FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

To the Directors of
Banco Central de Reserva del Perú

We have audited the accompanying financial statements of Banco Central de Reserva del Perú (hereinafter "the Central Bank") which comprise the statement of financial position as of December 31, 2011, and the related statements of comprehensive income, changes in equity and cash flows for the year 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 accounting principles approved by the Central Bank Board of Directors, described in note 2 to the accompanying financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence on the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements.

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 accompanying financial statements present fairly, in all material respects, the financial position of Banco Central de Reserva del Perú as of December 31, 2011, and its financial performance and cash flows for the year then ended, in accordance with accounting principles applied by the Central Bank as described in note 2.

Other matters

The financial statements as of and for the year ended December 31, 2010, were audited by other independent auditors, whose report dated February 04, 2011 expressed an unqualified opinion on those financial statements.

Lima, Peru
February 20, 2012

Countersigned by:

Medina, Zaldivar, Paredes & Asociados

Juan Paredes
C.P.C.C. Registration No. 22220

STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2011 AND 2010

ASSETS	Note	2011 S/.(000)	2010 S/.(000)
GROSS INTERNATIONAL RESERVES:			
Cash in foreign currency		134,896	175
Deposits in foreign banks	4	30,354,568	30,262,374
Deposits in foreign institutions	5	2,188,933	2,294,897
Securities from international institutions	6	92,141,335	85,339,924
Gold	7	4,641,465	4,394,212
Contributions to international institutions	8	2,144,349	1,609,933
Other available assets		68,470	72,684
		131,674,016	123,974,199
OTHER ASSETS ABROAD:			
Contributions in local currency to the International Monetary Fund	8(b)	1,814,335	2,233,129
Other assets abroad		55,623	67,766
		1,869,958	2,300,895
DOMESTIC CREDIT		9	9
PROPERTY, FURNITURE AND EQUIPMENT, NET	9	139,481	138,282
OTHER ASSETS	10	1,229,708	432,069
TOTAL ASSETS		**134,913,172**	**126,845,454**
OFF – BALANCE SHEET ACCOUNTS	20	21,501,677	13,784,033

The accompanying notes are an integral part of these statements of financial position.

LIABILITIES AND NET EQUITY	Note	2011 S/(.000)	2010 S/.(000)
RESERVE LIABILITIES		115,110	127,183
Other liabilities abroad:			
Equivalent of the contribution in local currency to the International Monetary Fund	8(b)	1,814,335	2,233,129
Other liabilities abroad	11	2,570,498	2,694,499
		4,384,833	4,927,628
STERILIZED STOCK:			
Outstanding securities issued	12	13,395,918	3,684,583
Deposits in local currency	13	36,232,328	48,888,911
		49,628,246	52,573,494
MONETARY BASE:	14		
Currency in circulation		32,300,487	28,077,144
Deposits in local currency		7,666,683	6,130,823
		39,967,170	34,207,967
DEPOSITS IN FOREIGN CURRENCY	15	41,853,711	32,755,094
OTHER LIABILITIES	16	1,353,621	636,517
TOTAL LIABILITIES		137,302,691	125,227,883
NET EQUITY	17		
Capital		1,182,750	1,182,750
Legal reserve		1,182,750	1,182,750
Special statutory reserve		871,449	410,107
Fair value reserve		(145,226)	18,473
Retained earnings		(203,423)	615,123
Capital, reserves and retained earnings		2,888,300	3,409,203
Readjustment for valuation article N°89 - Organic Act		(5,277,819)	(1,791,632)
TOTAL NET EQUITY		(2,389,519)	1,617,571
TOTAL LIABILITIES AND NET EQUITY		**134,913,172**	**126,845,454**
Off – balance sheet accounts	20	21,501,677	13,784,033

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	Note	2011 S/.(000)	2010 S/.(000)
FINANCIAL INCOME			
Interest on deposits in foreign banks	4(c)	67,955	55,567
Net yield on securities	6(e)	1,845,346	1,876,473
Interest on international agreements		12,353	8,185
Dividends received from Latin American Reserve Fund		16,566	36,118
Yield on gross international reserves		1,942,220	1,976,343
Interest on domestic credit operations		12,294	1
Other financial income		86,519	7,936
TOTAL FINANCIAL INCOME		2,041,033	1,984,280
NON-FINANCIAL INCOME		14,368	4,332
FINANCIAL EXPENSES			
Interest on liabilities abroad		(10,844)	(7,700)
Interest on outstanding securities issued	12(c)	(486,021)	(313,553)
Interest on local currency deposits	13(c)	(1,393,366)	(702,625)
Interest on foreign currency deposits	15(d)	(44,428)	(44,379)
Other financial expenses		(6,481)	(5,236)
TOTAL FINANCIAL EXPENSES		(1,941,140)	(1,073,493)
OPERATING EXPENSES	21	(221,726)	(211,142)
EXPENSES AND COST OF ISSUANCE	22	(95,958)	(88,854)
Net (loss) income		(203,423)	615,123
OTHER COMPREHENSIVE INCOME	6(e)	(163,699)	(775,215)
TOTAL COMPREHENSIVE INCOME		**(367,122)**	**(160,092)**

The accompanying notes are an integral part of these statements

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	Capital	Legal reserve	Special statutory reserve	Fair value reserve	Retained earnings	Capital reserves and retained earnings	Readjustment for valuation article N°89- Organic Act	Net Equity
	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)
Balance as of January 1, 2010	591,375	591,375	-	793,688	2,050,612	4,027,050	(91,836)	3,935,214
Net income	-	-	-	-	615,123	615,123	-	615,123
Other comprehensive income, note 6(e)	-	-	-	(775,215)	-	(775,215)	-	(775,215)
Total comprehensive income	-	-	-	(775,215)	615,123	(160,092)	-	(160,092)
Reserve capitalization, note 17(a)	591,375	(591,375)	-	-	-	-	-	-
Transfer to special statutory reserve, note 17(b)	-	-	1,592,857	-	(1,592,857)	-	-	-
Constitution of reserve, note 17(b)	-	1,182,750	(1,182,750)	-	-	-	-	-
Transfer to earnings to the public treasure, note 17(c)	-	-	-	-	(457,755)	(457,755)	-	(457,755)
Readjustment for valuation of the year, note 17(d)	-	-	-	-	-	-	(1,699,796)	(1,699,796)
Balance as of December 31, 2010	1,182,750	1,182,750	410,107	18,473	615,123	3,409,203	(1,791,632)	1,617,571
Net loss	-	-	-	-	(203,423)	(203,423)	-	(203 423)
Other comprehensive income, note 6(e)	-	-	-	(163,699)	-	(163,699)	-	(163 699)
Total comprehensive income	-	-	-	(163,699)	(203,423)	(367,122)	-	(367,122)
Transfer to special statutory reserve, note 17(b)	-	-	461,342	-	(461,342)	-	-	-
Transfer to earnings to the public treasure, note 17(c)	-	-	-	-	(153,781)	(153,781)	-	(153,781)
Readjustment for valuation of the year, note 17(d)	-	-	-	-	-	-	(3,486,187)	(3,486,187)
Balance as of December 31, 2011	**1,182,750**	**1,182,750**	**871,449**	**(145,226)**	**(203,423)**	**2,888,300**	**(5,277,819)**	**(2,389,519)**

The accompanying notes are integral part of these statements

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011 S/.(000)	2010 S/.(000)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	(203,423)	615,123
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities		
Depreciation of property, furniture and equipment	6,822	6,778
Amortization of intangible assets	2,019	1,320
Other, net	1,544	(635)
Net changes in assets, liabilities and equity accounts		
Decrease of other assets abroad	430,937	98,136
(Increase) decrease of other assets	(799,658)	80,200
(Decrease) increase of reserve liabilities	(12,072)	10,695
Decrease of other liabilities abroad	(542,796)	(206,369)
Increase (decrease) of outstanding securities issued	9,711,335	(10,386,668)
(Decrease) increase of deposits in local currency	(12,656,582)	26,686,512
Increase of deposits in banks, financial institutions and other	1,535,859	5,122,210
Increase of deposits in foreign currency	9,098,617	3,422,427
Increase of other liabilities	717,104	120,246
Decrease of fair value reserve	(163,699)	(775,215)
Decrease of readjustment in valuation article N°89 - Organic Act	(3,486,187)	(1,699,796)
Cash and net cash equivalents provided by operating activities	3,639,820	23,094,964
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of property, furniture and equipment	-	1,027
Additions to property, furniture and equipment	(9,565)	(12,131)
Transfer of earnings to the Public Treasury	(153,781)	(457,755)
Cash and net cash equivalents used in investing activities	(163,346)	(468,859)
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,476,474	22,626,105
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	95,897,055	73,270,950
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**99,373,529**	**95,897,055**

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

1. OPERATIONS

Banco Central de Reserva del Perú (hereinafter "the Central Bank") is an autonomous legal entity of public law incorporated on March 9, 1922, intended to preserve monetary stability in Peru. Its activities are currently governed by article N°84 of the Peruvian Constitution, dated December 29, 1993, and by its Organic Act approved by Decree-Law N°26123 of December 24, 1992 (hereinafter "the Organic Act"). The Organic Act establishes that the Bank's functions are to regulate the amount of money, administrate international reserves, issue bills and coins, and report on the finances of Peru.

The Central Bank has its legal address and headquarters in Antonio Miró Quesada Street 441 – 445, Lima and has branches in seven cities in Peru. As of December 31, 2011 and 2010, the number of employees was 990 and 997, respectively.

The financial statements as of and for the year ended December 31, 2010 were approved by the Board of Directors at the meeting held on March, 2011. The financial statements as of and for the year ended December 31, 2011, were approved by the Central Bank's Management and will be submitted for the Board´s approval within the period established by the Organic Act. In Management's opinion, they will be approved by the Board of Directors without modifications.

