FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

To the Directors of
Banco Central de Reserva del Perú

1. We have audited the accompanying financial statements of Banco Central de Reserva del Perú (the "Central Bank"), which comprise the balance sheet as of December 31, 2010 and 2009, and the statement of income, the statement of changes in net equity, and the statement of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

2. Management is responsible for the preparation and fair presentation of these financial statements in accordance with Article 88 of the Bank's Organic Law, which requires that these statements be prepared in accordance with generally accepted accounting principles as applicable to the Central Bank and the standards set forth to that purpose by the Superintendencia de Banca, Seguros y Administradoras Privadas de Fondos de Pensiones (hereinafter the "accounting policies and principles of the Central Bank"). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

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

Opinion

6. In our opinion, the above referred financial statements present fairly, in all material respects, the financial position of Banco Central de Reserva del Perú as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in accordance with accounting policies and principles applied by the Central Bank as described in Note 2.

Emphasis of matter

7. As described in Notes 2 (a-2) and 17 (d) to the accompanying financial statements, the Board, on its session of December 30, 2010, agreed to approve the reclassification of the "Readjusment in valuation Organic Law Article 89" account, presenting it in net equity of Balance Sheet of Central Bank. As a result of the previous matter, the accumulated balance maintained from readjustment in the valuation of its assets and liabilities in foreign currency as of December 31, 2010 and 2009 (in thousands) S/.1,791,632 and S/.91,836, respectively, was reclassified from Other Assets to an equity account. For comparative purposes, the 2009 financial statements previously reported have been restated to reflect such change as if this presentation had always been applied.

The accompanying financial statements have been translated into English for the convenience of the readers.

Beltrán, Gris y Asociados S. Civil de R.L.

Countersigned by:

________________________ (Partner)
Eduardo Gris Percovich
CPC Registration No. 12159

February 4, 2011

BALANCE SHEETS
AS OF DECEMBER 31, 2010 AND 2009

ASSETS	**Notes**	**2010** S/.000	**2009** S/.000
GROSS INTERNATIONAL RESERVES:			
Cash in foreign currency		175	29,154
Deposits in foreign banks	5	30,262,374	16,737,163
Securities from international institutions	6	85,339,924	71,479,286
Gold	7	4,394,212	3,516,800
Contributions to the International Monetary Fund	8 (b)	527,577	550,345
Contributions to Latin American Reserve Fund	8 (a)	1,082,356	1,076,386
Other available assets		2,367,581	2,421,265
		123,974,199	95,810,399
OTHER ASSETS ABROAD:			
Contributions in local currency to the International Monetary Fund	8 (b)	2,233,129	2,327,070
Other assets abroad		67,766	71,962
		2,300,895	2,399,032
DOMESTIC CREDIT		9	9
PROPERTY, FURNITURE AND EQUIPMENT, NET	9	138,282	133,322
OTHER ASSETS	10	432,069	513,588
TOTAL ASSETS		**126,845,454**	**98,856,350**
MEMORANDUM ACCOUNTS	21	13,784,033	28,391,485

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

L IABILITIES AND EQUITY	Notes	2010 S/.000	2009 S/.000
RESERVE LIABILITIES		127,183	116,487
OTHER FOREIGN LIABILITIES:			
Equivalent of the contribution in local currency			
to the International Monetary Fund	11 (a)	2,233,129	2,327,070
Other foreign liabilities	11 (b)	2,694,499	2,806,928
		4,927,628	5,133,998
STERILIZED STOCK:			
Outstanding securities issued	12	3,684,583	14,071,252
Deposits in local currency	13	48,888,911	22,202,398
		52,573,494	36,273,650
MONETARY BASE	14	34,207,967	23,548,063
DEPOSITS IN FOREIGN CURRENCY	15	32,755,094	29,332,667
OTHER LIABILITIES	16	636,517	516,271
TOTAL LIABILITIES		125,227,883	94,921,136
EQUITY:	17		
Capital		1,182,750	591,375
Legal reserve		1,182,750	591,375
Special statutory reserve		410,107	-
Fair value reserve		18,473	793,688
Retained earnings		615,123	2,050,612
A. Capital, reserves and retained earnings		3,409,203	4,027,050
B. Readjustment for valuation Article 89 Organic Law		(1,791,632)	(91,836)
TOTAL EQUITY		1,617,571	3,935,214
CONTINGENCIES	20		
TOTAL LIABILITIES AND EQUITY		**126,845,454**	**98,856,350**
MEMORANDUM ACCOUNTS	21	13,784,033	28,391,485

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	Notes	2010	2009
		S/.000	S/.000
FINANCIAL INCOME:			
Interest on deposits in foreign banks	5	55,567	25,623
Net yield on securities	6	1,876,473	2,748,760
Interest on international agreements and deposits at IMF		8,185	4,047
Dividends received from FLAR		36,118	9,807
Yield on gross international reserves		1,976,343	2,788,237
Interest on domestic credit operations		1	129,504
Other financial income		7,936	641,497
TOTAL FINANCIAL INCOME		1,984,280	3,559,238
NON-FINANCIAL INCOME		4,332	7,131
FINANCIAL EXPENSES:			
Interest on other foreign liabilities	11 (b)	(7,700)	(3,802)
Interest on outstanding securities issued	12	(313,553)	(433,892)
Interest on local currency deposits	13	(702,625)	(876,038)
Interest on foreign currency deposits	15	(44,379)	(57,458)
Other financial expenses		(5,236)	(88,338)
TOTAL FINANCIAL EXPENSES		(1,073,493)	(1,459,528)
OPERATING EXPENSES:			
Remunerations and social benefits		(135,876)	(135,235)
Administrative expenses		(56,017)	(57,963)
Depreciation and amortization		(7,012)	(8,249)
Other expenses	18	(12,237)	(7,240)
TOTAL OPERATING EXPENSES		(211,142)	(208,687)
ISSUANCE EXPENSES AND COSTS:			
Expenses for printing of notes bills issued		(47,980)	(36,867)
Cost of production of coins issued		(36,894)	(27,810)
Expenses for transport notes bills and coins		(3,980)	(2,457)
TOTAL ISSUANCE EXPENSES AND COSTS		(88,854)	(67,134)
NET INCOME		**615,123**	**1,831,020**

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

STATEMENTS OF CHANGES IN NET EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	Capital	Reserves	Special statutory reserve	Fair value reserve	Reteined earnings	Readjustment for valuation Article 89 Organic Law	Net Equity
	S/.000	S/.000	S/.000	S/.000	S/.000	S/.000	S/.000
	(Note 17(a))	(Note 17(b))	(Note 17(b))	(Note 6)	(Note 17(c))	(Note 17 (d))	(Note 17)
Balance as of January 1, 2009	591,375	591,375	-	2,103,918	233,294	3,630,411	7,150,373
Net changes in fair value of							-
available-for-sale investments	-	-	-	(1,310,230)	-	-	(1,310,230)
Transfer of earnings to the Public Treasury	-	-	-	-	(13,702)	-	(13,702)
Readjustment for valuation Article 89 Organic Law	-	-	-	-	-	(3,722,247)	(3,722,247)
Net income	-	-	-	-	1,831,020	-	1,831,020
Balance as December 31, 2009	591,375	591,375	-	793,688	2,050,612	(91,836)	3,935,214
Reserve capitalization - Supreme Decree N° 124-2010-EF	591,375	(591,375)	-	-	-	-	-
Transfer	-	-	1,592,857	-	(1,592,857)	-	-
Constitution of reserves	-	1,182,750	(1,182,750)	-	-	-	-
Net changes in fair value of							
available-for-sale investments	-	-	-	(775,215)	-	-	(775,215)
Transfer of earnings to the Public Treasury	-	-	-	-	(457,755)	-	(457,755)
Readjustment for valuation Article 89 Organic Law	-	-	-	-	-	(1,699,796)	(1,699,796)
Net income	-	-	-	-	615,123	-	615,123
Balance as December 31, 2010	**1,182,750**	**1,182,750**	**410,107**	**18,473**	**615,123**	**(1,791,632)**	**1,617,571**

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

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	Notes	2010 S/.000	2009 S/.000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income		615,123	1,831,020
Adjustments to reconcile net income to net cash and cash equivalents provided by (used in) operating activities:			
Depreciation of property, furniture and equipment		6,778	7,161
Provision for impairment of property, net recoveries		1,320	1,098
Disposal of property, furniture and equipment, net		(635)	463
Fair value reserve		(775,215)	(1,310,230)
Decrease (increase) in assets:			
Other foreign assets		98,136	765,743
Domestic credit		-	5,393,361
Other assets		80,200	75,229
Increase (decrease) in liabilities:			
Reserve liabilities		10,695	1,388
Other liabilities abroad		(206,369)	1,544,713
Securities issued		(10,386,668)	(4,273,736)
Deposits in local currency		26,686,512	(1,926,791)
Deposits in banks, financial institutions and other		5,122,210	(843,985)
Deposits in foreign currency		3,422,427	(1,582,653)
Other liabilities		120,246	(190,688)
Readjustment in valuation, Organic Law Article 89		(1,699,796)	(3,722,247)
Cash and net cash equivalents provided by (used in) operating activities		23,094,964	(4,230,154)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Sale of property, furniture and equipment		1,027	991
Additions to property, furniture and equipment		(12,131)	(4,857)
Transfer of earnings to the Public Treasury		(457,755)	(13,702)
Cash and net cash equivalents used in investing activities		(468,859)	(17,568)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		22,626,105	(4,247,722)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR		73,270,950	77,518,672
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	**2 (o)**	**95,897,055**	**73,270,950**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

1. BANK'S IDENTIFICATION AND ECONOMIC ACTIVITY

Banco Central de Reserva del Perú (hereinafter the "Bank or 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 84 of the Peruvian Constitution, dated December 29, 1993, and by its Organic Law approved by Decree-Law N° 26123 of December 24, 1992 (hereinafter Organic Law). The Organic Law establishes that the Bank's functions are to regulate the amount of money, administrate international reserves, issue of bills and coins, and report on the finances of Peru.

