BANCO DE LA NACIÓN

Financial Statements

December 31, 2011 and 2010

(Including Independent Auditor's Report)

(TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH)

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KPMG

KPMG en Perú
Torre KPMG. Av. Javier Prado Oeste 203
San Isidro. Lima 27, Perú

Teléfono 51 (1) 611 3000
Fax 51 (1) 421 6943
Internet www.kpmg.com/pe

(TRANSLATION OF A REPORT ORIGINALLY ISSUED IN SPANISH)

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Banco de la Nación

We have audited the accompanying financial statements of Banco de la Nación, which comprise the balance sheet as of December 31, 2011 and 2010, and the related statements of income, changes in equity and cash flows for the years then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting standards established for financial institutions in Peru by Superintendencia de Banca, Seguros y Administradoras Privadas de Fondos de Pensiones - SBS (Superintendency of Banking, Insurance, and Private Pension Fund Administrators). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements to have them free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting standards used and the reasonableness of accounting estimates made by management, as well as the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Banco de la Nación as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in accordance with accounting standards established for financial institutions in Peru by the SBS, as discussed in notes 2 and 3 to the financial statements.

Lima, Peru

Caipo y Asociados

March 16, 2012

Countersigned by:

Eduardo Alejos P. (Partner)
Peruvian Certified Public Accountant
Registration N° 01-29180

(TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH)

BANCO DE LA NACIÓN

Balance Sheet

December 31, 2011 and 2010

(stated in thousands of nuevos soles)

Assets	2011	2010
Cash and due from banks (note 5):		
Cash	758,837	621,607
Central Reserve Bank of Peru	12,343,529	11,822,697
Banks and other entities of local financial system	20,605	11,715
Banks and other entities of foreing financial system	148,953	168,467
Clearing	74,183	76,166
Accrued income from cash and due from banks and others	27,654	24,686
	13,373,761	12,725,338
Trading and held-to-maturity investments (note 6)	3,285,494	3,150,197
Loan portfolio, net (note 7)	4,965,186	4,238,870
Accounts receivable, net (note 8)	337,615	303,272
Property, furniture, and equipment, net (note 9)	303,483	305,331
Deferred income tax (note 10)	88,573	77,786
Other assets, net (note 11)	294,085	364,123
Total assets	22,648,197	21,164,917
Contingent and memorandum accounts (note 19):		
Contingent operations	2,023,433	3,191,246
Memorandum accounts	67,853,175	48,261,659
Trust and commissions of a trustee	1,458,748	1,475,289
	71,335,356	52,928,194

Liabilities and Equity	2011	2010
Deposits and obligations (note 12)	20,030,142	18,737,196
Deposits in financial system enterprises and international financial entities (note 13)	371,466	376,082
Accounts payable (note 14)	148,575	91,512
Provisions (note 15)	119,383	122,397
Other liabilities (note 16)	136,782	112,053
Total liabilities	20,806,348	19,439,240
Equity (note 17):		
Share capital	1,000,000	1,000,000
Additional capital	677	677
Legal reserve	350,000	350,000
Unrealized results	4,457	(6,853)
Retained earnings	486,715	381,853
Total equity	1,841,849	1,725,677
Contingencies (note 18)		
Total liabilities and equity	22,648,197	21,164,917
Contingent and memorandum accounts (note 19):		
Contingent operations	2,023,433	3,191,246
Memorandum accounts	67,853,175	48,261,659
Trust and commissions of a trustee	1,458,748	1,475,289
	71,335,356	52,928,194

See the accompanying notes to the financial statements.

(TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH)

BANCO DE LA NACIÓN

Income Statement

For the years ended December 31, 2011 and 2010

(stated in thousands of nuevos soles)

	2011	2010
Interest income (note 20)	1,091,247	922,583
Interest expense (note 21)	(79,033)	(93,602)
Gross finance margin	1,012,214	828,981
Provisions for doubtful direct loan	(22,997)	(32,701)
Revenues from decrease in provisions	23,634	12,028
Net finance margin	1,012,851	808,308
Income from finance services (note 22)	555,525	482,355
Expenses from finance services	(53,631)	(53,498)
Operating margin	1,514,745	1,237,165
Administrative expenses (note 23)	(879,655)	(707,428)
Net operating margin	635,090	529,737
Valuation of assets and provisions (note 24)	(100,584)	(88,874)
Operating results	534,506	440,863
Other income and expenses, net (note 25)	25,124	41,885
Profit before tax	559,630	482,748
Income tax (note 27(f))	(72,915)	(100,895)
Net income for the year	486,715	381,853

See the accompanying notes to the financial statements.