The Central Bank represents Peru for the purposes set forth in the articles of the agreements of the International Monetary Fund (hereinafter "IMF") and the Latin American Reserve Fund (hereinafter "FLAR" for its Spanish acronym) and is responsible for all transactions, operations and official relations with these institutions. The Central Bank may also act as a Peruvian Government Agent in its relations with multilateral credit organizations and financial agencies of foreign governments. Additionally, at December 31, 2011, the Central Bank has operations with the Bank for International Settlements (hereinafter "BIS").

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

- Grant funding to the Public Treasury, except in the form of acquisitions of securities issued by the Public Treasury in the secondary market in which case the holding of such securities may not exceed at any moment, valued at their acquisition cost, 5 percent of the balance of the monetary base at the closing date of the previous year.
- Grant credits or any other form of funding to financial institutions that maintain past due obligations. Moreover, the Central Bank is not allowed to grant loans or advanced payments to its Directors.
- Extend guarantees, letters of guarantee or any other guarantees, or use any form of indirect funding, or grant insurance of any type. It should be mentioned that the operations conducted by the Central Bank in implementing payment and reciprocal credit agreements are not subject to the aforementioned prohibition.
- Allocate resources for the creation of special funds aimed at granting credits or making investments to promote nonfinancial economic activities.

- Issue securities, bonds or contribution certificates of mandatory acquisition.
- Impose sector or regional coefficients in the composition of the loan portfolio of financial institutions.
- Establish multiple exchange rate regimes
- Purchase shares, except those issued by international financial agencies or those needed to be acquired to strengthen banks or financial entities; participate, directly or indirectly, in the capital of commercial, industrial or any other companies.
- Own more real estate properties than those required for its activities and those that were transferred in payment of debts. The latter must be sold not later than one year after their acquisition.

Net equity -

According to article N°84 of the Peruvian Constitution, the Central Bank's purpose is to preserve monetary stability. Its functions are to regulate liquidity and credit in the financial system, to manage international reserves and to perform other functions as specified its own Act. Therefore, it is not the objective of the Central Bank to maximize returns their capital from the corporate financial perspective.

Losses incurred in 2011 are mainly associated to the exceptional situation of low international interest rates in developed economies and the Bank´s maintenance of international reserves to address the financial crisis. Moreover, the negative equity situation presented by the Central Bank is due to the weakening of the U.S. dollar on the valuation of assets and liabilities during the year. It should be noted that since the Central Bank´s liabilities are adequately supported by the assets it holds and its capability to issue bills and coins, the Central Bank's Management believes that its negative equity does not affect its capability to continue operations as normal.

2. SIGNIFICANT ACCOUNTING PRINCIPLES

2.1. Central Bank criteria -

As of December 31, 2011 and 2010, according to article N°88 of the Organic Act and the criteria approved by the Board of Directors, the accounting principles used by the Central Bank correspond to generally accepted accounting principles in Peru (which include the Financial Reporting Standards (IFRS) formalized through Resolutions issued by the Accounting Standards Board ("CNC" for its Spanish acronym)) as applicable to the Central Bank and the standards established for the purpose by the Superintendencia de Banca, Seguros y AFP (SBS), except as indicated in the following paragraph. On the dates mentioned above, the CNC rendered the application of IFRS 1 to 8, IAS 1 to 41, the SIC 7 to 32 and IFRIC 1 to 19, their application being mandatory in Peru.

Based on the decision agreed by the Board of Directors and in application of article N°88 of its Organic Act, the Central Bank does not apply the criteria of the generally accepted accounting principles in Peru mainly in the following cases:

(i) Recording of variations due to exchange rate differences -

The Central Bank records adjustments of price valuation and exchange rates, of the assets and obligations in gold, silver, currencies, SDR or other monetary units of international use under the heading "Readjustment in valuation, article N°89 – Organic Act" in net equity. In accordance with the generally accepted accounting principles in Peru, the results of the aforementioned valuations must be included in the results of the period in which they were generated. As of December 31, 2011 and 2010, this adjustment amounted to a balance of S/.(000)5,277,819 and S/.(000)1,791,632, respectively; see paragraph (e) below and note 17(d).

(ii) Recording of embedded derivatives -

The Central Bank records the structured instruments that are provided with embedded derivatives such as held-to-maturity investments, which are valued at their amortization cost through the effective interest rate method, without considering the effects of the embedded derivative that are recognized in their entirety after the maturity of the instrument on the basis of the realized cash. The interest rate applied is provided by the counterpart. In accordance with the generally accepted accounting principles in Peru, the embedded derivatives of a main (or host) contract are treated like separate derivatives and recorded at their fair value if their economic characteristics and risks are not closely related to those of the main contract.

(iii) Valuation of available-for-sale assets -

The Central Bank performs the valuation of the available-for-sale financial assets at fair value on the basis of market prices. The Central Bank calculates the largest or smallest value of the available-for-sale assets comparing their book value (cost of acquisition) with their fair value, without considering the amortized cost, recording the changes in net equity until said investments are sold or realized. Premiums or discounts generated in their acquisition are recorded as income or expense at the time of settlement.

According to the generally accepted accounting principles in Peru, to calculate the largest or smallest value of the instruments representative of debt classified as available-for-sale assets, prior to their valuation at fair value, the amortized cost must be updated applying the effective interest rate method and recognize from the obtained cost the profit and losses due to the change in fair value.

(iv) Statements of cash flow -

The preparation of the statements of cash flow is carried out by the Central Bank considering as cash and cash equivalents the items indicated in paragraph (p) below; consequently, the format and content of the above mentioned statements adapt to said definition. This accounting practice differs in several aspects from what is stated in the generally accepted accounting principles in Peru.

(v) Disclosure of financial instruments and actuarial liabilities -

As of December 31, 2011 and 2010, and similarly to the financial companies in Peru, the Central Bank is not applying the requirements of IFRS 7 – Financial Instruments: Disclosures. The objective of this standard is to require entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments for the entity's financial position and performance, through the understanding of the nature and extent of the financial instruments to which the entity is exposed; as well as the methods the entity applies to manage the risks arising from said instruments.

As part of its approved policies, the Central Bank has also determined not to calculate or disclose the estimated fair value of held-to-maturity investments.

Likewise, the Central Bank does not reveal all the disclosures related to actuarial liabilities it maintains at those dates and which are established by IAS 19 – Employee Benefits.

The accounting criteria for these transactions are described in paragraphs (e), (f), (c) and (p) of this note, respectively.

2.2. Accounting criteria –

The main accounting principles and practices used in the preparation of the accompanying financial statements and corresponding to the accounting principles regulated by article N°88 of the Organic Act and approved by the Central Bank Board of Directors, according to its legal powers, are set forth below:

(a) Basis for presentation and use of estimates –

The accompanying financial statements have been prepared in Nuevos Soles from the accounting records of the Central Bank in accordance with the accounting principles approved by the Board of Directors.

The preparation of the accompanying financial statements requires Management to make estimates that affect the reported amounts of assets, liabilities, income and expenses and the disclosure of material events in the notes to the financial statements. Actual results could differ from those estimates. Estimates are continually evaluated and are based on historical experience and other factors. The most significant estimates used in relation with the accompanying financial statements correspond to the valuation of financial instruments, the transformation factor of monetary gold, the provision for social benefits, actuarial provision for supplemental retirement, widowhood, health care and burial benefits, the respective accounting criteria of which are described in this note.

(b) Financial Instruments -

Financial instruments are classified as assets, liabilities or equity according to the substance of the contractual agreement that originated them. Interests, dividends, gains and losses generated by financial instruments classified as assets or liabilities are recorded as income or expense. Financial instruments are offset when the Central Bank has a legal enforceable right to offset them and Management has the intention to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets and liabilities recorded in the financial statements correspond to the gross international reserves (without considering gold), the rest of external assets, certain assets recorded in the "Other assets" item; note 10, and liabilities in general, with the exception of those detailed as non financial liabilities in the "Other liabilities" item, note 16.

The specific accounting policies on recognition and measurement of these items are disclosed in the accounting policies described in this note.

(c) Available-for-sale and held-to-maturity investments -

The initial record and the later measurement of the available-for-sale and held-to-maturity investments are carried out in accordance with the following criteria:

- **Classification -**

(i) Available-for-sale investments:

Those designated as such because they are held for an indefinite time and can be sold due to needs for liquidity or changes in the interest rate, exchange rates or in the market price; or they do not qualify to be recorded at fair value with effect in results or held up to maturity.

(ii) Held-to-maturity investments:

For the Central Bank, they are financial assets that may or may not include embedded derivatives, whose recovery values are fixed or determinable amounts and with definite maturity terms, and for which the entity has both the effective intention and the ability to hold them up to their maturity.

- **Initial recognition -**

The initial recognition of available-for-sale and held-to-maturity investments is performed at fair value, plus the transaction costs that are directly attributable to the acquisition of said investments.

- **Valuation -**

(i) Available-for-sale investments:

Upon initial recognition, available-for-sale investments are measured at their fair value, and non realized gains and losses are recorded in the "Fair value reserve" heading in the net equity. Non realized gains or losses result from the comparison between the acquisition cost, which includes premiums paid or discounts obtained, and market value. Premiums and discounts included in the acquisition cost are recognized in the statements of income at maturity and not by the accrual criteria.

The fair value of the instruments classified as available-for-sale is the one provided daily by Bloomberg and Reuters.

When the instrument is sold or gains or losses previously recognized as part of the equity are realized, they are transferred to the results of the period, excluding the effects of the exchange rate difference, which is recorded as stated in paragraph (e) below. On the other hand, in case that the decrease in the market value of the investments is permanent or due to credit deterioration, the respective provisions are made, which affects the result of the period.

The gained interest is recognized in the statement of comprehensive income in the "Net yield on securities" caption. The gained interest is calculated and recorded using the nominal interest rate (coupon rate) on the nominal value of the investment.