The Bank has its legal address and headquarters in Lima, and has branches in seven cities in Peru. As of December 31, 2010 and 2009, the number of employees was 997 and 991, respectively.

The financial statements for the year ended December 31, 2010 have been authorized for issuance by the Bank's Management and will be submitted to the Board of Directors for its approval. The financial statements for the year ended December 31, 2009 were approved by the Board of Directors at meeting held on March 4, 2010.

The Bank represents Peru for the purposes set forth in the Articles of the agreements of the International Monetary Fund (IMF) and the Fondo Latinoamericano de Reservas (FLAR) and is responsible for all official transactions, operations and relations with these institutions.

The Bank may also act as a Peruvian Government Agent in its relations with multilateral credit organizations and financial agencies of foreign governments.

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

- Grant 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, valued at their acquisition cost, may not exceed at any moment five per cent (5%) of the balance of the monetary base at the end of the previous year.
- Issue 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 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 rehabilitate banks or financial entities; participate, directly or indirectly, in the capital of commercial, industrial or any other companies.

2. SIGNIFICANT ACCOUNTING POLICIES AND PRINCIPLES OF THE CENTRAL BANK

The significant accounting policies and principles used by the Central Bank to prepare and present its financial statements are the following:

(a-1) Basis for the preparation and presentation and change in accounting policy

The financial statements are prepared and presented as established in Article 88 of the Bank's Organic Law, in accordance with generally accepted accounting principles (GAAP) as applicable to the Central Bank, and the related standards established by Superintendency of Banks, Insurance Companies and Adminstrators of Private Pension Funds (hereinafter SBS, for its Spanish acronym).

The GAAP in Peru comprise the Standards and Interpretations issued or adopted by International Accounting Standards Board (IASB), which include the International Financial Reporting Standards (IFRS), the International Accounting Standards (IAS), and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) or by the former Standing Interpretation Committee (SIC) adopted by IASB and rendered official by the National Accounting Council (CNC for its Spanish acronym) for their application in Peru .

The standards rendered official in Peru by the National Accounting Council as of December 31, 2010 are the international versions effective on the date of approval of the CNC, which include IFRS 1 to 8, IAS 1 to 41, IFRIC 1 to 14, and SIC 1 to 32 (except for those superside).

In the preparation and presentation financial statements of 2010 and 2009, the Bank has complied with the aforementioned applicable Standards and Interpretations.

New standards and modifications to the standards and interpretations approved by the CNC to be adopted in Perú as from 2011

By Resolution N° 044-2010-EF/94, the CNC approved to formalize the 2009 revised versions of IAS, IFRS, IFRIC and SIC for their application in Peru as from January 1, 2011, recommending its early application, as well as to formalize the changes implemented as of May 2010 of IAS, IFRS, IFRIC, all of which have been adopted by the IASB internationally. The new standards and amendments approved by the CNC effective as from 2011 in Peru, in accordance with this Resolution are:

IFRS 1	"First-time adoption of IFRS" (revised May 2010)
IFRS 2	"Share-based payments" (revised June 2009)
IFRS 3	"Business Combination" (revised May 2010)
IFRS 5	"Non-current Assets Held for Sale and Discontinued Operations" (revised April 2009)
IFRS 7	"Financial instruments – Disclosures" (revised May 2010)
IFRS 8	"Operating Segments" (revised April 2009)
IAS 1	"Presentation of financial statements" (revised May 2010)
IAS 7	"Statement of Cash Flows" (revised April 2009)
IAS 16	"Property, plant and equipment" (revised May 2008)
IAS 17	"Leases" (revised April 2009)
IAS 18	"Revenues from ordinary activities" (revised April 2009)
IAS 19	"Employee benefits" (revised May 2008)
IAS 20	"Accounting for Government Grants and Disclosure of Government Assistance" (revised May 2008)
IAS 23	"Borrowing Cost" (revised May 2008)
IAS 24	"Related party disclosures" (revised November 2009)
IAS 27	"Consolidated and separate financial statements" (revised May 2010)
IAS 28	"Investments in associates" (revised May 2008)

IAS 29	"Financial Reporting in Hyperinflationary Economies" (revised May 2008)
IAS 31	"Interests in joint ventures" (revised May 2008)
IAS 32	"Financial Instruments: Presentation" (revised October 2009)
IAS 34	"Interim financial reporting" (revised May 2010)
IAS 36	"Impairment of Assets" (revised April 2009)
IAS 38	"Intangible Assets" (revised April 2009)
IAS 39	"Financial instruments: recognition and measurement" (revised April 2009)
IAS 40	"Investment property" (revised May 2008)
IAS 41	"Agriculture" (revised May 2008)
IFRIC 8	"Scope of IFRS 2" (revised June 2009)
IFRIC 9	"Reassessment of embedded derivatives" (revised April 2009)
IFRIC 11	"IFRS 2" – Group and Treasury Share Transactions" (revised June 2009)
IFRIC 13	"Customer Loyalty Programs" (revised May 2010)
IFRIC 14	"IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding, Requirements and their Interaction" (revised November 2009)
IFRIC 15	"Agreements for the construction of real estate" (issued July 2008)
IFRIC 16	"Hedges of a Net Investment in a Foreign Operation" (revised April 2009)
IFRIC 17	"Distributions of Non-cash Assets to Owners" (issued November 2008)
IFRIC 19	"Extinguishing financial liabilities with equity instruments" (issued November 2009)

The Bank's management is evaluating the impact of these standards on the financial statements from 2011 onwards.

New Accounting Pronouncements (not yet approved by the CNC or internationally approved after May 2010)

Conceptual framework (revised September 2010)

IFRS 1	"First-time adoption of IFRS" (revised December 2010)
IFRS 7	"Financial instruments – Disclosures" (revised October 2010)
IFRS 9	"Financial instruments – Classification and Measurement" (issued November 2009)
IAS 12	"Income Tax" (revised December 2010)
IFRIC 18	"Transfer of assets from customers" (revised January 2009)

The Bank's Management is analyzing how these standards, no yet approved by the CNC, may affect the preparation and presentation of its 2011 financial statements and so on.

In the preparation of its financial statements, the Bank includes some accounting practices included in the Bank Organic Law. The SBS has set forth no specific accounting standards for the Bank. The accounting principles generally accepted as applicable to the Central Bank (hereinafter referred to as principles and practices of the Central Bank) are summarized in the following sections of this note.

(a-2) Change in accounting policy

As agreed on its meeting of December 30, 2010, the Board approved the change of the recording of the accounting effect resulting from valuation of assets and liabilities in foreign currency, in accordance with article 89 of the Organic Law, the balance of which, previously recorded as assets or liabilities, shall be presented in equity under "Readjustment in valuation Organic Law Article 89". Likewise, for comparative purposes, the 2009 financial statements previously reported have been restated to reflect such change as if this presentation had always been applied.

(b) Functional and presentation currency

The Bank prepares and presents its financial statements in nuevos soles, which is the functional currency. The functional currency is the currency of the main economic environment in which the entity operates.

(c) Use of estimates

The preparation of the financial statements requires Management to make estimates and assumptions for determining assets and liabilities balances and the amounts of income and expenses, and disclosing contingent assets and liabilities, to date of financial statements. Should any changes subsequently occur to the estimates or assumptions due to variations in the circumstances they were based on, the effect of change should be included in the determination of the net gain or loss for the year of the change, and future periods if applicable. The significant estimates related to the financial statements correspond to: the determination of the fair value for available-for-sale financial assets when the information of active market price is not available, provision for fluctuation in values for available-for-sale assets, the provision for costs of transforming coined gold, useful life of property, furniture and equipment, provision for impairment of the value of property, provision for severance indemnities, useful life of intangibles, provision for foreclosed assets, and actuarial provisions for supplemental retirement, widowhood, health care and burial benefits.