BANCO DE LA NACIÓN

Statement of Changes in Equity

For the years ended December 31, 2011 and 2010

(stated in thousands of nuevos soles)

	Share capital (note 17(a)	Additional capital	Legal reserve (note 17.b)	Unrealized results	Retained earnings (note 17.c)	Total equity
Balances as of December 31, 2009	1,000,000	677	350,000	817	339,501	1,690,995
Compensation of debt with Public Treasury	-	-	-	-	(339,501)	(339,501)
Unrealized results from available-for-sale investments	-	-	-	(7,670)	-	(7,670)
Net income for the year	-	-	-	-	381,853	381,853
Balances as of December 31, 2010	1,000,000	677	350,000	(6,853)	381,853	1,725,677
Adjustment to deferred workers' profit sharing	-	-	-	(450)	(13,196)	(13,646)
Previous year other adjustments	-	-	-	-	3,339	3,339
Distribution to Public Treasury	-	-	-	-	(311,996)	(311,996)
Compensation of debt with Public Treasury	-	-	-	-	(60,000)	(60,000)
Unrealized results from available-for-sale investments	-	-	-	11,760	-	11,760
Net income for the year	-	-	-	-	486,715	486,715
Balances as of December 31, 2011	1,000,000	677	350,000	4,457	486,715	1,841,849

See the accompanying notes to the financial statements.

BANCO DE LA NACIÓN

Statement of Cash Flows

For the years ended December 31, 2011 and 2010

(stated in thousands of nuevos soles)

	2011	2010
Cash flows from operating activities:		
Net income for the year	486,715	381,853
Adjustments to reconcile net income for the year to cash from operating activities:		
Depreciation and amortization	46,053	49,658
Provisions for direct loan losses	22,997	32,700
Provision reversal	(23,634)	(7,885)
Provision for accounts receivable	10,658	6,266
Provision for assets received as payment, repossessed, and no-longer-in-use	1	18
Provisions for contingencies and other	42,522	23,697
Deferred income tax	(10,799)	(8,044)
Impairment of fixed assets	-	9,252
Other changes in fixed assets	5,819	-
(Gain) loss in sale of investments	(13,758)	2,115
Accounting restructuring	(3,296)	-
Debits and credits due to net changes in assets and liabilities:		
Interest, commissions and other accounts receivable	(55,195)	85,982
Interest, commissions and other accounts payable	17,574	(30,566)
Other liabilities	11,984	(152,323)
Other assets	(1,294)	(4,348)
Cash and cash equivalents from operating activities	536,347	388,375
Cash flows from investing activities:		
Purchase of property, furniture, and equipment	(40,722)	(38,545)
Purchase of other non-financial assets	(3,387)	(6,641)
Cash and cash equivalents applied to investing activities	(44,109)	(45,186)
Cash flows from financing activities:		
Net increase in deposits and other obligations	1,295,056	1,079,661
Payment of profits to Public Treasury	(311,996)	-
Net increase in other financial liabilities	-	7,108
Net increase in loan portfolio	(718,532)	(1,093,861)
Net (increase) decrease in investment securities	(161,115)	1,882,746
Increase in interbank funds	-	260,100
Dividends received	1,003	730
Net decrease (increase) in other financial assets	51,769	(108,358)
Cash and cash equivalents from financing activities	156,185	2,028,126
Net decrease in cash and cash equivalents	648,423	2,371,315
Cash and cash equivalents at the beginning of the year	12,725,338	10,354,023
Cash and cash equivalents at the end of the year	13,373,761	12,725,338

Non-cash flow generating transactions:
As of December 31, 2011, the compensation of the debt between Banco de la Nación and the Ministry of Economy and Finance of S/. 60,000 thousand has not been considered in the preparation of the statement of cash flow as of that date because they do not represent a cash flow transaction (S/. 339,501 thousand as of December 31, 2010).

See the accompanying notes to the financial statements.

(1) Operations

Banco de la Nación (hereinafter the Bank) was incorporated by Law Nº 16000 dated January 27, 1966, as a company under public law belonging to the Economy and Finance Sector and operating with economic, financial and administrative autonomy in its functions. Subsequently, its Incorporation Act was updated through Legislative Decree Nº 199 dated June 12, 1981. Since November 27, 1992, when issuing the Decree Law Nº 25907, exclusive rights concerning functions and powers contained in section III of the Organic Law then in force, were no longer in effect.