The differences of changes that arise from the valuation of these investments are not recognized in the statement of comprehensive income, but in the equity, in accordance whit paragraph (e) below.

(ii) Held-to-maturity investments:

Upon initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest rate method.

Any premium or discount of the instruments representative of debt classified as held-to-maturity investments is recognized with the calculation of the amortized cost by applying the effective interest rate method, recognizing the accrued interest in the "Net yield on securities" caption.

Securities classified as held-to-maturity correspond to structured bonds that are held with the purpose of diversifying investments, in accordance with the agreements reached by the Board of Directors. Said securities have embedded derivatives related to price baskets, commodities, indices, among others; see paragraph (f) below.

(d) Recognition of revenues and expenses -

Interest revenues and expenses are calculated at nominal rates over nominal values and are recognized in the results of the period they are accrued, in function to the time of validity of the operations that generate them and the agreed interest rates. Interest revenues include the yields of investments on securities issued by international entities.

Gains and/or losses generated by investments containing embedded derivatives are recognized at amortized cost without considering the effects of said embedded derivatives, which are recognized based on the cash received at their payment date or at maturity.

Other income and expenses are recognized as earned or incurred in the period in which accrued.

When there is reasonable doubt regarding the collectability of the principal of any financial instrument, interest is recognized as income to the extent that there is reasonable certainty of collection.

(e) Transactions in foreign currency -

The Central Bank prepares and presents its financial statements in Nuevos Soles, which is its functional and presentation currency.

Assets and liabilities in foreign currencies are recorded at the exchange rate of the date when transactions are performed and are expressed in Peruvian currency using the daily closing purchase exchange rate established by the SBS. Balances in other currencies are expressed according to the exchange rate provided by Bloomberg and Reuters, see note 3.

In accordance with article N°89 of the Organic Act and as approved in the Board of Directors Meeting of December 30, 2010, changes resulting from restatement assets and liabilities in gold, silver, currency, special drawing rights (hereinafter "SDR") or other monetary units of international use at the exchange rates prevailing at the date of issue of the statement of financial position are recorded in the caption "Readjustment for valuation, article N°89 – Organic Act" in net equity, without regarding them as gains or losses.

The Board meeting held on December 15, 2011, agreed that beginning in the year 2011, any exchange rate difference shall be permanently recorded in the "Readjustment for valuation, Article N°89 – Organic Act" caption in the net equity. The Central Bank has decided to apply said agreement prospectively, without affecting the financial statements of 2010. Until December 31, 2010, the Central Bank recorded the gains and losses generated on the date of the currency sale in the statements of comprehensive income.

The change in procedure has no significant effect on the Central Bank financial statements for comparative purposes.

(f) Derivative financial instruments -

As of December 31, 2011 and 2010, the Central Bank does not hold derivatives for trade or hedge purposes, but it does hold embedded derivatives.

Embedded derivatives -

The Central Bank records the embedded derivatives in a main (or host) contract at the date of the operation's maturity, based on the realized cash, recognizing at that moment the gain or loss generated.

The Central Bank holds structured instruments to maturity as part of "Securities from international entities", note 6, whose yields are indexed to variables such as the inflation rate of the United States of America, the variation in the exchange rate of different currency baskets, the variations in the price of gold, among others.

(g) Gold -

Gold holding s are valued using the New York market price provided daily by Bloomberg and Reuters.

The price of gold per troy ounce as of December 31, 2011 and 2010 was USS$1,545.45 and US$1,404.30, respectively.

(h) Contributions to international organizations -

These include the contributions made by the Central Bank to the International Monetary Fund, the Latin American Reserve Fund and the Bank for International Settlements, which are recorded at the nominal value of the contribution, which represents their acquisition cost, because the above mentioned amount corresponds to the value that the Central Bank would have the right to receive in case it withdrew its membership in some of said organizations. These contributions cannot be negotiated with third parties.

The yields from these contributions are recognized when accrued and the dividends when declared.

(i) Collections -

Collections consist mainly of artwork (archeological objects, paintings, sculptures, among others) and collectible coins that have been purchased and/or received as donation, and are recorded at their purchasing cost. Due to their nature, these assets are considered to have an indefinite useful life, so they do not depreciate and are recorded in the "Other assets" caption in the statements of financial position. The purchasing cost of donations is calculated based on the fair value estimated by specialists at the moment they are received.

(j) Property, furniture and equipment and depreciation -

Property, furniture and equipment are recorded at their acquisition cost, less the accumulated depreciation and accumulated amount of impairment, if applicable. Maintenance and repair costs are charged to the statement of comprehensive income and significant renewals and improvements are capitalized when: a) it is probable that future economic benefits will flow from the renewal or improvement; and b) their cost can be measured fairly. The cost and its corresponding accumulated depreciation of an asset sold or retired are eliminated from the corresponding accounts and the related gain or loss is included in the statement of comprehensive income.

Work in progress and in transit units are accounted at their acquisition cost. These goods are not depreciated until they are received or finished and placed into service.

Land is not depreciated. Depreciation is computed on a straight-line basis over the following estimated useful lives:

	Years
Buildings	100
Furniture and office equipment and miscellaneous equipment	10
Computer hardware	3
Vehicles	5

(k) Impairment of long-lived assets -

When changes or certain events indicate that the value of a long-lived asset may not be recovered, the Central Bank reviews the book value of its assets in order to verify if there is no permanent impairment in their values.

When the book value of the asset exceeds its recoverable value, a loss for impairment is recognized in the statement of comprehensive income. The recoverable value is the highest between 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 free market, while the value in use is the present value of the estimated future cash flows provided by the continuous use of an asset and its disposal at the end of its useful live. The recoverable amounts are estimated for each asset or, if not possible, for each cash generating unit.

Management performs an annual assessment of whether the carrying value exceeds the value recoverable from its long-lived assets based on market information available.

(l) Sterilized stock -

Sterilized stock is a liability in local currency comprised by outstanding securities issued and deposits in local currency from the governmental sector and financial entities, which are not part of the reserve requirements. The sterilized stock is the result from monetary operations to take out liquidity from the financial system, and from deposits from the said entities, which in case of reversal, would imply an increase in the monetary base.

Issued securities in circulation are measured at nominal value, recognizing the interests accrued in the statements of income of the period. The discounts granted at their placing date are deferred and are amortized during the term of validity of the instrument, using the effective interest rate method.

(m) Currency in circulation -

This includes bills and coins in legal tender issued by the Central Bank which are held by the public; and are recorded as a liability on the statement of financial position at their nominal value in the caption "Monetary Base".

Bills and coins not in circulation are kept in the Central Bank's vaults and recorded in off-balance sheet accounts at their nominal value.

(n) Employee benefits -

According to article N°58 of its by-laws, the Central Bank transfers financial resources to the Fund for Disease, Insurance and Pensions of the Central Bank's Employees (hereinafter "the Fund") with the purpose of supplementing the funds necessary to pay the benefits to its personnel. The total amount of the transferences to the Fund is approved by the Board of Directors.

The Central Bank maintains the following defined benefits plans:

- Supplemental pensions' subvention, widowhood pensions and burial subsidy.
- Other supplemental benefits to retirement, related to the healthcare benefits granted by the Central Bank.

The cost of granting benefits through the plans of definite benefits is determined separately for each plan, by means of the projected unit of credit method. Actuarial gains and losses of both defined benefits plans are recognized in their entirety in the statements of income in the period they occur.

The assets or liabilities for definite employee benefits include the present value of the obligation, which is determined using a discount rate based on high quality negotiable obligations; see note 16(b), minus the costs for past services and the fair value of the assets of the plan that will be used to liquidate said obligations. The assets of the plan are managed by a fund of long-term benefits for the personnel. The assets of the plan are neither available for the creditors of the Central Bank nor can be directly paid to the Central Bank. The fair value of these assets is based on the information of market prices.

The Fund's net assets considered to be deducted from the amount of the actuarial reserve comprise the present value of the deposits and loans, net of obligations. The allowance for actuarial reserve has been calculated using mortality tables and market interest rates; see note 16(b).

The concepts of subvention for supplemental retirement pensions, widowhood, burial subsidy and other supplemental benefits, deducted of the present value of the Fund's net assets are recorded in "Other liabilities" in the statements of financial position, note 16.

(o) Operating expenses and issuance costs of bills and coins -

Operating expenses and the expenses of transporting bills and coins are recognized in results for the year they are incurred in.

The cost of making coins and coin blanks includes the cost of raw materials, of labor and indirect manufacturing costs and recognized in the results of year they are incurred.

The cost of printing bills and the cost of manufacturing coins are recognized in results of the year in which the bills and coins are issued.

(p) Cash and cash equivalents -

Cash and cash equivalents comprise gross international reserves, net of bills and coins in circulation issued as part of the caption "Monetary base" in the statement of financial position. As shown below:

	2011 S/.(000)	2010 S/.(000)
Gross international reserves	131,674,016	123,974,199
Less:		
Currency in circulation	(32,300,487)	(28,077,144)
Cash and cash equivalents	**99,373,529**	**95,897,055**

The difference between total gross international reserves and reserve liabilities (consisting of the obligations with international entities) represent net international reserves. These reserves, which show the international liquidity of the country and its financial capacity in relation to other countries, are the resources available to the Central Bank to meet its obligations in foreign currency.

(q) Provisions -

Provisions are only recognized when the Central Bank has a present (implicit or legal) obligation as a result of past events, it is probable that an outflow of resources will be required to settle such obligation, and the amount has been reliably estimated. Provisions are reviewed in each period and are adjusted to reflect their best estimate as of the date of the statement of financial position. When the effect of the time value of money is significant, the amount recorded as a provision is the same as the present value of future payments required to settle the obligation.

The expense relating to any provision is presented in the statement of comprehensive income net of any related refund.