(d) Financial instruments

- **Primary**

A primary financial instrument (not derivative) is any contract that simultaneously gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity. In the case of the Bank, financial instruments correspond to primary instruments included in: (i) gross international reserves, (ii) other assets abroad, (iii) domestic credit, (iv) other assets, and (v) liabilities in general.

Primary financial instruments are classified as financial assets, financial liabilities, or equity instruments according to the substance of the contract. Interest and other gains and losses generated by a financial instrument classified as asset or liability are recorded as income or expense in the statement of income, except for gains or losses arising from the variation in fair value of securities held by international entities consider as available-for-sale, which are directly recognized in equity, and the exchange differences for valuation of balances which are recorded in equity. The financial instruments are offset when the Bank has the legal right to offset them, and Management has the intention of paying them on a net basis or negotiating the asset and paying the liability simultaneously.

According to the Bank Management's opinion, the balances in: (i) Gross international reserves, (ii) other assets abroad; (iii) domestic credit; (iv) other assets; and (v) liabilities in general, do not differ significantly from their fair value. The recognition and valuation criteria of these items are disclosed herein in the corresponding notes.

- **Derivatives**

The derivatives refer to financial instruments characterized by: (i) changes in value (directly or inversely) as a result of modifications occurring in a determined variable (underlying) which is not specific to one of the parties; (ii) not requiring an initial investment or requiring a small initial disbursement related to the income or loss that they might generate and (iii) having a maturity date.

The derivative instruments used by the external administrator are valued using the quotations of the closing period that it provides.

(e) Securities in international entities

The securities from international entities held by the Bank are classified as follows: a portion as available-for-sale financial assets and other portion as held-to-maturity financial assets. These securities are initially recorded at acquisition cost.

Subsequently to their initial recognition, the valuation of the available-for-sale financial assets is carried out at their fair value, which is determined on a market price basis. The higher or lower value of the available-for-sale financial assets which results from comparing the carrying value and their fair value is recorded in equity until investments are sold or realized. The interests generated while holding these assets are earned and charged to earnings using the effective interest rate.

After their initial recognition, the held-to-maturity financial assets are valued at their amortized cost using the effective interest method affecting the results.

When there is objective evidence of impairment of the accounting value, this loss will be recognized via the corresponding provision for fluctuation of securities charged to results of the period.

(f) Precious metals

As established by Article 72 of the Bank's Organic Law, gold and silver holdings are recorded at the value established by the Board of Directors, without exceeding the price prevailing in the international market.

Under Board of Directors' agreements of December 20, 2007, from December 31, 2007, the Bank's gold and silver holdings are valued at their listed price in the New York market daily provided by Bloomberg and Reuters between 15:00 to 15:30, local time.

The price of gold per troy ounce was US$1,404.30 and US$1,092.90 as of December 31, 2010 and 2009, respectively. While the price of silver per troy ounce was US$ 30.465 and US$ 16.830 on the same dates.

(g) Property, furniture and equipment

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

Annual depreciation is recognized as expense and calculated based on the straight-line method considering the following estimated useful life:

	Years
Buildings	100
Furniture and office equipment, and miscellaneous equipment	10
Computers	3
Transportation units	5

The useful life estimate and the depreciation method are periodically reviewed by the Central Bank's Management based on the economic results expected for the items comprising property, furniture and equipment.

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

(h) Foreclosed assets

Foreclosed assets mainly include real estate received as payments of loans granted to banks under liquidation process and are recorded at the cost of adjudication which does not exceed their estimated realizable value, net of the corresponding provision. As of December 31, 2010 and 2009, foreclosed assets are fully amortized.

As established in Article 85 of the Organic Law, the Central Bank may not be the owner of more real estate than those intended for its normal activities and those transferred to the Bank as settlement of debts. The latter must be sold over a term not exceeding a year from the date of transfer. As of December 31, 2010 and 2009, all the foreclosed assets are aged over a year and the Central Bank has made the arrangements established by law in order to formalize their sale, which implied coordination with Superintendencia Nacional de Bienes Estatales (SBN, for its Spanish acronym).

(i) Impairment losses

When there are events or economic circumstances that indicate that the value of an asset might not be recoverable, the Bank reviews the book value of these assets. If after this analysis the book value of the asset exceeds its recoverable amount, the Bank recognizes an impairment loss in the statement of income.

The recoverable amount of long-lived asset is the higher between its net cost of sale and its value in use. The fair value less costs to sell of a long-lived asset is the amount that can be obtained by selling it in a transaction carried out in conditions of mutual independence between well informed parties, less related costs of disposal. Value in use is the present value of estimated future cash flows expected to arise from an asset.

In accordance with established procedure, the valuation of real estate of the Bank is performed, at least every 5 years, for which an appraiser is hired. The last appraisal was conducted in 2008.

(j) Sterilized capital

Sterilized capital inflows is a Central Bank's 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 capital inflows is the result from monetary operations to take out liquidity from the financial system, and for deposits from the said entities, which in case of reversal, would imply an increase in the primary issuance.

(k) Bills and coins issued

This includes bills and coins in legal tender issued by the Bank which are held by the public; and are recorded as a liability on the balance sheet at their nominal value under primary issuance. Bills and coins not in circulation are kept in the Bank's vaults and recorded in Memorandum Accounts at their nominal value.

(l) Employees' severance indemnities

Employees' severance indemnities are determined according to current legal regulations, and are recorded in the accounting books as other liabilities and charged to results and credited to the corresponding provision account as accrued. The payments made, which are considered definitive, are deposited in financial institutions selected by the employees.

(m) Employee benefits

As established in Article 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 funds necessary for supplementing the expenses required for its operations.

The Fund is a legal entity of private law established under Decree-Law N° 7137 and is intended to provide assistance to the Bank's active and retired employees, as well as 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 (National Health Security – ESSALUD, Spanish acronym; National Pension System - Decree Law N° 19990, and The Private Pensions System). According to IAS 19 – Retirement Pension Costs, this regulation considers the benefits for employees under a defined benefit plan.

- **Supplemental pensions subvention, widowhood pensions and burial subsidy**

  For a plan of defined benefits, the expenses related to supplemental pensions are determined under the method of benefits per year of services, under which the cost of providing supplementary pensions is recorded in the results for the year so as to distribute the cost over the employees' years of services. The value of the supplemental pension is determined by an actuary on a periodic basis and is measured at the present value of all future pension payments using an annual technical interest rate of 6%. In determining this obligation, the Bank has used parameters established in the Fund's Regulations, and the methodology for calculating the actuarial reserve for supplemental subvention pensions, widowhood pensions, burial subvention, and health-care services (Note 16 (b)).

- **Other supplemental benefits to retirement**

  The general balancing equation between health-care benefits and contributions (Kaan equation) was used to calculate the ongoing risks reserve of health care services.

As of December 31, 2010, to determine the amount of provision for actuarial reserve, the present value of obligations for the defined benefits has been considered, as well as the fair value of the Fund's assets, in accordance with IAS 19 Employee Benefits. The Fund's net assets considered to be deducted from the amount of actuarial reserve are composed by the present value of deposits and loans, net of their obligations.

The supplemental pension subvention to retirement and widowhood pensions, burial subsidy, and other supplemental retirement benefits, deducted from present value of the Fund's net assets are recorded under other liabilities.

(n) Interests and commissions

Interest income and expenses are recognized in the results for the year when accrued and the commissions when paid.

When there are reasonable doubts regarding the collection of any financial instrument, interests are recognized as income to the extent that there is a reasonable certainty of its collection.

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

Operating expenses for transporting of bills and coins are recognized in results for the year when accrued.

Printing expenses for bills and manufacturing cost of coins are recognized in results for the year in which they are issued.

The cost of manufacturing coins and coin blanks until November 2009 includes the cost of raw materials. From December 2009, the cost of labor and manufacturing overhead costs have also been considered.

(p) Cash and cash equivalents

Cash and cash equivalents comprise gross international reserves, net of bills and coins issued and in circulation included in the account of the monetary base.

The difference between gross international reserves and reserve liabilities (comprising the obligations with international entities) represents net international reserves. These reserves show the international liquidity of the country and its financial capacity compared to other countries; they are the resources the Bank possesses to settle its obligations in foreign currency.

(q) Transactions and balances in foreign currency and treatment of exchange differences

Transactions in foreign currency are those carried out in a different currency other than the functional currency. Foreign currency transactions are converted into the functional currency using the exchange rates on the dates of transactions. The Bank records income or loss on foreign currency sale in the results for the year.

The result from foreign currency sale is obtained by subtracting the equivalent in local currency obtained by multiplying the amount of foreign currency sold by the accounting exchange rate at the end of day from the equivalent in local currency of the amount obtained from foreign currency sales on that day. If the equivalent in local currency resulting from this sale is higher than the amount calculated, this is recorded as an income; otherwise, it is recorded as a loss.

Article 89 of the Bank's Organic Law establishes that differences recorded as a result of the readjustments in the valuation in local currency of the Bank's assets and obligations in gold, silver, foreign currency, Special Drawing Rights (hereinafter SDR) or other monetary units of international use are credited in a special account and are not considered to be gains or losses.

