
Oct. '08	1,431,791	1,116,870	68793
Nov. '08	1,453,744	1,096,984	77442
Dec. '08	1,698,821	1,152,281	83637

Growth in Customer Numbers (performing at least one transaction)	349719	271704	22853
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Customer Percentage Growth	26%	31%	38%
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V. BANK USAGE AND SOCIAL INCLUSION

Mobile Multired

Extract 1:

Mobile Multired helps to fulfill the mission of Banco de la Nación in pursuit of the economic and financial decentralization of the country.

Extract 2:

The need to provide services equipped with the same degree of modernity as those in the capital city generated a sense of creativity amongst Banco de la Nación staff leading to the implementation of the Mobile Bank.

Extract 3:

Today, with Mobile Multired technology, it is possible to travel through and beyond the clouds and reach the most remote towns.

Extract 4:

Mobile Multired facilitated the opening of 1,295 savings accounts, installing banking services in 25 towns covering 11 departments across the country.

Extract 5:

Banco de la Nación: always close by, wherever you need us.

In 2008 Banco de la Nación officially launched the Mobile Multired service aimed at implementing mobile banking terminals in isolated rural zones, and is expected to reach a total of 332 districts a year from now. Each Mobile Multired terminal consists of computers, linked up by satellite, that process banking transactions and which are operated by the bank's technical staff.

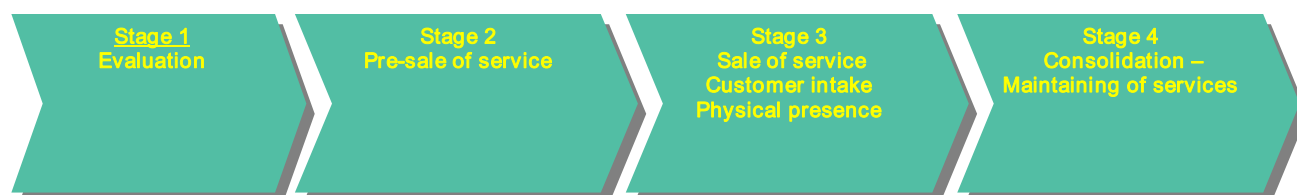
Mobile Multired is defined as the creation of a new service channel that enables Banco de la Nación to fulfill its objective to promote social inclusion, offering its services to the most isolated people in the country whilst generating social and economic profitability.

Objectives

- Promote bank usage by creating a saving culture in the most remote parts of the country, promoting social inclusion in these neglected communities.
- Contribute to national development by providing banking services in the most remote parts of the country, generating social profitability.

- Implement a new service channel offered by Banco de la Nación that enables the provision of banking services in accordance with public demand.
- Allow Financial Entities (IFIs) to issue credit through the new service channel.

Process for promoting banking system in rural zones



- † Economic evaluation
- † Technological evaluation
- † Risk assessment
- † Site evaluation
- † Vetting of suppliers
- † Solution evaluation

- † Promotion of bank image
- † Promotion of BN services
- † Coordination with social and governmental entities
- † Coordination with local authorities
- † Coordination with media

- † Mobile bank
- † Physical presence
- † Gaining loyalty
- † Creation of trust
- † Opening accounts
- † Other BN services
- † Physical presence for 6 to 12 months

- † Selling of services
- † Increase operating capacity
- † Evaluation of continued physical presence of Mobile Bank
- † Evaluation of synergy with other service channels
- † Implementation of new channels

- AFFECTED AREAS**
- † Finance
 - † Risk
 - † Planning and development
 - † Operations
 - † Logistics
 - † IT
 - † Financial services

- † Corporate communication
- † Operations
- † Logistics
- † Branch network

- † Operations
- † Corporate communication
- † Branch network
- † Logistics
- † IT
- † External suppliers
- † Hermes – Prosegur
- † Senior management

- † Operations
- † Corporate communication
- † Branch network
- † Planning
- † IT
- † Senior management

The need to provide services equipped with the same degree of modernity as those in the capital city generated a sense of creativity amongst Banco de la Nación staff. This led not just to families around the country benefitting from the provision of financial services, but also to a positive impact on the self-esteem of their town following confirmation of the arrival of technology that would have a direct impact on their quality of life and reduce the long distances they previously had to travel to reach a bank.

Extending our services to places without any previous banking presence brought about the implementation of the following financial services:

- Opening of accounts, savings deposits and withdrawals
- Bank drafts and transfers
- Payment of duties (Reniec, police, health, etc.)
- Taxes
- Payments Service

This innovative service encouraged the proliferation of banking amongst the more isolated populations in Peru, developing new service channels that can also be utilized as a technological platform by other financial entities: banks, municipal credit unions, agricultural credit unions, Edpymes, etc. At the same time it promoted **social inclusion and economic development** amongst populations who currently benefit from an annual injection of approximately 500m nuevos soles through the *Juntos* program.

At the end of 2008 Banco de la Nación had 415 bank branches in operation, in addition to the 25 Mobile Multired terminals that are set to increase to 332. This signifies a broadening of the network and access to banking right across the country. In this way Mobile Multired helps to fulfill the mission of Banco de la Nación in bringing about economic and financial decentralization in the country and provides services in areas where no form of banking outlet exists.

Banco de la Nación fulfils a supplementary role born mainly from its nationwide presence and its concern for providing banking services to the most remote populations in the country. Following an evaluation of the results of the new Mobile Multired service channel, new customer profiles or target markets that have a demand for the bank's services have been identified:

- Beneficiaries of the *Juntos* program and their families who, thanks to the program, can escape extreme poverty and begin to generate savings.
- Members from the town in which the program's beneficiaries reside who require banking products and/or services (policemen/women, teachers, nurses, doctors, local municipal workers, judiciary, local government, pensioners, local traders etc).

- Traders visiting local fairs.
- Private enterprises that operate in the area.
- IFIs that need to leverage services by utilizing the infrastructure of the Banco de la Nación's Mobile Multired.

MOBILE MULTIRED COMPUTER GRAPHICS

Results as of December 2008

By the close of 2008 Banco de la Nación had gained a physical presence in 25 towns across 11 departments through its Mobile Multired service. The official launch took place in the town of San Ignacio situated in the mountains of La Libertad province. It was there that the Bank tested the effectiveness of Mobile Multired as a new service channel that promotes rural banking.

From this, 30 new savings accounts were added to the customer portfolio and a total of 165 transactions were performed at our two mobile modules. This was cause for a celebration, drawing over 2,500 people including the participation of some of the most senior staff from Estrategia Crecer (Strategy To Grow), Fonafe (state business financing fund), Hermes, the mayors of Sinsicap and the town of San Ignacio. A presentation on Mobile Multired was later given to local and trade press in the boardroom at Banco de la Nación's head office.

Order	DEPARTAMENT	PROVINCE	DISTRICT	PAYMENT POINT	START DATE
1	Áncash	Sihuas	San Juan	C.P. Huachina	Nov-08
2		Yungay	Quillo	Quillo	Nov-08
3	Apurímac	Andahuaylas	Pacucha	Dist. De Pacucha	Oct-08
4		Cotabambas	Haquira	Haquira	Sep-08
5		Andahuaylas	Ocobamba	Ocobamba	Nov-08
6	Ayacucho	Huamanga	Vinchos	Vinchos	Sep-08
7		Cangallo	Chuschi	Chuschi	Dic-08
8		La Mar	San Miguel – Santa Rosa (VRAE)	San Miguel	Dic-08
9	Cajamarca	Cajamarca	Cospan	Cospan	Oct-08
10		San Ignacio	Huarango	Huarango	Oct-08
11		San Ignacio	San José de Lourdes	San José de Lourdes	Sep-08
12		San Ignacio	Puerto Ciruelo	Puerto Ciruelo	Oct-08
13		San Ignacio	Tabaconas	Pachilla	Sep-08
14	Cusco	Paucartambo	Huancarani	Huancarani	Oct-08
15		Quispicanchi, Paucartambo	Ocongate, Ccarhuayo, Paucartambo	Ocongate	Ago-08
16	Huancavelica	Huancavelica	Yauli	Yauli	Dic-08
17		Tayacaja	Acoria (VRAE)	Acoria	Ago-08
18	Huanuco	Huamalies	Chinchao	Chinchao	Ago-08
19	Junín	Concepción	Comas	Comas	Sep-08
20	La Libertad	Otuzco	Sinsicap	San Ignacio de Sinsicap	Jul-08
21		Pataz	Chillia	Chillia	Oct-08
22		Pataz	Parcoy	Parcoy	Dic-08
23	Puno	Carabaya, Sandía, San Antonio de Putina	Crucero, Limbani, Phara, Patambuco	Crucero	Ago-08
24	Piura	Morropón	Yamango	Yamango	Dic-08
25		Ayabaca	Sapillica	Sapillica	Nov-08

As of December 31, 2008, 1,295 new savings accounts had been opened through this new service channel. Likewise, 9,129 banking transactions were carried out, socially benefitting a similar number of people from the 25 towns in which the service was implemented. This meant people did not have to travel for more than six hours (there and back) to the nearest town with a Banco de la Nación branch in order to carry out such banking transactions, cutting the amount of lost working hours and travel expenses.

Other uses of Mobile Multired in 2008

Using the technology described, non-scheduled presentations were made in different towns in September, November and December 2008 on the services offered by Mobile Multired as part of the strategic positioning of Banco de la Nación. For example, the service acted as a fund raising tool during the 2008 Telethon campaign.

Reason	Department	District	Town	Date
Presentation of the service at the III Centrum International Week - Social Responsibility	Lima	Monterrico	Centrum	Sep-08
Presentation of Mobile Multired to central government authorities	Cusco	Yauri	Yauri	Nov-08
Support service at Telethon	Lima	Miraflores	Salazar park	Dec-08
	Lima	San Miguel	San Miguel square	
	La Libertad	Trujillo	Mall Plaza	
	Cajamarca	Cajamarca	Main square	
	Junín	Huancayo	Main square	

Juntos Program

Juntos (Together) is a social program aimed at the most vulnerable populations living in conditions of extreme poverty, risk and exclusion. The program's objective is to promote the exercising of these people's fundamental rights through a service that offers a combined focus on nutrition, health, education and self-identity.

To achieve this objective, *Juntos* issues a conditional financial incentive of S/.100 nuevos soles to the representative (mother or father) of each participative household to be spent at their discretion.

Banco de la Nación, through its payments service, has been responsible for making the payments to all the beneficiaries sponsored by the *Juntos* program from September 2005 to date. To do this it selected the most suitably located offices for this purpose and, as seen in the previous section, also made use of the Mobile Bank with armored vehicles provided by transport companies.

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Shared Counters

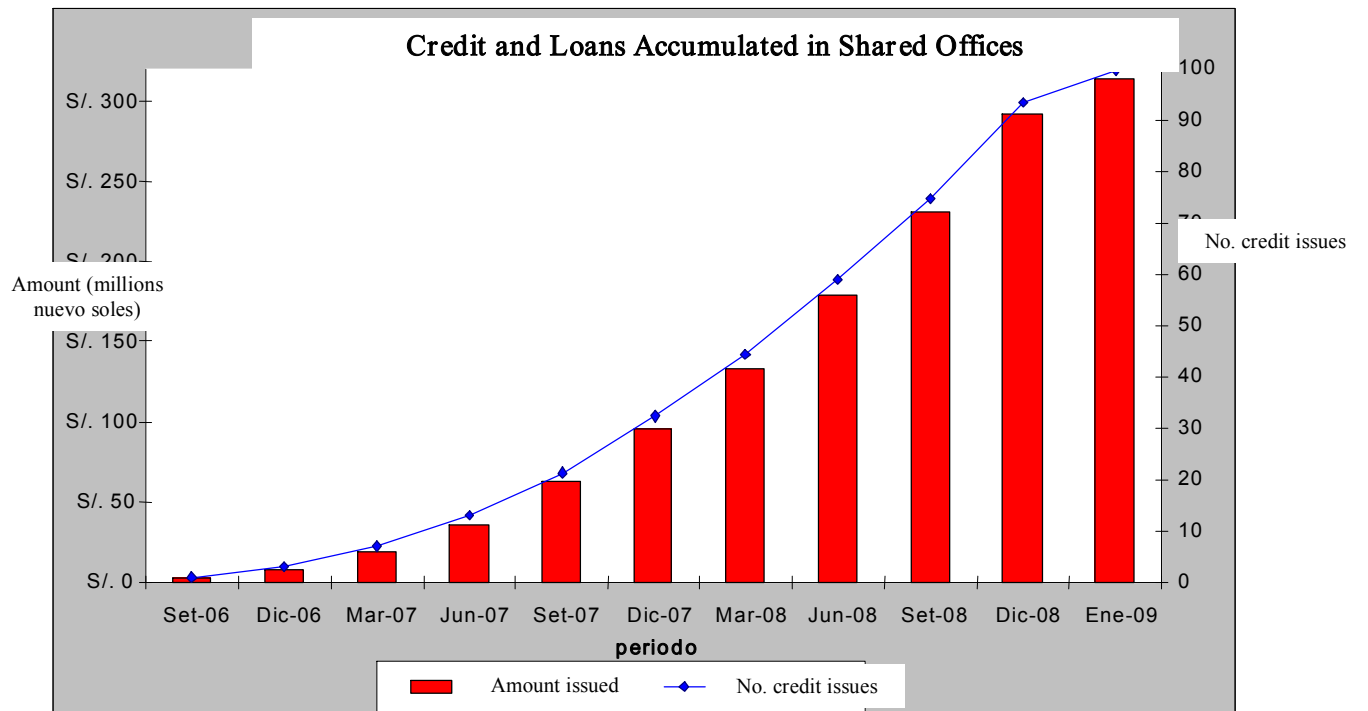
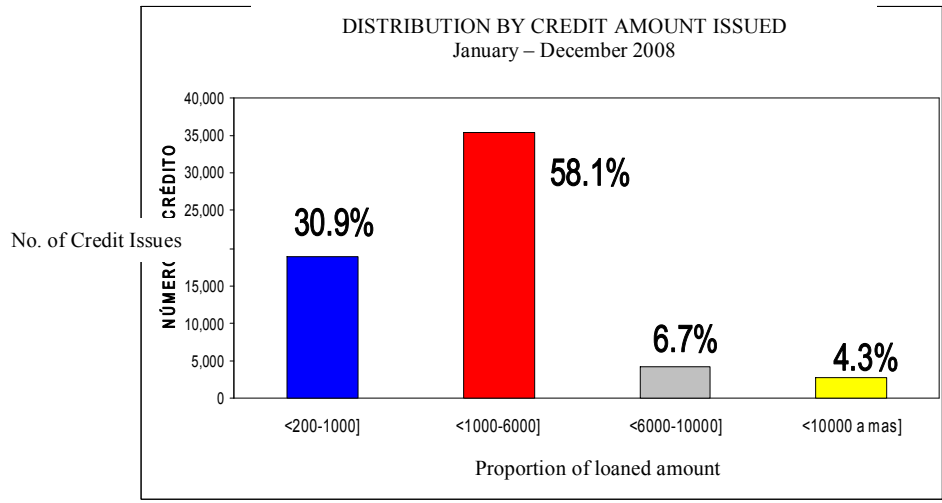
From June 2006 to the end of 2008 Banco de la Nación, in order to contribute to the economic development of the micro enterprise sector, has managed to establish a total of 28 strategic alliances with important financial intermediary institutions (IFIs) including finance houses, Edpymes, municipal and agricultural credit unions.

These institutions specialize in issuing credit to micro and small enterprises (SMEs) at a regional level in order to service the country's most remote towns where Banco de la Nación is the sole banking outlet (UOB) and/or where market demand justifies doing so.

As a result more than 100,000 micro entrepreneurs from the most remote and poorest parts of the country benefitted from a total of more than S/. 315m nuevos soles with an average credit of S/. 3,100 nuevos soles each. The result was the successful distribution of a formal financial product amongst the poorest part of Peru and proves the Bank serves as an important and sustainable access point for micro entrepreneurs in rural areas.

To date the financial service has been delivered to cs in 175 remote towns, the majority of which lacked access to adequate financial services prior to the alliance:

- Acobamba, Churcampa, Lircay and Izcuchaca in Huancavelica.
- Corongo, Chacas, Huallanca and Cabana in Áncash.
- Tambo, San Miguel, Cora Cora and San Francisco in Ayacucho.
- Caballococha, Contamina, Nauta and Yarinacocha in Loreto.
- Iberia in Madre de Dios.
- Desaguadero, Ilave, Juli and Yunguyo in Puno.
- And many more in the northern, central, southern and western parts of Peru where financial services were previously absent.



VI. BANKING OPERATIONS

MANAGEMENT OF ASSETS AND LIABILITIES

A. Balance Sheet

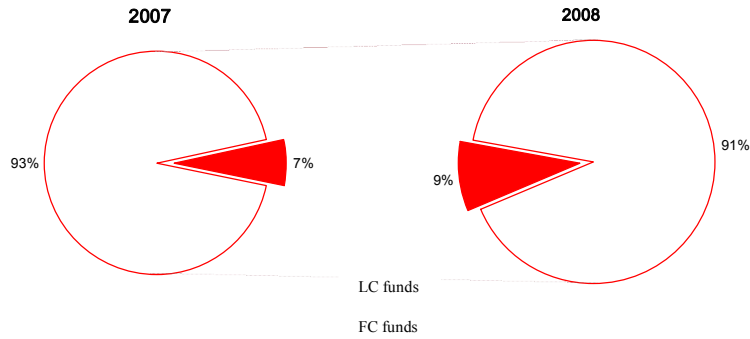
At the close of 2008 assets totaled S/. 19,201m, just 0.1% more than in 2007, resulting from an offset between the increase in net worth and savings in the public sector and UOBs and a reduction in business account deposits linked to the transfer of designated regional and local government funds to the National Treasury Office (DNTP in Spanish) under the framework of the Single Treasury Account (Directive 013-08)

Balance Sheet	2007	2008	Var.
LC Assets	17,925	17,448	-2.7%
FC Assets	1,264	1,753	38.7%
LC Liabilities	17,938	17,480	-2.6%
FC Liabilities	1,251	1,721	37.6%
Total	19,189	19,201	0.1%

LC Liabilities	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08
Checking Account - Others	6,780	6,996	7,232	6,265	6,295
Checking Account Loc & Reg Gvt	4,911	4,680	4,412	4,608	4,031
Savings	1,772	1,814	1,798	1,886	2,011
Contingency Fund	2,281	2,271	2,253	2,230	2,297
Judicial and Administrative Deposits	395	419	425	429	561
Other liabilities (CTS, Plazo UOB)	222	329	311	409	366
Equity	1,577	1,750	1,671	1,761	1,882
Total Liabilities	17,938	18,260	18,102	17,588	17,443

B. "Sol-arization" (Ongoing Conversion into Nuevo Soles"

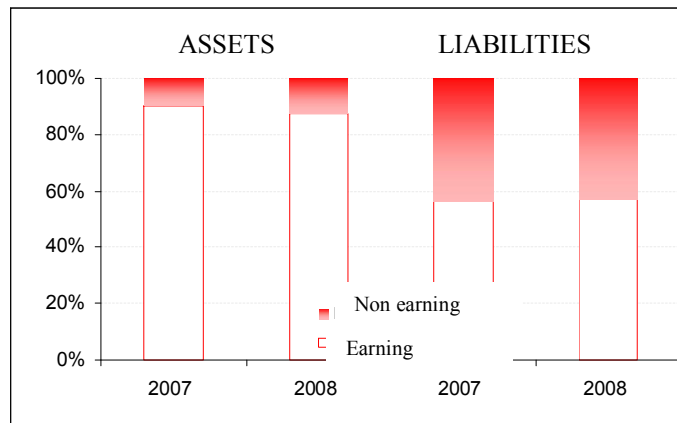
BN holds 90% of its assets and liabilities in local currency, thereby mitigating the risk of exchange rate volatility and keeping with its policy of nuevos soles conversion that began in 2007 with the conversion of more than S/. 2,000m of its assets and liabilities from foreign currency into local currency.



C. Earning Assets and Interest-bearing Liabilities in Local Currency

Local Currency earning assets fell from their 2007 level of 90% to 87% following the application of adjustments made to the raising of the reserve rate instigated by the BCRP to control inflation - a policy that was in force until October.