(r) Contingencies -

Contingent liabilities are not recognized in the financial statements. They are disclosed in notes to the financial statements, unless the possibility of an outflow of economic resources is remote.

Contingent assets are not recognized in the financial statements; however, they are disclosed when their contingency degree is probable.

(s) New accounting rules -

(i) International Financial Reporting Standards -

The CNC through Resolution N°048-2011-EF/30 issued on January 6, 2012, approved the application from the day following the issuance of the ruling or later, according to the effective date specified in each specific standard, the current versions of 2011 of IFRS 1 to 13, IAS 1 to 41, the statements 7 to 32 of the Standing Interpretations Committee (SIC) and Interpretations of Financial Reporting Standards (IFRIC) 1 to 19 and amendments to October 2011 of the IAS, IFRS and IFRIC issued internationally.

The Central Bank is in the process of assessing the impact of implementing these rules, if any, in its financial statements.

(ii) International Financial Reporting Standards - IFRS issued at international level but which are not mandatory in Peru -

The following IFRS have been issued internationally to December 31, 2011, but have not yet been approved by the CNC:

- IFRIC 20 "removal costs in the production phase of an open surface mine", effective for periods beginning on or after 1 January 2013.

Because the previous standard has not yet been approved by the CNC, the Central Bank has not evaluated the effect on its financial statements, if any.

3. FOREIGN CURRENCY TRANSACTIONS AND EXPOSURE TO EXCHANGE RISK

Transactions in foreign currency are recorded using the prevailing exchange rates in the market.

As of December 31, 2011, the purchase exchange rate established by the SBS to record transactions in U.S. Dollars was S/.2.695 (S/.2.808 as of December 31, 2010). Balances in other currencies have been stated in U.S. Dollars at the exchange rate at the closing of the New York market as mentioned in (c) below.

(a) A detail of the Central Bank s foreign currency assets and liabilities expressed in thousands of U.S. Dollars is shown below:

	2011 US$(000)	2010 US$(000)
Assets		
Cash in foreign currency	50,054	62
Deposits in foreign banks	11,263,291	10,777,199
Securities from international institutions	34,189,735	30,391,711
Gold	1,722,250	1,564,890
Contributions to international institutions	795,677	573,338
Other available assets	837,626	843,156
Other assets abroad	20,639	24,133
Other assets	401,808	104,942
	49,281,080	44,279,431
Liabilities		
Other liabilities abroad	62,712	65,293
Deposits in foreign currency	15,530,134	11,664,920
Other liabilities	387,557	126,249
	15,980,403	11,856,462
Net asset position	33,300,677	32,422,969

(b) The balances in foreign currency and in precious metals as of December 31, 2011 and 2010 expressed in U.S. dollars are summarized as follows:

	2011 US$(000)	2010 US$(000)
Assets		
U.S. Dollars	37,257,784	35,510,698
Euro	5,830,703	6,176,538
Other currencies	2,930,224	153
Gold	1,722,933	1,565,573
SDR (*)	1,518,267	1,005,155
Andean pesos	20,000	20,000
Silver	1,169	1,314
	49,281,080	44,279,431
Liabilities		
U.S. Dollars	15,555,906	11,821,133
SDR (*)	301,982	572
Euro	102,057	14,227
Andean pesos	20,000	20,000
Silver	458	530
	15,980,403	11,856,462
Net assets	**33,300,677**	**32,422,969**

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

(c) The quotations of major currencies used by the Central Bank in relation to the U.S. Dollars as of December 31, 2011 and 2010 are summarized as follows:

	2011 US$	2010 US$
SDR	1.530400	1.540030
Andean pesos	1.000000	1.000000
Euro	1.294000	1.328900

4. DEPOSITS IN FOREIGN BANKS

(a) This item is made up as follows:

	2011 S/.(000)	2010 S/.(000)
Time deposits (b)	30,315,224	30,254,216
Accrued interest (c)	1,672	3,226
	30,316,896	30,257,442
Demand deposits	37,596	4,931
Accrued interest (c)	65	1
	37,661	4,932
Accrued interest for gold deposits, note 7(c)	11	-
Total	**30,354,568**	**30,262,374**

(b) As of December 31, 2011 and 2010, time deposits are mainly represented by US$(000)10,588,358 and US$(000)10,422,276, respectively, which are deposited in first class banks and bear interest in accordance with international market rates.

As of December 31, 2011, deposits in foreign banks accrued an average annual interest rate of 0.14 percent (0.25 percent as of December 31, 2010).

(c) As of December 31, 2011 and 2010, Central Bank recognized interest income in deposits in foreign banks by S/.(000)67,955 and S/.(000)55,567, respectively, which is presented in the caption "Financial income" of the statements of comprehensive income.

5. DEPOSITS IN INTERNATIONAL INSTITUTIONS

As of December 31, 2011 and 2010, these deposits correspond to deposits in IMF which are denominated in SDR, bear interest at average annual effective rate of 0.11 and 0.34 percent, respectively, and are unrestricted.

6. SECURITIES FROM INTERNATIONAL INSTITUTIONS

(a) This item is made up as follows:

	2011				2010			
		Unrealized gross amount				Unrealized gross amount		
	Acquisition cost S/.(000)	Increase S/.(000)	Decrease S/.(000) (e)	Book value (*) S/.(000)	Acquisition cost S/.(000)	Increase S/.(000)	Decrease S/.(000) (e)	Book value (*) S/.(000)
Available-for-sale investments -								
Long – term sovereign securities	33,664,526	74,746	-	33,739,272	38,219,574	-	(97,753)	38,121,821
Long – term supranational securities	3,897,820	48,481	-	3,946,301	6,273,860	164,129	-	6,437,989
Short – term sovereign securities	30,820,810	-	(263,991)	30,556,819	26,133,834	-	(59,521)	26,074,313
Short – term supranational securities	11,311,828	-	(4,462)	11,307,366	2,558,508	11,618	-	2,570,126
Certificates of deposits	-	-	-	-	1,921,147	-	-	1,921,147
	79,694,984	123,227	(268,453)	79,549,758	75,106,923	175,747	(157,274)	75,125,396
	Amortized cost S/.(000)			Book value (*) S/.(000)	Amortized cost S/.(000)			Book value (*) S/.(000)
Held-to-maturity investments -								
Sovereign securities	1,379,661			1,379,661	1,399,473			1,399,473
Supranational securities	10,710,405			10,710,405	8,146,208			8,146,208
	12,090,066			12,090,066	9,545,681			9,545,681
Balance of available-for-sale investments and held-to-maturity investments				91,639,824				84,671,077
Accrued interest				501,511				668,847
Total				**92,141,335**				**85,339,924**

Book value corresponds to the estimated market value for available-for-sale investments and the amortized cost for held-to-maturity investments, according to accounting policies indicated in note 2.2(c).

(b) As of December 31, 2011 and 2010, the maturities and the nominal annual interest rates on investments are as follows:

	Maturity		Nominal interest rate (coupon rate) (**)							
	2011	2010	2011				2010			
			US$		Other currencies		US$		Other currencies	
			Min %	Max %	Min %	Max %	Min %	Max %	Min %	Max %
Available-for-sale investments -										
Long – term sovereign securities	Jan-2013/Sept-2018	Jan-2012/Nov-2015	0.125	5.500	0.250	6.500	0.242	6.125	0.977	8.000
Long – term supranational securities	Jan-2013/Oct-2016	Jan-2012/Oct-2015	0.500	5.500	1.648	6.000	0.500	5.750	3.125	5.375
Short – term sovereign securities	Jan-2012/Dec-2012	Jan-2011/Dec-2011	0.102	6.125	0.810	8.000	0.208	6.000	0.405	6.500
Short – term supranational securities	Jan-2012/Dec-2012	Jan-2011/Dec-2011	0.090	5.750	3.212	5.375	0.300	6.125	2.900	3.625
Certificates of deposits	-	-	-	-	-	-	0.260	0.290	0.530	0.530
Held-to-maturity investments -										
Sovereign securities	Jul-2014/Jan-2015	Jul-2014/Jan-2015	1.625	2.000	-	-	1.625	2.000	-	-
Supranational securities	Oct-2012/Dec-2014	Oct-2012/Jul-2013	0.150	0.790	1.000	2.282	0.150	0.609	-	-

(**) The nominal rate corresponds to the coupon rate, excluding premiums or discounts earned at the acquisition of the instruments detailed above.

(c) Securities from international institutions are first category and low-risk financial instruments, which have risk ratings of at least AA- (according to rating agencies Moody's, Standard & Poor's and Fitch), bear interest at the international market rates, and are kept in first class foreign banks.

(d) Balance due on available-for-sale and held-to-maturity investments as of December 31, 2011 and 2010, is as follows:

	2011	**2010**
	S/.(000)	**S/.(000)**
Up to 3 months	19,890,158	19,308,610
From 3 months to 1 year	25,071,019	11,490,747
From 1 to 3 years	30,386,277	35,003,544
From 3 to 5 years	16,157,221	18,868,176
More than 5 years	135,149	-
Total	**91,639,824**	**84,671,077**

(e) As of December 31, 2011 and 2010, the Central Bank recognized revenues for net yields of securities for a total of S/.(000)1,845,346 and S/.(000)1,876,473, respectively, which are part of the "Financial income" caption in the statement of comprehensive income. Likewise, during 2011 and 2010, the Central Bank recognized a reduction of S/.(000)163,699 and S/.(000)775,215, respectively, in the "Fair value reserve" caption, which is part of the net equity, see note 2.2(c).

The Central Bank's Management has determined that the non realized losses as of December 31, 2011 and 2010, are of temporary nature. Therefore, given its capacity to maintain each of these investments for a period of time sufficient to allow a recovery in the fair value before its realization (selling) or maturity, whatever happens first, the Central Bank has decided to do so. Based on this analysis, no permanent impairment has been identified that requires the recognition of allowances for 2011 and 2010, note 2.2(c).