The Bank is governed by its bylaws approved by Supreme Decree Nº 07-94-EF dated January 26, 1994, amended by Emergency Decree N° 31-94 dated July 11, 1994, by the State Business Activity Act and supplementary by the General Act on the Financial and Insurance Systems and Organic Law of the Superintendency of Banking, Insurance and Private Pension Fund Administrators (hereinafter SBS) Law Nº 26702 (hereinafter the Banking Act).

The Bank is entitled to perform the following functions none of which will be exclusively performed concerning companies and entities of the financial system:

a. Provide banking services to the National Treasury System according to the instructions pronounced by the General Treasury Directorate. Such services will be offered in competition with other financial system companies and entities.
b. Provide tax collection services on behalf of the tax creditor, that should be approved by the Bank and also there should be a specific tax collection agreement.
c. Conduct, by delegation, transactions of subsidiary bank accounts of the Public Treasury.
d. Receive the resources and funds managed by Central, Regional and Local Government entities, as well as other entities of the National Public Sector.
e. Act as Government financial agent.
f. Act on behalf of other banks or financial entities in funneling local or foreign resources on credit institutions.
g. Participate in foreign trade operations of the Government, as indicated in the bylaws. In this case, the Bank renders banking and money exchange services, subject to the regulations pronounced by the Peruvian Central Reserve Bank.
h. Receive under consignment and custody all administrative and judicial deposits.
i. Provide banking services as correspondent of financial system entities where financial system entities request it.
j. Receive demand deposits from individuals and corporations for payments earned as suppliers, pensioners, as well as Government workers within the framework of the National Treasury System.
k. Receive saving and escrow deposits from individuals and corporations in populated centers within the territory of the Republic where private Banks do not have offices, including the issuance of wire transfers, and transfer of funds ordered or in favor of such persons.

l. Grant loans and financial facilities to National, Regional and Local Government entities and other entities of the National Public Sector, except for granting loans to State companies incorporated under private law, as well as issuing, acquiring, maintaining and selling bonds and other securities as set forth by law. The issuance of securities will be made according to an annual schedule approved by the Ministry of Economy and Finance that may be reviewed quarterly.
m. Conduct with Public sector entities and banking and financial institutions within the country and abroad, transactions and banking services necessary to comply with functions indicated in the bylaws, as well as those destined to profitability and hedging of risks of managed resources. These transactions will be made according to an annual schedule approved by the Ministry of Economy and Finance that can be reviewed quarterly.
n. Grant a single line of credit to workers and pensioners of the public sector that due to their income, have saving accounts in the Bank. Such line of credit may be assigned to the beneficiary for its use through loans and/ or line of credit card. These transactions will be made according to an annual schedule approved by the Ministry of Economy and Finance that can be reviewed annually.

The head office of the Bank is located at Av. República de Panamá Nº 3664, San Isidro, Lima, Peru. For the development of its activities, the Bank operates through its main office and a network of 27 branches, and 509 agencies and offices located in the country (in 2010, it had 27 branches and 484 agencies and offices).

As of December 31, the number of Bank’s workers is as follows:

	2011	2010
Managers	19	26
Officers	920	906
Staff	3,189	3,077
	-------------	-------------
	4,128	4,009
	========	========

Agreement on Consolidation, Offsetting and Settlement of Obligations

Through Supreme Decree Nº 002-2007-EF dated January 11, 2007, the Ministry of Economy and Finance (hereinafter MEF) repealed the Supreme Decree Nº 210-2006-EF dated December 27, 2006, that stipulated among others, the reconciliation of other reciprocal obligations held by the MEF and the Bank as of September 30, 2006, signing a settlement agreement on December 28, 2006.

Supreme Decree Nº 002-2007-EF dated December 28, 2006, ratified the settlement agreement of reciprocal obligations between the MEF and the Bank and established that the compensation and total settlement of obligations of the MEF in favor of the Bank would be made on January 2, 2007; thus, all obligations should have been agreed as of January 1, 2007, including other reciprocal debts that were updated applying the same criteria established in the agreement signed on December 28, 2006.

Reciprocal debts agreed as of January 1, 2007 as a result of the Settlement Agreement on Obligations, signed on February 28, 2007, resulted in debts of the MEF in favor of the Bank for US$ 31,335 thousand and debts of the Bank in favor of the MEF for US$ 72,414 thousand, establishing a net debt in favor of the MEF for US$ 41,079 thousand.

Likewise, in the settlement agreement on obligations held between the MEF and the Bank on January 1, 2007, additional borrowings of MEF were determined in favor of the Bank for S/. 64,338 thousand and US$ 849,171 thousand, for various borrowing operations approved by explicit legal standards.