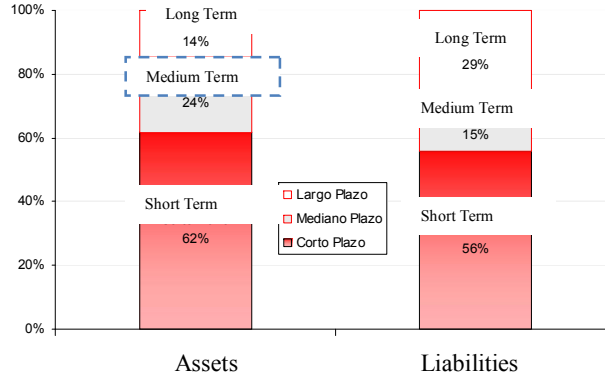
On the other hand the level of interest-bearing liabilities has remained at 57%, a similar level to the previous year.



D. Asset Matching

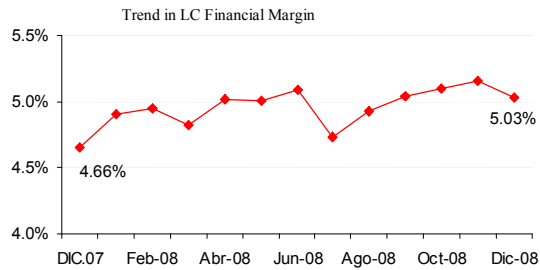
Assets and liabilities have been matched in such a way as to provide sufficient liquidity to serve customers and maintain acceptable financial margins.

Structure of BN by time period: 2008

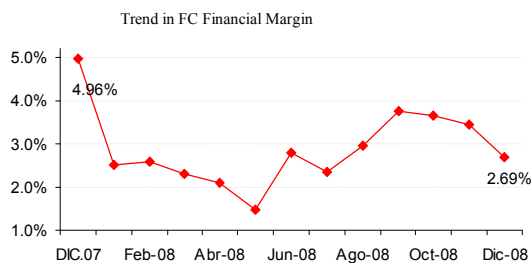


E. Financial Margin

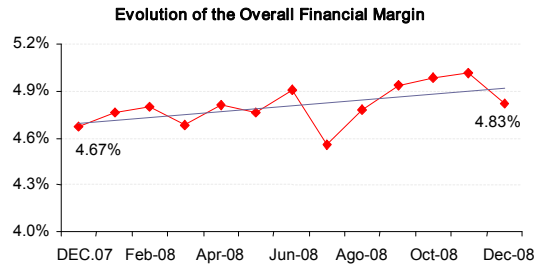
Local Currency financial margin increased from 4.66% to 5.03% in line with market trends due principally to the increase in the base rate as a product of BCRP monetary policy.



Foreign currency fell (from 4.965% to 2.69%) as a consequence of a drop in the LIBOR for US\$.



Even so, over the year the overall financial margin of the Bank followed an upward trend due to the greater relative weight of its LC funds.



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CREDIT OPERATIONS

Extract 1:

Banco de la Nación: principal financial support of the Peruvian government.

Extract 2:

Our main objective is to deliver customer satisfaction and meet their requirements efficiently.

Extract 3:

We are a services bank, the biggest, most creative and most efficient.

During 2008 credit activity focused on two central objectives: (1) to deliver customer satisfaction and (2) to be a services bank. As a result, in order to deliver a better service and to manage customer relations efficiently, Banco de la Nación decided to target newly defined and structured areas that fit the type of customer and the products they require. This gave rise to the following classification:

1. Services Banking

Aimed at serving microfinance institutions and banks in the sector, offering them financing as well as complementary services such as correspondence banking or shared branches.

2. Central Government Banking

To provide a service to government institutions, providing necessary support for structuring complex debt and financing activities.

3. Sub-national Government Banking

Aimed at serving the needs of local and regional governments.

4. Private Banking

Responsible for managing the largest number of our customers including Multired loans, our main product with over 600,000 customers.

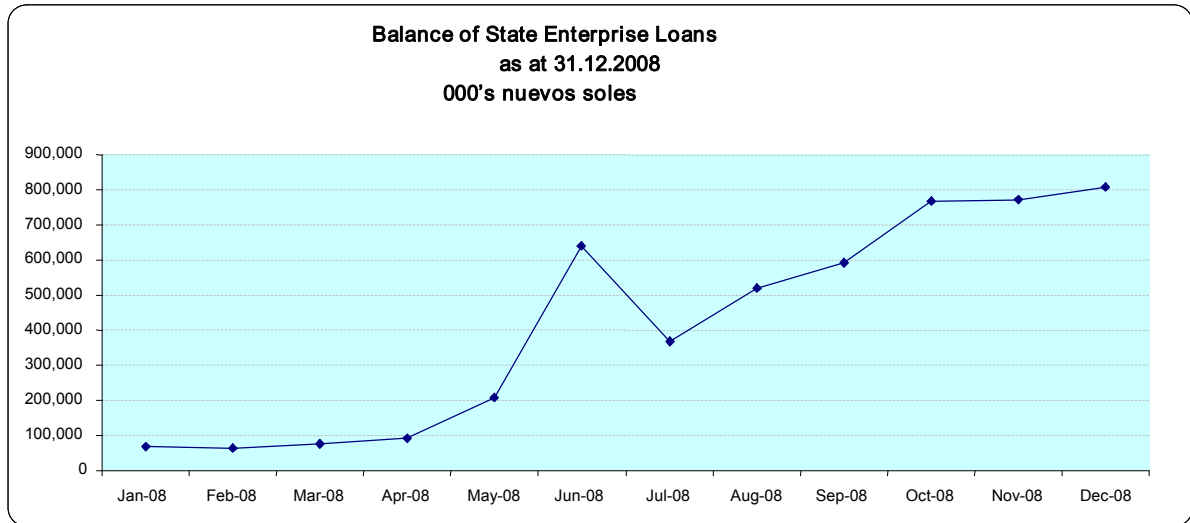
State Entities and Sub-National Governments

In 2008 Banco de la Nación became the major financial agent used by state entities, delivering a high quality, specialized service and undertaking structured and strategic financial transactions for the state. The main financing operations carried out in the last year were as follows:

With institutions and state enterprises:

- PetroPerú S.A.: US\$ 185m, responsible for creating the peaks (June and October) witnessed during the year.
- Cofide S.A.: S/. 300m
- SIMA S.A.: US\$ 6.5m
- MEF – Ministry of Defense: S/. 1,350m

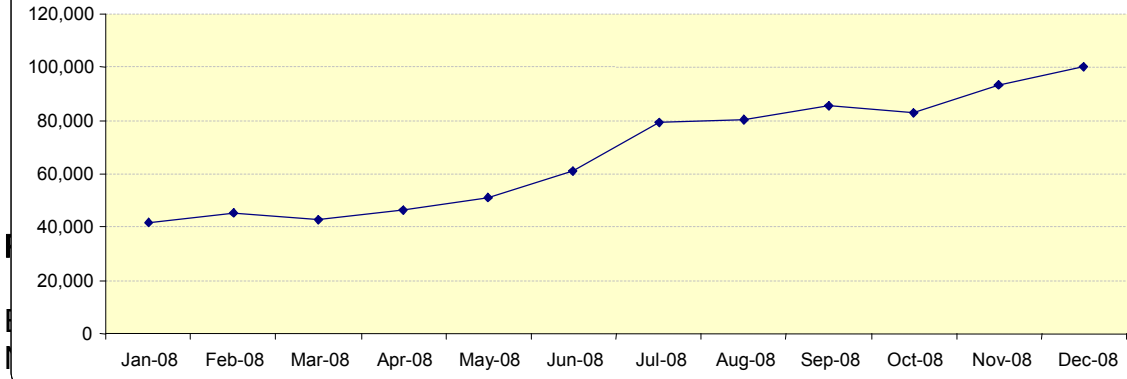
- National University of Engineering: S/. 21m
- Peruvian Air Force: S/. 60m,
- Peruvian Navy: S/. 70m; and
- Peruvian Army: S/. 5m.



For local governments, comprising of provincial and district governments, we have:

- District municipality of Carmen de la Legua S/. 7.5m
- District municipality of Carabayllo S/. 3.4m
- District municipality of Pangoa S/. 3.3m
- District municipality of Belén S/. 3.1m
- Provincial municipality of Acobamba S/. 3m, etc.

**Balance of Local Government Loans
as of 31.12.2008
000's nuevos soles**



Multired Loans

Extract 1:

The Multired Loans program enables public sector workers and pensioners nationwide to access bank credit.

Extract 2:

We offer credit at preferential rates, with no guarantees, a 4 month grace period and repayment period of up to 48 months.

Multired Loans represent the main product offered by the private banking arm of Banco de la Nación. The product dates back to 2001 and has consolidated itself as an effective alternative financing mechanism. The Multired Loans program provides access to bank credit for public sector workers and pensioners nationwide and whose pensions are paid into their BN savings account

Since 2007 Banco de la Nación has begun signing inter-institutional collaboration agreements with public entities that enable current and former employees of such organizations to access loans offering more flexible repayment plans, lower interest rates and with less stringent conditions.

Type of agreement	Number of loans issued	Amount issued S/.	Amount disbursed S/.	Number of outstanding loans	Outstanding balance S/.
Classic	44,017	163,160,033	134,078,749	176,133	317,228,753
Master	31,444	130,493,255	119,501,260	178,599	573,350,444
Police	13,985	89,816,149	72,705,549	74,574	374,141,644
BN	1,068	9,999,997	7,472,146	4,307	33,002,836
ONP	43,295	112,093,366	96,893,719	129,104	295,947,779
Office of the President	11	83,217	82,857	82	422,846
Air Force	2,378	10,751,239	9,331,638	6,144	24,995,787
Health Ministry	10,068	66,777,011	55,649,336	28,321	173,876,626
Congress	63	482,397	448,614	192	1,344,471
National Institute for Radio & TV (IRTP)	9	71,128	71,128	59	293,234
Judiciary	2,108	15,544,046	13,194,433	4,179	27,531,573
Laptop <i>Maestros</i>	33,846	62,404,198	62,404,198	34,255	53,910,036
Navy	5,475	23,216,421	18,451,495	5,253	21,112,915
Universities	2,586	17,365,750	14,132,718	2,527	16,582,608
Reconstruction	510	1,574,858	1,574,858	510	1,574,858
Regional Governments	186	995,381	729,573	186	995,381
Ministries	82	577,732	473,094	82	577,732
Army	1,642	5,964,571	4,813,520	1,631	5,910,642

Total	192,773	711,370,749	612,008,885	646,138	1,922,800,168
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Insurance Banking

To offer greater peace of mind to its customers, in 2008 Banco de la Nación decided to enter the insurance banking sector. In the middle of 2008 BN, in partnership with the insurance brokers Cardif, La Positiva and Willis, released an innovative, low-priced insurance product onto the market.

The new micro-insurance policies can be purchased in offices within the BN national network and cover eventualities such as temporary disability from an illness and/or accident, forced redundancy, loss or theft of property, and even personal injury, depending on the case.

The most senior managers of the entities involved were brought together for the official launch: Benjamín Quijandría, Managing Director of Cardif (insurance); Gustavo Cerdeña, Corporate Manager of La Positiva (insurance and re-insurance); and Jaime Herrera Caballero, Chief Operating Officer of Willis (insurance brokers).

In order to secure the winning of new insurance business and its safe operation, Banco de la Nación contracted Willis insurance brokers, an enterprise that works with 80% of the banks and who understands which products have been successful. For Jaime Herrera Caballero, Willis CEO, the intention is to bring out additional products involving the SOAT (Compulsory Road Accident Insurance) and another covering serious illnesses.

Two policies are currently offered:

- Debit card protection insurance: protects the customer's savings against fraud, scams or embezzlement committed by third parties making illicit use of the debit card. The product was launched in October 2008, registering 3,410 customers by December of the same year.
- Loan protection insurance for Multired loans as a result of temporary disability or forced redundancy. This form of insurance covers up to four payments in the case of temporary disability or forced redundancy, as well as accident hospitalization. The product was launched in October 2008, registering 1,186 customers by December of the same year.

Projects for the coming years

With the objective to continue offering customers alternative financing solutions aimed at satisfying their needs, Banco de la Nación plans to launch two programs. The first consists of NGV (Natural Vehicle Gas) Multired loans for the conversion of vehicles to a petrol-NGV dual system, and the second

consists of mortgages that facilitate homeownership (or the refurbishment and extension of an existing home).

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Partnerships with Specialist Microfinance Institutions in support of SMEs.

Extract 1:

Banco de la Nación, in partnership with financial intermediary institutions, issued loans to over 100,000 micro entrepreneurs.

Extract 2:

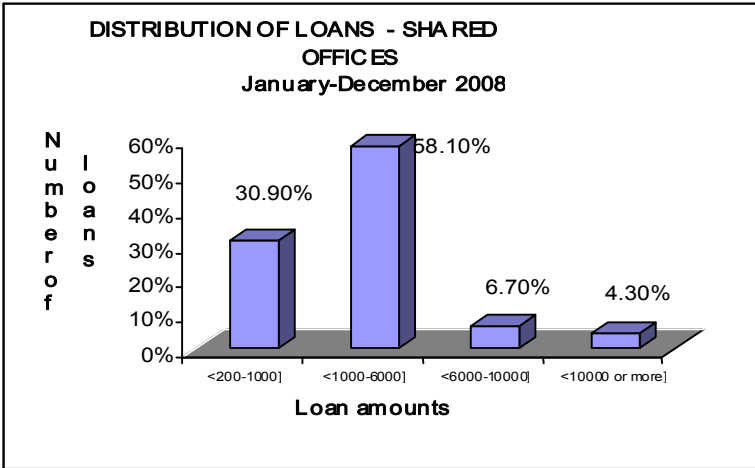
It is now easier to access credit. Banco de la Nación and the IFIs are here for you when you need us.

Banco de la Nación has forged strategic alliances with important Financial Intermediary Institutions specialized in serving micro entrepreneurs and contributing to economic development and social inclusion particularly in areas or market segments where formal financial services are absent.

With this objective, and in line with supreme decree 047-2006-EF, Banco de la Nación reached 16 agreements between June 2006 to December 2008 over the use of shared offices with finance houses, Edpymes, and municipal and agricultural credit unions. 169 shared offices were established by the close of the financial period, mostly located in the most isolated parts of the country such as Cabalococha, Desaguadero, Suyo, Huancabamba, Chacas, Churcampa and others where Banco de la Nación operates as the sole banking outlet .

Banco de la Nación also acts as a second-tier bank through the Special Program of Financial Support for Small and Micro Enterprise, or PROMPYME, protected by supreme decree 134-2006-EF, providing financial assistance to IFIs via credit lines.

At the close of the 2008 period the bank, in partnership with the IFIs, were able to benefit 121,676 micro entrepreneurs from the most isolated and poorest parts of the country. More than S/.383m nuevos soles was issued in credit at an average amount of S/.3,148 nuevos soles, with S/.150m of the total corresponding to financing issued by Banco de la Nación to the IFIs.



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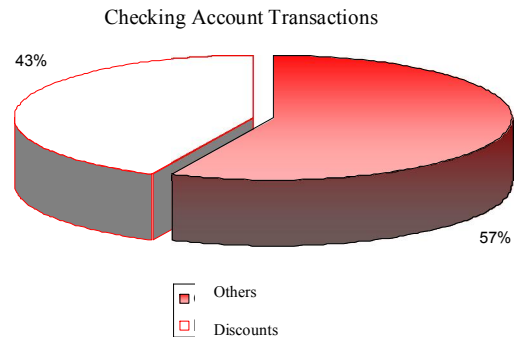
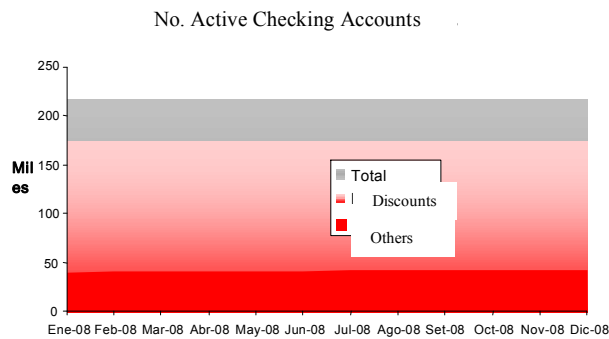
MANAGEMENT OF DEPOSIT-TAKING SERVICE

Banco de la Nación, as part of its aim to incorporate people with limited access to financial services into the banking system and in order to provide UOB salary accounts and savings accounts, this year launched its new service the UOB Time Deposit Account which has been well received by the public.

a. Checking Account Service

...14.4m transactions with growth of 10.9% since 2007, totaling 216,000 accounts.

...99.8% in local currency and 53.6% in provinces, showing we are focused on becoming a bank that serves the country. It is worth noting that 80% corresponds to the sector for discounts (taxes and duties).



Decentralization of the Issuance of Checking Account Statements for Other Periods via the Institution's Intranet.

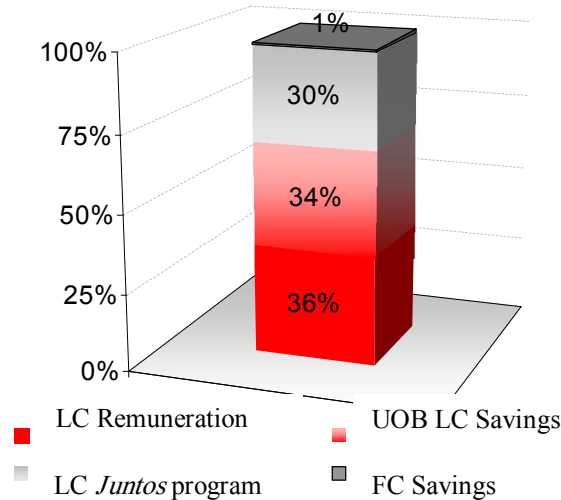
The new system for issuing checking account statements for other periods used the institution's intranet as a way of decentralizing the service nationwide. It permits access to customers' transaction history, adhering to the necessary parameters for data protection, and reducing customer waiting time.

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b. Savings Accounts

296,271 new savings accounts were opened making a total of 2.9m, 11% more than in 2007. A total of 250m transactions were performed, split between deposits and withdrawals.

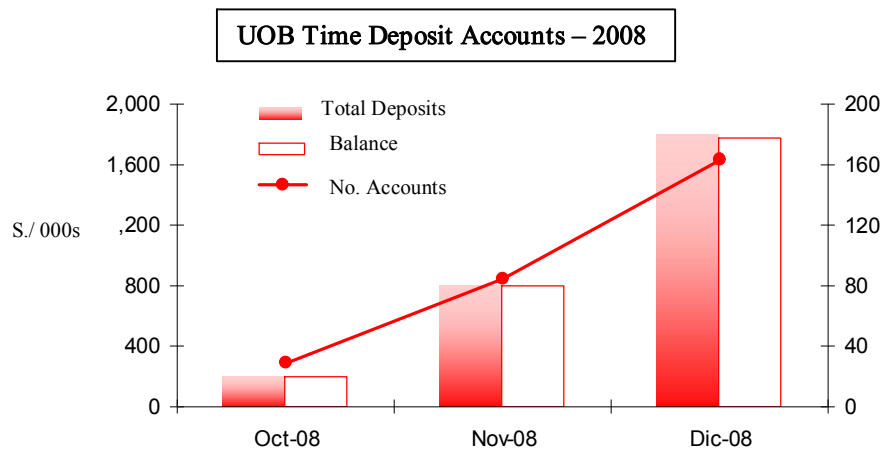
New Accounts by Product Type



c. Time Deposits Service in UOB Branches

This is a new product that quadruples the profitability of our savings account product with the same level of security and cover. It targets private sector customers in UOB branches and aims to promote bank usage and social inclusion in the most isolated parts of the country.

This product was launched in 2008 and in less than three months 176 customers had deposited a total of S/. 1'802,437 nuevos soles. At December 31 there were 163 active time deposit accounts holding a total of S/. 1'782,137 nuevos soles.



NON-FINANCIAL SERVICES MANAGEMENT

Extract 1:

Banco de la Nación has become an important player in the market for trust transactions.

Extract 2:

Regional and local governments and various public institutions now consider trust transactions as beneficial to the execution of their projects.

a. Trusts and Commissions of a Trustee

Following the development of trusts as a financial instrument across the Latin American market, Banco de la Nación has established itself over 2008 as an important player in the market. This is particularly true in the case of public entities, to whom it has delivered a quality, specialized service performing structured and strategic trust transactions. For 2009 we have been charged by the state to administer the following trust assets:

➤ Trust for National Defense Budget:

Designed to guarantee financing issued by the Ministry of Economy and Finance to the National Defense Budget (Fodena in Spanish).

➤ Trust between the municipality of La Victoria and Banco de la Nación:

Designed to guarantee financing for the projects “Improvement and making operational of San Cristobal street – La Alameda del Deporte” and “Improvement and rehabilitation of the roads and pavements of Mexico and 28 de Julio avenues and Parinacochas street”.