This valuation is made on a daily basis, using the balances of assets and liabilities in foreign currency and precious metals in dollars and converting the latter to nuevos soles (see note 4), thus obtaining balances in local currency which are compared with the accounting balances before valuation.

The amount obtained as a result of said prices and exchange rate valuation is debited or credited in a special equity account denominated "Readjustment in Valuation, Article 89 Organic Law". As indicated in Note 2 (a-2), the Board approved to modify the presentation of the valuation result of the position of assets and liabilities in foreign currency so that it be presented in equity.

(r) Provisions

Provisions are recognized only when the Bank has a present obligation (legal or constructive) assumed as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and when its amount can be reliably estimated. Provisions are reviewed and adjusted in each period to reflect the best estimate as of balance sheet date.

When the effect of the value of money over time is significant, the amount of the provision is the present value of the expenditure expected to be incurred to settle the provision.

(s) Contingent liabilities and assets

Contingent liabilities are not recognized in the financial statements, they are only disclosed in a note to financial statements unless the possibility of an outflow of resources is remote.

Contingent assets are not recognized in the financial statements, they are only disclosed in a note to the financial statement when it is probable that an inflow of resources will take place.

Items previously treated as contingent assets or liabilities will be recognized in the financial statements of the period in which the change in probabilities occurs; that is, when in the case of liabilities it is determined as probable, or virtually certain in the case of assets, that an outflow or inflow of resources will take place, respectively.

(t) Reclassifications

Certain amounts of the financial statements as of December 31, 2009 have been reclassified so that they may be compared with the financial statements of the current year. The reclassifications carried out are summarized below:

- In 2010, as a result of the decisions approved by the Board (Note 2 (a-2)), the Bank reclassified the accumulated balance maintained for "Readjustment in valuation article 89 of the Organic Law" of its assets and liabilities in foreign currency as of December 31, 2010 and 2009 –(in thousands) S/.1,792,632 and S/.91,836, respectively– from Other Assets to Equity.
- In 2009, certain personnel expenses amounting to (in thousands) S/.10,136 were included as part of "Administrative expenses". In the financial statements as of December 31, 2010 and 2009, this has been included in "Remunerations and social benefits".
- In 2009, "Expenses for the transportation of banknotes and coins", which amounted to (in thousands) S/.2,457, were included in "Expenses for transportation and printing of banknotes". In the financial statements as of December 31, 2010 and 2009, this expense constitutes a separate entry.

3. MAIN DIFFERENCES BETWEEN THE ACCOUNTING PRINCIPLES AND PRACTICES OF THE CENTRAL BANK AND GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN PERU

The main differences between the accounting principles and practices applied by the Central Bank in conformity with the Organic Law described in Note 2 above, and the GAAP in Peru are as follows:

- The Bank records in a balance sheet special account, as per accounting practice from Organic Law Article 89, the readjustment of price valuation and exchange rates in local currency, corresponding to the assets and obligations in gold, silver, foreign currency, SDR or other monetary units of international use. In accordance with IAS 21 - The Effects of Changes in Foreign Exchange Rates (GAAP in Peru), the results in the above valuations should be included in the results of the Bank in the period when generated, and the income for foreign currency sale should be recorded as income or loss for the period as incurred. As of December 31, 2010 and 2009 this readjustment amounted to (in thousands) S/.1,791,632 and S/.91,836, respectively (Notes 2 (a-2) and 17 (d)).
- The preparation of the statement of cash flows is carried out by the Bank considering as cash and cash equivalents the captions included in Note 2 (p). This accounting practice differs from what IAS 7- Statement of Cash Flows (GAAP in Peru) - establishes.

4. BALANCES IN FOREIGN CURRENCY

Balances in U.S. dollars as of December 31, 2010 and 2009 have been stated in nuevos soles at the purchase exchange rate established by the Superintendency of Banking, Insurance, and Private Pension Fund Administrators as of those dates of S/.2.808 and S/.2.888 per US$1, respectively. Balances in other currencies have been stated in U.S. dollars at the exchange rate at the closing of the New York market as mentioned in caption (b) of this note.

(a) The balances in foreign currency and in precious metals as of December 31, 2010 and 2009 expressed in dollars, are summarized as follows:

	2010 US$000	2009 US$000
Assets:		
U.S. dollars	35,522,008	26,190,782
Euro	6,176,538	4,880,647
SDR	1,005,155	1,019,264
Peso Andino	20,000	20,000
Gold	1,565,573	1,218,411
Silver	1,314	726
Other currencies	153	160
	44,290,741	33,329,990
Liabilities:		
U.S. dollars	11,832,443	10,311,642
Euro	14,227	8,915
SDR	572	387
Peso Andino	20,000	20,000
Silver	530	293
	11,867,772	10,341,237
Net assets	**32,422,969**	**22,988,753**

SDR is an international reserve asset created by the International Monetary Fund (hereinafter IMF), allocated to member countries in proportion to their quotas. The value of SDR is calculated daily by adding the U.S. dollars 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.

(b) The quotations of foreign currency in U.S. dollars as of December 31, 2010 and 2009 are summarized as follows:

	2010 US$	2009 US$
SDR	1.540030	1.561990
Pounds sterling	1.541200	1.606600
Canadian dollars	1.000100	0.947355
Peso andino	1.000000	1.000000
Euro	1.328900	1.433000

5. DEPOSITS IN FOREIGN BANKS

This account comprises:

	2010 S/.000	2009 S/.000
Time deposits	30,254,216	16,725,359
Interest receivable on time deposits	3,226	291
	30,257,442	16,725,650
Call deposits	4,927	11,505
Interest receivable on call deposits	1	3
	4,928	11,508
Demand deposits	4	5
	30,262,374	**16,737,163**

As of December 31, 2010 and 2009, time deposits amounted to (in thousands) US$10,774,294 and US$5,791,329, respectively, which are deposited in first-rate banks and accrue interests at international market rates. As of December 31, 2010 and 2009, a portfolio of (in thousands) US$297 and US$1,410 is held by an external manager.

Deposits in foreign banks accrued an annual average interest rate of 0.25% as of December 31, 2010 (0.16% as of December 31, 2009).

6. SECURITIES FROM INTERNATIONAL INSTITUTIONS

This account comprises:

	2010 S/.000	2009 S/.000
Available-for-sale securities	75,125,397	65,927,598
Interests to be collected	652,961	811,812
	75,778,358	66,739,410
Held-to-maturity securities	9,545,681	4,727,696
Interests to be collected	15,885	12,180
	9,561,566	4,739,876
Total	**85,339,924**	**71,479,286**

Securities in international institutions correspond to first class and low-risk financial instruments, which bear interests at international market rates. As of December 31, 2010 and 2009, such values are represented by (in thousands) US$30,391,710, and US$24,750,446, respectively, which are under custody of first class foreign banks. Also includes securities of issuers of first class in external administration.

The securities classified as available for sale comprise Treasury obligations of the United States of America and countries members of the European Economic Community, the Bank for International Settlements (BIS by its acronyms in English), as well as bonds and commercial papers from international entities supported by sovereign governments and supra-national institutions.

The market price considered as fair value for securities classified as available for sale on the Bank's investment portfolio is provided daily by Bloomberg and Reuters between 15:00 and 15:30, local time, except for commercial papers, over which the Bank applies internal valuation techniques based on the information obtained in the market at closing period date.

The result of the valuation at fair value of available-for-sale investments is directly recognized in equity. For this concept, for 2010 and 2009 periods a decrease for (in thousands) S/.775,215 and S/.1,310,230, respectively, has been recorded in the account reserve for fair value in equity.

The securities classified as held to maturity comprise structured bonds in order to diversify hedging investments as established by the Board.

After their initial recognition, the financial assets held to maturity are valued at amortized cost using the effective interest rate method, the result of which is recorded in the statement of income. As of December 31, 2010 and 2009, the balance of held-to-maturity investments amounts to (in thousands) S/.9,545,681 and S/.4,727,696, respectively.

7. GOLD

This account comprises:

	2010 S/.000	2009 S/.000
In Peru	2,175,527	1,740,909
Abroad	2,218,685	1,775,891
Total	**4,394,212**	**3,516,800**

As of December 31, 2010 and 2009, this account consists of 552,192 troy ounces in commemorative coins and bars deposited in the Bank's vault. As of December 31, 2010 562,650 troy ounces are held in "good delivery" bars deposited in first-rate foreign banks in custody. As of December 31, 2009, 562,650 troy ounces were held in "good delivery" bars, as well as bonds from international entities, bearing interests rates of 0.45% which maturity date was on October 2010.

As of December 31, 2010 and 2009, the balance of gold in the country is presented net of a provision of (in thousands) S/.1,917 and S/.1,972, respectively. Such provision represents the estimated expense for transforming coined gold into high purity or "good delivery" bars.