As a consequence of the settlement agreement on reciprocal obligations signed between MEF and the Bank on December 28, 2006 and January 1, 2007, the total compensated reciprocal debt is as follows:

	In thousands of	
	S/.	US$
Debt of MEF in favor of the Bank:		
Agreement dated December 28, 2006	-	31,335
Agreement dated January 1, 2007	64,338	849,171
Debt of the Bank in favor of MEF:		
Agreement dated December 28, 2006	-	(72,414)
	--------------	--------------
Debt of MEF in favor of the Bank	64,338	808,092
	========	========

According to Supreme Decree Nº 002-2007-EF refined by the Agreement on Consolidation, Compensation and Settlement of Obligations signed between the MEF and the Bank on March 26, 2007, the following conditions resulting from the compensation of reciprocal obligations between the MEF and the Bank were specified:

a) The MEF compensated the debt in favor of the Bank providing on March 30, 2007 a bond in nuevos soles for S/. 2,644,571 thousand (note 6); therefore, the debt in U.S. dollars was converted at the selling exchange rate published by the SBS at closing of operations on January 2, 2007 for S/. 3.193 and US$ 1.

b) The bond was issued under the following characteristics:
   - In nuevos soles
   - Non negotiable
   - 30-year maturity
   - Annually redeemable
   - 6.3824% of annual interest paid on a quarterly basis
   - CAVALI S.A. I.C.L.V. account entry

c) The annual amortization of the bond is made for an amount equivalent to no less than 30% of Bank's profits corresponding to the Public Treasury. In any case, the amortization cannot be lower than S/. 60,000 thousand; if profits corresponding to the Public Treasury do not allow complying with such amount, the MEF will reach the difference charging it to budget items allocated by the public debt service.

d) In case that at the maturity of the bond there are pending balances, they will be settled by the MEF.

e) Interest accrued by the bond will be paid by the MEF.

The balance of such bond as of December 31, 2011 and 2010 amounts to S/. 1,889,890 thousand and S/. 1,949,982 thousand, respectively (note 6).

<u>Approval of Financial Statements</u>
Board of Directors' Meeting number 1848, held on March 24, 2011, approved the financial statements for the year ended December 31, 2010. On January 24, 2012, management approved the financial statements as of December 31, 2011, which will be presented to Board of Directors for their corresponding approval as decided by management. In management's opinion, Board of Directors will approve the accompanying financial statements without modifications.

(2) Basis of Preparation of the Financial Statements

(a) Statement of Compliance

The accompanying financial statements have been prepared based on the Bank's accounting records, and they are presented in accordance with current legal provisions and accounting principles generally accepted in Peru as applicable to financial entities, which comprise the accounting standards and practices authorized by the SBS and some provisions issued by Peruvian Board of Public Accountancy. In case of situations not foreseen in such standards, International Financial Reporting Standards (IFRS) made official in Peru by the Accounting Standards Board (CNC) and in force as of December 31, 2011 and 2010 will be applied.

SBS has established that Peruvian generally accepted accounting principles (GAAP) shall be applied for situations not foreseen in such standards. Those comprise the International Financial Reporting Standards (IFRS) made official by the CNC for their application in Peru. IFRSs include the International Accounting Standards (IAS) and the pronouncements of the Interpretations Committee (SIC and IFRIC). In Peru, the CNC authorized as of December 31, 2011, current IASs 1 to 41, IFRSs 1 to 8, SICs 7 to 32 (except for superseded SICs), and all the pronouncements from 1 to 19 issued by the current Interpretations Committee (IFRIC), as well as the modifications until May 2010 of IFRSs 1, 3 and 7, IASs 1 and 34, and IFRIC 13.

(b) Basis of Measurement
The financial statements have been prepared on a historical cost basis, except for available-for-sale investments which are measured at fair value and retirement pension obligations which are measured at present value.

(c) Presentation Currency
These financial statements are presented in nuevos soles (S/.) under SBS standards. Financial information is presented in nuevos soles (S/.) and has been rounded to the nearest thousand (S/. 000), except as otherwise indicated.

(d) Use of Estimates and Judgments
The accounting estimates and judgments used are reviewed on an ongoing basis and are based on experience and other factors, including the reasonable expectation of occurrence of future events depending on the circumstances.

The Bank makes estimates, judgments, and assumptions regarding the future that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. However, in the opinion of management the estimates and assumptions applied by the Bank do not have significant risk as to produce a material adjustment to the balances of assets and liabilities for next year.

The most significant accounting estimates related to the financial statements correspond to provision for loan losses and accounts receivable, valuation of investments, estimation of useful life and recoverable value of property, furniture and equipment, intangible assets, and retirement pension provision, the accounting criteria for which is described below.