➤ Trust for the sanitation service provider Loreto S.A.:

Manage payments related to the external credit agreement between the Ministry of Economy and Finance and the Japan Bank for International Cooperation (JBIC) for financing the project to “Improve and expand the provision of potable water and sewer system in Iquitos”.

➤ Trusts between the Ministry of Economy and Finance, the Ministry for the Home, Construction and Sanitation, and sanitation service providers:

Structured to assist with the financing of the Rapid Impact Measures program no. 1 run by the Ministry for the Home, Construction and Sanitation directed towards the execution of infrastructure projects that improve the quality and

efficiency of potable water services and sewer systems in the departments of Ancash, Huánuco, Junín, Lima Norte, Lima Sur, Moquegua and San Martín, for more than 650,000 beneficiaries.

- Trust for the municipal sanitation service provider – Provincias Alto Andinas S.A.:

To facilitate the management of repayments related to the external credit agreement between the Ministry of Economy and Finance and the Japan Bank for International Cooperation (JBIC) for financing the project to “Improve and expand the provision of potable water, sewer system and wastewater treatment plant in Sicuani”.

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b. Collection Service

Extract 1:

Other banks in the financial sector use the Banco de la Nación platform in order that their customers can perform transactions in areas where we are the sole banking outlet.

Extract 2:

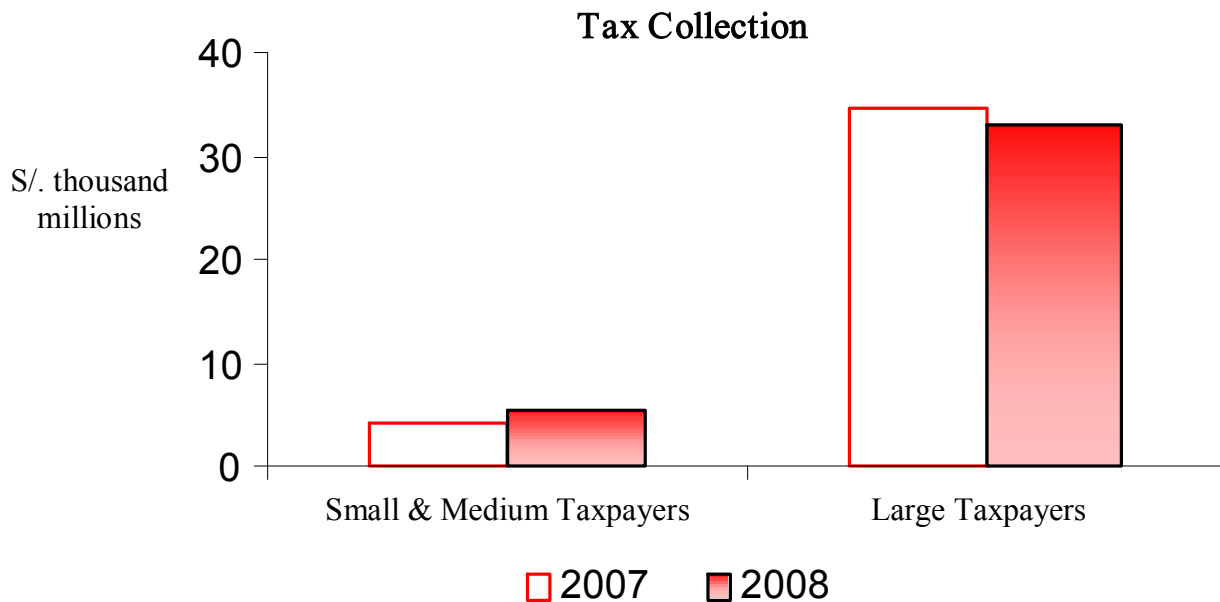
The correspondence banking service grew 20.5% compared with 2007 recording over 18m transactions.

The bank's services are also made available to various entities and commercial banks in order that their customers can honor payment obligations such as taxes, fees and duties, the filing of invoices or deposits in places where there is no presence from private banks and where Banco de la Nación serves as the banking platform for the entire financial system.

This last year the new Multifleet service was offered, whereby public institutions benefit from a more transparent process for the payment of fuel for their vehicles.

➤ Tax collection

S/. 5,582m was collected in tax from small and medium category taxpayers and S/. 32,928 from large category contributors.



➤ **Fee and Duty Collection Service**

In 2008 the Bank processed 18.2m transactions generated by the collection of fees, duties and other concepts arising from TUPAs (Unified Text of Administrative Procedures) at public entities. This figure represented a 14.2% increase on the previous year.

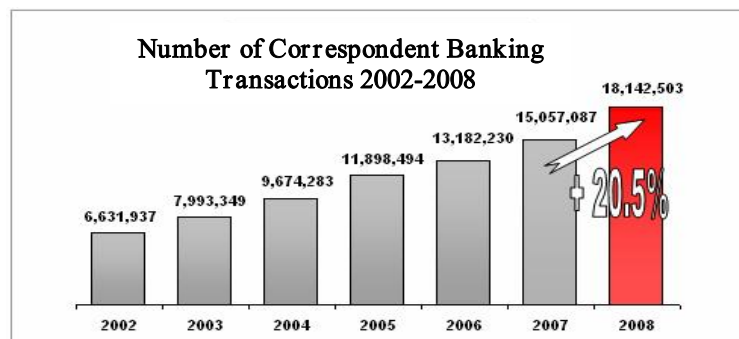
The amount totaled S/. 668,8m, 14.3% higher than the 2007 level.

Entities	Amount		Volume	
	2007	2008	2007	2008
Electoral System (Reniec)	13.58%	14.48%	22.53%	24.82%
Judiciary	15.56%	15.38%	28.70%	29.16%
Navy – Defense Ministry	19.02%	13.39%	0.72%	0.55%
Ministry of Interior	7.02%	6.78%	12.94%	11.74%
Universities and Colleges	4.70%	6.07%	1.51%	1.78%
Ministry of Agriculture	4.92%	4.45%	0.14%	0.14%
Ministry of Transport	6.80%	7.35%	4.75%	4.15%
Other Entities	28.40%	32.10%	28.70%	27.66%
Total (S/./000m)	585.46	668.85	18.23	20.81

➤ **Correspondent Banking Service**

Three new financial entities were incorporated in 2008: Edpyme Solidaridad, Edpyme Pro Negocios and Edpyme Crear Arequipa, along with new clients from Scotiabank, BBVA, Interbank, BIF and Citibank.

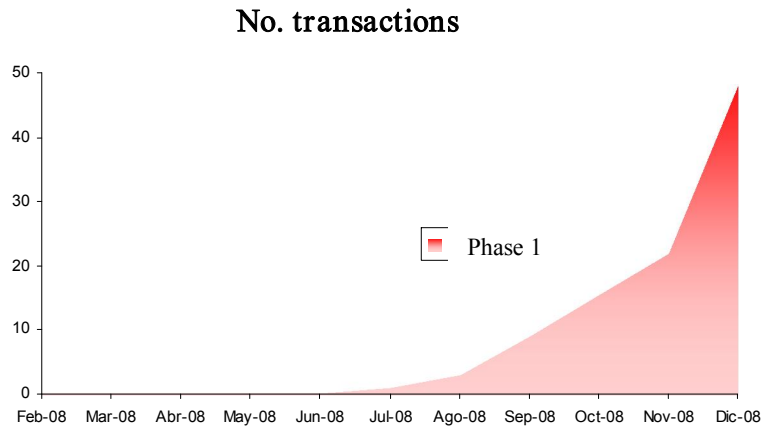
18'142,503 correspondent banking transactions were processed equating to a 20.5% increase on 2007 and representing a total of S/. S/. 7,887'198,290 and US\$ 141'315,249.



➤ **Multifleet Service**

The Multifleet service acts as a genuine tool for monitoring and controlling the supply of fuel designated to public and private sector vehicles, making the administration of the process more transparent for the entities concerned.

It began in the form of a pilot project in February 2008 and finished the year with a total of 2,600 registered vehicles and a monthly average of 48,000 transactions.



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c. Other International Banking Services

➤ International transactions

16,105 international transactions representing US\$6,869m were performed, such as: payment of US\$ 3,705m of external debt, US\$ 673m in import letters of credit, international money transfer services and channeling of payments in exchange for foreign goods and services, totaling US\$373m and US\$281m respectively.

➤ International remittances

A total of 13,675 remittances via Money Gram were sent in the 2008 financial year, equating to US\$ 4'824,551.62, and a total of 109,215 remittances were received, equating to US\$ 41'423,011.

Of the total paid, 46.94% corresponded to Lima and the remainder to the provinces, as can be seen in the following table.

TABLE N° 13

TRANSFER OF REMITTANCES VIA MONEYGRAM 2008				
Origin	SENT		RECEIVED	
	Transactions	Amount (US\$)	Transactions	Amount (US\$)
Lima	5,418	2'257,200.44	44,423	19'486,553.87
Provinces	8,257	2'567,351.18	64,792	21'936,457.94
Total	13,675	4'824,551.62	109,215	41',423,011.81

VII. COMPREHENSIVE RISK MANAGEMENT

Extract 1:

We build a risk-awareness culture through training events that include contributions from national and international consultants.

Extract 2:

By the end of 2008 the Banco de la Nación loans portfolio increased by 28% from 2007, principally due to growth in commercial loans.

Comprehensive risk management in Banco de la Nación is the responsibility of the risk department and the risk committee. Their role is to establish an optimum risk management culture within the bank, giving rise to actions that contribute efficiently to the inherent objectives of this area and enable the meeting of the institution's strategic objectives.

In this context and as part of the organic restructuring of the bank, three further divisions were incorporated into the operational, financial and credit risk divisions: information protection, credit portfolio analysis, and Customer Assistance Office.

The main achievements of the risk team with regard to improving the management of risk within Banco de la Nación are described below.

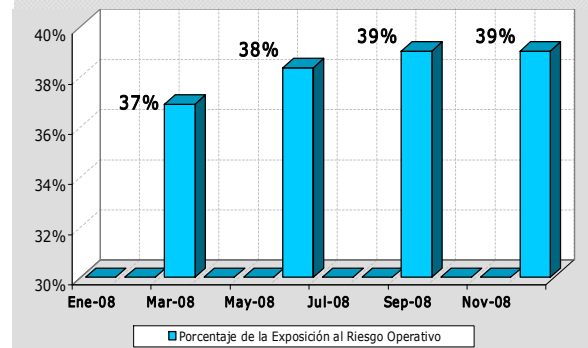
Operational Risk

In managing operational risk, work has been carried out across all areas to cover the potential outcomes of risk associated with processes, people, technology, as well as external risk. Practices and methodologies have been adopted that promote the identification, evaluation, control and mitigation of operational risk. Work has also been done on aspects of the business continuity plan across the whole organization, involving all areas in the management of risk.

➤ Efficient Operational Risk Management

In 2008 the Bank embarked on a process to adapt to the norms issued by the Superintendency of Banking, Insurance and Private Pension Funds (SBS in Spanish) concerning risk management. At the same time it has taken on new products and services that cause increased exposure to operational risk. This has provoked the adoption of necessary controls and as a result the implementation of various plans that help to mitigate known risk. Likewise the Bank has persisted in building a risk culture through training events that include contributions from national and international consultants.

Percentage of Exposure to Operational Risk



➤ Business Continuity

By the end of 2008 the Bank reached a 100% success rate in business continuity testing, demonstrating the ability of the branches to continue operating regardless of external change or influence.

An external consultant was hired to as part of the process, resulting in the drawing up of a business impact analysis (BIA) to identify business needs and generate data for the design of suitable continuity strategies applicable to both technological aspects and specific businesses.

In addition, development of the business continuity system was completed and this will help provide relevant information for dealing with unexpected situations.

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Financial Risks

By the close of 2008 improvements had been made to methodologies to better identify and evaluate financial risk under the framework for the regulation and application of international standards. The following were the most significant:

➤ Optimization of the Internal Approach for Measuring Interest Rate Risk

Modifications were made to the internal approach for measuring interest rate risk following recommendations made by an independent consultant. The intention was to obtain a more precise estimate for the level of interest rate risk to which the Bank is exposed.

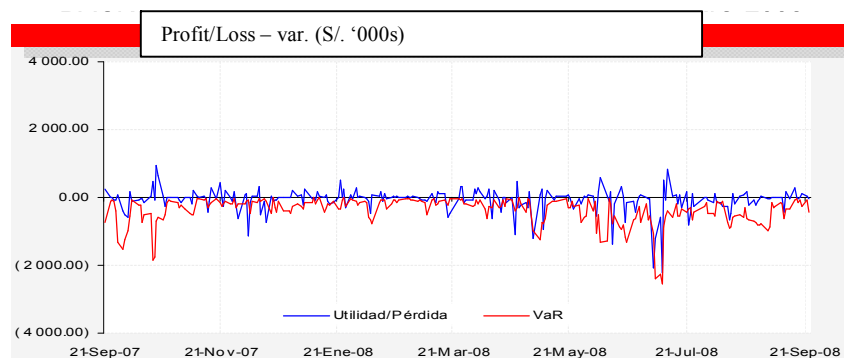
➤ Maximum Exposure and Operating Limit Indicators

The Bank performs transactions in various currencies. As part of financial risk management, foreign exchange transactions were subjected to a range of limits and maximum permitted losses set in order to optimize performance and results.

➤ Backtesting of Internal Approach for Measuring Foreign Exchange Risk

Backtesting was carried out of the internal approach for measuring foreign exchange risk, providing a statistical comparison between the prediction capacity of the levels of estimated losses against real outcomes.

BACKTESTING OF MODEL FOR FOREIGN EXCHANGE RISK 2008



➤ Asset and Liability Durations Model

The asset and liability durations model was implemented in order to gain a more precise measurement of interest rate risk through an analysis of maturity gaps between the bank's assets and liabilities.

Credit Risk

Credit risk management sets out to identify and measure the chances of incurring losses resulting from credit default by the bank's customers. It involves evaluation methodologies based on customer type, the proposal of a set course of action and the following-up of the respective case on an ongoing basis, using detailed reports and recognition of warning signs. The process is incorporated into the policies set by senior management and existing regulation.

➤ **Evaluation of Credit Operations**

An evaluation was made of operations relating to approximately S/.3,000m of credit issued to national government and sub-national government entities and microfinance institutions (IFIs) that accounted for a 378% increase in the commercial credit portfolio.

Internal models were used in the evaluation of the IFIs in order to determine the level of risk and to set limits to the bank's exposure. It should be noted that the methodology was improved during 2008 in order to determine pre-set limits for each entity more accurately. This helped to facilitate the issuing of loans to the sector and by consequence to the SMEs.

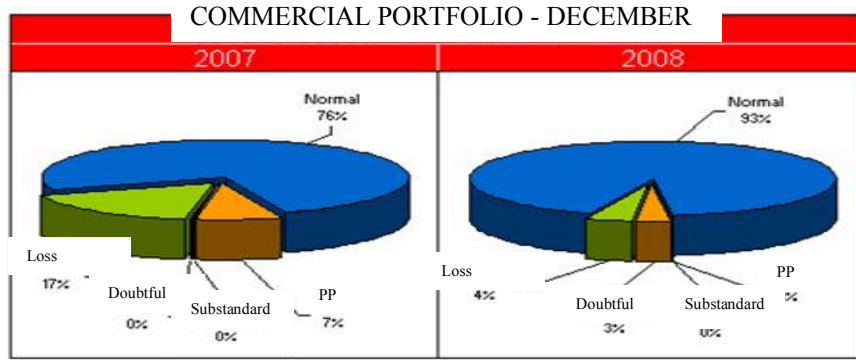
➤ **Follow-up**

The preparation of various reports helped to improve monitoring activity. In the case of the consumer portfolio, the generation of both internal and external data has been automated. Reports have also been prepared on "**Credit Follow-up and Detection of Early Warning Signs**", where possible causes of delinquency are evaluated, clients with default risk identified, and portfolios that carry a risk of debt overhang also identified. An analysis of yields has also been incorporated as part of the improvements in methodology.

In monitoring the commercial portfolio, an evaluation was made of critical indicators and relevant information attributable to each institution. Preventative measures for adoption were established, including the suspension or reduction of exposure limits, amongst others.

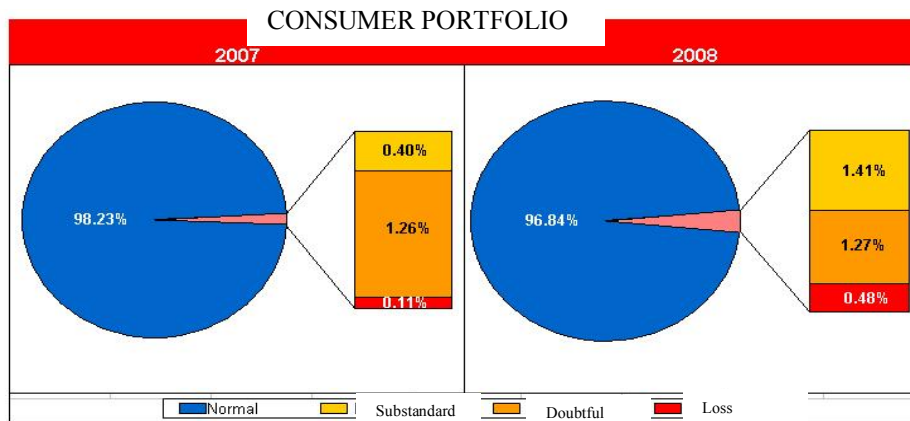
➤ **Portfolio Performance**

By the end of 2008 the loans portfolio of Banco de la Nación had increased 28% from its December 2007 level, due in large part to growth in the commercial loans portfolio.



Source: Annex 5 – Portfolio Classification

The consumer portfolio on the other hand fell by 266m nuevos soles (-12%) as a result of the repayment of Multired Classic loans and Multired Promotional loans.



Source: Annex 5 – Portfolio Classification

The consumer portfolio showed a slight increase in the categories for higher and normal risk, due mainly to the client's credit history with other areas of the financial system rather than any arrears with the bank.

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Data Protection

Extract 1:

The protection of your data is important to us. This is why we engage in the ongoing implementation of technology to manage protection.

The protection of data and systems is vital in every financial institution and even more so when concerning the access, use, dissemination, interception and unauthorized destruction of such information.

In this field the data protection management at the Bank has programs, controls and policies in place covering the entire institution aimed at protecting the confidentiality, integrity and availability of information. Likewise, programs have been run that test for weaknesses across the various technological platforms and strengthen the existing security infrastructure at Banco de la Nación.

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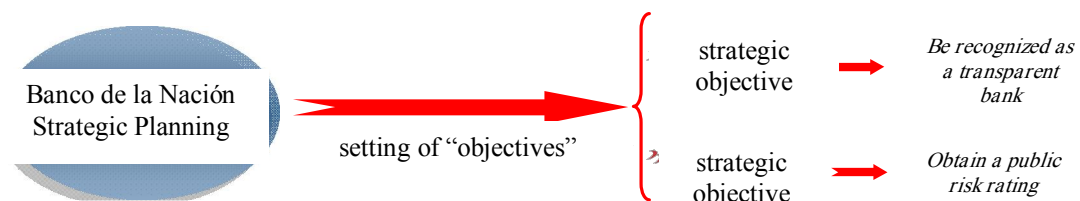
OTHER IMPORTANT AREAS OF RISK MANAGEMENT

Extract 1:

Equilibrium and Apoyo & Asociados Internacionales awarded A and A- ratings respectively to Banco de la Nación in light of its financial solvency and extensive nationwide presence.

a. Banco de la Nación Public Risk Rating

As part of one of its strategic objectives to create greater administrative transparency, Banco de la Nación acquired a public risk rating, in contrast to the private risk rating obtained the previous year. Consequently, following a public tender, two risk classifications were undertaken by the risk assessment companies **Equilibrium** and **Apoyo & Asociados**.



Equilibrium and Apoyo & Asociados Internacionales awarded A and A- ratings respectively to Banco de la Nación in light of its financial solvency and extensive nationwide presence amongst other characteristics. These attributes formed part of the base criteria of the rating agencies.

ENTITY	RATING	CATEGORY DEFINITION
Equilibrium	A	The entity possesses a solid financial and economic base and its capacity to meet its financial commitments within the set terms and time periods is extremely strong.
Apoyo & Asociados	A -	Indicates a strong capacity to meet financial commitments punctually, reflecting low credit risk.

b. Implementation of Basel II

The new Basel II Accord introduces a new standard with regard to operational risk, as well as changes to the calculation of credit and market risk. Within this framework the Bank has been working to adapt to Basel II. As part of this process the Bank took part in the Quantitative Impact Study II, in which SBS established the incorporation of principles set out in the New Capital Accord,

adapting them to the realities of the Peruvian financial system with regard to the calculation of minimum capital requirement.