8. CONTRIBUTIONS TO INTERNATIONAL AGENCIES

The Bank maintains contributions with the following international agencies:

(a) Fondo Latinoamericano de Reserva - FLAR

As of December 31, 2010 the contribution to FLAR amounts to (in thousands) US$385,454 equivalent to (in thousands) S/.1,082,356 (US$372,710 equivalent to S/.1,076,386, as of December 31, 2009). This contribution grants Peru access to FLAR funding facilities. Peru's participation in FLAR is 22.22% of its subscribed capital.

(b) International Monetary Fund (IMF)

Comprises the following:

	2010	2009
	S/.000	S/.000
Contribution in SDR		
Contribution to IMF in SRG 122,000	527,577	550,345
Contribution in local currency		
Contribution to IMF for equivalent in local currency of SDR 516,400	2,221,629	2,354,593
Revaluation to be liquidated - contribution to IMF in local currency	11,500	(27,523)
Total contribution in local currency	2,233,129	2,327,070
Contribution to IMF	2,760,706	2,877,415

The contribution to IMF grants Peru access to IMF's funding activities. The counter item of these contributions is recorded as a liability with IMF. (Note 11 (a)). The IMF determines Peru's contribution as a participating country, which amounts to (in thousands) SDR 638,400 as of December 31, 2010 and 2009. Peru's participation in the total contributions made by IMF member countries is 0.29% as of December 31, 2010 and 2009.

Revaluations to liquidate - contribution in local currency to IMF corresponds to the revaluation (provision) for maintaining the value of contribution resulting from the difference from the variation of the exchange rates of SDR in respect to the U.S. dollar and the U.S. dollar in respect to the Peruvian nuevos soles, from April 30 to December 31 of each year. The exchange rate as of April 30, 2010 was 0.661762 SDR, and 2.847 nuevos soles per U.S. dollar, while the exchange rate as of December 31, 2010 was 0.649336 SDR and 2.808 nuevos soles per U.S. dollar. These revaluations (provisions) are settled at the end of each IMF year, which is April 30.

Within the Financial Transactions Plan of IMF framework, funding operations for US$150 million and US$35 million (equivalent to SDR 100 million and SDR 22 million respectively) were carried out in May and September 2009, which generated a decrease in the contribution in local currency and obligations to the IMF for S/.546 million and an increase in the contribution of SDR 122 million; Peru's contribution of SDR 638.4 million remaining unchanged.

9. PROPERTY, FURNITURE AND EQUIPMENT

During 2010 and 2009, the movement in cost, accumulated depreciation and allowance for impairment, was as follows:

2010:	Balances as of 01/01/2010	Additions	Disposals	Adjustment	Balances as of 12/31/2010
	S/.000	S/.000	S/.000	S/.000	S/.000
Cost:					
Land	24,056	-	-	-	24,056
Buildings and other constructions	156,613	1,416	-	-	158,029
Furniture and office equipment	4,639	124	(196)	454	5,021
Vehicles	2,956	145	(205)	(423)	2,473
Miscellaneous equipment	55,964	8,289	(1,309)	(31)	62,913
Units in-transit	1,056	2,157	(335)	-	2,878
Total	245,284	12,131	(2,045)	-	255,370
Accumulated depreciation:					
Buildings and other constructions	52,162	1,933	-	-	54,095
Furniture and office equipment	4,317	72	(194)	319	4,514
Transportation equipment	2,455	194	(174)	(408)	2,067
Miscellaneous equipment	36,103	4,579	(1,284)	89	39,487
	95,037	6,778	(1,652)	-	100,163
Allowance for impairment	16,925				16,925
Net cost	**133,322**				**138,282**

2009:	Balances as of 01/01/2009	Additions	Retiros	Disposals	Balances as of 12/31/2009
	S/.000	S/.000	S/.000	S/.000	S/.000
Cost:					
Land	24,784	-	728	-	24,056
Buildings and other constructions	157,467	312	1,166	-	156,613
Furniture and office equipment	4,669	122	152	-	4,639
Vehicles	2,984	163	191	-	2,956
Miscellaneous equipment	54,794	3,320	2,150	-	55,964
Units in-transit	119	1,007	70	-	1,056
	244,817	4,924	4,457	-	245,284
Accumulated depreciation:					
Buildings and other constructions	50,974	1,588	400	-	52,162
Furniture and office equipment	4,397	71	151	-	4,317
Transportation equipment	2,440	206	191	-	2,455
Miscellaneous equipment	32,759	5,296	2,027	75	36,103
	90,570	7,161	2,769	75	95,037
Allowance for impairment	17,166	-	241	-	16,925
Net cost	**137,081**				**133,322**

(a) The depreciation of property, furniture and equipment for the 2010 period is included in the statement of income under "Depreciation and Amortization" for (in thousands) S/.5,692 (S/.7,151 in 2009) and cost of material and production of coins for (in thousands) S/.1,086 and S/.10, respectively.

(b) As of December 31, 2010, the Bank maintains furniture and equipment for (in thousands) S/.33,140 (S/.26,495 in 2009) fully depreciated, which is still in use.

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

(d) In 2010, a general inventory of Bank's assets was carried out and its result is still in process of reconciliation.

(e) In 2008, the appraisal value provided by independent appraisers of the real estate where the main office and the Museum of the Bank is located, resulted lower than their net book value; therefore, a allowance for impairment has been recorded with charge to results amounting to (in thousands) S/.16,397, while for other six properties where the branches operate, the appraisal value resulted higher than the net book value, for which a reversal of the existing allowance for impairment has been recorded, totally or partially, until the limit of the asset market value, resulting in an income of (in thousands) S/.3,793. In 2009, (in thousands) S/.307 were recorded in other expenses for adjustment of impairment of property.

10. OTHER ASSETS

This account comprises:

	2010 S/.000	2009 S/.000
Contributions to international organization (Note 17 (a))	233,894	277,364
Collections	89,968	89,960
Silver	38,544	43,497
Raw material, semi-finished and finished products	37,375	20,822
CNM inventories in transit	22,634	70,921
Accounts receivable from personnel	3,691	2,097
Intangibles, net of amortization of (in thousands) S/.11,258 (S/.10,188 in 2009)	3,054	1,715
Prepaid expenses and deferred charges	1,813	708
Foreclosed assets (*)	-	-
Miscellaneous	1,096	6,504
Total	**432,069**	**513,588**

(*) Foreclosed assets as of December 31, 2010 and 2009 amount to (in thousands) S/.323 and S/.780, respectively, and they are fully amortized.

(a) The contribution to international organizations corresponds to the pending contribution to FLAR as of December 31,2010 of (in thousands) US$83,296 (US$96,040 in 2009), presented as other assets and liabilities, which will be paid with future distributions of profits of this organization, (Note 16 (a)).

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

(c) Raw material comprises the supplies acquired by the Bank for the minting of coins valuated 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.

(d) Prepaid expenses and deferred charges mainly comprise the cost of printing bills, charged to expenses as cash is issued.

(e) Intangibles comprise licences and computer programs. Expense for amortization included in statement of income was (in thousands) S/.1,320 y S/.1,098 as of December 31, 2010 and 2009, respectively.

11. OTHER FOREIGN LIABILITIES

The Bank presents the following foreign liabilities:

(a) Equivalent of the contribution in local currency to the IMF

As of December 31, 2010, the equivalent of the contribution in local currency to the IMF amounts to (in thousands) S/.2,233,129 (S/.2,327,070 as of December 31, 2009) corresponding to (in thousands) SDR 516,400. This obligation is not subject to an interest rate and has no agreed-upon maturity date (Note 8 (b)).

(b) Other liabilities abroad

It comprises the following:

	2010 S/.000	2009 S/.000
Allocation of SDR	2,623,851	2,780,887
Revaluations to be liquidated - SDR allocations	13,582	(32,507)
Allocation of Pesos andinos (FLAR)	56,160	57,760
Other	906	788
Total	**2,694,499**	**2,806,928**

As of 31 of December of 2010 and 2009 the balance of the SDR allocation account is equivalent to (in thousands) SDR 609,893, distributed by the IMF, which bear charges or interests under the conditions established in the agreement. The rates corresponding at December 31, 2010 and 2009 were of 0.34% and 0.23%, respectively.

Revaluations to be liquidated - SDR allocations correspond to the revaluation (provision) for maintenance of the resulting value of the difference by variation of exchange rates of SDR with respect to the U.S. dollar and the aforementioned dollar in respect to the Nuevo Sol between April 30 and December 31 each year. These revaluations (provisions) are liquidated to the closing of the financial year of the IMF, which is fixed at April 30 every year.

Allocation of Pesos andinos (FLAR) corresponds to pesos andinos provided by FLAR, related to the ALADI agreement. Such allocation generates no interest nor has a defined maturity.