7. GOLD

(a) This item is made up as follows:

	2011 S/.(000)	2010 S/.(000)
In the country -		
Gold coins (b)	2,299,872	2,177,444
Provision for cost of converting gold coins to high purity or *"good delivery"* gold bars	(1,840)	(1,917)
	2,298,032	2,175,527
Abroad -		
Gold bars (c)	2,343,433	2,218,685
Total	**4,641,465**	**4,394,212**

(b) As of December 31, 2011 and 2010, is represented by 552,192 troy ounces of gold in commemorative coins deposited in the vault of the Central Bank, valuated at the per-troy ounce price at said dates.

(c) As of December 31, 2011 and 2010, corresponds to 562,650 troy ounces of good delivery gold bars, which are deposit in first class foreign banks. As of December 31, 2011, 249,702 troy ounces were held under custody (as of December 31, 2010, the total amount of said item was held under custody) and 312,948 troy ounces were held as time deposits, thus accruing interests at an annual effective rate of 0.03 percent and having a 15-day term since their issuance date. Accrued interests as of December 31, 2011, are recorded in the "Deposits in foreign banks" caption in the statement of financial position, note 4.

8. CONTRIBUTIONS TO INTERNATIONAL INSTITUTIONS

(a) This item is made up as follows:

	2011 S/.(000)	2010 S/.(000)
Contributions to the International Monetary Fund (b)	818,699	527,577
Contributions to Latin American Reserve Fund (c)	1,054,625	1,082,356
Contribution to Bank for International Settlements (d)	271,025	-
Total	**2,144,349**	**1,609,933**

(b) Contributions to International Monetary Fund included the following:

	2011 S/.(000)	2010 S/.(000)
Contribution in SDR:		
Contribution to IMF in SDR (i)	818,699	527,577
Contribution in local currency:		
Contribution to IMF for equivalent in local currency (i)	1,822,340	2,221,629
Revaluations to be liquidated – Contribution to IMF in local currency (ii)	(8,005)	11,500
Total contribution in local currency	1,814,335	2,233,129
Total contribution to IMF	**2,633,034**	**2,760,706**

(i) The contribution to IMF grants Peru access to IMF's funding activities. The IMF determines Peru's contribution as a participating country, which as of December 31, 2011 and 2010, amounts to SDR(000) 638,400, which are composed of contributions in SDR and Nuevos Soles. Peru´s participation in the total share held by IMF member countries is 0.29 percent as of December 31, 2011 and 2010.

For the contributions in Nuevos Soles, the Central Bank has not disbursed any funds and has constituted a promissory note in favor of the IMF, by means of which said organization can arrange the cashing of the above mentioned contribution at any moment; thus, said compensation is recorded as a liability to the IMF in the "Other external liabilities" caption in the statement of financial position. This obligation does not generate interests and can be demanded at any moment.

(ii) Corresponds to the exchange rate difference generated by the contribution between April 30 and December 31 of each year. These revaluations restate the contribution in local currency at the end of FMI's financial year that is made on April 30 each year.

By means of Act N°29823 published on December 29, 2011, the Congress authorized to increase Peru's quota at the International Monetary Fund from SDR(000) 638,400 (equivalent to S/.(000)2,633,034) to SDR(000) 1,334,500 (equivalent to S/.(000)5,504,046), for which purpose, the Central Bank will takes the steps required and sign the promissory notes or necessary documents to make this increase effective, once the approvals and conditions indicated in the IMF Constitutive Agreement are met.

(c) As of December 31, 2011, the contribution to FLAR amounts to US$(000)391,327, equivalent to S/.(000)1,054,625 (US$(000)385,454 equivalent to S/.(000)1,082,356, as of December 31, 2010). This contribution grants Peru access to funding facilities from FLAR. Peru's participation in FLAR accounts for 22.22 percent of its subscribed capital. Also, at said date, the Central Bank holds unpaid contributions in favor of FLAR that amount to US$(000)77,423, equivalent to S/.(000)208,656 (US$(000)83,296 equivalent to S/.(000)233,894, as of December 31, 2010), which are recorded as accounts receivable and accounts payable and are recorded in the "Other assets" and "Other liabilities" captions, notes 10(a) and 16(a).

(d) In July 2011, the Central Bank accepted the invitation of BIS to participate as a member of that international organization. BIS determines the percentage of participation of member countries and in the case of Peru, its participation amounts to 3,000 shares, having paid 25 percent of market value equivalent to SDR(000)65,712 (equivalent to S/.(000)271,025). 75 percent of the market value of said shares, corresponding to SDR(000)197,136 (equivalent to S/.(000)813,073), has been recorded as a subscribed but not paid-in contribution in the "Other assets" and "Other liabilities" captions, notes 10(a) and 16(a).

9. PROPERTY, FURNITURE AND EQUIPMENT, NET

(a) The movement of property, furniture and equipment and accumulated depreciation, for the years ended December 31, 2011 and 2010, is as follows:

Description	Land S/.(000)	Building and other construction S/.(000)	Furniture and office equipment S/.(000)	Vehicles S/.(000)	Miscellaneous equipment S/.(000)	Units in transit S/.(000)	2011 S/.(000)	2010 S/.(000)
Cost								
Balance as of January 1	24,056	158,029	5,021	2,473	62,913	2,878	255,370	245,284
Additions	-	1,058	183	656	6,435	1,233	9,565	12,131
Disposals and others	-	(705)	(237)	(25)	(4,482)	(1,081)	(6,530)	(2,045)
Balance as of December 31	24,056	158,382	4,967	3,104	64,866	3,030	258,405	255,370
Accumulated depreciation								
Balance as of January 1	-	54,095	4,514	2,067	39,487	-	100,163	95,037
Depreciation for the year (e)	-	1,904	100	222	4,596	-	6,822	6,778
Disposals and others	-	(336)	(237)	(26)	(4,387)	-	(4,986)	(1,652)
Balance as of December 31	-	55,663	4,377	2,263	39,696	-	101,999	100,163
Impairment (d)	-	(16,925)	-	-	-	-	(16,925)	(16,925)
Net book value	24,056	85,794	590	841	25,170	3,030	139,481	138,282

(b) As of December 31, 2011 and 2010, the Central Bank maintains furniture and equipment for S/.(000)32,553 and S/.(000)33,140, respectively, fully depreciated, which is still in use.

(c) The Central Bank maintains effective insurances on its main assets, in conformity with the policies established by Management and Board of Directors.

(d) Corresponds to the impairment on its real estate generated as result of the appraisal carried out by expert independent appraisers during 2008. Management reviews every year whether the book value exceeds the recoverable value of its long-lived assets based on available market information. In Management's opinion, there is no evidence of additional impairment of the long-lived assets held by the Central Bank as of December 31, 2011 and 2010.

(e) As of December 31, 2011 and 2010, the depreciation of property, furniture and equipment is included in the captions "Operating expenses" and "Expense and costs of issuance" of the statements of comprehensive income.

10. OTHER ASSETS

(a) These items are made up as follows:

	2011 S/.(000)	2010 S/.(000)
Financial instruments -		
Contribution to international institutions, notes 8(c), (d) and note 16(a)	1,021,729	233,894
Accounts receivable from personnel	1,905	1,813
	1,023,634	235,707
Non-financial instruments -		
Collections (b)	97,176	89,968
Deferred charges (c)	34,116	22,634
Raw material, semi finished and finished products (d)	33,241	38,544
CNM inventories in transit (e)	29,351	37,375
Intangibles, net	3,794	3,054
Silver	3,149	3,691
Other	5,247	1,096
	206,074	196,362
Total	**1,229,708**	**432,069**

(b) Collections correspond to painting, archaeological pieces, sculptures, numismatic collections of coins and bills and other objects acquired by or donated to the Central Bank and maintained for display.

(c) Deferred charges mainly comprise the cost of printing bills, which is charged to expenses when such bills are issued for first time.

(d) Raw material comprises the supplies acquired by the Central Bank for the minting of coins valued at average cost. The value of semi-finished and finished products is comprised by the cost of the raw material, direct manpower and the indirect manufacturing expenses.

(e) CNM inventories in transit are composed by goods that will be used as part of the production process of coins.

11. OTHER FOREIGN LIABILITIES

(a) These items are made up as follows:

	2011 S/.(000)	2010 S/.(000)
Allocation of SDR (b)	2,526,557	2,623,851
Revaluations to be liquidated – SDR Allocations (c)	(11,098)	13,582
Allocation of Andean pesos (d)	53,900	56,160
Other	1,139	906
Total	**2,570,498**	**2,694,499**

(b) As of December 31, 2011 and 2010, the balance of the SDR allocation account is equivalent to SDR (000)609,893 and corresponds to the distribution the IMF made to Peru in proportion to its SDR quota, in accordance to what is stated in the IMF Constitutive Agreement. SDR allocations accrue interests according to the conditions of said Constitutive Agreement; the annual interest rates were 0.11 percent and 0.34 percent as of December 31, 2011 and 2010, respectively.

(c) Correspond to the exchange rate difference generated by the allocation of SDR received on the part of the IMF and that is generated between April 30 and December 31 of every year. These revaluations (allowances) update the SDR allocations at the end of IMF's financial year that is performed on April 30 of every year.

(d) The allocation of Andean Pesos corresponds to those delivered by FLAR amount to Andean Pesos (000)20,000 (equivalent to S/.(000)53,900 and S/.(000)56,160, respectively, as of December 31, 2011 and 2010); this allocation does not generate interests, does not have any defined maturity and has not represented any disbursement because the counterpart has been recorded as an account receivable in the "Other assets abroad" caption in the statement of financial position.

(e) During 2011 and 2010, the Central Bank paid interests corresponding to its liabilities abroad, mainly for the obligations for SDR allocations that amounted to S/.(000)10,713 and S/.(000)7,619, respectively, which are recorded in the "Financial expenses" caption in the statements of comprehensive income.