A program has been set for compliance with Basel II, falling within the time limits set by SBS. It follows the basic indicator approach for measuring operational risk and the standardized approach for market risk and first stage measurement of credit risk. In the medium term the Bank is preparing to incorporate more advanced methodologies for measuring minimum capital requirements for credit and operating risk. Likewise, for market risk it plans to present the regulator with internal approaches for measuring interest rate and foreign exchange risks along with those it already has in place. This will only take place after they have all been subjected to approval by external consultants, including backtesting of the foreign exchange risk approach carried out by the Bank itself.

c. Comprehensive Risk Management

Banco de la Nación believes comprehensive risk management represents not only a commitment it must uphold, but that its implementation goes beyond the management dynamic and represents a competitive advantage that is compliant with our growth and stability strategy. It can be created by applying analytical techniques and risk management across all areas of the institution, involving them in the tackling of risk inherent in their respective fields of activity.

The risk department remains ultimately responsible for maintaining the risk profile assumed by the entity. 2008 has seen the structuring of processes aimed at increasing the involvement of different areas in risk management in order to come into line with requirements set by the Superintendency of Banking, Insurance and Private Pension Funds and at the same time to contribute to the meeting of objectives outlined by senior management.

d. Banco de la Nación and the International Financial Crisis

The final part of 2008 saw a worsening of the global financial crisis. Its origins lay with the mortgage crisis experienced by the United States, leading to the bankruptcy of various of its investment banks and impacting on the global financial sector at the same time.

For the financial sector in Peru, the international financial crisis led to an increase in the volatility of certain financial variables such as exchange rates and interest rates, and the domestic market suffered from more restrictive sources of external financing.

As a result of the current structuring of the Banco de la Nación balance sheet, the risks made prevalent by such economic circumstances take the form of (i) foreign exchange risk – this is well controlled, with the net global position,

calculated as the difference between assets and liabilities in foreign currency, showing practically zero exposure; and (ii) interest rate risk – based on the terms of items on the balance sheet, this shows a minimal degree of exposure. Similarly the Bank shows a relatively low degree of leverage, explained by its current volume of loans as well as the concentration of sovereign risk.

Similarly, the Bank placed emphasis on liquidity levels, maintaining high liquidity ratios in both national and foreign currency that were well above minimum levels set by regulation applicable to all multiple banking institutions.

In addition, ongoing real-time monitoring of the international financial crisis has been carried out via specialized information platforms. This has enabled senior management to remain periodically informed of how the crisis is unraveling, helping them make instant decisions in response to any adverse conditions experienced by international markets.

As a result the Bank adopted certain measures to minimize its exposure with regard to foreign banks, significantly reducing the average balance of foreign holdings in the final quarter of 2008.

Equally, in light of the development of the financial crisis and its potential effect on the local market, the Bank took actions to mitigate possible impacts on its credit portfolio, such as:

- Specific monitoring of credit portfolio and evaluation of sectors in which clients of the portfolio operate, in order to stay informed of the potential consequences generated by the crisis.
- Actions taken by clients in the commercial portfolio in response to the crisis were incorporated as part of the process for evaluating the portfolio.
- Incorporation of stress analyses carried out on the potential impact of the crisis on sectors served by the bank. An example being sub-national government loans, for which stress analyses were carried out on the main sources of loan repayment channeled through BN (Foncomun¹ and Canon²). Such analyses are also performed on microfinance institutions and on the consumer portfolio.
- As part of the actions to monitor microfinance institutions, prudent measures were taken in the final quarter of 2008 with regard to the maximum exposure levels of these entities.

¹ Foncomun: Municipal Compensation Fund: funds (part of VAT revenue) issued by Ministry of Economy and Finance (MEF) to local and regional governments.

² Canon: Royalty revenue from exploitation of natural resources areas under subnational government jurisdiction.

VIII. QUALITY CONTROL

Extract 1:

Banco de la Nación takes a decisive step forwards and places emphasis on the good practices of organizations around the world with regard to the management of processes.

ISO 9001:2000 certification of the process for the “Multired VISA Debit Card Administration System”

Banco de la Nación hosts an average of over 17m transactions per month, making it necessary to implement quality management systems that improve the processes and services offered to customers and ensure the Bank remains competitive within the national and international banking sector.

There are 1'800,000 global Multired debit cards that are actively affiliated to VISA, generated upon the opening of savings accounts nationwide. Over 11m transactions covering the withdrawal and deposit of savings are carried with these cards either inside the branch or via cash machines, representing 64% of the total number of monthly transactions at the bank.

The scope of the “Multired VISA Debit Card Administration System” includes the issuing of the card, the opening of savings accounts by the public, and the delivery of the cards to the branch network; as well as support and quality management processes.

In December 2008 the certifier SGS decided to recommend Banco de la Nación for ISO 9001:2000 certification of its Multired VISA Debit Card Administration System (TMGD-VISA in Spanish).

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Redesigning of Discounts (taxes and duties) System

Extract 1:

To improve customer service in its branches, Banco de la Nación redesigned the service process for discounts and changed the receipt format for the deposit of discounts.

Following coordinated work between the IT, operations, planning and development departments and the National Tax Authority (SUNAT), the Bank redesigned the service process for discounts and changed the receipt format for the deposit of discounts, in order to improve customer service in Banco de la Nación branches.

SUNAT, through resolution no. 098-2008/ SUNAT published in Peru's official gazette El Peruano on June 19, set out the changes to the discount system to take effect from July 19, 2008. From this date onwards the customer uses the new receipt format for the deposit of discounts published on the BN and SUNAT websites. The change brings about the following benefits:

- Avoids a shortage of forms required for depositing discounts.
- Reduces cost of printing forms (approx. US\$80,000 annually).
- Allows the customer to perform the transaction with greater ease, speed and security in the Banco de la Nación branches.

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IX. HUMAN RESOURCE MANAGEMENT

Extract 1:

The corporate university is an innovative project unique within Peru that serves as an example to other public and private institutions regarding the channeling of resources into the continuous training of human capital.

Extract 2:

Training aimed at the development of competencies at Banco de la Nación provides the key in order to successfully facilitate transition towards a Services Bank.

With the management of human resources acting as the pillar of organizational development, Banco de la Nación promotes the development and building of competencies as part of a strategy of investment in intellectual capital.

As a result the Bank is continually servicing the needs of human resources across every area of the bank, being sure to pay strict adherence to the current regulatory framework.

Skills development

Training aimed at skills development at Banco de la Nación holds the key to successfully facilitating the transition towards a Services Bank. As a result internal and external activities have been carried out face-to-face or through virtual mediums depending on the requirements and/or aims of the training.

1,403 activities were executed over the course of 2008 equating to a total of 14,549 teaching hours nationwide. Events were also organized in compliance with norms on topics such as the prevention of money laundering, risks and security (DISCAMEC – Office for Control of Security Services); as well as in support of ambitious projects aimed at the development of New Core Banking and the certification of the ISO 9001:2000 norm.

The Bank attended international events such as the XII International Congress on Internal Audit of Microfinance Institutions, the V International Congress on Microfinance and the III National Congress on Administrative Law.

Corporate University

Banco de la Nación launched the Corporate University project that will enable BN workers to be trained nationwide in areas of banking and business. The Corporate University is a is an innovative project unique within Peru that serves as an

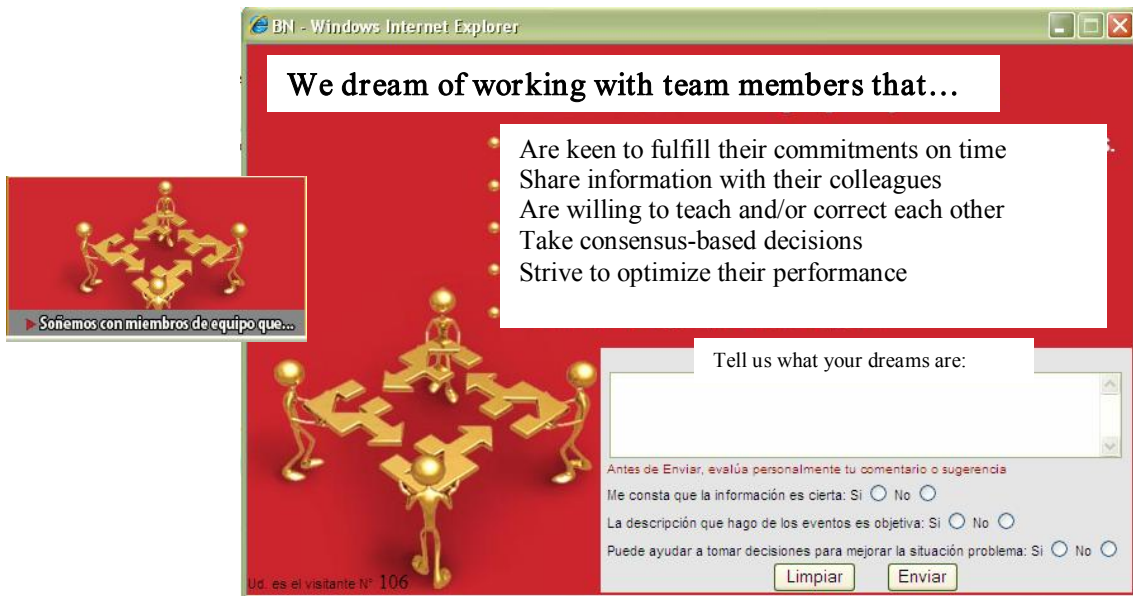
example to other public and private institutions regarding the channeling of resources into the continuous training of human capital.

The program deals with the range of institutional requirements related to the training of personnel. It should be pointed out that the initiative was expanded following the signing of agreements with the National University of Piura, the Private University of Tacna, and the Pontifical Catholic University of Peru – Centrum. A specialized course structure will be developed by these universities in function to the strategic interests and training needs of our staff.

Promotion of Institutional Values

An awareness campaign entitled “**Let’s dream**” was launched via the bank’s intranet that looked at topics related to the organizational climate, the results of which were subsequently communicated to those involved. The campaign was experienced by an average of 69% of workers nationwide for each one of the five awareness events. The event topics were: *People, Team Members, Team Leaders, Atmosphere, and Place*.

A virtual workshop on “**Institutional values**” was also organized, attended by 64% (2,435 people) of staff, of whom 82% rated it as ‘very good’.



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X. TECHNOLOGICAL DEVELOPMENT AND INFORMATION PROTECTION

Extract 1:

High-end technology at Banco de la Nación enables it to continue functioning for over a week with any one of its central processors switched off or under emergency repair.

Extract 2:

Virtual banking at Banco de la Nación allows transactions to be made via the internet 24 hours a day, 7 days a week.

High Availability of Alternate Computer Center

At the start of the year the Bank replaced the central processors at the San Isidro and San Borja head offices and implemented new, recently acquired technology with greater processing and resource capacity. This meant changing the central processor modules, both in terms of hardware and software. The process means Banco de la Nación can now continue functioning for over a week with any one of its central processors switched off (or under emergency repair).

Implementation of New Customer Service System at Counters (*Save*)

New counter-based software and a new signature system are now operational, enabling the delivery of improved service levels to customers who visit branches nationwide in order to perform their required transactions. This solution is based on internet technology that provides workstations with a navigational tool, benefitting the processing speed of new groups of transactions by requiring less programming.

Implementation of Internet Banking

The Internet Banking System (ATI in Spanish) is a web application that allows customers the convenience of performing banking transactions from the comfort of their own home, office or any PC with internet access, by accessing the Banco de la Nación website: www.bn.com.pe

This system has improved the bank's competitiveness, processing transactions via internet 24 hours a day, 7 days a week and increasing the ways in which the customer can gain access to Banco de la Nación. At the same time it offers new and improved service mediums through the use of high-end technology.

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XI. INSTITUTIONAL IMAGE

Banco de la Nación has maintained its strategic position of demonstrating it is changing from a payment bank to a services bank. As part of this it successfully participated in various competitions at an institutional level enjoying very satisfactory results, of which the following stand out:

Best Corporate Governance Award 2007 and 2008

Extract 1:

For the second consecutive year we have been recognized as the state-owned enterprise with the best corporate governance.

Banco de la Nación's success in the **Competition for Good Corporate Governance 2007 and 2008**, organized by the Peruvian University of Applied Sciences and Pro Capitales, represented a great achievement that filled all the staff with pride. The bank's work and progress in the financial market has now been recognized by the contest for two consecutive years, receiving **First Prize** in the category "Best Corporate Governance Amongst State-owned Enterprises".

It serves as recognition of the bank's efficiency in all the areas it deals with, from the organization of its operational, administrative, commercial and financial work to its diverse internal and external internal groups. This leads to the delivery of service quality and the optimization of its processes.

Receiving first prize for two consecutive years is evidence that society recognizes the management and quality of products and services offered by Banco de la Nación. It also provides the basis for setting the objectives of the institution, how these objectives can be met, and how to monitor performance.

The concept of good corporate governance is regarded with increasing importance within local and international circles in recognition of its value as a medium for increasing the stability and efficiency of markets.

Recognition of Financial Innovation

At the First International Congress on Financial Innovation organized by the development finance agency Cofide, Banco de la Nación received the award for "**Recognition of Financial Innovation – Cofinnova 2008**", a competition open to renowned financial entities in the national and international arena.

BN deserves such recognition thanks to its Mobile Multired service. Given that the theme of the award was financial innovation, the initiative meets all the

requirements. It delivers the services of a financial entity to citizens in the most remote locations who have been excluded from the financial system.

Over two days, people from the top echelons of the financial world presented their most innovative products. Following entries from ten participant entities, the attendants at the congress itself voted for the product they considered the most innovative.

Best Practices in Business Management Award

Together with the enterprises Sima Peru, Electro Peru, Enapu and Fonafe, Banco de la Nación received **First Place for the Best Practices in Business Management Award (PGE in Spanish) 2008** after entering with their “Platform for Corporate Defense Law” project.

The institutions participated in the first round of the Best Practices in Business Management award – PGE 2008 organized by Fonafe in order to motivate other state enterprises to present viable projects for the development of the national economy.

The award presented to Banco de la Nación was in recognition of the project aimed at delivering an applied technological solution to the coordination of strategies for corporate defense law and shared administrative procedures amongst state enterprises, especially regarding employment issues. This will help create a better and more efficient legal defense unit amongst enterprises in the Fonafe holding group.

Finalist in Good Governance Practices 2007 and 2008

Banco de la Nación was a finalist along with various Peruvian public enterprises in the **Competition for Good Governance Practices 2007 and 2008** organized by Ciudadanos al Dia (CAD), gaining recognition in various categories.

In 2007 we were finalists in the Citizen Customer Service for the program ‘BN Helps You’. The program involves delivering the right tools to senior citizens in order to minimize the risk of being swindled, by carrying out wide-reaching campaigns such as “Your Security Comes First”, “Civic Taxi” and “BN Transports You”, designed specifically for vulnerable population groups such as senior citizens.

In 2008 Banco de la Nación gained recognition in the following areas: Strategic Alliance (Banco de la Nación and institutions dedicated to microfinance) aimed at increasing bank usage amongst SMEs, the BN Frequently Asked Questions Manual and the Senior Citizen Multired Loan.

Finalist in Business Creativity 2007 and 2008

The competition for business creativity is run by the Peruvian University of Applied Sciences (UPC in Spanish), El Comercio newspaper, Radio Programas del Perú and Andina de Television. The competition is aimed at private and public enterprises that have creatively introduced products and services that have been well received by their target markets.

As a finalist in 2007, Banco de la Nación gained special recognition for its product “New Generation Multired Loan”. It experienced further success in 2008 and was a finalist in two categories: “National Public Administration” and “Financial, Banking and Insurance Services” through the program ‘Senior Citizen Multired Loan’.

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International Development Agreements

Extract 1:

The Bank managed a historical achievement amongst Peruvian banks by forging closer relations with the international banking sector, above all with state banks from within largest sectors in China and Russia.

Extract 2:

Czech Republic, China, Russia and Banco de la Nación: united in development.

➤ **Corporation for Insurance and Guaranteed Export from the Czech Republic**

Banco de la Nación signed a Letter of Understanding with the Corporation for Insurance and Guaranteed Export from the Czech Republic to encourage commercial exchange and investment in Peru through the facilitation of export financing and insurance.

For the first time in its history, staff from BN welcomed a group of high profile businessmen from the Czech Republic, with whom it held coordination meetings to drive forward commercial agreements between both countries.

The main objective of the visit was, organized as part of the II Latin America, Caribbean and EU Business Summit (ALC-UE in Spanish), was for our institution to support the bringing together of public and private entities for meetings with over 30 Czech businessmen in order to coordinate over a range of investments covering all sectors of economy.

➤ **China Development Bank**

In order to establish guidelines that facilitate financing and the execution of projects in our country, Banco de la Nación and the China Development Bank signed an important cooperation agreement that will help strengthen the economic relationship between Peru and China.

The signing of this Framework Cooperation Agreement will enable many social projects (educational, environmental protection, and development of Small and Medium sized Enterprises) to be carried out to the benefit of both nations.

The meeting took place in the Golden Salon within the Government Palace as part of the Asia-Pacific Economic Cooperation forum (APEC), in the presence of the Peruvian head of state, Alan Garcia Perez, and the President of China, Hu Jintao. Delegations from the China Development Bank, led by their most senior representative, Jiang Chaoliang, and Banco de la Nación, represented by its CEO Humberto Meneses, also attended.

➤ **BN and VTB Bank**

Last year Banco de la Nación also signed a Cooperation Agreement with the Russia Bank for International Trade – VTB Bank, to join the forces of both state-linked financial entities in an effort to promote and support the export sector in both countries.

The agreement will help establish broad-based bilateral relations and will provide necessary support for driving forward cooperation between Peru and Russia. It was signed by the Vice President of International Relations at the Russia Bank for International Trade (VTB Bank), Nikolay Samylichev.

The ceremony took place in the Golden Hall at Government Palace in the presence of the President of the Republic of Peru, Alan Garica Perez, and the President of Russia, Dmitri Medvedev.

➤ **BN and VNESHECONOMBANK**

Under the same framework, the head of BN, Humberto Meneses, signed a memorandum of understanding with the Development and Foreign Trade Bank of Russia – Vnesheconombank, aimed at strengthening support of the export sector.

The memorandum set out the foundations for project financing, specifically designed to support the development of small and medium sized exporters.

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Participation in other events

Extract 1:

Because we think about our customers of the future, we start educating them now. Banco de la Nación is also the children's bank. .

For the second consecutive year our institution participated in the **Youth Fair 2008**, the fair for children, held at the Jockey Plaza convention center. The top brands came together at the event over a period of ten days, running recreational and teaching games in order to spread awareness of their products and create emotional bonds with the younger generations.

Banco de la Nación set the standard and drew the attention of children who learnt how to withdraw cash from a real automatic cash machine and opened their first savings account in the most trusted bank in Peru (opinion taken from the comments board of children who attended the fair).

In addition, BN distributed an institutional video that instills the values of punctuality, honesty and respect amongst the youngest members of the family through examples of situations encountered daily in our offices and where "Benito" plays the role of protagonist.

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XIII. AUDITORS' REPORT AND AUDITED FINANCIAL ACCOUNTS

BANCO DE LA NACION

FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND DECEMBER 31, 2007

BANCO DE LA NACION

FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND DECEMBER 31, 2007

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Independent auditors' opinion	1 - 2
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Income statement	4
Statement of changes in shareholders' equity	5
Statement of cash flow	6
Notes to the financial statements	7 - 40

S/. = Nuevo sol

US\$ = United States dollars

INDEPENDENT AUDITORS' REPORT

March 2, 2009

To the Directors
Banco de la Nación

We have examined the accompanying financial statements of **Banco de la Nación**, which include the balance sheets as of December 31, 2008 and as of December 31, 2007, as well as the income statement, statements of changes in shareholders' equity, and cash flow statements for the years then ended, and a summary of 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 accordance with generally accepted accounting principles in Peru applicable to financial entities as described in Note 2. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in Peru. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated 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 consolidated 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

March 2, 2009
Banco de la Nación

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of **Banco de la Nación** as of December 31, 2008 and as of December 31, 2007, and the results of its operations and its cash flows for the years then ended, in accordance with generally accepted accounting principles in Peru applicable to financial entities as described in Note 2.