12. OUTSTANDING SECURITIES ISSUED

This account comprises:

	2010 S/.000	2009 S/.000
Banks	3,295,100	12,040,255
Banco de la Nación	-	352,500
Financial institutions	-	88,700
Other	380,700	1,639,245
Sub-total	3,675,800	14,120,700
Indexation adjustment CDV BCRP	11,488	-
Discount on sale CD BCRP, CDV BCRP and CDLD BCRP	(2,705)	(49,448)
Total	**3,684,583**	**14,071,252**

As of December 31, 2010, outstanding securities issued included certificates of deposit in local currency for a total of (in thousands) S/.30,000, certificates of variable rate deposits in local currency for a total of (in thousands) S/.450,000, and certificates of deposits payable in dollars for a total of (in thousands) S/.3,195,800, placed directly or through auctions in order to reduce surpluses of liquidity in the financial system, with maturities of up to one year. Such certificates are placed to discount and bore, as of 31 of December of 2010, an annual implicit rate between 0.7% and 3.9% (between 0.8% and 3.5% as of December 31, 2009).

In 2010, circulars N° 036-2010-BCRP and N° 037-2010-BCRP were issued. Circular N° 036-2010-BCRP approving the certificates of deposit in local currency at variable rate of the Central Bank (CDV BCRP), which are subject to a readjustment based on the reference interest rate for the monetary policy and circular N° 037-2010-BCRP approving the certificates of deposits settable in dollars from the Central Bank (CDLD BCRP), which are denominated in nuevos soles. The payment in the issuance and in the redemption thereof is made in U.S. dollars at the effective exchange rate to those dates.

13. DEPOSITS IN LOCAL CURRENCY

This account comprises:

	2010 S/.000	2009 S/.000
Banks	21,044,000	784,200
Governmental sector	18,132,614	12,684,197
Banco de la Nación	8,592,868	8,322,106
Financial institutions	284,000	-
Other entities and funds	835,429	411,895
Total	**48,888,911**	**22,202,398**

As of 31 of December of 2010 and 2009, the average annual interest rates applied by the Bank for time deposits from the governmental sector and Banco de la Nación were 3.00% and 1.24%, respectively; for Financial Institutions (overnight) they were 2.20% and 0.45%, respectively.

14. MONETARY BASE

This account comprises:

	2010 S/.000	2009 S/.000
Bills and coins issued	28,077,144	22,539,449
Deposits from banks	3,686,966	502,893
Deposits from Banco de la Nación	1,700,000	330,000
Deposits from financial institutions	117,130	39,536
Other deposits and obligations	626,727	136,185
Total	**34,207,967**	**23,548,063**

Deposits from banks, Banco de la Nación and financial entities mainly comprise the minimum reserve requirement of 9% (6% as of December 31, 2009) applicable to these institutions by their obligations in local currency, which must be deposited in the Bank. Minimum reserve requirements are non-interest-bearing.

The other deposits and obligations are mainly comprised of deposits in municipal and rural savings and loans institutions, corresponding to non-interest-bearing checking accounts in local currency.

The variation in the balance of deposits as of December 31, 2010 is related to the increase in legal cash reserve during 2010, approved by the Bank in order to regulate liquidity of the financial entities. Thus, in July 2010, the minimum legal cash reserve increased from 6% to 7% (Circular N° 016-2010-BCRP). Subsequently, in August 2010, the minimum legal cash reserve increased to 8% (Circular N° 020-2010-BCRP), in September it increased to 8.5% (Circular N° 024-2010-BCRP) and finally in October it increased to 9% (Circular N° 031-2010-BCRP).

The balances of bills and coins issued are as follows:

	2010		**2009**	
Nominal Value	**Units**	**S/.000**	**Units**	**S/.000**
Notes:				
10	93,186,825	931,868	83,746,835	837,468
20	78,589,425	1,571,789	74,140,942	1,482,819
50	104,667,025	5,233,351	68,742,209	3,437,110
100	168,739,228	16,873,923	140,773,910	14,077,391
200	11,127,657	2,225,531	8,011,660	1,602,332
		26,836,462		21,437,120
Coins:				
0.01	339,212,884	3,392	258,093,227	2,581
0.05	267,824,822	13,391	244,342,202	12,217
0.10	820,764,801	82,077	741,597,906	74,160
0.20	218,570,202	43,714	195,526,868	39,105
0.50	279,948,283	139,974	256,130,128	128,065
1.00	325,830,228	325,830	282,487,708	282,488
2.00	85,176,196	170,353	77,118,987	154,238
5.00	92,052,806	460,264	81,519,093	407,595
		1,238,995		1,100,449
Commemorative coins	Miscellaneous	1,687	Miscellaneous	1,880
Total		**28,077,144**		**22,539,449**

15. DEPOSITS IN FOREIGN CURRENCY

This account comprises:

	2010	2009
	S/.000	S/.000
Banks	18,687,606	15,775,577
Governmental sector	12,184,173	12,428,132
Banco de la Nación	1,529,298	871,400
Financial institutions	86,128	87,266
Other financial institutions	267,889	170,292
Total	**32,755,094**	**29,332,667**

Foreign currency deposits in checking account from entities subject to reserve requirements of the National Financial System are part of the funds intended to cover the required reserve requirements the Bank requires for obligations subject to reserve requirements in foreign currency.

The reserve requirements that may be covered with foreign currency in cash of the entity subject to reserve requirements, is divided into a minimum reserve requirements of 9% of the obligations subject to reserve requirements in foreign currency and the additional reserve (6%, as of December 31, 2009), which is the indispensable portion of reserve requirements that exceeds the minimum reserve requirements. The additional reserve requirements fluctuated between 26% and 28% as of December 31, 2010 (between 25% and 27% as of December 31, 2009).

The requested portion of the reserve requirements that corresponded to the minimum reserve requirements and the one established for the obligations subject to reserve under a special regime are non-interest bearing.

The obligations subject to reserve requirements were classified into two regimes: special and general. Reserve requirements funds corresponding to the additional reserve of the general regime, while deposited in the Central Bank, earned interests as of December 31, 2010 at an annual rate of 0.1570% equivalent to 60% of 1-month LIBOR rate (as of December 31, 2009 the rate was 0.1396% equivalent to 60% of 1-month LIBOR rate).

As of September 30, 2010, the Bank issued Circular N° 032-2010-BCRP referred to reserve requirements in foreign currency, which increase the minimum reserve requirements rate from 8.5% to 9%, increase the reserve requirements on 0.2% and increase the marginal reserve rate of obligations subject to the general system from 50% to 55%, in order to control the liquidity of the entities subjects to reserve requirements, with the purpose of preserving monetary stability.

The Bank has entered into agreements with the Dirección General del Tesoro Público del MEF and the Fondo Consolidado de Reserva Previsional (FCR) whereby conditions are established for the Bank to receive deposits from these entities. These deposits bore interest rates as of December 31, 2010 and 2009 ranging between 0.01% and 0.11%. As of December 31, 2010, the Public Treasury's resources and those of FCR deposited in the Bank amount to (in thousands) US$4,338,251 equivalent to (in thousands) S/.12,181,808 (US$4,235,325 equivalent to S/.12,231,617 as of December 31, 2009).

16. OTHER LIABILITIES

This account comprises:

	2010 S/.000	2009 S/.000
Contributions suscribed to international organizations pending payment (a)	233,894	277,364
Actuarial liability (b)	118,852	117,338
Interest and commissions payable	116,700	27,879
Deposit Insurance Fund (c)	110,658	41,471
Other provisions	25,745	22,663
Funds for diseases, insurance and pension of BCRP employees	19,445	20,478
Accounts payable	4,774	4,019
Miscellaneous	6,449	5,059
Total	**636,517**	**516,271**

(a) Contributions subscribed to international organizations pending payment

Under agreement N° 93 dated March 22, 2000, amended by Agreement N° 102 of Apri1 10, 2001 of the FLAR Meeting of Representatives, FLAR member countries agreed to increase the capital to (in thousands) US$2,109,375, through the capitalization of profits up to 2010, the Bank being responsible for contributing (in thousands) US$468,750. As of December 31, 2010, the balance of the pending contribution amounts to (in thousands) US$83,296 (US$96,040 as of December 31, 2009), see Note 10.

(b) Actuarial Obligation

It includes the actuarial obligation corresponding to the subvention of supplemental pensions and other supplemental retirement benefits for the Bank's retired employees and their families.

As of December 31, 2010 and 2009, the provision for actuarial obligation corresponding to supplemental pension subvention for retirements, widowhood pensions, burial benefits and ongoing risks reserve of health care services calculated by an actuary was (in thousands) S/.153,083 and S/.151,633, respectively deducting the va1ue of the Employees' Fund net assets amounting to (in thousands) S/.34,231 and S/.34,295, respectively; therefore, the actuarial obligation amounted to (in thousands) S/.118,852 and S/.117,338 (Note 2(m)).

The actuarial calculation as of December 31, 2010 and 2009 was determined by an independent actuary based on the following: (i) preventive SP 2005 mortality charts, (ii) CSO life charts (Commissioner Standard Ordinary) for burial benefits, and (iii) application of an annual technical interest rate of 6% in risks related to retirement, expectancy, widowhood, benefits to relatives in case of death, which corresponds to the nominal yield of issued sovereign bonds of the Peruvian Government in the long term.