12. OUTSTANDING SECURITIES ISSUED

(a) These items are made up as follows:

	2011 S/.(000)	2010 S/.(000)
Certificates of deposits (CDBCRP)	13,580,200	30,000
Certificates of deposits settled in U.S. Dollars (CDLDBCRP)	-	450,000
Certificates of deposits floating rate (CDVBCRP)	-	3,195,800
	13,580,200	3,675,800
Adjustment for indexing CDVBCRP	-	11,488
Discount on sale CDBCRP, CDVBCRP, CDLDBCRP	(184,282)	(2,705)
Total	**13,395,918**	**3,684,583**

(b) As of December 31, 2011 and 2010, issued securities in circulation comprise certificates of deposit in local currency with maturities of up to 348 days which are placed by means of auctions or by direct placing mechanism for the purpose of withdrawing liquidity surpluses from of the financial system. As of December 31, 2011, said certificates were placed at discount and accrued interests at an implicit annual rate of between 3.9 and 5.2 percent (between 0.0 percent and 3.9 percent as of December 31, 2010).

(c) During 2011 and 2010, the Central Bank registered expenses for the interests of the issued securities in circulation that amounted to S/.(000)486,021 and S/.(000)313,553, respectively, which are registered in the "Financial expenses" caption in the statement of comprehensive income.

(d) As of December 31, 2011 and 2010, certificates of deposits issued by the Central Bank were acquired by:

	2011 S/.(000)	2010 S/.(000)
Banks	10,237,200	3,295,100
Mutual funds and private pension funds	1,559,400	380,700
Banco de la Nación	249,300	-
Financial institution	109,500	-
Other entities	1,424,800	
Total	**13,580,200**	**3,675,800**

13. DEPOSITS IN LOCAL CURRENCY

(a) These items are made up as follows:

	2011 S/.(000)	2010 S/.(000)
Governmental sector	22,782,275	18,132,614
Banco de la Nación	9,157,093	8,592,868
Banks	3,690,200	21,044,000
Financial institutions	12,800	284,000
Other entities and Funds	589,960	835,429
Total	**36,232,328**	**48,888,911**

(b) As of December 31, 2011 and 2010, deposits in local currency are classified by type of transaction as follows:

	Interest %	Maturity	2011 S/.(000)	2010 S/.(000)
Current accounts	Between 3.45 and 3.50	Without maturity	10,360,093	15,900,294
Time deposits	Between 3.50 and 4.20	Between January and March 2012	16,561,900	23,692,749
Special deposits *(overnight)*	Between 3.45 and 3.50	Between 1 and 3 days	9,310,335	9,295,868
Total			**36,232,328**	**48,888,911**

(c) During 2011 and 2010, the Central Bank recognized interest on deposits in local currency for S/.(000)1,393,366 and S/.(000)702,625, which are recorded in the caption "Financial expenses" of the statement of comprehensive income.

14. MONETARY BASE

(a) These items are made up as follows:

	2011 S/.(000)	2010 S/.(000)
Currency in circulation	32,300,487	28,077,144
Deposits in local currency -		
Deposits from banks (c)	4,910,769	3,686,966
Deposits from Banco de la Nación (c)	1,370,000	1,700,000
Deposits from financial institutions (c)	328,196	117,130
Other financial institutions (c)	1,057,718	626,727
	7,666,683	6,130,823
Total	**39,967,170**	**34,207,967**

(b) The composition of currency in circulation is as follows:

	2011		2010	
	Units	**S/.(000)**	**Units**	**S/.(000)**
Denomination S/. 10	95,778,294	957,783	93,186,825	931,868
Denomination S/. 20	91,657,578	1,833,152	78,589,425	1,571,789
Denomination S/. 50	113,721,158	5,686,058	104,667,025	5,233,351
Denomination S/.100	196,426,428	19,642,643	168,739,228	16,873,923
Denomination S/. 200	13,812,875	2,762,575	11,127,657	2,225,531
Total		30,882,211		26,836,462
Denomination S/. 0.01	355,297,308	3,553	339,212,884	3,392
Denomination S/. 0.05	299,811,371	14,991	267,824,822	13,391
Denomination S/. 0.10	906,745,006	90,674	820,764,801	82,077
Denomination S/. 0.20	238,897,566	47,780	218,570,202	43,714
Denomination S/. 0.50	302,799,051	151,400	279,948,283	139,974
Denomination S/. 1.00	383,062,414	383,062	325,830,228	325,830
Denomination S/. 2.00	100,646,345	201,293	85,176,196	170,353
Denomination S/. 5.00	104,767,128	523,836	92,052,806	460,264
		1,416,589		1,238,995
Commemorative coins		1,687		1,687
Total		**32,300,487**		**28,077,144**

(c) As of December 31, 2011 and 2010, correspond to deposits in local currency of the financial entities subject to reserve requirements in the national financial system. Such funds are intended to cover the amount of reserves required by the Central Bank for obligations subject to reserve requirements in local currency which do not have maturity. Additionally, the amount of reserve requirements may be covered with cash in local and foreign currency, note 15(b), in cash of the entity subject to reserve requirements.

The required reserve comprises minimum reserve requirements, which, as of December 31, 2011 and 2010, had a rate of 9 percent for the obligations subject to reserve requirements in local and foreign currency, note 15(b), and additional reserves, which is the part of the required reserves that exceeds the legal minimum reserve requirements. As of December 31, 2011, the additional reserve rate in local currency fluctuated between 3.0 and 5.0 percent (between 0.0 and 2.8 percent as of December 31, 2010).

The obligations subject to reserve requirements are classified in two regimes: general and special. As of December 31, 2011, reserve requirements funds corresponding to the additional reserve of the general and special regime, that were deposited in the Central Bank earned interests at an annual rate of 2.45 percent, equivalent to the rate of remuneration of overnight deposits at the Central Bank minus 100 basis point (as of December 31, 2010, the rate was 1.2 percent).

On March 31, 2011, the Central Bank issued Circular N°008-2011-BCRP which refers to reserve requirements in local and foreign currency, note 15(b), and increases by 0.5 percentage points, the implicit rate used to calculate reserve requirements of the obligations subject to the general regimes in local and foreign currency to 0.75 percentage points, to control liquidity into institutions subject to reserve requirements in order to preserve monetary stability.

As of September 30, 2010, the Bank issued Circular N°032-2010-BCRP referred to reserve requirements in foreign currency, note 15(b), which raised the minimum rate of reserve requirements from 8.5 to 9 percent, increased the rate of reserve requirements by 0.2 percentage points and increased the rate of marginal reserves on obligations subject to the general system from 50 to 55 percent, in order to control liquidity in the entities subjects to reserve requirements with the purpose of preserving monetary stability.

15. DEPOSITS IN FOREIGN CURRENCY

(a) These items are made up as follows:

	2011 S/.(000)	2010 S/.(000)
Banks (b)	21,527,141	18,687,606
Governmental sector (c)	18,140,750	12,184,173
Banco de la Nación (b)	1,815,712	1,529,298
Financial institutions (b)	24,416	86,128
Other institution of financial system (b)	345,692	267,889
Total	**41,853,711**	**32,755,094**

(b) As of December 31, 2011 and 2010, correspond to deposits in foreign currency made by entities subject to reserve requirements in the national financial system. Such funds are intended to cover the amount of reserves required by the Central Bank for obligations subject to reserve requirements in foreign currency which not have maturity.

The required reserve compromises minimum reserve requirements, which as of December 31, 2011 and 2010, had a rate of 9 percent for the obligation subject to reserve requirements in local and foreign currency, and additional reserves, which is the part of the reserves required that exceeds the legal minimum reserve requirements. As of December 31, 2011, the additional reserve rate in foreign currency fluctuated between 26 and 30 percent (between 26 and 28 percent as of December 31, 2010).

As of December 31, 2011, the reserve funds corresponding to the additional reserves of the general and special regimes that were deposited in the Central Bank accrued interests at annual rates of 0.1705 percent, equivalent to 60 percent of the 1-month LIBOR (as of December 31, 2010, said rates were 0.1570 percent, equivalent to 60 percent of the 1-month LIBOR).

(c) As of December 31, 2011 and 2010, deposits in foreign currency of the public sector entities are denominated in U.S. dollars and euros, comprise mainly contracts subscribed with the General Direction of the Public Treasure of the Ministry of Economy and Finance (hereinafter "MEF" for its Spanish acronym), which established the conditions for the reception by the Central Bank of the deposits from said entity. As of December 31, 2011 and 2010, these deposits correspond to demand and time deposits which accrued interests at annual effective rates of between 0.08 and 0.01 percent, respectively. Time deposits have maturities between January and December 2012. MEF resources deposited in the Central Bank amount to US$(000)6,724,998, equivalent to S/.(000)18,123,870 (US$(000)4,338,251, equivalent to S/.(000)12,181,808, as of December 31, 2010).

(d) In 2011 and 2010, the Central Bank has recognized interests on deposits in foreign currency amounting to S/.(000)44,428 and S/.(000)44,379, respectively, which are recorded in the "Financial expenses" caption in the statement of comprehensive income.