Countersigned by

------(partner)
Arnaldo Alvarado L.
Certified Chartered Public Accountant
Reg. 01-007576

BANCO DE LA NACION

BALANCE SHEET

ASSETS

	As of December 31	
	2008	2007
	S/.000	S/.000
AVAILABLE FUNDS (Note 5)		
Cash	617,182	444,454
Deposits in the Central Bank (BCRP)	11,123,208	10,972,467
Deposits in banks in the country	635	4,912
Deposits in banks abroad	58,623	182,634
Clearance	29,887	27,205
Other available funds	533	539
Accrued yield	54,550	139,462
	<u>11,884,618</u>	<u>11,771,673</u>
AVAILABLE-FOR-SALE AND HELD-TO-MATURITY MARKETABLE INVESTMENTS, NET (Note 6)	3,530,420	4,377,213
LOAN PORTFOLIO, NET (Note 7)	2,868,775	2,340,438
PERMANENT INVESTMENTS	11,300	10,781
PROPERTY, FURNITURE AND EQUIPMENT, NET (Note 8)	346,716	331,288
OTHER ASSETS (Note 9)	559,131	357,652
TOTAL ASSETS	<u>19,200,960</u>	<u>19,189,045</u>
CONTINGENT AND MEMORANDUM ACCOUNTS (Note 15)		
Contingent accounts	1,409,170	431,813
Memorandum accounts	51,422,766	44,864,114
	<u>52,831,936</u>	<u>45,295,927</u>

LIABILITIES AND NET SHAREHOLDERS' EQUITY

	As of December 31	
	2008	2007
	S/.000	S/.000
DEPOSITS AND OTHER LIABILITIES (Note 10)		
Sight deposits	10,746,312	11,898,772
Savings deposits	2,039,256	1,795,194
Term deposits	465,372	226,539
Other liabilities	3,587,549	3,254,072
Yield payable	92,791	91,953
	<u>16,931,280</u>	<u>17,266,530</u>
DEPOSITS WITH COMPANIES IN THE FINANCIAL SYSTEM	63,365	91,385
PAYABLES, PROVISIONS AND OTHER LIABILITIES (Note 11)	<u>470,254</u>	<u>253,985</u>
NET SHAREHOLDERS' EQUITY (Note 12)		
Capital stock	1,000,000	918,128
New capital	676	529
Legal reserve	350,000	336,382
Retained earnings	385,385	322,106
	<u>1,736,061</u>	<u>1,577,145</u>
TOTAL LIABILITIES AND NET SHAREHOLDERS' EQUITY	<u>19,200,960</u>	<u>19,189,045</u>
CONTINGENT AND MEMORANDUM ACCOUNTS (Note 15)		
Contingent accounts	1,409,170	431,813
Memorandum accounts	51,422,766	44,864,114
	<u>52,831,936</u>	<u>45,295,927</u>

The accompanying notes on pages 7 to 40 are part of the financial statements.

BANCO DE LA NACION

INCOME STATEMENT

	For the years ended	
	December 31,	
	2008	2007
	S/.000	S/.000
FINANCIAL REVENUE		
Interest from available funds	599,524	449,511
Interest and commissions from interbank funds	1,686	-
Interest on marketable and held-to-maturity investments	199,594	215,381
Revenue from appreciation of marketable and held-to-maturity investments	50,329	21,935
Interest and commissions from loan portfolio	348,294	285,516
Revenue from collectibles	3,668	332
Dividends received from permanent investments	1,140	1,205
Exchange rate difference in diverse operations	29,856	21,608
Buying and selling of securities	12,846	8,534
Other financial revenue	5	20
	<u>1,246,942</u>	<u>1,004,042</u>
FINANCIAL EXPENDITURE		
Interest and commissions on due to customers	(166,246)	(108,740)
Loss from marketable and held-to-maturity investments	(7,173)	(14,071)
Interest on financial system debts and liabilities	(1)	(7)
Interest, commissions and other charges on financial liabilities	-	(167)
Commissions and other charges on financial liabilities	(2)	(2)
Buying and selling of securities and equity losses	(540)	(260)
Other financial expenditure	-	(22)
	<u>(173,962)</u>	<u>(123,269)</u>
Gross financial margin	<u>1,072,980</u>	<u>880,773</u>
PROVISIONS FOR DEPRECIATION OF INVESTMENTS AND DOUBTFUL LOANS		
Provisions for loan portfolio (Note 7)	(57,364)	(59,419)
Recovery of provisions for loan portfolio (Note 7)	8,482	32,539
Recovery of provisions for fluctuation of securities investments	(4)	-
	<u>(48,886)</u>	<u>(26,880)</u>
Net financial margin	<u>1,024,094</u>	<u>853,893</u>
REVENUE AND EXPENDITURE FOR FINANCIAL SERVICES		
Revenue from financial services (Note 17)	386,921	448,435
Expenditure on financial services	(3,408)	(2,465)
	<u>383,513</u>	<u>445,970</u>
Operating margin	<u>1,407,607</u>	<u>1,299,863</u>
Administration expenses (Note 18)	(742,421)	(859,738)
Net operating margin	<u>665,186</u>	<u>440,125</u>
PROVISIONS, DEPRECIATION AND AMORTIZATION		
Provision for bad loans	(87)	(257)
Provision for contingencies and others (Note 11)	(67,479)	(91,235)
Depreciation of property, furniture and equipment (Note 9)	(36,399)	(28,758)
Amortization of expenses	(6,312)	(7,733)
	<u>(110,277)</u>	<u>(127,983)</u>
Income from operations	<u>554,909</u>	<u>312,142</u>
Other revenue (expense) (Note 19)	(2,052)	100,857
Income before workers' profit share and income tax	552,857	412,999
Workers' profit share (Note 13)	(20,346)	(13,100)
Income tax (Note 14)	(115,972)	(74,668)
Net income	<u>416,539</u>	<u>325,231</u>

The accompanying notes on pages 7 to 40 are part of the financial statements.

BANCO DE LA NACION

**STATEMENT OF CHANGES IN NET SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2008 AND DECEMBER 31, 2007**

	<u>Capital Stock</u> S/.000	<u>New capital</u> S/.000	<u>Legal reserve</u> S/.000	<u>Retained earnings</u> S/.000	<u>Total</u> S/.000
Balance as of January 1, 2007	866,460	529	336,382	102,829	1,306,200
Treasury profit share	-	-	-	(51,668)	(51,668)
Capitalization of earnings	51,668	-	-	(51,668)	-
Provision for fluctuation in available-for sale securities investments	-	-	-	(2,618)	(2,618)
Net income	-	-	-	325,231	325,231
Balance as of December 31, 2007	<u>918,128</u>	<u>529</u>	<u>336,382</u>	<u>322,106</u>	<u>1,577,145</u>
Treasury profit share	-	-	-	(229,742)	(229,742)
Donations and premiums	-	147	-	-	147
Transfer to Legal Reserve	-	-	13,618	(13,618)	-
Capitalization of earnings	81,872	-	-	(81,872)	-
Provision for fluctuation in available-for sale securities investments	-	-	-	-	-
Net income	-	-	-	416,539	416,539
Balance as of December 31, 2008	<u><u>1,000,000</u></u>	<u><u>676</u></u>	<u><u>350,000</u></u>	<u><u>385,385</u></u>	<u><u>1,736,061</u></u>

The accompanying notes on pages 7 to 40 are part of the financial statements.

BANCO DE LA NACION**STATEMENT OF CASH FLOW**

	For the years ended	
	December 31,	
	2008	2007
	S/.000	S/.000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	416,539	325,231
Adjustments for reconciliation of net income to net cash from operating activities		
Provision for doubtful loans, net of recoveries	57,364	59,419
Depreciation and amortization	42,711	36,491
Provision for receivables	87	257
Provision for contingent loans and others	67,479	91,235
Provision for goods received in payment, awarded and out of use	277	2
Net gain from sale of securities investments	(12,306)	(8,274)
Changes in assets and liabilities accounts		
Increase in interest, commissions and other receivables	(42,065)	(133,670)
Decrease in interest, commissions and other payables	(191,599)	(76,829)
Net (increase) decrease in other assets	(105,940)	180,902
Net increase in other liabilities	13,074	1,730
Cash and cash equivalents provided by operating activities	<u>245,621</u>	<u>476,494</u>
'CASH FLOWS FROM INVESTING ACTIVITIES		
Revenue from sale of property, furniture and equipment	7	86
Purchase of property, furniture and equipment	(62,920)	(16,959)
Purchase of other non financial assets	<u>(2,679)</u>	<u>(2,357)</u>
Cash used in investing activities	<u>(65,592)</u>	<u>(19,230)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) increase in deposits and other liabilities	(379,982)	6,512,912
Net increase (net decrease) in other financial liabilities	114,285	(120,255)
Net increase in loan portfolio	(581,712)	(1,184,387)
Net decrease (net increase) in securities investments	815,268	(1,169,959)
Net decrease in other financial assets	(36,082)	20,124
Dividends received	1,139	1,205
Cash and cash equivalents (used in) provided by financing activities	<u>(67,084)</u>	<u>4,059,640</u>
Net increase in cash and cash equivalents	112,945	4,516,904
Cash and cash equivalents at the start of the year	<u>11,771,673</u>	<u>7,254,769</u>
Cash and cash equivalents at the end of the year	<u>11,884,618</u>	<u>11,771,673</u>

Non cash-flow-generating transactions:

As of December 31, 2008, the offsetting of the debt between the Bank and the MEF of S/.2,414,830 thsd has not been considered in the formulation of the statement of cash flows as of that date because they do not represent cash flows (S/.2,466,572 thsd as of December 31, 2007).

The accompanying notes on pages 7 to 40 are part of the financial statements.

BANCO DE LA NACION

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

1 INCORPORATION AND OBJECTIVES

Banco de la Nación (hereafter the Bank) was created by Law 16000 of January 27, 1966, as a company under public law with economic, financial, and administrative autonomy in the performance of its functions. Subsequently, Law 16000 was updated by Legislative Decree 199 of June 12, 1981. Since November 27, 1992, with the adoption of Decree Law 25907, the Bank no longer exclusively has the functions and powers contained in Title III of the Organic Law then in force.

The Bank is governed by its Statutes, as approved by Executive Decree 07-94-EF of January 26, 1994, and amended by Emergency Decree 31-94 of July 11, 1994, by the Law on State Business Activity and, in a supplementary manner, by Law 26702 (General Law on the Financial System and Insurance System, and Organic Law of the Superintendency of Banking, Insurance, and Pension Fund Administrators) (hereafter the General Law).

The Bank is authorized to engage in the following activities, none of which shall be exclusive with respect to other companies and entities of the financial system:

- Provide banking services to the national treasury system in accordance with the instructions of the Treasury Department. In keeping with the foregoing, said services shall be offered in competition with other financial system companies and entities.
- Provide tax collection services on behalf of the tax authority, for which there must be Bank approval and a specific tax collection agreement.
- Conduct, by devolution, bank subaccount operations for the Treasury
- Take receipts of funds administered by central government, regional government, and local government agencies, as well as any other public sector agencies.
- Act as financial agent for the State pursuant to the provisions of its Statutes
- Act on behalf of other banks or financial entities in funneling domestic or foreign funds to credit recipient entities.
- Take part in the foreign trade operations of the State in the manner prescribed in its Statutes. In such cases, the Bank provides banking and currency exchange services, abiding by any regulations issued by the Peruvian Central Bank (BCRP).
- Receive all administrative and judicial deposits on consignment and in safekeeping.
- Provide correspondent banking services for entities of the financial system wherever those entities request.

- Receive sight deposits from natural and/or legal persons as payments that suppliers, pensioners, and workers of the state receive in the framework of the National Treasury System.
- Receive savings and escrow deposits from natural and/or legal persons in any population centers in the Republic where no private banks have offices, as well as issue bankers' drafts and/or teledrafts and transfer funds at the request and/or on behalf of those persons.
- Grant loans and financial facilities to national government, regional government, and local government agencies as well as other public sector entities, with the exception of granting loans to state-owned companies governed by private law, or of issuing, purchasing, keeping, and selling bonds and other securities, in accordance with the law. Securities issues shall be done in accordance with an annual schedule approved by the Ministry of Economy and Finance, which may be reviewed quarterly.
- Conduct with public sector entities, as well as domestic or foreign banking and financial institutions, the necessary bank operations and services to complete the functions indicated in the Bank Statutes, as well as those designed to increase the profitability of, and hedge risks to, the funds that it manages.
- Grant loans to public sector workers and pensioners who have savings accounts with the Bank in which they deposit their incomes.

Executive Decree 124-2004-EF of August 26, 2004, amended Articles 13 and 32 of the Bank Statutes, which concern the government of the Bank and the executive functions and powers of the CEO and members of the Board of Directors of Banco de la Nación.

In July 2006, the headquarters of the Bank was relocated to Av. República de Panamá 3664, San Isidro, Lima, Peru. In order to carry out its activities, the Bank operates through a head office and a network of 27 branches, and 388 agencies and offices (27 branches and 374 agencies and offices in 2007) situated around the country. As of December 31, 2008, the staff employed by the Bank to carry out its activities numbered 22 managers, 811 officers, and 2,987 employees (22 managers, 717 officers, and 3,103 employees as of December 31, 2007).

Executive Decree 002-2007-EF repealed Executive Decree 210-2006-EF, both having been issued and published by the Ministry of Economy and Finance (MEF) on January 11, 2007 and December 27, 2006, respectively, providing, inter alia, for the reconciliation of the other mutual liabilities of the MEF and the Bank as of September 30, 2006. A memorandum of reconciliation was signed on December 28, 2006, pursuant to the aforementioned Executive Decree.

Executive Decree 002-2007-EF ratified the act of reconciliation of the MEF's and the Bank's mutual liabilities of December 28, 2006, and provided that the MEF's liabilities in favor of the Bank should be offset and settled in full by January 2, 2007, and therefore, all liabilities should be reconciled as of January 1, 2007, including those pertaining to other mutual debts that should be updated according to the criteria set forth in the memorandum signed on December 28, 2006.

The mutual debts reconciled as of January 1, 2007, pursuant to the Memorandum of Reconciliation of Liabilities signed on February 28, 2007, resulted in debts of the MEF in the Bank's favor of US\$31,335 thsd and debts of the Bank in the MEF's favor of US\$72,414 thsd, giving rise to a net debt in the MEF's favor of US\$41,079 thsd.

Furthermore, the memorandum of reconciliation of liabilities signed by the MEF and the Bank on January 1, 2007, recognized additional debts of the MEF in the Bank's favor of S/.64,338 thsd and US\$849,171 thsd in various borrowing operations approved by express laws.

As a result of the memoranda of reconciliation of mutual liabilities signed by the MEF and the Bank on December 28, 2006 and January 1, 2007, the total offset mutual debt was as follows:

	S/.000	US\$000
MEF debt in the Bank's favor:		
- Memo of December 28, 2006	-	31,335
- Memo of January 1, 2007	64,338	849,171
Bank debt in the MEF's favor:		
- Memo of December 28, 2006	-	(72,414)
MEF debt in the Bank's favor	<u>64,338</u>	<u>808,092</u>

According to Executive Decree 002-2007-EF and the Agreement on Consolidation, Offsetting, and Settlement of Liabilities signed by the MEF and the Bank on March 26, 2007, the resulting conditions with respect to the offsetting of mutual liabilities between the MEF and the Bank were as follows:

- a) The MEF paid the debt in the Bank's favor by making over on March 30, 2007, a bond in nuevos soles for S/.2,644,572 thsd (Note 6); accordingly, the debt in United States dollars was converted at the selling exchange rate published by the SBS at the close of operations on January 2, 2007 of S/.3.193 = US\$1.
- b) The characteristics of the bond were as follows:
 - In nuevos soles
 - Non-negotiable
 - Maturing at 30 years
 - Annually redeemable
 - 6.3824% in annual interest, payable quarterly
 - Book entry at CAVALI S.A. I.C.L.V.
- c) The bond may be redeemed by the Bank for an amount equivalent to not less than 60% of the earnings that correspond to the Treasury. In any event, the redemption shall not be less than S/.60,000 thsd; if the earnings that correspond to the Treasury are not sufficient to enable it to cover that amount, the MEF shall make up the difference by charging it to the budget appropriations committed to servicing the public debt.
- d) Any outstanding unpaid amounts upon the bond's maturity shall be paid by the MEF

e) Any interest accrued by the bond shall be paid by the MEF.

The accompanying 2008 financial statements will be submitted to the Bank's Board of Directors for consideration and approval at the time of the Management's choosing. In the Management's opinion the 2008 financial statements will be approved without change. The financial statements as of December 31, 2007 were approved by the Board of Directors at Meeting 1714 of June 12, 2008.

2 ACCOUNTING PRINCIPLES AND PRACTICES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) Basis of preparation -

The Bank's financial statements have been prepared in accordance with the laws on such matters and generally accepted accounting principles in Peru applicable to financial entities. The accounting principles essentially include the standards issued by the SBS; provisions adopted by the Public Accounting Office now the National Public Accounts Office, and, as applicable, the International Financial Reporting Standards (IFRS), officially adopted in resolutions issued by the Accounting Standards Board. The IFRS include the International Accounting Standards (IAS) and the decisions of the Interpretations Committee (SIC and IFRIC).

The preparation of financial statements requires use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

The 2008 and 2007 financial statements have been prepared under the historical cost convention, modified by the following:

- Financial instruments at "fair value through profit and loss" are measured at fair value.
- Available-for-sale financial assets are measured at fair value.

Standards and amendments to standards issued by the SBS for financial entities in force as of 2008.

On September 22, 2006, the SBS issued resolution 1237-2006 (Regulations for management of retail debtor overborrowing risk) as amended by SBS resolution 930-2007 and SBS resolution 6941-2008. These regulations introduced a provision requirement for unused revolving credit lines for micro enterprise and consumer loans, effective as of January 31, 2008 (Note 2-c).

On November 19, 2008, the SBS issued resolution SBS 11356-2008 (Regulations on debtor evaluation and classification and provision requirement), replacing SBS resolution 808-2003 and its amendments. These regulations enter into force from January 1, 2010; however, there are certain considerations that are applicable as of December 1, 2008. Under the new rule, the flat percentage for the general provision on loans classified as normal has been amended as of December 1, 2008 in accordance with the general provision tables established by the SBS for each type of loan.

In addition, the pro-cyclical rule on provisions for doubtful loans came into force from December 1, 2008; the purpose of this rule is to include an additional provision for loans classified as normal. (Note 2-c).

Amendments to standards and interpretations (IFRIC) in force in Peru as of 2008 and 2009 -

The Accounting Standards Board, through resolution 040-2008-EF/94 of March 14, 2008, approved the application of IFRIC decisions 1 to 12 as of January 1, 2008. The Bank believes that these new interpretations are not applicable for the preparation of the financial statements as of December 31, 2008.

This resolution also approved the application of IAS32, IFRS 7 and IFRS 8 (replaces IAS14) from January 1, 2009. The Bank considers that these new standards will not have a significant impact on the formulation of the financial statements; however, the information disclosed will be more extensive in future.

Standards, amendments, and interpretations of standards issued but not yet in force either internationally or for Peru in 2008 -

The following standards, amendments to existing standards, and interpretations of standards have been published and are subject to obligatory international application for all accounting periods starting as of January 1, 2009. The Bank has not adopted them ahead of time but will do so once approved in Peru by the National Public Accounts Office and the SBS.

These standards and amendments are those of IFRS 1 to 7 (except IFRS 4 and 6); revisions of IAS 1 to IAS 41 (except IAS 2, 7, 11,12, 17, 21, 24, 26, 33 and 37), and IFRIC interpretations IFRIC 15 and 16.

The Bank believes that these standards will not have a significant effect on the disclosures and presentation of the financial statements.

b) Translation and conversion of currencies -

- Functional currency and presentation currency

Items included in the Bank's financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in nuevos soles, which is the Bank's functional currency and presentation currency.

- Transactions and amounts

Foreign currency transactions are translated into the functional currency using the prevailing exchange rates determined by the SBS at the dates of the transactions or of evaluation, when items are remeasured.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

c) Provision for doubtful loans -

The allowance for loan losses is maintained at a level that in management's best judgment is sufficient to cover potential losses in the loan portfolio at the balance sheet date.

The SBS has established parameters for classification and rating of direct and indirect loan portfolios in Peru, according to which loans are classified as commercial, microenterprise (MES), consumer, and home mortgage.