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

	2010	2009
	S/.000	S/.000
Balance at the beginning of year	117,338	120,533
Increase debited to results (nota 18)	12,062	6,426
Transfers to the Fund	(10,548)	(9,621)
Balance at the end of year	**118,852**	**117,338**

(c) Deposit Insurance Fund

As of December 31, 2010, it comprises balances of deposits in checking accounts in foreign currency for (in thousands) US$39,408 equivalent to S/.110,658 (US$14,360 equivalent to S/.41,471 in 2009). The average interest rate of such deposits in foreign currency was 0.08% and 0.14%, as of December 31, 2010 and 2009, respectively.

17. NET EQUITY

(a) Capital

As of December 31, 2010, the Bank's capital stock authorized, subscribed and paid-in by the Peruvian State in accordance with BCRP Organic Law and Supreme Decree N° 059-2000-EF, N° 108-2004-EF, N° 136-2006-EF, N° 136-2007-EF and N° 124-2010-EF amounts to (in thousands) S/.1,182,750 (S/.591,375 as of December 31, 2009). By means of Supreme Decree N° 124-2010-EF issued on June 8, 2010, the capitalization of (in thousands) S/.591,375 was approved, which corresponded to the balance of the legal reserve account Article 92 subsection (b) of the Organic Law.

Capital is not represented by shares, and its value is recorded only in the capital account in the balance sheet. Likewise, under a Supreme Decree countersigned by MEF, the Bank's authorized capital may be readjusted.

(b) Reserves

Under Articles 6 and 92, paragraph b) of the Organic Law, the Bank shall allocate a reserve through the annual transfer of 75% of its net income until reaching an amount equivalent to 100% of its capital. This reserve can be capitalized.

In the event of losses, the reserve shall be used to offset such losses; if the reserve is insufficient, the Public Treasury within 30 days after the balance sheet is approved shall issue and provide the Bank with securities of negotiable debt securities that will accrue interest.

Article 63 of the Bank's Bylaws indicates that the exceeding amount resulting from the application of article 92, subsection (b) of the Organic Law shall be for a special reserve.

At Board's session held on March 18, 2010, the transfer of retained earnings as of December 31, 2009 for (in thousands) S/.2,050,612 to the special statutory reserve of (in thousands) S/.1,592,857 was agreed. Likewise, the transfer for (in thousands) S/.1,182,750 from the special statutory reserve to the legal reserve was approved.

(c) Retained Earnings

According to Article 92 of the Organic Law, the Bank shall annually distribute its net income as follows: 25% for the Public Treasury and 75% to allocate the reserve referred to in literal (b) of this note.

At Board's session held on March 18, 2010, the transfer to the Public Treasury for (in thousands) S/.457,755 charged to retained earnings.

(d) Readjustment for valuation Organic Law Article 89

It corresponds to the differences resulting from the adjustments in the valuation in foreign currency of the assets and obligations of the Bank in gold, silver, foreign currency, SDR and other monetary units of international use, and are debited or credited in this account not considering them as gains or losses for the period, (Note 2 (q)).

As indicated in Note 2 (a-2), in Board's session held on December 30, 2010, it is established that the result of the valuation of assets and liabilities in foreign currency, recorded under "Readjustment in valuation Organic Law Article 89", shall be presented in the Bank's shareholders' equity. As a consequence of the foregoing, the Bank reclassified the balance accumulated from readjustment of valuation of its assets and liabilities in foreign currency as of December 31, 2009 for (in thousands) S/.91,836 to equity, as if this presentation had always been applied.

Net equity is presented in two parts. On the one hand, is the amount of capital, reserves and results, which amount may change as a result of Central Bank's own operations. On the other hand, separately, is recorded the cumulative result of currencies, in accordance with Article 89 of the Organic Law, which amount is not relevant for bank capitalization.

As of December 2010 and 2009, the balance comprises:

	2010	2009
	S/.000	S/.000
Balance at the beginning of year	(91,836)	3,630,411
Valuation of U.S. dollars	(1,150,548)	(2,759,636)
Valuation of other foreign currencies	(1,539,117)	(1,508,058)
Valuation of metal (gold and silver)	877,402	535,862
Valuation of IMF contribution and obligations	110,954	7,631
Valuation of foreign currency sales (*) and other	1,513	1,954
Balance at the end of year	**(1,791,632)**	**(91,836)**

(*) Included in other financial income and expenses in the statement of income 2010 and 2009.

18. OTHER EXPENSES

In 2010 and 2009 other expenses comprises the adjustment of the actuarial provision reserve of (in thousands) S/.12,062 and S/.6,426, respectively (Note 16 (b)).

19. TAX SITUATION

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

The Superintendencia Nacional de Administración Tributaria (SUNAT) is entitled to review and, if necessary, amend the taxes calculated by the Bank during the last four years, counted as from the date of filing of the related tax returns (years open to fiscal review). The tax returns for 2006 through 2010, inclusive, are open to fiscal review. Since discrepancies may arise over the interpretation by the Tax Administration of the rules applicable to the Bank, it is not possible to foresee to date of the financial statements whether any additional tax liabilities will arise as a result of eventual reviews. Any additional tax, fines and interest, if arising, will be recognized in the income (loss) for the year when the disagreement with Tax Administration is resolved. Bank's Management and the legal advisors consider no significant ultimate liabilities will arise as a result of any possible fiscal reviews.

20. CONTINGENCIES

On December 15, 2006, the Fourth Section of the Lima Superior Court of Justice declared that the appeal for constitutional protection of rights filed against the Bank by former employees who adopted a retirement program with incentives in 1992 was grounded. The Court ordered the reinstatement of the employees and that the employees be paid the equivalent to the actuarial computation of the remunerations accrued and other labor rights. Subsequently, the Bank filed an appeal for legal protection against said court order, for the breach of several constitutional rights protecting due process of law (matter settled in court, proper facts and valuation of proof), obtaining on May 24, 2007 a precautionary measure to suspend the effects of the aforementioned decision, which has been confirmed by the Supreme Court through resolution dated May 8, 2008. The defendants requested changes in such precautionary measure in order to be replaced in the Bank. This request has been declared inadmissible by the Eighth Civil Court as per Resolution dated august 4, 2008, which was executed since it has not been appealed by the defendants. Subsequently, the plaintiffs requested to override the precautionary measure, thus looking forward to be reincorporated, request which has been declared inadmissible, as per resolution dated August 13, 2010 issued by the Third Civil Court, corresponding to the Supreme Court the pronouncement in appeal filed by the ex-employees. Likewise, through resolution dated May 27, 2010, the Third Civil Court of the Supreme Court of Justice of Lima has declared justified the claim of the Bank and voids the sentence dated December 15, 2006, which accorded the reincorporation of the ex-employees and the payments of accrued interests, resolution that in appeal shall be resolved by the Supreme Court. Considering the current status of the judicial process, which supports the non applicability of the reincorporation and the payment of accrued interests to which the sentence dated December 15, 2006 refers, according to its legal counsels, Management, as of December 31, 2010, has recorded no allowance for potential losses for this judicial contingency.

21. MEMORANDUM ACCOUNTS

This account comprises:

	2010 S/.000	2009 S/.000
Bills and coins in stock (a)	8,956,161	23,715,061
Securities deposited in guarantee	2,299,224	1,337,631
Securities held in custody (b)	2,246,255	2,397,905
Banks under liquidation	53,529	53,706
Money in process of production - Casa Nacional de Moneda	1,437	965
Bills and coins removed from circulation to be destroyed	1,201	1,201
Miscellaneous (c)	226,226	885,016
Total	**13,784,033**	**28,391,485**

Memorandum accounts include different transactions recorded for control purposes only.

(a) Bills and coins in stock comprise:

	2010 S/.000	2009 S/.000
New	6,938,000	21,764,003
Available	1,379,470	1,188,195
To be classified	579,293	573,624
To be incinerated and/or melted	59,398	187,239
In transit	-	2,000
Total	**8,956,161**	**23,715,061**

The movement of the account of bills and coins in stock for the year ended December 31, 2010 and 2009 has been as follows:

	2010	**2009**
	S/.000	**S/.000**
Balance at the beginning of the year	23,715,061	26,385,198
Acquisition of bills and coins	92,193	10,182,698
Destruction of bills and coins	(9,313,398)	(10,771,309)
Removals from circulation, net of income	(5,537,695)	(2,081,526)
Balance at the end of the year	**8,956,161**	**23,715,061**

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

(c) As of December 2010 and 2009, miscellaneous mainly include recording accounts of guarantee collaterals Plan Brady for (in thousands) S/.161,447 and S/.167,459, respectively. Likewise, in 2009, it comprised commitments of foreign currency repurchase by entities of the financial system for (in thousands) S/.294,797, futures transactions of the external administrator on the account of the international reserves for (in thousands) S/.274,360, among others.

On May 27, 2010, the Bank's Board accepted the legacy carried out by Mr. Roberto Letts Colmenares, comprised by 581 objects that constitute the Gold Collection of Hugo Cohen, which are in process of study, classification and valuation for its exposition in the Museum.