Management has exercised its critical judgment when applying accounting policies for the preparation of the accompanying financial statements, as explained in the corresponding accounting policies.

(e) Actions for Restructuring of Accounting Information on Public Sector
Law Nº 29608, issued on November 4, 2010, established that the heads of public entities and companies under the scope of FONAFE (Peruvian Fund for Financing State-Owned Enterprise), will order in their respective jurisdictions the implementation of actions for the restructuring of financial information aimed at debugging the accounting information so that financial statements fairly express the economic, financial and equity reality of the entity.

Directorate General of Public Accounting of the Ministry of Economy and Finance, in compliance with Law Nº 29608, has established the procedures for the accounting recording of economic facts to be regularized as a result of the actions for restructuring the operations of the public sector entities. The Directorate General of Public Accounting issued Directive N° 003-2011-EF/93.01, approved by the Directorial Resolution Nº 012-2011-EF/93.01 “Basic Guidelines for the Processing of Accounting Restructuring in the Public Sector”, so that public entities establish the actual existence of goods, rights and obligations that affect the equity, attesting through appropriate information and documentation their authenticity and existence, in order to begin the establishment of balances of the accounts subject to debugging, so that financial statements fairly express the economic, financial and equity reality of public entities and enable consistent and timely information for the preparation of the General Account of the Republic, which is an instrument for decision taking of the Government.

By means of Circular SIED 27-2011, Fonafe stipulated that the Bank prepares a diagnosis on the current accounting position, in order to recognize, classify and measure the accounts that require the application of actions for accounting restructuring. Accordingly, the Bank's Board of Directors approved the creation of the Accounting Restructuring Committee by means of agreement reached at Meeting 1861 held on June 23, 2011, in order to comply with Directive N° 003-2011-EF/93.01.

The Bank's Accounting Restructuring Committee, in conformity with Directive N° 003-2011-EF/93.01 and the Procedure Manual for Accounting Restructuring Actions for State-Owned Enterprises, has analyzed and debugged the accounts that shall be eliminated from the balance sheet, as well as the accounts receivable that shall be written off, based on the proposals presented by the areas and ordered the debugging of certain items, subject to a report from the Department of Legal Advisory, and approval of the Bank's Board of Directors.

Deadline for the presentation of the final results from the implementation of the accounting information restructuring to the Budget Commission and General Account of the Republic of the Peruvian Congress, as established in Law N° 29608, is June 30, 2012.

(3) Significant Accounting Policies

The accounting policies set out below have been applied consistently to this period and previous period, unless otherwise indicated.

(a) Financial Instruments

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

Financial instruments are classified as asset, liability, or equity according to the substance of the contract. The interest, dividends, gains and losses generated by a financial instrument classified as asset or liability, are recorded as income or expense in the income statement. The financial instruments shall be offset when the Bank has the enforceable right, and management has the intention to settle on a net basis, or to realize the asset, and settle the liability simultaneously.

The financial assets and liabilities presented in the balance sheet correspond to balances presented in cash and due from banks, investments, loan portfolio, accounts receivable and liabilities in general. Likewise, indirect credits are considered financial instruments. The recognition and valuation criteria of those accounts are disclosed in the notes to the financial statements on accounting policies.

(b) Investments

Criteria for initial recognition and valuation of the Bank's investments shall be applied by the Bank as established in SBS Resolution Nº 10639-2008 *Regulations for Classification and Valuation of Investments of Financial System Companies*. Accordingly, the investment classification and valuation criteria is divided into four categories: (i) investments at fair value through profit and loss (ii) available-for-sale investments (iii) held-to-maturity investments (iv) investments in subsidiaries and associates. The Bank classifies its investments in the following categories:

(i) Available-for-Sale Investments

Available-for-sale investments are all investment instruments that are not classified as investments at fair value through profit and loss, held-to-maturity investments or investments in subsidiaries and associates.

Available-for-sale investments are initially measured at fair value plus direct costs attributable to the acquisition of such securities. The accounting value of this investment is updated at fair value and fluctuations are recognized in the equity under unrealized earnings, unless a permanent impairment in value exists. When the instrument is sold or realized, the gain or loss that was previously recognized in the equity shall be transferred and recorded in the profit or loss of the period.

(ii) Held-to-Maturity Investments

Held-to-maturity investments are debt securities that the Bank has the positive intent and ability to hold to maturity. They are initially recorded at fair value plus any cost directly attributable to the transaction costs, and are subsequently measured at amortized cost using the effective interest method, less impairment losses.