The allowance for loan losses consists of a specific portion and a general portion. The specific allowance has been determined in accordance with SBS regulations and, in the case of commercial loans, is calculated based on percentages set by the SBS as a function of the customer classification, type of loan, and type of security received. In keeping with SBS standards, Management periodically conducts a formal review and analysis of the loan portfolio, and authorizes such adjustments to the allowance as are necessary. This review and analysis includes specific customers against whom judicial proceedings must be or have been instituted, as well as customers who are in a difficult economic and financial position. As regards consumer loans, the specific allowance is calculated based on percentages set by the SBS according to the debtor's classification set in accordance with the number of days in arrears in the payment of their debt.

The general allowance includes the allowance for normal loans established in accordance with SBS rules, as well as voluntary allowances determined based on an analysis of the economic conditions of the customers that make up the loan portfolio, past experience, and other factors which, in Management's opinion, warrant current recognition of potential losses in the loan portfolio. The amount of this voluntary general provision is reported to the SBS.

SBS resolution 11356-2008 of November 19, 2008, introduced amendments to the "Regulations on debtor evaluation and classification and provision requirement" which principally consisted of the following:

- Application of the new "Regulations on debtor evaluation and classification and provision requirement" as of January 1, 2010, replacing the Regulations in force approved by SBS resolution 808-2003.
- As of December 1, 2008, provision rates for the "Normal" risk category are applied taking into account the type of loan and not the type of security as was provided in SBS resolution 808-2003.

The percentages for determining allowances on loans classified as normal are as follows:

<u>Type of loan</u>	<u>Allowance percentage</u>
Commercial loans	0.7%
MES loans	1.0%
Consumer loans	1.0%
Home mortgage loans	0.7%

- As of December 1, 2008, pro-cyclical provisions must be established for Normal-category loans, thereby increasing the provision percentage for these loans. The pro-cyclical component of allowances on direct and indirect loans and finance lease operations of borrowers classified as normal is as follows:

<u>Type of loan</u>	<u>Allowance percentage</u>
Commercial loans	0.45%
MES loans	0.50%
Consumer loans	1.00%
Home mortgage loans	0.40%

Revolving consumer loans are subject to a pro-cyclical provision at not less than 1.5%. For commercial and mortgage loans, as well as for consumer and microenterprise (MES) loans backed with self-liquidating security, the pro-cyclical provision percentage is 0.3% and 0% for the collateralized portion, respectively. For consumer loans under wage discount agreements, the pro-cyclical provision percentage is 0.3%.

According to the SBS, as of December 31, 2008, the Bank must put up the least two thirds of the shortfall for completing the total provision requirement for loans in the Normal category with the balance of provisions to be put up no later than February 28, 2009.

As of December 31, 2008, the Bank has reported pro-cyclical provisions at 100% of the SBS requirement, in the amount of S/.18,625 thsd.

The provision for direct loans is presented deducting the amount from the corresponding asset (Note 7), while the provision for indirect loans is presented as a liability (Note 11).

Furthermore, in keeping with SBS resolution 1237-2006 (Regulations for management of retail debtor overborrowing risk), issued September 21, 2006 and in force as of January 31, 2008, and SBS resolution 6941-2008, the Bank has estimated its loan-loss exposure at 1% of direct consumer loans, and therefore, as of December 31, 2008, that allowance amounts to S/.18,625 thsd.

By official letter 4579-2003 of February 25, 2003, the SBS granted the Bank special accounting treatment for the sum owed by the Ministry of Economy and Finance (MEF) pursuant to Executive Decree 158-2002-EF, enabling it to register it as an outstanding loan rather than a refinanced loan. The foregoing was on the understanding that registering this operation as a refinanced loan would not reflect the Bank's real performance due to the fact that it originated from the application of an Executive Decree in which the counterpart is the Central Government. As regards the interest on this loan, the Bank acknowledges revenue in the results on a received basis, bearing in mind that it is a refinanced loan. On January 1, 2007, the balance of the loan principal receivable from the MEF of S/.64,251 thsd and US\$749,285 thsd, along with the interest receivable recorded in memorandum accounts of S/.86 thsd and US\$7,494 thsd, were settled on March 30, 2007, with the bond issued under Executive Decree 002-2007 (Note 1).

d) Security investments -

The Bank's investment portfolio is classified and valued in accordance with SBS resolution 1914-2004.

In all cases, the Bank initially records its investments at acquisition cost, not including expenses, such as tax, brokers' fees, duties, and miscellaneous fees.

Available-for-sale marketable investments -

These include securities held for sale and not intended to be held to maturity. These investments are recorded in an equity account of losses resulting from fluctuation in value until the securities are sold. When the securities are sold, the losses resulting from their market value impairment, previously recognized as part of the equity, are included in the year's result. Likewise, when the Bank considers that a fall in market value or equity value is not temporary, it sets up respective individual provisions charged to the result for the year.

In the case of securities representing debt, the Bank must update the accounting value of such instruments on a monthly basis through the discount accrual or capital premium.

Held-to-maturity investments -

These include securities representing debt acquired for redemption at maturity and are registered at cost.

Provisions are registered for changes in the lending capacity of the issuer on an individual basis, analogously with the treatment of direct loans. These provisions are directly charged to the result of the year.

Fluctuations in the market price of securities in this category are not charged to the result of the year unless there is a significant decline in the price of the security.

Interest, discounts and premiums are accounted as accrued and/or redeemed within the investment term.

e) Property, furniture and equipment -

Property, furniture and equipment are stated at cost less depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's book value or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be reliably measured. All repairs and maintenance are charged to other operating expenses during the financial year in which they are incurred.

Land is not depreciated as it is deemed to have an indefinite life. Depreciation of other assets is provided on the straight-line basis at rates considered adequate to write-off the cost of the assets, less salvage, over their useful lives as:

- Buildings	33 years
- Plant, furniture and equipment	10 years
- Motor vehicles and machinery and Improvements in leased properties	5 years
- Computers	4 years

The assets' residual value and useful lives are reviewed and adjusted if appropriate at each balance sheet date.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains or losses on disposals of assets are determined by comparing proceeds with the carrying amount. These are included in the income statement

f) Impairment of assets -

When events or economic changes indicate that the book value of fixed assets and intangibles may not be recoverable, the Bank determines their recoverable value and, if necessary, an impairment loss is recognized in the income statement. This loss is the amount by which the book value of the asset exceeds its recoverable value. The recoverable value is the higher of the net sale price and its value in use. The net sale price is the amount that can be obtained from the sale of an asset in a closed transaction between unrelated parties at the benchmark price in an active market or at that of recent similar transactions. The value in use is the present value of the estimated future cash flows from the continuous use of an asset and its disposal at the end of its useful life. In Management opinion, there is no evidence of impairment of those assets as of December 31, 2007 and 2006. The recoverable value is estimated for each individual asset or, should that not be possible, for each cash-generating unit to which it belongs.

g) Employee and pension benefits -

Profit-sharing

The Bank recognizes a liability and expense for workers' profit share on the basis of 5% of the taxable base determined in accordance with the tax regulations in force.

Staff vacations and other benefits

Annual staff vacations, paid leave and other staff benefits are stated on an accrual basis. The provision for the estimated liability for annual vacations, paid leave and other staff benefits arising from services rendered by employees is recognized at the date of the balance sheet.

Length-of-service compensation

The length-of-service compensation provision is put up for the full amount of statutory compensation. Payments made in the form of settlements are deposited in financial system entities of the workers' choosing.

Retirement fund

In 2006, the Bank decided to calculate and register the retirement fund for serving and retired employees pursuant to Executive Decree 043-2003-EF published on March 28, 2003, which provided that all state companies should abide by Public Accounting Resolution 159-2003-EF/93.01 published on March 12, 2003, which approved Directive 20-2003-EF/93.01, establishing the accounting procedure for registration and control of pension reserves, non-pension reserves, and contingency reserves.

The Directive stipulated that all state companies should register in memorandum accounts the result of the actuarial calculations for pension reserves, and indicated, furthermore, that the corresponding pension obligations, registered in memorandum accounts, shall be recognized as expense in successive years, and would be divided linearly (in fractions) based on the mean period determined in the actuarial calculation, until the provision for retirement pensions was registered as a liability in full. The total amount of pension obligations registered in memorandum accounts shall be adjusted for amounts obtained in future actuarial calculations with respect to the previous actuarial calculation. In this case, the difference shall be applied directly to the results in each year.

The mean period is the arithmetic average of pensionable years until the extinction of pension benefits, in proportion to the number of pensioners for whom the pension reserves are calculated.

In 2007 and 2008, the Bank's Board of Directors decided to register 100% of the provision for the retirement fund for serving and retired employees in accordance with the regulations in force.

By Directive 001-2003-EF/93.10 the Public Accounting Office (now the National Public Accounts Office) ordered that the Bank should perform the actuarial calculation of pension obligations in coordination with the Pension Regulation Office (ONP). The value of pensions is determined according to the actuarial calculation that measures the present value of all future pension payments, using a discount rate of 4.75%.

h) Provisions -

Provisions are recognized when the Bank has a present obligation (legal or implicit) as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made

i) Contingencies -

Contingent liabilities are not recorded in the financial statements. They are disclosed in the notes to the financial statements, unless the possibility their occurrence is remote. Contingent assets are not recorded in the financial statements and are disclosed only if their realization is likely.

j) Fiduciary operations -

Assets and revenues from fiduciary operations in which there is a commitment to return such assets to a customer and in which the Bank participates as a trustee acting as owner, trustee or agent, have been excluded from these financial statements.

k) Recognition of revenues and expenses -

Interest revenues and expenses are accounted in the results of the period in which they are accrued, based on the capital term of the transactions generating them. Commissions from banking services are recognized on an as-received basis.

Accrued interests generated by past-due, refinanced and restructured loans, loans under judicial collection, and interest on loans classified as doubtful or lost, are credited to results in the year in which they are received.

When it is determined that the financial condition of the borrower has improved to the point where the doubts over recovery of the principle disappear, interest is once more accounted on an accrual basis.

Other interest and expenses are registered in the year accrued.

l) Income tax -

Current -

Current income tax and workers' profit share are determined and recorded in accordance with the tax regulations applicable to the Bank, subject to Management's interpretation of said applicable regulations.

Deferred -

Deferred income tax is provisioned based on the temporary differences between the asset and liability tax bases and their respective values shown in the financial statements. Deferred income tax is calculated using the tax rates promulgated on the balance sheet date and which are expected to be applicable when the deferred income tax asset is realized or the tax is paid.

Deferred income tax assets are recognized when it is probable that taxable profits will be available against which the temporary difference can be utilized.

In the main temporary differences are shown Note 14-c). The effect of temporary differences is also considered in the calculation of workers' profit share.

m) Cash and cash equivalents -

Cash and cash equivalents include available funds and interbank funds. In the balance sheet, bank overdrafts are stated as liabilities.

3 FINANCIAL RISK MANAGEMENT

Global financial crisis -

The last quarter of 2008 saw the deepening of the international financial crisis triggered by the mortgage crisis in the United States, leading to the failure of several investment banks, while at the same time severely impacting the financial sector worldwide. Among others, the principal fallout from the financial crisis has been liquidity-starved markets, recession, a jump in unemployment, a decline in share prices, and increased credit risk. Analysts believe that the present financial crisis has plunged the global economy into its worst crisis since the Great Depression in the first half of the 20th century.

The consequences for Peru of the present international financial situation are still uncertain, although experts agree that the Peruvian economy will feel the impact. In December 2008 the government set in motion an "Anticrisis Plan" which kick-started the implementation of 12 public infrastructure projects. At the end of January 2009 the government unveiled its "Economic Stimulus Plan" designed to give extra impetus to economic activity and infrastructure development. As regards the financial sector, the plan aims to inject liquidity so that its customers can reprogram their debt payments. The objective of the plan is for Peru to maintain GDP growth of more than 5%.

For the Peruvian financial market, the climate surrounding the global financial crisis has brought increased volatility in a number of financial variables, in particular as regards the exchange rate, where the upward trend that the nuevo sol had maintained since the beginning of 2008 performed a u-turn and began to devalue sharply. This was in keeping with international trends as a result of increased aversion to risk and where the dollar was seen as the currency of choice for weathering the storm. As to the behavior of interest rates in different market segments and niches, since the last quarter we have seen a squeeze in sources of external financing to the domestic market, which in certain areas of financing is being felt by the customers of local banks that have pushed up the cost of borrowing.

As to the Bank itself, owing to the structure of its balance sheet, the exchange risk is under control, while the overall net position, expressed as the difference between assets and liabilities in foreign currency, is practically matched, while its representativeness, as a percentage of net capital, is 2.35%. Furthermore, the Bank has no foreign debts, which significantly lowers its exchange rate exposure and its exposure to external financing sources.

As regards the interest rate risk, the components in the balance sheet pertaining to durations show that there is a minimal mismatch in the maturity gap between assets and liabilities, the average gap being less than one year. Furthermore, as to the characteristics of interest rates set with counterparts on assets and liabilities, these reflect flat rate conditions for most of the Bank's assets and liabilities, particularly in accounts with longer average maturities, while the impact from interest rates differences is mainly focused on assets and liabilities with shorter average maturities. In addition, the Bank is relatively lightly leveraged thanks to its current loans position, as well as a sovereign risk concentration.

Because the structure of the balance sheet is concentrated in short term positions, the Bank currently has high liquidity ratios in both local and foreign currency, well above the statutory minimum for the multiple service banking sector.

Furthermore, the Bank's country risk exposure represents 0.06% of total assets, thanks to its stake as a class "A" shareholder in Banco BLADDEX, which represents 0.81% of its net capital; and also to its deposits overseas, which, as of December 31, 2008, stood at S/. 59,623 thsd. These deposits are mainly held by banks in countries with the highest risk ratings: Risk categories I and II, according to the SBS country risk classification system. Indeed, 99% of deposits are in category I countries. It should be noted that the Bank took steps to minimize its exposure to foreign banks by significantly reducing the average amount of foreign deposits since fourth quarter 2008.

In this regard, Management's strategies to reduce exposures to risks resulting from the global financial crisis that might adversely impact the Bank's performance include maintaining an overall net foreign currency position hedged as much as possible in terms of maturities, amounts, and interest rate conditions. The possibility is also being examined of using hedge mechanisms to deal with its exchange risk exposures. In addition, as part of its strategic plan, the Bank has also made it a policy to increase its market transparency by obtaining public risk ratings, in order to prepare the Bank for bond issues on the domestic capital market and review potential new medium- and long-term financing sources for that purpose.

As part of this policy of greater transparency and observance of the highest banking standards and practices, the Bank has been working on the implementation of comprehensive risk management principles and compliance with the regulatory principles adopted by the banking regulator under the New Capital Accord (Basel II) for calculation of capital requirements as regards credit risk, market risk, and operational risk. In this same connection, the Bank is evaluating the implementation of limits to ensure adequate counterpart risk management with respect to credit, while simultaneously introducing the adoption of internal limits for market risk control.

With respect to operational risks, the Bank has been working on all aspects necessary to cover potential risks as regards processes, individuals, and technology, as well as threats of an external nature, adopting practices and methodologies for the purposes of operational risk identification, assessment, control and mitigation, in addition to aspects associated with an organization-wide business continuity plan that involves all areas of the Bank in risk management.

Financial risk factors -

The Bank's activities expose it to a variety of financial risks, including the effects of interest rate movements, exchange rates, credit concentration, and liquidity requirements. Management, based on the policies that guide the Bank's operations, its market knowledge, and experience in the sector, establishes control guidelines for credit risk, liquidity risk, and market risk, in order to limit as much as possible any potential adverse effects on its financial performance.

a) Market risk -

i) Exchange risk

This can be defined as the risk to which the Bank is exposed as a result of value fluctuations in financial assets and liabilities stated in foreign currency caused by exchange rate movements, where the risk basically depends on the mismatch between foreign currency assets and liabilities and the Bank's net overall position on the balance sheet, after the exchange-rate adjustments to the agreements underlying the foreign currency transactions pending at the close of the period.

All foreign currency balances as of December 31, 2008 and 2007 have been stated in nuevos soles, adjusted at the SBS dollar exchange-rate of S/.3.140 and S/.2.996, respectively.

The foreign currency amounts as of December 31, in US dollars, are summarized as:

	<u>2008</u> <u>US\$000</u>	<u>2007</u> <u>US\$000</u>
Assets:		
Available funds	287,109	249,346
Available-for-sale and held-to-maturity investments	79,265	167,884
Loan portfolio	169,822	55
Receivables	785	748
Permanent investments	3,599	3,599
Other assets	<u>17,812</u>	<u>291</u>
	<u>558,392</u>	<u>421,923</u>
Liabilities:		
Due to customers	(510,790)	(407,826)
Deposits from financial entities	(3,774)	(2,467)
Payables	(2,522)	(3,558)
Other liabilities	<u>(31,140)</u>	<u>(3,608)</u>
	<u>(548,226)</u>	<u>(417,459)</u>
Net asset position	<u>10,166</u>	<u>4,464</u>

The exchange market operates with the free market rates and the weighted average exchange rate published by the SBS; for dollar buying and selling transactions it was S/.3.137 and S/.3.142, respectively (S/.2.995 and S/.2.997, respectively, as of December 31, 2007).

ii) Interest rate risk

The Bank is exposed to interest rate movements when a change in market interest rates alters the Bank's interest expenditure and this is not offset by a similar change in interest revenue. The Bank manages interest rate risks through monthly measurements of interest rate exposure in order to determine the increase in risk and the capital exposure risk, in accordance with SBS rules and risk assessment methodologies developed based on internal models that provide supplementary analysis information by which to measure the risks faced.

Essentially, all the Bank's financial assets generate interest. Its financial liabilities include both non interest-bearing and interest-bearing liabilities. Interest-bearing assets and liabilities are based on rates set in accordance with the regulations in force.

b) Credit risk -

As part of its financial intermediation activities the Bank grants loans to its customers, in particular Public Sector Workers and Pensioners, as well as Local and Regional Governments, financial intermediation institutions (agricultural and municipal credit unions and SME development entities), and public sector agencies. The largest concentration of loans goes to public sector workers and pensioners, representing approximately 60% of direct loans and Indirect loans, which amounts to approximately S/.1,911,546 thsd.

Credit risk is controlled, mainly through the assessment and analysis of individual transactions. In 2008, the main component of the loan portfolio was consumer loans to Public Sector Workers and

Pensioners, which represents a lower risk because the remunerations of these borrowers are deposited in the Bank. An analysis of the portfolio is provided in Note 7. Information on the deposits and other liabilities appears in Note 10.

The Bank also manages risk by periodically conducting a formal review and analysis of individual transactions in the loan portfolio, for which purpose it assesses the borrower, financial conditions, and security requirements.

c) Liquidity risk -

Managing liquidity risk entails maintaining or developing a balance sheet structure, for both assets and liabilities, such as to maintain a diversity of financing sources and staggered maturities between assets and liabilities. Accordingly, the Bank controls its liquidity by attempting as far as possible to maintain match in asset and liability maturities and avoiding, at the same time, excessively wide mismatches.

Estimation of fair value

Financial instruments are contracts that give rise, simultaneously, to a financial asset for one entity and a financial liability or a capital instrument for another. In the case of the Bank, the financial instruments are primary instruments, such as receivables and payables.

Financial instruments are classified as liabilities or capital instruments depending on the substance of the contractual agreement that originated them. Interest, dividends, gains and losses generated by a financial instrument classified as a liability are recorded as expense or revenue in the income statement. Payments to holders of financial instruments registered as capital instruments are recorded directly in the net shareholders' equity. Financial instruments are offset when the Bank is legally entitled to do so and Management has the intention of settling them on a net basis, or of realizing the asset and settling the liability simultaneously.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Where a market quote is unavailable, fair value is estimated based on the market quote of a financial instrument with similar characteristics, the present value in the expected cash flows, or other appraisal techniques, which are significantly affected by the different assumptions used. Although Management uses its best judgment in estimating the fair value of its financial instruments, all appraisal techniques have their shortcomings. As a result, fair value could not be an approximate estimate of the realizable net value or of the settlement value.

The methodologies and assumptions used depend on the terms and risk characteristics of the various financial instruments and include the following:

- Available and interbank funds represent cash and short-term deposits that do not represent significant credit risks.
- The fair value of marketable securities and permanent investments is similar to the book value because they are recorded at market value; marketable securities and permanent investments are generally quoted on the stock market. Investments held to maturity are recorded at their face value because they are non-negotiable, and therefore do not have a market value.
- The book value of loans is affected by the furnishing of general provisions. The Bank has not determined the market values of loans and considers the net book values of loans to be lower than their corresponding market values, thereby assuming a conservative position
- Financial debts and obligations generate interest at variable and preferential rates, and their book values are considered similar to their corresponding market values.
- As disclosed in Note 15, the Bank had granted guarantees, bonds and letters of credit and has received security as backing for loans granted. Based on the level of fees currently charged on such operations and bearing in mind their maturities and interest rates, as well as the present creditworthiness of the counterparties, the difference between their book value and their fair value is not significant. Due to the uncertainty involved in their evaluation, the probability and timing of their encashment, and the absence of an established market, the Bank considers that it is not feasible to estimate a fair value for guarantees received.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

i) Critical accounting estimates and judgments

The Bank makes estimates and assumptions regarding the future. The resulting accounting estimates, by definition, very often differ from the actual results. Nonetheless, in Management's opinion, the estimates and assumptions used by the Bank do not pose a significant risk of causing a material changes to the asset and liability balances over the coming year.