22. ANALYSIS OF MATURITIES

The structure of maturities of the Bank's financial assets and liabilities, effective December 31, 2010, as per contractual or estimated maturity, are as follows:

Class	Due in six months or less	Due from Six Months to one Year	Due from One to Five Years	Due over Five Year	Total
	S/.000	S/.000	S/.000	S/.000	S/.000
Assets:					
Cash in foreign currency	175	-	-	-	175
Deposits in foreign banks	30,262,374	-	-	-	30,262,374
Securities from international institutions	23,364,114	7,35,2187	54,623,623	-	85,339,924
Gold	4,394,212	-	-	-	4,394,212
Other available assets	2,341,012	-	26,569	-	2,367,581
Other assets abroad	881	881	9,844	56,160	67,766
Other assets	128,817	12,047	201,220	89,985	432,069
Sub-total	60,491,585	7,365,115	54,861,256	146,145	122,864,101
Contribution to FLAR					1,082,356
Contribution in local currency to IMF					2,233,129
Contribution in SRD to IMF					527,577
Domestic credit					9
Real estate, furniture and equipment, net					138,282
Total assets					126,845,454
Liabilities and net equity:					
Reserve liabilities	127,183	-	-	-	127,183
Other foreign liabilities	-	-	907	2,693,592	2,694,499
Monetary base	6,130,823	-	-	28,077,144	34,207,967
Deposit in local currency	48,888,911	-	-	-	48,888,911
Securities issued	3,655,308	29,275	-	-	3,684,583
Foreign currency deposits	32,755,094	-	-	-	32,755,094
Other liabilities	308,505	9,063	257,533	61,416	636,517
Sub-total	91,865,824	38,338	258,440	30,832,152	122,994,754
Counterpart of the contribution in local currency to IMF					2,233,129
Equity					1,617,571
Total liabilities and net equity					**12,6845,454**

23. FINANCIAL INSTRUMENTS

The Bank's asset and liability financial instruments are subject to the usual risks involved in management, such as liquidity risk, credit risk, foreign exchange risk and interest rate risk. These risks are monitored by the Bank staff on a daily basis based on their experience and mechanisms of measurement commonly used for their administration.

The Bank's balance sheet mostly comprises financial instruments, as described in Note 2 (d). International reserves are a relevant component of such instruments and its management adheres to the security, liquidity and profitability criteria indicated in Article 71 of the Bank's Organic Law.

International reserves contribute to the country's economic and financial stability, insofar as they guarantee availability of foreign exchange in extraordinary situations, such as an eventual significant withdrawal of foreign currency deposits from the financial system or temporary external shocks which could cause imbalances in the real sector of the economy and feedback expectations. Likewise, a suitable currency availability contributes to the reduction of the risk country and to the improvement of the credit denominations of Peru, which results in better conditions for obtaining foreign credits on the part of the private and public Peruvian companies and, in addition contributes to the expansion of foreign investment in the country.

The Bank's reserve management policy prioritizes the preservation of capital and to guarantee 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 Bank's liabilities in terms of amount, currency, term and volatility. Thus, the market risks are minimized, therefore affecting the value and availability of the resources managed by the Bank.

Risk Management

Benchmark portfolio: it constitutes a fundamental tool for managing international reserves. In its definition, this portfolio encompasses the combination risk-return that the Board of the Bank approves, translated into terms of liquidity, quality of credit, duration and diversification by currencies and issuers. The benchmark portfolio is neutral to market expectations and must be able to be replicable, which is particularly relevant in circumstances of extreme market volatility.

The Bank builds its own benchmark portfolio based on market indices.

With regard to the management of investments, the following risks are considered:

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

Likewise, it is minimized through the distribution of assets by sections defined taking into account the liabilities the Bank has and, consequently, the investments assigned to each section are realized considering the terms of these liabilities.

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

- Deposits in first-rate foreign banks, according to the capital involved and to short-term and long-term risk ratings assigned by the main international risk rating agencies, such as Standard & Poor's, Moody's and Fitch.

- Fixed income securities issued by international organizations or foreign public organizations. These securities should be rated as long-term papers and must have been assigned one of the four highest ratings of the twenty assigned by risk rating agencies.
- Investments in private entities debt issues are not permitted.

The magnitude and concentration of the Bank's exposure to credit risk can be obtained directly from the balance sheet, which describe the size and composition of the Bank's financial assets.

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

- The imbalance between the Bank's foreign currency assets and liabilities; and
- The exchange rate of foreign currency transactions pending at closing date.

The Bank assets are mostly invested in U.S. dollars, reflecting both the denomination of foreign currency liabilities (mainly bank reserve and special resident deposits) and the Bank intervention currency in the domestic foreign exchange market. The second most important currency within the composition by currencies of the international reserves is the Euro. The composition by currency of the balances in foreign currency is in Note 4.

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

The Bank confronts this risk considering the term structure of liabilities to determine the composition of the maturities of its assets. As a result, the duration of the total portfolio is low, therefore the impact of variations in the interest rates of market is minimum on the market value of the portfolio.

Likewise, maximum terms have been established for investments, consistent with the market risk profile selected for each instrument in the portfolio.

The dimension of the risk depends on:

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

The Bank's financial assets are interest-bearing. The Bank's financial liabilities include interest-bearing and non-interest-bearing liabilities. The disclosures regarding these liabilities are described in Notes 11 through 16.

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

The structure of maturities of the Bank's financial assets and liabilities is disclosed in Note 22.

Comparison to the benchmark portfolio: The Bank's real portfolio consists of the investments of international reserves, which may deviate from the parameters approved for the benchmark in terms of management of investment terms, duration, total bank risk and credit risk, and diversification of issuers. These deviations are managed by trying to obtain the highest profitability from investments, maintaining the latter within the range authorized by the Bank' s Board of Directors.

The real and reference portfolios are daily valued at market prices.

Operating risk: It is defined as the risk of loss as a result of risk factors that include: people, processes, external events and information technologies.

Since the risk management approach implemented by that he Bank is based on the process approach and since risk management is a self-evaluation process, the organizational units along with Risk Management perform the following:

1. Carrying out the layout of its processes, consisting on identifying the activities that support a process
2. Identifying risks and controls, which consists on identifying the risks in activities and controls applied that mitigate them
3. Valuating the risks and proposing control measures, if it is necessary to take measures to control risks.

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

During 2010, the Bank approved a manual of Operating Continuity Plan starting the implementation of alternate operating and information processing centers. Likewise, it is developing an Information Security Plan in coordination with Information Technology Management.

International financial crisis

In 2009, developed countries were still affected by the financial crisis that started in 2008, and in order to counteract its effects, their governments implemented tax and monetary policies tending to normalize their financial markets and to recover their economies.

In 2010, the financial crisis diminished but its effects remained on the real sector of developed economies, generating a persistent increase in the unemployment rate and a high level of indebtedness which has especially affected some European countries.

The Bank has confronted the risks of this crisis strengthening its conservative policy in the matter of investments. In that context it has tried to reduce the risk of the portfolio, applying stricter criteria for placement of deposits in foreign banks and increasing the investments in issuers with the highest levels of qualification, in particular, diversifying investments among sovereign and supranational issuers.

Likewise, the European countries that were most affected by the problems resulting from high indebtedness of their economies have reduced their levels of holding debt.

During 2010, the Bank focused on gradually and preemptively appropriating the position of its monetary policy to a more neutral level in accordance with the recovery of the dynamism of private sector expenses and the preservation of monetary stability. In this regard, the Bank increased its reference rate from a historical minimum of 1.25% up to a 3.0% level in December 2010, increasing also the legal cash reserve requirements, both in local and foreign currency. Likewise, within a context of persistent capital inflows, the Bank continued with its sterilized intervention policy in the exchange market to reduce the volatility of the exchange rate and therefore reducing the risks associated to the financial dollarization.

Fair Value

The following provides information on some relevant financial instruments valued by the Bank to fair value.

Fair value is the amount for which an asset can be exchanged, a liability can be settled or an instrument of equity can be exchanged in a transaction conducted between interested parties, properly informed and in conditions of mutual independence. For its determination, it is important to refer, in the first place, to the quotation cost of the financial instrument in active markets and, if such information is not available, to valuation techniques. Such techniques include: market price of similar financial instruments; reference to the fair value of similar financial instruments; analysis of discounted cash flows; models of determination of option prices, or valuation techniques accepted by the market (as they may prove they provide reliable estimates of prices observed in market real transactions).

Considering the aforementioned terms and the scope allowing to obtain the best estimate, the Bank values the following financial instruments part of the Gross International Reserves: Available-for-sale values of international organizations and Gold. Also, it refers to prices and market quotations (fair value statement) when valuing and stating in functional currency the nominal balances in foreign currency.

24. SUBSEQUENT EVENTS

There are no subsequent events that have occurred from the date of the financial statements to the date of this report, which have not been disclosed therein or could significantly affect the financial statements.