16. OTHER LIABILITIES

(a) These items are made up as follows:

	2011 S/.(000)	2010 S/.(000)
Financial liabilities		
Contribution subscribed to international organizations pending payment, notes 8(c), (d) and 10(a)	1,021,729	233,894
Interest and commissions payable	148,580	116,700
Fund for diseases, insurance and pension of BCRP employees	13,962	19,445
Account payable	9,623	4,774
Deposit Insurance Fund	92	110,658
	1,193,986	485,471
Non-financial liabilities		
Actuarial liability (b)	123,492	118,852
Other provisions	26,120	25,745
Other	10,023	6,449
	159,635	151,046
Total	**1,353,621**	**636,517**

(b) As of December 31, 2011 and 2010, includes the actuarial obligation corresponding to the subvention of supplemental pensions and other supplemental benefits to the retirement of the Central Bank's pensioners and their relatives. At said dates, the allowance for the actuarial obligation corresponds to the subvention of supplemental retirement pensions, widowhood, burial subsidy and reserve of current risks of healthcare services calculated by an actuary amounted to S/.(000)154,932 and S/.(000)153,083, respectively, which is composed as described below, see note 2.2(n):

	2011 S/.(000)	2010 S/.(000)
Actuarial obligation	154,932	153,083
Minus – Net assets of the Fund (*)	(31,440)	(34,231)
Balance of liabilities at the end of the period	**123,492**	**118,852**

(*) The Fund is a legal entity of private law established under Decree Act N°7137 and is intended to provide assistance to the Central Bank's active and retired employees, as well as to their spouses, children and parents, as established in its regulations. Such assistance is additional to social security benefits and other social benefits granted by Law (ESSALUD, National Pension System - Decree Act N°19990, and the Private Pensions System). According to IAS 19 – Employee Benefits, the aforementioned assistance correspond to a defined benefits plan. As of December 31, 2011 and 2010, 44.4 and 56.8 percent of the Fund's assets, respectively, are deposited in the Central Bank, which accrued interests at an annual effective rate of 3.45 and 3.47 percent, respectively, and the difference which has been granted as loans to the Central Bank's employees is directly discounted from the payroll.

As of December 31, 2011 and 2010, the Central Bank maintains the following defined benefits plans:

(i) Supplemental pensions' subvention, widowhood pensions and burial subsidy -

For a defined benefits plan, expenses related to the supplemental pension (which correspond to the present value of the obligations of the defined benefits, the costs correspond to the services supplied in the current period and the costs of past services) are determined on the basis of the distribution of benefits in the periods of service. The value of the supplemental retirement pension is periodically determined by an expert in actuarial calculation; it is measured at the present value of the entirety of future pension disbursements using an annual technical interest rate of 6 percent.

(ii) Other supplemental benefits to retirement -

The calculation of the reserve of current risks of health assistance was performed by using the general balance equation between services and contributions.

As of December 31, 2011 and 2010, the calculation of the actuarial obligation was performed by an actuary on the basis of the following assumptions: (i) SP 2005 pension mortality tables; (ii) CSO (Commissioner Standard Ordinary) life tables for the burial subsidy; and (iii) the applying of a 6 percent technical interest rate on the retirement risks, pregnancy risks, widowhood risks and family benefits for death, which corresponds to the nominal yield of the long-term sovereign bonds issued by the Peruvian Government.

As of December 31, 2011 and 2010, the caption "Other" in the Operative Expenses of the statement of comprehensive income includes the adjustment of the actuarial reserve that amounts to S/.(000)14,588 and S/.(000)12,062, respectively, note 21.

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

	2011 S/.(000)	2010 S/.(000)
Balance at the beginning of year	118,852	117,338
Increase	14,588	12,062
Transfers to the Fund	(9,948)	(10,548)
Balance at the end of year	123,492	118,852

17. NET EQUITY

(a) Capital -

As of December 31, 2011 and 2010, the Bank's capital stock authorized, subscribed and paid-in by the Peruvian State in accordance with the Bank´s Organic Act and Supreme Decrees N°059-2000-EF, N°108-2004-EF, N°136-2006-EF, N°136-2007-EF and N°124-2010-EF amounts to S/.(000)1,182,750.

According to the article N°92 of its Organic Act, the Central Bank must distribute its net income annually as follows: (i) 25 percent for the Public Treasury and (ii) 75 percent for the constitution and increase up to 100 percent of its capital of a reserve which, preferably, will be used for capitalization.

In that sense, Supreme Decree N°124-2010-EF, published on June 8, 2010 approved the capitalization of reserves for a total of S/.(000)591,375. As of December 31, 2011, the Central Bank has made no capitalization of reserves.

Capital is not represented by shares, and its value is recorded only in the capital account in the statement of financial position. Likewise, a Supreme Decree countersigned by MEF established that the Bank's authorized capital may be readjusted.

(b) Reserves -

According to article N°63 of the Statute of the Central Bank, the surplus generated by the application of article N°92 of the Organic Act provides for the constitution of a special reserve.

On its meeting of March 3, 2011, the Board of Directors meeting approved to transfer 75 percent of the balance of the year 2010, amounting to S/.(000)461,342, to the statutory special reserve.

On March 18, 2010, the Board of Directors approved to transfer 75 percent of the balance for the year 2009, amounting to S/.(000)1,592,857, to the statutory legal reserve. It also approved to transfer S/.(000)1,182,750 of the statutory legal reserve to the legal reserve.

(c) Retained earnings -

Article N°93 of the Organic Act indicates that in case of losses, the reserve shall be applied to settle them; if said amount is insufficient, the Public Treasury must issue and deliver to the Central Bank, negotiable debt securities that shall accrue interests for the non-covered amount, within the first 30 days following the approval of the statement of financial position. In that sense, the loss of the year 2011, which amounted to S/.(000)203,423, will be covered with part of the legal reserve, which amounts to S/.(000)1,182,750.

Additionally, the Board's meeting held on March 3, 2011 and March 18, 2010, approved the transfer of S/.(000)153,781 and S/.(000)457,755, respectively, corresponding to the retained earnings of 2010 and 2009, respectively, to the Public Treasury.

(d) Readjustment for valuation article N°89 - Organic Act -

In accordance with the accounting policies approved by the Board of Directors based on article N°89 of the Central Bank´s Organic Act, the exchange rate differences that result from the valuation in local currency of assets and obligations of the Central Bank in gold, silver, currencies, SDR or other monetary units of international use, are debited or credited in this account without being considered gains or losses of the period, note 2.2 (e).

The movement of this item as of December 31, 2011 and 2010, is as follows:

	2011 S/.(000)	2010 S/.(000)
Balance at the beginning of year	(1,791,632)	(91,836)
More (less):		
Valuation of U.S. dollars	(2,410,602)	(1,150,548)
Valuation of other currencies	(1,512,124)	(1,539,117)
Valuation of metals (gold and silver)	246,869	877,402
Valuation of IMF contribution and obligations	121,979	110,954
Other	67,691	1,513
Balance at the end of year	**(5,277,819)**	**(1,791,632)**

18. TAX SITUATION

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

The Tax authority is entitled to review and, if necessary, amend the taxes calculated by the Central Bank during the last four years, counted as from the date of filing of the related tax returns. The tax returns for 2007 through 2011, inclusive, are open to fiscal review. Since discrepancies may arise over the interpretation by the Tax Authority of the rules applicable to the Central Bank, to date it is not possible to foresee whether any additional tax liabilities will arise as a result of eventual reviews of the financial statements. Therefore, any additional taxes, fines and interest, arising from such reviews, will be recognized in the income (loss) for the year when the disagreement with Tax Authority is resolved. The Central Bank's Management and internal legal advisors consider no significant ultimate liabilities will arise as a result of any possible fiscal reviews for financial statements as of December 31, 2011 and 2010.

19. CONTINGENCIES

On December 15 2006, the Fourth Civil Court of the Supreme Court of Justice of Lima declared that a writ of amparo against the Central Bank promoted by ex-employees who took avail of incentives in 1992, was sustained and ruled their reinstatement and the actuarial calculation for the respective payment of earned remunerations and other labor rights. Subsequently, the Central Bank filed a writ of amparo against said judicial resolution for the violation of diverse constitutional rights that protect the due process (res judicata, due motivation and assessment of evidence), having obtained on May 24, 2007, a provisional measure of protection suspending the effects of the above mentioned ruling. This resolution was declared void by the Supreme Court in a resolution dated November 7, 2011. The Central Bank has challenged said resolution.

Also, by means of Resolution dated November 22, 2011, the Third Civil Court of the Supreme Court of Justice of Lima, acting as the first instance organ, ratified a previous pronouncement, and declared sustained the lawsuit filed by the Central Bank and left without effect the ruling dated December 15, 2006, previously mentioned, a situation that according to the civil procedural regulation, justifies the granting of precautionary measures and has served as grounds for to the Central Bank to have requested again the jurisdictional pronouncement in order that the execution of said ruling be suspended. It should be mentioned that the new ruling of the Superior Court dated April 18, 2011, is due to the fact that the Supreme Court declared invalid the first ruling of the Superior Court and ordered the court to issue a new ruling.

Taking into account the ruling of the Third Civil Court that overrules the reinstatement of said former employees and accrued payment alluded by the ruling dated December 15, 2006, and that for its merit proceeds, it grants to the Central Bank the precautionary measure suspending its execution, the Central Bank's Management and its legal advisers consider that, as of December 31, 2011 and of 2010, it is not necessary to record any allowance for liabilities regarding this judicial contingency.

20. OFF – BALANCE SHEET ACCOUNTS

(a) These items are made up as follows:

	2011 S/.(000)	2010 S/.(000)
Bills and coins in stock (b)	17,752,552	8,956,161
Securities deposit in guarantee (c)	2,310,309	2,299,224
Securities held in custody (d)	973,526	2,246,255
Banks under liquidation	53,179	53,529
Coins in process of production - CNM	1,882	1,437
Bills and coins removed from circulation to be destroyed	1,201	1,201
Other (e)	409,028	226,226
Total	**21,501,677**	**13,784,033**

(b) As of December 31, 2011 and 2010, the bills and coins Central Bank holds in its vaults, which are not in circulation, are as follows:

	2011 S/.(000)	2010 S/.(000)
New	11,915,000	6,938,000
Available	1,868,942	1,379,470
To be classified	3,802,916	579,293
To be incinerated and/or melted	133,429	59,398
In transit	32,265	-
Total	**17,752,552**	**8,956,161**

The movement of the account of bills and coins in stock for the year ended December 31, 2011 and 2010 has been as follows:

	2011 S/.(000)	2010 S/.(000)
Balance at the beginning of year	8,956,161	23,715,061
Acquisition of bills and coins	19,148,949	92,193
Destruction of bills and coins	(6,129,215)	(9,313,398)
Removal of circulation, net of income	(4,223,343)	(5,537,695)
Balance at the end of year	**17,752,552**	**8,956,161**

(c) As of December 31, 2011 and 2010, collateral securities include mainly insurance policies hired by the providers of the Central Bank in its favor, for the purpose of guaranteeing the goods or services they offer to the Central Bank, in accordance with the law for the state procurement of goods and services.