In case of impairment, the carrying amount of the instrument will be reduced and the loss will be recognized in the account in the income statement.

(c) Loans, Classification and Provision for Doubtful Loans

Direct loans are recorded when fund disbursements are made to clients. Indirect loans (contingent) are recorded when documents supporting the credit facilities are issued. Likewise, changes in loan payment schedules due to debtors' payment difficulties are considered as a refinancing or restructuring.

The Division of Loan Portfolio Evaluation of the Risks Department is in charge of conducting, on a permanent basis, the evaluation and rating of the loan portfolio, assigning to each debtor the corresponding risk rating according to the guidelines established by the SBS. As of December 31, 2011 and 2010, the Bank applied Resolution Nº 11356-2008 and amendments.

Loan Portfolio Classification

In conformity with SBS Resolution Nº 11356-2008, loans are classified in: i) corporate loans, ii) large-business loans, iii) medium-business loans, iv) small-business loans, v) micro-business loans, vi) revolving consumer loans, vii) non-revolving consumer loans, and viii) mortgage loans. This classification considers nature of client (corporate, government or individual), purpose of loan, and business size, measured per revenues, indebtedness, among others.

Credit Risk Rating Categories

Credit risk rating categories established by the SBS are the following: standard, potential problem, substandard, doubtful, or loss. Loan rating of non-retail loans portfolio (corporate, large, and medium companies) mainly takes into account the debtor's payment capacity, cash flow, level of compliance with obligations, credit rating designated by other companies in the financial system, financial position, and management quality. In the case of retail loan portfolios (small-business loans, micro-business loans, revolving and non-revolving, and mortgage loans), the credit rating is based on the level of compliance with loan repayments, which is reflected in the arrears and in their credit rating in other entities of the financial system.

Provision Requirements

According to current SBS regulations, the Bank determines generic and specific provisions for loan portfolio. The generic provision is recorded in a preventive manner for direct loans and credit risk equivalent exposure of indirect loans classified as standards, and additionally for the procycical component when the SBS orders its application. The specific provision is recorded for direct loans and the credit risk equivalent exposure of indirect loans for which a specific risk, higher than standard has been identified.

As of December 31, 2011 and 2010, the determination of the credit risk equivalent exposure of indirect loans considers the following credit conversion factors (CCF):

	Description	CCF (%)
(i)	Confirmations of irrevocable letters of credit for up to a year, when the issuering bank is a foreign high-quality category company of the financial system.	20
(ii)	Issuances of guarantee letters supporting duties to act and not to act.	50
(iii)	Issuances of guarantees, import letters of credit, and guarantees letters not included in subparagraph (ii) above, as well as banker's acceptances and confirmation of letters of credit not included in subparagraph (i) above.	100
(iv)	Granted loans not disbursed and unused credit lines.	0
(v)	Other indirect loans not covered by the previous paragraphs.	100

Provision requirements are determined considering the debtor credit rating, whether there is a supporting guarantee, and based on the type of the established guarantees.

In compliance with SBS Resolution 11356-2008, provisions for loan losses are determined applying the rates shown below:

Risk category	Without collateral	Preferred collateral	Easily realizable preferred collateral	Preferred readily realizable collateral
Standard				
Corporate loans	0.70%	0.70%	0.70%	0.70%
Large-business loans	0.70%	0.70%	0.70%	0.70%
Medium-business loans	1.00%	1.00%	1.00%	1.00%
Small-business loans	1.00%	1.00%	1.00%	1.00%
Micro-business loans	1.00%	1.00%	1.00%	1.00%
Revolving consumer loans	1.00%	1.00%	1.00%	1.00%
Non-revolving consumer loans	1.00%	1.00%	1.00%	1.00%
Mortgage loans	0.70%	0.70%	0.70%	0.70%
Potential problem	5.00%	2.50%	1.25%	1.00%
Substandard	25.00%	12.50%	6.25%	1.00%
Doubtful	60.00%	30.00%	15.00%	1.00%
Loss	100.00%	60.00%	30.00%	1.00%

Procyclical component

The procyclical component to calculate the direct loans and credit risk equivalent exposure of indirect loans for debtors classified as standard risk rating is established when the procyclical rule is activated. Minimum procyclical component rates per each type of loan are:

Type of Loans	Rates (%)
Corporate loans	0.40
Large business loans	0.45
Medium business loans	0.30
Small business loans	0.50
Micro business loans	0.50
Revolving consumer loans	1.50
Non-revolving consumer loans	1.00
Mortgage loans	0.40

For corporate, large-business, and mortgage loans that have preferred readily realizable collateral, the procyclical component shall be 0.3% for the portion covered with such collateral. For the other loans that have preferred readily realizable collateral, the procyclical component shall be 0% for the portion covered with such collateral. For consumer loans that have contracts with discount agreements from eligible payrolls, the procyclical component rate shall be 0.25% provided that they comply with the provisions of the Resolution.