Income tax

The determination of tax obligations and expenses requires interpretations of the applicable tax regulations. The Bank seeks professional tax advice before adopting any decision on tax matters. Even when Management considers that its estimates are prudent and appropriate, differences of interpretation may arise with the Tax Authority that could affect tax charges in the future.

5 AVAILABLE FUNDS

As of December 31 these included:

	<u>2008</u> S/.000	<u>2007</u> S/.000
Cash -		
- Head office	315,153	211,870
- Branches and agencies	202,963	149,260
- Dependencies	83,285	79,227
- Cash in transit	15,452	3,768
- Gold and silver ingots	<u>329</u>	<u>329</u>
	<u>617,182</u>	<u>444,454</u>
Central Bank - BCRP:		
- Regular account	830,963	451,324
- Special account	9,601,445	5,464,723
- Overnight foreign currency account	690,800	479,360
- Term deposit	<u>-</u>	<u>4,577,060</u>
	<u>11,123,208</u>	<u>10,972,467</u>
Domestic banks and financial entities	635	4,912
Foreign banks and financial entities	58,623	182,634
Clearance	29,887	27,205
Other available funds	533	539
Accrued yield	<u>54,550</u>	<u>139,462</u>
	<u>11,884,618</u>	<u>11,771,673</u>

As of December 31, 2008, available funds principally included US\$47,730 thsd and S/.1,170,159 thsd (US\$26,542 thsd and S/.824,083 thsd, as of December 31, 2007) for the legal reserve requirement that banks established in Peru are required to maintain for deposits received from third parties. These funds are kept in the banks' vaults or deposited with the Central Bank (BCRP).

Deposits in nuevos soles are subject to the 9% minimum legal reserve requirement; foreign currency deposits are subject to the basic reserve requirement determined on the total obligations subject to a cash reserve from previous periods and to a marginal cash reserve. The cash reserve funds representing the legal minimum do not earn interest.

In addition, the Central Bank (BCRP) item includes overnight deposits of US\$220,000 thsd and special account deposits of S/.9,601,445 thsd (US\$160,000 thsd and 5,464,723 thsd, respectively, as well as term deposits in the amount of S/.4,577,060 thsd in 2007). In 2008, the term deposits held in the BCRP matured and were mainly transferred to the BCRP special account. The amounts kept in the BCRP special account accrued interest at the daily interbank rate published by the BCRP.

6 AVAILABLE-FOR-SALE AND HELD-TO-MATURITY MARKETABLE INVESTMENTS

As of December 31 these included:

	<u>2008</u> <u>S/.000</u>	<u>2007</u> <u>S/.000</u>
Available-for-sale marketable securities		
Peruvian Government securities and bonds:		
Marketable certificates of deposit	317,515	693,222
Sovereign bonds D.S. 079-2003	432,149	411,168
Global bonds	245,695	423,744
Provision	(43,479)	(3,649)
	951,880	1,524,485
Accrued yield	<u>18,084</u>	<u>28,453</u>
	<u>969,964</u>	<u>1,552,938</u>
Securities and bonds issued by other companies -		
Corporate bonds -		
- UBS Paine Webber	-	30,484
- Telefónica del Perú	33,000	22,000
- Inter-American Development Bank (IDB)	-	15,258
- Corporación Financiera de Desarrollo (COFIDE)	8,100	11,225
- Edegel	10,500	10,500
- Edelnor	27,000	9,000
- Saga Falabella	1,990	2,415
Commercial paper -		
- Saga Falabella	5,000	-
Securitized bonds -		
- Peajes Municipalidad Metropolitana de Lima	1,717	-
Marketable certificates of deposit -		
- Banco Ripley	2,000	-
- Banco Falabella	773	-
Shares -		
- Nortel Inversora S.A.	21	20
Provision	(2,865)	(223)
	87,236	100,679
Accrued yield	<u>1,375</u>	<u>1,203</u>
	<u>88,611</u>	<u>101,882</u>
Investments held to maturity -		
Treasury bonds:		
D.S. 002-2007 bond	2,414,830	2,644,572
D.U. 041-99 bond	18,545	35,389
	<u>2,433,375</u>	<u>2,679,961</u>
Accrued yield	<u>38,470</u>	<u>42,432</u>
	<u>2,471,845</u>	<u>2,722,393</u>
Total available-for-sale and held-to-maturity marketable investments	<u>3,530,420</u>	<u>4,377,213</u>

BCRP certificates of deposit are freely negotiable bonds with current maturities, which were adjudicated at public auction at the rates offered by financial entities. The annual local currency interest rates fluctuate between 6.50% and 7.25% (between 5.07% and 5.86% in 2007). The BCRP sets the interest rates for each auction.

As of December 31, 2008, the financial investments held to maturity mainly included the D.S. 002-2007 bond issued by the MEF (Note 1) for settlement and consolidation of mutual debts between the MEF and the Bank for S/.2,414,830 thsd (S/.2,644,572 thsd as of December 31, 2007). The bond accrues interest at an annual rate of 6.3824% payable quarterly, redeemable annually and maturing at 30 years. In 2008 the bond earned S/.154,165 thsd in interest (S/.168,318 thsd in 2007) which was included under the item Revenue from marketable and held-to-maturity investments in the income statement.

By ministerial resolution 215-2008-EF/75 of March 31, 2008, the MEF authorized redemption of the D.S 002-2007-EF bond up to an amount equal to the portion of the Bank's net earnings for 2007 that corresponds to the Treasury. Accordingly, the Bank's Board, at Special Meeting No.1706 of April 8, 2008, approved the distribution of earnings for 2007 and transferred them to the Treasury, S/.229,742 thsd of which were used on January 2, 2008 to redeem the bond (Note 1).

Furthermore, in 2008, the D.S. 041-99 bond was redeemed in the amount of US\$5,906 thsd, leaving a balance of US\$5,906 thsd in principal (equivalent to S/.18,545 thsd). In 2008, this bond generated annual accrued interest of S/.1,204 thsd.

The reconciliation between the book value and the market value of securities investments is as follows:

	<u>2008</u> <u>S/.000</u>	<u>2007</u> <u>S/.000</u>
Book value, net	3,472,492	4,305,125
Unrealized profits	<u>5,247</u>	<u>2,404</u>
Estimated market value	<u><u>3,477,739</u></u>	<u><u>4,307,529</u></u>

7 LOAN PORTFOLIO

a) As of December 31 this item included:

	<u>2008</u> <u>S/.000</u>	%	<u>2007</u> <u>S/.000</u>	%
Outstanding loans	2,932,838	102.23	2,362,656	100.95
Refinanced loans	102	-	144	-
Past-due loans	20,732	0.73	14,667	0.62
Loans in judicial collection	<u>44,084</u>	<u>1.54</u>	<u>42,276</u>	<u>1.81</u>
	2,997,756	104.50	2,419,743	103.38
Plus:				
Accrued yield on outstanding loans	44,150	1.54	40,161	1.72
Less:				
Unaccrued interest			-	
Provision for doubtful loans	<u>(173,131)</u>	<u>(6.04)</u>	<u>(119,466)</u>	<u>(5.10)</u>
	<u><u>2,868,775</u></u>	<u><u>100.00</u></u>	<u><u>2,340,438</u></u>	<u><u>100.00</u></u>
Indirect loans (Note 15)	<u><u>211,719</u></u>		<u><u>80,799</u></u>	

As of December 31, the average annual effective rates for the main products were as follows:

	<u>2008</u>		<u>2007</u>	
	<u>Accounts in</u>		<u>Accounts in</u>	
	<u>S/.</u>	<u>US\$</u>	<u>S/.</u>	<u>US\$</u>
	%	%	%	%
Overdrafts in checking account	7 - 23	12	6 - 23	12
Commercial loans	8 - 12	10	7 - 12	10
Consumer loans	9 - 20	-	14 - 20	-

b) As of December 31 the risk classification of the Bank's loan portfolio was as follows:

2008

<u>Risk category</u>	<u>Commercial loans</u>		<u>Consumer loans</u>		<u>Mortgage loans</u>		<u>Total</u>	
	<u>S/.000</u>	%	<u>S/.000</u>	%	<u>S/.000</u>	%	<u>S/.000</u>	%
Normal	1,193,753	92.79	1,862,294	96.84	-	28	3,056,075	95.22
PP	96	0.01	-	-	-	-	96	0.01
Substandard	283	0.02	27,063	1.41	-	-	27,346	0.85
Doubtful	39,170	3.04	24,350	1.27	-	-	63,520	1.98
Loss	53,174	4.13	9,264	0.48	-	-	62,438	1.95
	<u>1,286,476</u>	<u>100</u>	<u>1,922,971</u>	<u>100.00</u>	<u>-</u>	<u>28</u>	<u>3,209,475</u>	<u>100.00</u>

2007

<u>Risk category</u>	<u>Commercial loans</u>		<u>Consumer loans</u>		<u>Mortgage loans</u>		<u>Total</u>	
	<u>S/.000</u>	%	<u>S/.000</u>	%	<u>S/.000</u>	%	<u>S/.000</u>	%
Normal	234,367	75.32	2,150,670	98.23	-	-	2,385,037	95.38
PP	23,243	7.47	-	-	-	-	23,243	0.93
Substandard	410	0.13	8,731	0.40	-	-	9,141	0.36
Doubtful	401	0.13	27,581	1.26	-	-	27,982	1.12
Loss	52,743	16.95	2,396	0.11	-	-	55,139	2.21
	<u>311,164</u>	<u>100.00</u>	<u>2,189,378</u>	<u>100.00</u>	<u>-</u>	<u>-</u>	<u>2,500,542</u>	<u>100.00</u>

c) As of December 31, direct loans were distributed in the following sectors:

	<u>2008</u>		<u>2007</u>	
	<u>S/.000</u>	%	<u>S/.000</u>	%
Public administration and defense	22,841	0.76	100,516	4.15
Consumer loans	1,922,971	64.15	2,189,378	90.48
Other community service activities	139,254	4.65	114,771	4.74
Financial intermediation	364,772	12.17	-	-
Commerce	6,815	0.23	6,598	0.27
Manufacturing industry	537,296	17.92	3,935	0.16
Transportation, storage and communications	1,766	0.05	1,756	0.08
Others	2,041	0.07	2,789	0.12
	<u>2,997,756</u>	<u>100.00</u>	<u>2,419,743</u>	<u>100.00</u>

As of December 31 direct loans had the following contractual maturities:

	<u>2008</u> <u>S/.000</u>	<u>2007</u> <u>S/.000</u>
Up to 1 month	156,693	145,066
>1 month - 6 months	945,787	375,655
>6 months - 12 months	486,519	454,786
>12 months	<u>1,279,776</u>	<u>1,364,931</u>
	<u>2,868,775</u>	<u>2,340,438</u>

d) The change in the provision for doubtful loans (direct loans) was as follows:

	<u>Specific</u> <u>S/.000</u>	<u>General</u> <u>S/.000</u>	<u>Total</u> <u>S/.000</u>
Balance as of January 1, 2007	66,071	36,927	102,998
Provision applied to results	20,503	38,916	59,419
Exchange difference, net	(4,897)	1,903	(2,994)
Recoveries	-	(32,347)	(32,347)
Write-off and transfers	(7,610)	-	(7,610)
Balance as of December 31, 2007	<u>74,067</u>	<u>45,399</u>	<u>119,466</u>
Provision applied to results	10,040	47,324	57,364
Exchange difference, net	1,656	(4)	1,652
Recoveries	(1,000)	(3,283)	(4,283)
Write-off and transfers	()	-	-
Balance as of December 31, 2008	<u>83,695</u>	<u>89,436</u>	<u>173,131</u>

In 2007, the recoveries item principally included S/.22,937 thsd from the freeing up of the general provision on the MEF debt, which was offset in January 2007 with the issue of the D.S. 002-2007 bond (Note 1).

As of December 31, 2008, general provisions principally included S/.37,250 thsd corresponding to pro-cyclical provisions in the amount of S/.18,625 thsd and provisions for the retail debtors overborrowing risk of S/.18,625 thsd. The latter was calculated in accordance with SBS resolution 6941-2008. As of December 31, 2008 and as of December 31, 2007, the position included S/.21,812 thsd in voluntary provisions put up by the Bank.

8 PROPERTY, FURNITURE, EQUIPMENT AND ACCRUED DEPRECIATION

The change in the property, furniture and equipment account and the corresponding accrued depreciation for the year ended December 31, 2008, was as follows:

	<u>Initial balance</u> S/000	<u>Purchases and donations received</u> S/000	<u>Disposals</u> S/000	<u>Trans- fers</u> S/000	<u>Other changes</u> S/000	<u>Final balance</u> S/000
Cost:						
Land	33,407	2,522	-	241	4,853	41,023
Buildings and Plant	286,350	227	(424)	52,416	1,759	340,328
Furniture, machinery and equipment	27,597	2,585	(766)	13,495	(592)	42,319
Computers	67,407	15,439	(328)	3,811	(667)	85,661
Vehicles	4,912	-	(54)	-	-	4,858
Machinery	20,765	1,024	(214)	3,064	(888)	23,752
Works in progress	102,673	11,385	-	(69,367)	(12,253)	32,438
Goods receivable	1,271	36,499	-	(10,026)	(3,344)	44,400
Improvements in leased properties	9,666	751	(1,654)	6,366	-	15,129
	<u>574,048</u>	<u>70,431</u>	<u>(3,440)</u>	<u>-</u>	<u>(11,132)</u>	<u>629,908</u>
Depreciation:						
Buildings and Plant	178,222	11,943	(125)	2,340	10	192,390
Furniture, machinery and equipment	12,863	3,811	(578)	1,334	(37)	17,393
Computers	35,743	15,187	(305)	697	-	51,322
Vehicles	2,879	602	(54)	-	56	3,483
Machinery	7,690	2,050	(181)	447	-	10,007
Improvements in leased properties	5,363	2,805	(1,653)	2,082	-	8,597
	<u>242,760</u>	<u>36,398</u>	<u>(2,896)</u>	<u>6,900</u>	<u>29</u>	<u>283,192</u>
Net cost	<u>331,288</u>					<u>346,716</u>

The change in the property, furniture and equipment account and the corresponding accrued depreciation for the year ended December 31, 2007, was as follows:

	<u>Initial balance</u> S/000	<u>Purchases and donations received</u> S/000	<u>Disposals</u> S/000	<u>Trans- fers</u> S/000	<u>Other changes</u> S/000	<u>Final balance</u> S/000
Cost:						
Land	33,264	143	-	-	-	33,407
Buildings and Plant	283,216	76	-	667	2,391	286,350
Furniture, machinery and equipment	26,939	341	(63)	362	18	27,597
Computers	64,189	2,878	(35)	2,291	(1,916)	67,407
Vehicles	4,912	-	-	-	-	4,912
Machinery	15,230	94	(1)	3,050	2,392	20,765
Works in progress	98,829	4,941	-	(795)	(302)	102,673
Goods receivable	27,031	8,369	-	(5,731)	(8,398)	21,271
Improvements in leased properties	9,863	116	(469)	156	-	9,666
Carried forward:	<u>563,473</u>	<u>16,958</u>	<u>(568)</u>	<u>-</u>	<u>(5,815)</u>	<u>574,048</u>
Depreciation:						
Buildings and Plant	168,496	9,727	-	-	(1)	178,222
Furniture, machinery and equipment	10,294	2,607	(43)	-	5	12,863
Computers	21,727	14,046	(30)	-	-	35,743
Vehicles	2,131	748	-	-	-	2,879
Machinery	6,060	1,630	-	-	-	7,690
Improvements in leased properties	3,857	1,975	(469)	-	-	5,363
	<u>212,565</u>	<u>30,733</u>	<u>(542)</u>	<u>-</u>	<u>4</u>	<u>242,760</u>

Net cost 350,908 331,288

In 2008, continuing with the computer systems modernization policy initiated in 2007 (computers and peripherals purchased in 2007 in the amount of S/.2,878 thsd), the Bank acquired latest generation peripherals (network switches and printers) for approximately S/.5,613 thsd, together with miscellaneous equipment (pin pads, check readers and televisions) for approximately S/.3,797 thsd.

Goods receivable in 2008 principally included the purchase of ATM cameras in the amount of S/.2,096 thsd; storage systems for S/.4,676 thsd; updating of management software at the Javier Prado headquarters in the amount of S/.8,826 thsd; vehicles in the amount of S/.2,117 thsd; personal computers and laptops for S/.6,988 thsd and fiber-optic interconnection between the Javier Prado headquarters and head office for S/.2,773 thsd.

Works in progress in 2008 included provisions put up for remodeling and construction of office and branch premises in Lima and the provinces of S/.10,703 thsd, as well as provisions for the construction of vaults, decoration of offices and ATMs, air-conditioning, and other items.

Banks are prohibited to put up any of their fixed assets as security other than those purchased in financial lease operations.

9 OTHER ASSETS

As of December 31 these items included:

	<u>2008</u> S/.000	<u>2007</u> S/.000
Receivables from COFIDE- Equity Trust (a)	100,000	50,000
Receivables, net of provisions for S/.23,654 thsd and S/.30,243 thsd, respectively	38,679	36,544
Payments on account of income tax	131,643	113,843
Head office and branches	67,435	63,144
Operations in progress (b)	70,833	7,901
Advance payments and deferred charges	12,468	12,373
Deferred income tax and workers' profit share, net (Note 14-c)	113,714	53,431
Tax credit	9,153	5,175
Deferred expenses, net of amortization of S/.12,988 thsd and S/.9,181 thsd, respectively	14,402	14,597
Awarded goods, net of provision of S/.948 thsd and S/.68 thsd, respectively	180	40
Miscellaneous goods	624	604
	<u>559,131</u>	<u>357,652</u>

a) As of December 31, 2008, receivables from COFIDE – Equity Trust corresponded to the funds transferred to the Banco de la Nación Trust Fund (hereafter Equity Trust) signed on May 16, 2007, by the Bank, as Trustee and Trustor, and Corporación Financiera de Desarrollo (COFIDE), as trustee. The life of the agreement shall not exceed two years counted from the date of signing. The Equity Trust was set up for an amount up to S/.100 million, which the Bank would transfer from its self-generated funds within one year, so that the trustee might undertake investments on behalf of the Bank. COFIDE is also required to return to the trustor all contributions and returns on investments within not more than one year after the transfer of the last contribution to the Equity Trust, in this case in May 2009.

b) Operations in progress principally referred to transactions recorded in the last days of the month, which will be reclassified in their definitive accounts in the balance sheet in the following month.

As of December 31, 2008, this item mainly comprised US\$18,960 thsd in foreign currencies sold to put up foreign currency provisions.

10 DUE TO CUSTOMERS

As of December 31 this item included:

	<u>2008</u> <u>S/.000</u>	<u>2007</u> <u>S/.000</u>
Sight deposits (a)	10,746,312	11,898,772
Savings deposits (b)	2,039,256	1,795,194
Term deposits (c)	465,372	226,539
Other liabilities (d)	3,587,549	3,254,072
Expenses payable on due to customers (e)	<u>92,791</u>	<u>91,953</u>
	<u>16,931,280</u>	<u>17,266,530</u>

The annual effective interest rates set for paying savings and term deposits in force for 2008 and 2007, were principally 1.13% to 3.0% in local currency and 0.50% to 2.75% in foreign currency for term deposits.