(d) As of December 31, 2011 and 2010, securities in custody included mainly guaranteed promissory notes for operations with the IMF.

(e) As of December 31, 2011 and 2010, included mainly collaterals from the insertion of the Peruvian State into the Brady Plan amounting to S/.(000)154,957 and S/.(000)161,447, respectively. The Peruvian State issued Brady Plan Bonds with the purpose of paying its external debt to the international banking system. Likewise, it issued the corresponding collaterals to guarantee the payment of said bonds, which are managed by the Central Bank at the aforementioned dates in representation of the Peruvian State. Said guarantees shall not generate any liabilities or contingencies to the Central Bank.

21. OPERATING EXPENSES

This item is made up as follows:

	2011 S/.(000)	2010 S/.(000)
Remunerations and social benefits, note 23	140,301	135,876
Administrative expenses	59,049	56,017
Depreciation, note 9(e)	5,273	5,692
Amortization	2,018	1,320
Other	15,085	12,237
Total	**221,726**	**211,142**

22. EXPENSES AND COST OF ISSUANCE

This item is made up as follows:

	2011 S/.(000)	2010 S/.(000)
Cost of production of coins issued	48,957	36,894
Expenses for printing of bills issued	42,261	47,980
Expenses for transporting bills and coins	4,740	3,980
Total	**95,958**	**88,854**

23. PERSONNEL EXPENSES AND SOCIAL OBLIGATIONS

This item is made up as follows:

	2011 S/.(000)	2010 S/.(000)
Salaries	79,555	76,482
Legal gratifications and vacations	26,000	25,920
Commissions and awards	13,894	13,578
Severance compensations	8,787	8,427
Social security	8,422	7,923
Training	1,386	1,427
Other	2,257	2,119
Total	**140,301**	**135,876**

24. RISK ASSESSMENT -

Due to the nature of its activities, the Central Bank is exposed to liquidity, credit, exchange and interest rate risks. The aim of the risk management program of the Central Bank is to minimize potential adverse effects on financial performance.

The Bank's statements of financial position mostly comprise financial instruments, as described in note 2.2(b). International reserves are a relevant component of such instruments (represents 97.6 and 97.7 percent as of December 31, 2011 and 2010, respectively) and reserve management adheres to the principles of security, liquidity and profitability indicated in article N°71 of its Organic Act. International reserves contribute to the country's economic and financial stability insofar as they guarantee availability of foreign exchange in extraordinary situations, such as in the case of an eventual significant withdrawal of foreign currency deposits from the national financial system or temporary external shocks which could cause imbalances in the real sector of the economy and feedback expectations. Likewise, a suitable availability of currency contributes to the reduction of the country risk and to the improvement of Peru credit ratings, which results in better conditions for obtaining foreign credits on the part of the private and public Peruvian companies and, also contributes to the expansion of foreign investment in the country.

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

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

The Central Bank's Management is well aware of the existing market conditions and, on the basis of its knowledge and experience; it controls the aforementioned risks, following the policies approved by the Board. The most important aspects for risk management are the following:

(i) Liquidity risk –

In order to mitigate this risk, the degree of liquidity of fixed rent instruments is controlled mainly by the size of the issuance of currency and the acquired percentage of each issuance.

This risk is also minimized through the distribution of the availability of liquidity which is determined taking into account the liabilities the Bank has and, consequently, the investments are realized considering the terms of these liabilities

(ii) Credit risk –

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

- Deposits in first-class foreign banks, according to the capital involved and to short-term and long-term risk ratings assigned by the main international risk rating agencies, such as Standard & Poor's, Moody's and Fitch.
- Fixed income securities issued by international organizations or foreign public organizations. These securities must be long-term bonds assigned with one of

the four highest ratings of the twenty long-term ratings assigned by risk rating agencies.

- Investments in private debt bonds are not allowed.

The magnitude and concentration of the Central Bank's exposure to credit risk can be obtained directly from the statement of financial position, which describes the size and composition of the Central Bank's financial assets.

Based on the obtained risk ratings and analysis of Management, as of December 31, 2011 and 2010, the Central Bank has no exposure in countries or entities with debt problems, that may pose a credit risk due to the deterioration of investments.

(iii) Exchange rate risk –

This risk can be defined as the risk to which the Central Bank is exposed due to fluctuations in the value of financial assets and liabilities arising from changes in exchange rates. The magnitude of the risk depends on:

- The imbalance between the Bank's assets and liabilities in foreign currency.
- The exchange rate of transactions in foreign currency pending at the close of the business day.

The Central Bank assets are mostly invested in U.S. dollars, which reflects both the denomination of liabilities in foreign currency (mainly reserve requirements and special resident deposits) and the currency used by the Central Bank for intervention in the domestic foreign exchange market. The second most important currency in the composition by currencies of the international reserves is the Euro. The composition by currency of the balances in foreign currency is detailed in note 3

(iv) Interest rate risk –

This risk is associated with to unexpected movements in the market yield rates of the portfolio´s fixed income assets, which could affect the market value of investments before their maturity. The longer the maturity period of investments, the greater the impact of changes in the yield on the market value of such investments. The measure of such impact is reflected in the duration of the portfolio.

The Central Bank faces this risk considering the term structure of liabilities to determine the composition of the maturities of its assets. The maturity of the total portfolio is low and therefore, the impact of interest rate variations on the market value of the portfolio is minimum.

Likewise, maximum maturity terms have been established for investments which are consistent with the market risk profile desired for each portfolio instrument.

The magnitude of the risk depends on:

- The relevant interest rate of financial assets and liabilities; and
- The maturity structure of the Central Bank' s portfolio of financial instruments.

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

(v) Operating risk –

It is defined as the risk of losses generated by risk factors such as: people, processes, external events and information technologies.

Since the risk management approach followed by the Bank is based on the process approach and since risk management is a self-evaluation process, the organizational units and the Risk Management department follow the steps described below:

- The activities supporting a process are identified to elaborate the process layout.
- The risks in activities and the controls applied to mitigate them are identified.
- The risks are assessed and valued and control measures are proposed if the latter are required to control the former.

Once the risks have been valued and the control measures that should be applied have been evaluated, the Risk Management presents its findings to the Risk Committee, which is in charge of assigning responsibilities in the implementation of such measures. The Risk Committee decides about the importance and priority of the processes in which operating risks should be managed.

25. INFORMATION ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value or market value is the amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties to do so under the assumption that the Central Bank is an entity of a going concern.

When a financial instrument is traded on an active and liquid market, its price stipulated in said market in a real deal that offers the best evidence of its fair value. When a price is not stipulated in the market, or cannot be an indicative of the fair value of the instrument to determine said fair value, one can use either the market value of a similar instrument, the analysis of discounted flows or other applicable techniques, which may be affected in a significant way by the assumptions made. Although Management has used its best judgment in the estimation of the fair values of its financial instruments, any technique to perform the above mentioned estimation bears a certain level of inherent fragility. Thus, the fair value cannot be an indicative of the net realizable value or the liquidation value of said instruments.

The methodologies and assumptions applied to determine the estimated market values as of December 31, 2011 and 2010, depend on the terms and risk characteristics of the diverse financial instruments, as detailed below:

(a) Cash in foreign currency and deposits in foreign banks represent cash and up to 90 days bank deposits, respectively, which do not represent significant credit risks or interest rate risks. Therefore, their book value is equivalent to their estimated market value.

(b) Because the book value of securities issued by international entities classified as available-for-sale corresponds to their estimated market value, there is not any difference between their book value and their fair value.

(c) The book value of securities issued by international entities classified as held-to-maturity corresponds to their amortized cost using the effective interest rate method. In accordance with the accounting policies of the Central Bank the market value of these investments is neither determined nor disclosed.

(d) The book value of gold corresponds to its market value.

(e) The market value of the contributions to international organizations and of deposits in international organizations is considered to correspond to their market values because they represent the amount the Bank would receive if it withdrew its membership from said organizations. Additionally, contributions to international organizations cannot be traded with third parties. These contributions generate interest rates that depend on their market risk.

(f) Securities in circulation generate interests at fixed and variable rates according to the respective bond issuance and have maturities of a maximum of 348 and 134 days, respectively; consequently, the estimated market value does not differ significantly from the book value.

(g) Deposits in local and foreign currency generate interests at fixed and variable rates which are periodically updated by the Central Bank; consequently, the estimated market value does not differ significantly from the book value.

(h) The book value of bills and coins maintained by the Central Bank as part of the "Monetary base" caption correspond to their market value because it represents the currency in circulation in the Peruvian economy.

Consequently, as of December 31, 2011 and 2010, the Central Bank's Management considers that the estimated values of the financial instruments of the Central Bank do not differ significantly from their book values, except for what is indicated in paragraph (c) above.

26. EXPLANATION ADDED FOR ENGLISH TRANSLATION

The accompanying translated financial statements were originally issued in Spanish and are presented on the basis of accounting principles approved by the Central Bank Board, described in note 2. Certain accounting principles applied by the Central Bank that conform to accounting principles approved by the Central Bank Board may differ in certain respects to generally accepted accounting principles in other countries. In the event of discrepancy, the Spanish language version prevails.