As of December 31, 2011 and 2010, the procyclical rule for the loan portfolio provisions is activated.

Provisions for direct loans are disclosed deducting from corresponding asset (note 7), and provisions for indirect loans are presented in the liabilities (note 15).

(d) Property, Furniture, and Equipment

Property, furniture, and equipment are recorded at acquisition cost, less accumulated depreciation and the accumulated amount of any impairment loss suffered during their useful life (note 9). Disbursements incurred after acquisition of furniture and equipment are capitalized as assets when it is probable that future economic benefits will flow to the Bank and their cost can be measured reliably. Maintenance and repair expenses are charged to the results in the period in which they are incurred. 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.

Work-in-progress and in-transit goods are recorded at acquisition cost. These goods are not depreciated until relevant assets are finished and/or received, and are ready to operate.

Land is not depreciated. Depreciation has been calculated on a straight-line method basis over the following estimated useful lives:

	Years
Buildings	33
Premises, furniture and equipment	10
Vehicles and improvements in leased properties	5
IT equipment	4

The residual value and the useful life of an asset are reviewed and adjusted, if necessary, at each balance sheet date.

The carrying amount of an asset is written off immediately at its recoverable amount when the carrying amount of the asset exceeds its value in use.

(e) Impairment of Assets

When events or circumstantial economic changes indicate that the value of an asset might not be recoverable, the Bank reviews the value of the long-term asset to determine if there is impairment. When the carrying amount of the asset exceeds its recoverable amount, the Bank recognizes an impairment loss in the income statement for the assets held at cost.

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

An impairment loss recognized in previous years is reversed if there is a change in the estimates used since the last time the impairment loss was recognized.

(f) Workers' and Pensioners' Fringe Benefits

Workers' and pensioners' fringe benefits are composed of:

(i) Profit Sharing

As of December 31, 2010, workers' profit sharing comprised current and deferred workers' profit sharing. It was determined using the same criteria used to determine the current and deferred income tax, respectively. They were recorded according to legislation applicable to the Bank.

The SBS issued Official Letter SBS Nº 4049-2011, dated January 21, 2011, establishing a change in the treatment of workers' profit sharing indicating that this should be recorded according to IAS 19 *Employee Benefits*. Consequently, this profit sharing shall be treated as personnel expense and liability related to workers' benefit and shall stop generating deferred assets or liabilities as a result of the temporary differences between financial and tax basis.

Effective January 1, 2011, workers' profit sharing shall be recognized as personnel expense; therefore, temporary differences between financial and tax bases shall not be recognized as from that date. The accumulated balance as of December 31, 2010 of workers' profit sharing amounting to S/. 13,646 thousand, was reversed against retained earnings and unrealized earnings amounting to S/. 13,196 thousand and S/. 450 thousand, respectively.

(ii) Vacations and Other Benefits to Personnel
Vacations of personnel, paid leaves and other benefits of personnel are recognized on an accrual basis.

(iii) Severance Payment
The provision for severance payment (CTS) is calculated according to current legislation, on the total workers' indemnities and shall be paid through deposits in authorized financial system entities as chosen by them. The computation is made for the amount that should have to be paid as at the balance sheet date and is included in the "Provision for fringe benefits" account. It is presented in the balance sheet under "Deposits and Obligations".

(iv) Retirement Pensions
The provision for retirement pensions includes mainly pension fund obligations of the Pension System by Decree Law Nº 20530. In conformity with IAS 19 *Employee Benefit*, the provision for retirement pensions represents a Government Plan of Defined Benefits, in which the Bank's obligations consists on supplying benefits agreed by Decree Law Nº 20530 and complementary standards. In the assumed benefits plan, the actuarial risk is assumed by the Bank and supported by its assets and operations. Based on life expectations of the beneficiaries of this system, it is estimated that the amount of this obligation will be reduced progressively on a long-term basis.

The provision for the retirement reserve fund of the working and retired personnel is recorded according to Supreme Decree Nº 043-2003-EF published on March 28, 2003, which states that State companies will be governed by Accounting Resolution Nº 159-2003-EF/93.01 published on March 12, 2003, which approved the Chart of Accounts Nº 20-2003-EF/93.01 that establishes the accounting procedure for the recording and control of pension reserves, non pension reserves and reserves for contingencies.