(a) Sight liabilities consisted of:

	<u>2008</u> <u>S/.000</u>	<u>2007</u> <u>S/.000</u>
Deposits in current account	10,655,926	11,825,912
Cashier's checks	50,916	50,280
Transfers payable	35,723	17,818
Certified checks	2,336	3,256
Collections payable	94	258
Trust liabilities	<u>1,317</u>	<u>1,248</u>
	<u>10,746,312</u>	<u>11,898,772</u>

Deposits in current account mainly correspond to those made by: Local Governments of approximately S/.2,539,724 thsd and US\$420 thsd (S/.4,614,996 thsd and US\$272 thsd in 2007); Ministry of Economy and Finance of S/.808,784 thsd and US\$52,661 thsd (S/.835,622 thsd and US\$15,789 thsd in 2007); SUNAT of S/.428,042 thsd and US\$84 thsd (S/.29,395 thsd and US\$53 thsd in 2007); Office of the President of the Council of Ministers S/.13,081 thsd and US\$126,552 thsd (S/.25,454 thsd and US\$49,130 thsd in 2007); Regional Governments of S/.1,628,789 thsd and US\$14,811 thsd (S/.2,348,176 thsd and US\$11,266 thsd in 2007) and the Ministry of Transport and Communications of S/.346,791 thsd and US\$28,738 thsd (S/.308,293 thsd and US\$27,381 thsd in 2007).

(b) Savings deposits correspond to accounts opened to pay public sector salaries and pensions.

(c) Term deposits include bank certificates, term deposits and length of service compensation (CTS) deposits in the amount of S/.4,402 thsd, S/.405,900 thsd and S/.55,070 thsd, respectively (S/.4,173 thsd, S/.172,143 thsd and S/.50,223 thsd, respectively as of December 31, 2007).

(d) Other liabilities includes the following:

	<u>2008</u> S/.000	<u>2007</u> S/.000
To tax collection agencies	282,223	171,472
Restricted due to customers	1,008,699	801,848
Workers' and pensioners' fringe benefits	<u>2,296,627</u>	<u>2,280,752</u>
	<u>3,587,549</u>	<u>3,254,072</u>

Workers' and pensioners' fringe benefits includes:

	<u>2008</u> S/.000	<u>2007</u> S/.000
Law 4916 Labor Regime	2,802	2,525
D.L. 11377 Labor Regime	148	149
D.L. 20530 Retirement	<u>2,293,677</u>	<u>2,278,078</u>
	<u>2,296,627</u>	<u>2,280,752</u>

Retirement pensions principally correspond to the present value of future pension payments to current and former Bank workers under Decree Law 20530. The Bank has set up a provision based on the amounts determined by the actuarial calculation performed by the Pension Regulation Office (ONP).

By Executive Decree 106-2002-EF of June 26, 2002, all public sector companies with pensioners or serving employees entitled to receive benefits under the D.L. 20530 pension scheme were required to perform, in coordination with the ONP, an actuarial calculation that included all their pension obligations, as well as the calculation of probable contingencies. The actuarial calculation made by the ONP as of December 31, 2008 amounted to US\$731,169 thsd equivalent to S/.2,293,677 thsd (US\$760,627 thsd equivalent to S/.2,278,078 thsd, as of December 31, 2007).

Executive Decree 043-2003-EF was published on March 28, 2003, introducing rules on registration of pension obligations under the pension scheme provided by Decree Law 20530 and amending provisions, not financed with Treasury funds. This decree amended Executive Decree 106-2002-EF by including the rules contained in Executive Decree 026-2003-EF of February 27, 2003, in the actuarial calculation for pensions and, as applicable, those of Public Accounting Resolution 159-2003-EF/93.01 of March 6, 2003 and other provisions adopted by the National Public Accounts Office for the purposes of registration and control of pension obligations.

Under Article 2 of Executive Decree 043-2003-EF, FONAFE issues regulatory provisions governing the constitution of funds necessary to finance the pension obligations of entities and companies under its scope.

The year's movements for the retirement pension provision for pensioners' and workers' under the D.L. 20530 regime was as follows:

	<u>2008</u> <u>S/.000</u>	<u>2007</u> <u>S/.000</u>
Balance at the start of the year	2,278,078	2,089,917
Debit to results	207,307	379,911
Provisions, fractions and widows' and orphans' pension fund	4,165	5,398
Payments to pensioners	(195,873)	(197,148)
Balance at the end of the year	<u>2,293,677</u>	<u>2,278,078</u>

The provision for fringe benefits represents obligations adopted in respect of compensation rights for serving employees; as well as the provision for retirement pensions for serving and former employees of the Bank under the Decree Law 20530 pension system.

- (e) Expenses payable on due to customers principally includes interest on judicial deposits of approximately S/.87,619 thsd.

As of December 31 the maturity schedule for deposits and other liabilities was as follows:

	<u>2008</u> <u>S/.000</u>	<u>2007</u> <u>S/.000</u>
Up to 1 month	3,594,684	4,912,726
>1 month - 6 months	6,473,901	5,837,944
>6 months - 12 months	1,924,536	2,371,696
>12 months	4,938,159	4,144,164
	<u>16,931,280</u>	<u>17,266,530</u>

11 PAYABLES, PROVISIONS ANY OTHER LIABILITIES

As of December 31 this item included:

	<u>2008</u> <u>S/.000</u>	<u>2007</u> <u>S/.000</u>
Payables (a)	149,860	112,555
Provisions (b)	194,515	129,837
Other liabilities (c)	125,879	11,593
	<u>470,254</u>	<u>253,985</u>

- (a) The payables item comprises the following:

	<u>2008</u> <u>S/.000</u>	<u>2007</u> <u>S/.000</u>
Sundry payables	18,110	22,073
Suppliers	90,202	60,230
Profit share and remunerations payable	41,416	30,252
Expense for account payments	132	-
	<u>149,860</u>	<u>112,555</u>

(b) Provisions comprise the following:

	<u>2008</u> <u>S/.000</u>	<u>2007</u> <u>S/.000</u>
Provision for contingent loans:		
- Specific	559	391
- General	<u>1,854</u>	<u>575</u>
	<u>2,413</u>	<u>966</u>
Other provisions:		
- Provision for litigation and lawsuits	175,707	111,867
- Self insurance reserve fund	7,903	6,387
- Loan contingencies	3,988	6,076
- Claims fund	3,551	3,619
- Provision for risk	831	800
- Contingencies	122	117
- Public sector workers and pensioners, others	-	5
	<u>192,102</u>	<u>128,871</u>
	<u>194,515</u>	<u>129,837</u>

As of December 31, 2008, the provision for litigation and lawsuits included the registration of allowances for labor and pension suits as well as civil and arbitration proceedings instituted against the Bank, in the amount of S/.43,950 thsd and S/.131,757 thsd, respectively (S/.43,933 thsd and S/.67,934 thsd, respectively as of December 31, 2007).

The provision for loan contingencies covers possible losses of consumer loans granted to public sector workers and pensioners as a result of the borrower's death.

(c) Other liabilities consists of:

	<u>2008</u> <u>S/.000</u>	<u>2007</u> <u>S/.000</u>
Operations in progress	122,189	8,409
Deferred revenue – interest and goods awarded and fees for contingent operations	2,221	1,728
Cash carryover	1,469	1,322
Provincial branches and offices	-	134
	<u>125,879</u>	<u>11,593</u>

Operations in progress mainly concerned transactions conducted during the final days of the month, which are reclassified in the following month in the definitive balance sheet accounts. As of December 31, 2008, they mainly included the equivalent of foreign currency sold in order to put up foreign currency provisions in the amount of S/.59,704 thsd; transfers from the “Juntos” Program pending payment into the definitive checking accounts for S/.17,596 thsd, and transfers pending to State Implementing Units through BCRP in the amount of S/.33,595 thsd.

12 EQUITY

a) General -

As of December 31, 2008, the Bank's net capital determined in accordance with the law came to approximately S/.1,339,090 thsd (S/.1,265,579 thsd as of December 31, 2007). This figure is used to calculate certain limits and restrictions applicable to the Bank's operations in Peru.

The credit risk-weighted assets and contingent loans determined by the Bank in accordance with the laws applicable to financial institutions amounted to approximately S/.4,174,331 thsd (S/.3,344,615 thsd as of December 31, 2007).

Under the General Law, the amount of credit risk-weighted assets and contingent loans may not exceed 11 times the net capital allocated to cover credit risk. In addition, the amount of the positions subject to risk-weighted market risk may not exceed 11 times the net capital allocated to cover market risk. As of December 31, 2008, the Bank's leverage ratio was equivalent to 3.11 times the net capital to cover credit risk, and the overall leverage ratio for credit risk and market risk was equivalent to 3.13 times the net capital (as of December 31, 2007, the overall leverage ratio for each risk was 2.65:1).

b) Capital stock -

The Bank's authorized capital is S/.1,000,000 thsd, to be fully paid up by the Peruvian State pursuant to Article 5 of the Bank Statutes. No shares or stock certificates of any kind are issued for the capital. The Bank's subscribed and paid-up capital as of December 31, 2008 and December 31, 2007 came to S/.1,000,000 thsd and S/.918,128 thsd, respectively.

c) Legal reserve -

Under the General Law, the Bank must have a legal reserve of not less than 35% of its paid-up capital. This reserve is constituted through the annual transfer of at least 10% of its net income.

d) Retained earnings-

Pursuant to Article 40 of the Bank Statutes, 50% of the net income is used to cover the Bank's authorized capital and the other 50% is for the Treasury. Once the authorized capital is covered, all of the net income goes to the Treasury.

At Special Meeting 1706 of April 8, 2008, the Board approved the distribution of the 2007 earnings of S/.325,231 thsd as follows: S/.81,872 thsd and S/.13,618 thsd to increase the capital stock and legal reserve, respectively; accordingly, as of that date, the Bank's authorized and paid-up capital amounted to S/.1,000,000 thsd. Therefore the balance of S/.229,741 thsd went to the Treasury. This amount was used by the Bank to partially redeem the D.S. 002-2007 Bond (Note 6).

13 WORKERS' PROFIT SHARE

Under Legislative Decree 677, the workers are entitled to a share in the profits equivalent to 5% of the Bank's earnings. This share is a deductible expense for the purposes of calculating income tax.

The workers' profit share expenditure shown in the income statement includes the following:

	<u>2008</u> <u>S/.000</u>	<u>2007</u> <u>S/.000</u>
Current	27,220	16,732
Deferred	(6,874)	(3,632)
	<u>20,346</u>	<u>13,100</u>

14 TAX SITUATION

- a) Management believes that it has determined the tax base under the general income tax regime in keeping with the tax regulations in force, which requires the addition and deduction from the result shown in the financial statements of those items which the aforesaid regulations recognize as taxable and non-taxable, respectively.

The income tax rate corresponding to the years 2008, 2007 and thereafter has been set at 30%. The tax base has been determined as follows:

	<u>2008</u> <u>S/.000</u>	<u>2007</u> <u>S/.000</u>
Earnings before income tax	552,857	412,999
Plus:		
- Unaccepted expenses	222,233	269,492
Less:		
- Exempt revenue and revenue taxed In previous years	(230,696)	(347,843)
	544,394	334,648
Workers' profit share	(27,220)	(16,732)
Taxable base	<u>517,174</u>	<u>317,916</u>
Current income tax	<u>155,152</u>	<u>95,375</u>

- b) The income tax expense shown in the income statement includes the following:

	<u>2008</u> <u>S/.000</u>	<u>2007</u> <u>S/.000</u>
Current	155,152	95,375
Deferred	(39,180)	(20,707)
	<u>115,972</u>	<u>74,668</u>

- c) Deferred workers' profit share and income tax are computed according to the liabilities method based on the temporary differences between the assets and liabilities tax base and their balances in the financial statements, which consist of the following:

	<u>2008</u> S/.000	<u>2007</u> S/.000
Assets -		
General provision for loans and provisions surplus	29,959	7,901
Marketable and held-to-maturity investments	15,524	1,296
Provision for goods awarded	318	23
Provision for general contingencies	621	193
Provision for litigation and lawsuits	58,861	37,475
Provision for country risk	279	268
Other provisions for potential contingencies	41	39
Other provisions for self-fund contingencies pago de siniestros	1,190	1,212
Other provisions for self-funded contingencies self-insurance	2,648	2,140
Provision for vacations	<u>4,273</u>	<u>2,884</u>
	<u>113,714</u>	<u>53,431</u>

- d) The Tax Authority has the power to review and, as appropriate, correct the income tax determined by the Bank for the four previous years, counted from January 1 of the year following that in which the relevant tax return was submitted (years subject to control). The years 2004 to 2008 are subject to control. Owing to the fact that differences may arise over the Tax Authority's interpretation of the standards applicable to the Bank, it is not possible to anticipate when tax liabilities would be produced as a result of potential reviews. Any additional tax, arrears, surcharges, or interest, as appropriate, will be recognized in the results of the year in which the difference of opinion with the Tax Authority is resolved. Management does not believe that any significant liabilities will arise as a result of these possible reviews.

- e) Temporary Tax on Net Assets

On January 1, 2005, a temporary tax on net assets was introduced which taxes third-category income earners subject to the general income tax regime. The rate of the tax as of 2008 is 0.5% on the amount of net assets exceeding S/.1 millón.

The amount effectively paid may be credited against payments on account of income tax or against income tax regularization payments in the appropriate tax year.

15 CONTINGENT AND MEMORANDUM ACCOUNTS

As of December 31 this item includes:

	<u>2008</u> <u>S/.000</u>	<u>2007</u> <u>S/.000</u>
Contingent operations -		
Contingent loans:		
Guarantees granted	167	160
Bonds granted	54,580	23,693
Letters of credit	<u>156,972</u>	<u>56,946</u>
	211,719	80,799
Unused lines of credit and undisbursed approved loans	557,086	45,984
Litigation and lawsuits pending and other contingencies	<u>640,365</u>	<u>305,030</u>
	<u>1,409,170</u>	<u>431,813</u>
Memorandum accounts -		
Risk-weighted assets and loans rating	23,635,622	22,037,145
Yield from on-hold loans and revenue	13,394,575	9,130,886
Write-off of bad debts	3,960,153	2,932,630
Own securities under collection	2,299,279	2,343,894
Guarantees Supreme Government foreign debt	1,350,590	1,342,770
Guarantees received for loan operations	693,742	925,400
Portfolio, guarantees and credit transfer MEF/Banco Latino	809,132	763,531
Payment approval Treasury	618,944	501,226
Payments schedule Ministry of the Presidency	102,307	190,488
Loans on behalf of third parties	20,562	72,717
Guarantees received for services	70,838	64,625
D.U. 062-2002 immobilized savings	55,590	55,792
Supreme Government Liabilities for foreign debt	29,159	47,482
Own goods and securities in custody	14,130	13,554
Consignments received	3,550	3,015
Other debit memorandum accounts	464,704	418,459
Other credit memorandum accounts	<u>1,831,447</u>	<u>1,853,521</u>
	<u>49,354,324</u>	<u>42,697,135</u>
Trusts	<u>2,068,442</u>	<u>2,166,979</u>
	<u>52,831,936</u>	<u>45,295,927</u>

a) Indirect loans -

In the normal course of its operations, the Bank performs contingent operations that expose it to additional credit risk beyond the amounts recognized in the balance sheet.

The credit risk in contingent operations is defined as the possibility of a loss occurring as a result of the failure of one of the parties in contingent operations to comply with the terms of the agreement. The loan loss risk to the Bank, through letters of credit, is represented by the amounts stipulated in these instrument's agreements. Bearing in mind that the majority of contingent operations are expected to expire without being drawn on, they do not necessarily represent future cash outflows.

Letters of credit, guarantees, and bonds are contingent commitments granted by the Bank to ensure that a customer performs their obligations to a third party. Letters of credit are mainly issued as credit-related guarantees used to facilitate commercial transactions abroad. The risks associated with these credits are reduced by the involvement of the parties.

b) Litigation and lawsuits -

As of December 31, 2008, the Bank had various lawsuits pending in connection with its activities, which, in the opinion of Management and their legal counsel will not give rise to liabilities. Accordingly, Management believes it unnecessary to have a provision greater than the one stated for such contingencies under the Other liabilities item in the balance sheet, which amounted to S/.175,707 thsd and S/.111,867 thsd in 2008 and 2007, respectively.

c) Supreme Government foreign debt guarantees and obligations

Operations are registered in which the Bank acts as the financial agent of the State for the implementation of loans concluded between the Republic and other countries, in particular under bilateral refinancing agreements and with the Paris Club for S/.1,080,453 thsd, as well as with financial entities and suppliers in accordance with the pertinent laws.

d) Trusts -

These include the financial statements of the following equity trusts managed by the Bank:

	<u>2008</u> S/.000	<u>2007</u> S/.000
Equity Trust 036-2000 and RM 099-2000-EF/10	751,036	982,341
MML - BIRF - BID Urban Transport	747,051	584,018
D.U. 034-99 Fiduciary Fund	33,485	78,110
MINJUS - DDHH-BN Trust	2,354	2,120
Olmos - Tinajones Special Project Trust	21	22
RM 307-2006 - EF/75 Trust	293,746	331,566
MINDES - FONCODES – BN Trust	149,815	133,288
Cuzco Regional Government - Plan Meriss Trust	73,210	55,514
Public Projects- BN - La Victoria Municipality Trust	247	-
EPS SEDALORETO - BN Trust	3,591	-
Armed Forces Fund	2,122	-
Empresa Municipal Prestadora de Servicio de Saneamiento de las Provincias Alto Andinas S.A. Trust	11,764	-
	<u>2,068,442</u>	<u>2,166,979</u>

16 CONTINGENCIES

As of December 31, 2008, the Bank has been involved in a legal proceeding brought by Jaime Aurelio Osterling Vásquez against the Bank, in which the plaintiff seeks recognition as the owner of a foreign currency bank deposit certificate (CBME in Spanish) for US\$296 thsd and payment of said amount plus interest. The Bank paid the aforesaid amount imputing it to an account receivable. Accordingly, the CBME has not been redeemed and therefore the Bank continues to calculate the interest. The Superior Court of Justice of Lima ordered a new assessment of interests performed by judicial experts to determine the appropriate amount, and they arrived at different amounts. At present, a special hearing to compare the findings of the experts has been sought and a decision by the Court is pending in that respect. The interest assessment will show if the provision registered in the books is sufficient.

17 REVENUE FROM FINANCIAL SERVICES

Revenue from financial services for the years ended December 31, 2008 and 2007 include administration fees for funds collected on behalf of the Treasury, renewal of debit cards, maintenance in deposit accounts, tax collections, collections for public entities, correspondent services, teledrafts, checking account operations and exchange of checks, financial advisory services, and other services connected with credit-related or intermediation activities.

18 ADMINISTRATION EXPENSES

Administration expenses for the following years ended December 31 include:

	<u>2008</u> <u>S/.000</u>	<u>2007</u> <u>S/.000</u>
Employee and board expenses	498,239	645,979
Expense on third-party services	207,297	179,455
Tax	36,885	34,304
	<u>742,421</u>	<u>859,738</u>

Employee and board expenses principally include the retirement pension provision for 2008 of S/.207,307 thsd (S/.379,911 thsd in 2007).

Expenditure on services received from third parties in 2008 mainly includes the transfer of securities for S/.28 898 thsd, employees' fund for the health care program (PAM) for S/.9,762 thsd and communications for S/.16,462 thsd (in 2007, transfer of securities for S/.26 219 thsd, employees' fund for the health care program (PAM) for S/.15,211 thsd, and communications for S/.16,305 thsd)

19 OTHER REVENUE (EXPENDITURE)

Sundry revenues for the following years ended December 31 include:

	<u>2008</u> <u>S/.000</u>	<u>2007</u> <u>S/.000</u>
Other revenue:		
Financial revenue / interest and fees	853	100,943
Other revenue from previous years	-	11,309
Sale of realizable goods received in payment and awarded	7	-
Sundry revenue from activities	12,522	-
Other extraordinary revenue	2,793	784
	<u>16,175</u>	<u>113,036</u>
Other expenditure:		
Net expenditure on recovery of loans	(1,754)	-
Financial expenditure	(637)	(323)
Depreciation and devaluation of assets	(6,900)	-
Tax	(5)	(19)
Employee expenditure from previous years	(3,638)	(2,355)
Other expenditure from previous years	(3,404)	(1,883)
Administrative and fiscal penalties	(32)	(36)
Other extraordinary expenditure	(1,857)	(7,563)
	<u>(18,227)</u>	<u>(12,179)</u>
Other revenue (expenditure), net	<u>(2,052)</u>	<u>100,857</u>

The items sundry revenue from activities mainly reflects the reversion of provisions that were put up in previous years in order to carry at market value lands and buildings that were appraised and which were reappraised in 2008 by independent professionals, with the result that their value was updated to S/.8,480 thsd.

Depreciation and devaluation of assets for S/.6,900 thsd came about as a result of the recognition and activation of a series of real properties built and put into use on different dates since July 2006. Their depreciation since those dates has been adjusted in accordance with applicable tax and accounting standards.

As of December 31, 2008, employee expenses from previous years mainly included payments to Bank workers of salaries and fringe benefits from previous years in the amount of S/.1,901 thsd and payment for services rendered by third parties of S/.634 thsd.