The Bank fully records the result of actuarial calculations for pension reserves as a liability. The total amount of pension fund obligations is adjusted for the amounts obtained in future actuarial calculations related to the former actuarial calculation and the variation is directly applied to results of the corresponding period.

In compliance with Guideline Nº 001-2003-EF/93.10 of the National Directorate of Public Accounting, the actuarial calculation of pension fund obligations is made by the Planning, Statistics and Rationalization Division of the Social Security Administration Office (hereinafter ONP). Calculation is made annually by a competent actuary of the ONP using the technical guide of the ONP approved by Resolution Nº 227-2009-Jefatura/ONP dated December 4, 2009. The value of the pension determined according to the actuarial calculation is measured at present value of all future payments of pensions using a discount rate of 4.5% since financial instruments owned by the Bank assure profitability rates exceeding 4% for a long-term horizon.

(g) Income Tax

Current income tax is determined based on the taxable income and recorded according to tax legislation applicable to the Bank (note 27).

Deferred income tax is recorded using the liability method based on temporary differences derived from tax accounting of assets and liabilities, and their balances in the financial statements. Deferred income tax is determined based on current tax rates and legislation expected to be applied when the deferred income tax asset is realized or the deferred income tax liability is settled (note 10).

Deferred income tax asset and liability are recognized without considering the estimated time when the temporary differences will extinguish. Deferred income tax asset is only recognized if it is probable there would be future tax benefits, so that the deferred asset can be used.

(h) Provisions and Contingencies

(i) Provisions

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

(ii) Contingencies

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

Contingent assets are not recognized in financial statements, and they are only disclosed when an inflow of economic benefits is probable.

(i) Income and Expense Recognition

Interest income and expenses are recognized in the corresponding fiscal year on an accrual basis, depending on the term of the generating transactions and the interest rate agreed with the clients. Commissions for banking services are recognized as income when earned.

If management considers there are reasonable doubts about the collectibility of the principal of a loan, the Bank suspends the recognition of interest in the profit or loss. The interest in suspense is recorded in memorandum accounts and recognized as earned when collected. If management considers the financial situation of the debtor has improved and the doubt about the collectibility of the principal has diminished, the accounting of interest on an accrual basis is restated.

Interest income includes the return on fixed-income investments and trading securities, as well as the recognition of discounts and premiums on financial instruments. Dividends are registered as income when declared.

The Bank's other income and expenses are recorded in the period in which they are accrued.

(j) Statement of Cash Flows
The Bank considers the balance of cash and due from banks of the balance sheet as cash and cash equivalents.

(k) Trustee Activities
Assets and cash flows from trust operations, where there is an engagement to return these assets and flows to the clients and the Bank acts as trustee, are not included in the financial statements since they do not belong to the Bank but are recorded in memorandum accounts for their corresponding control.

(l) Foreign Currency Transactions and Balances
Foreign currency transactions are those transactions carried out in a currency other than nuevo sol. Foreign currency transactions are translated into nuevo sol using exchange rates reported by the SBS at the dates of the transactions (note 4). Gains or losses on exchange differences resulting from the payment of such transactions and from the translation of monetary assets and liabilities stated in foreign currency at exchange rates reported at the closing of the period are recognized in the income statement.

(m) Reclassifications
Certain figures of the 2010 financial statements have been reclassified to make them comparable to 2011 figures as mentioned in notes 3f(i) and 23. The nature of reclassifications, amounts involved and realted accounts are summarized as follows:

	In thousands of S/.		
	Audited balances	Reclassifications	Final balances
As of December 31, 2010			
Balance Sheet			
Deferred income tax	91,432	(13,646)	77,786
Other assets	350,477	13,646	364,123
Income statement:			
Administrative expenses (personnel expenses)	(734,930)	27,502	(707,428)
Deferred workers' profit sharing	1,201	(1,201)	-
Current workers' profit sharing	(18,901)	18,901	-
Expenses on finance services	(8,296)	(45,202)	(53,498)

(n) New International Accounting Pronouncements

i) Pronouncement of the Peruvian Accounting Board -CNC

The CNC, through resolution 048-2011-EF/30 published on January 6, 2012, approved the application of the 2011 version of the IFRS issued by the International Accounting Standards Board (IASB). The CNC authorized current IASs 1 to 41, IFRSs 1 to 13, pronouncements from 7 to 32 (except for superseded pronouncements) issued by the interpretations committee (SIC) and all interpretations from 1 to 19 of current Interpretations Committee (IFRIC); as well as the modifications as of October 2011 of the IAS, IFRS and IFRIC issued at internationally level.

ii) New standards and interpretations not yet adopted by the CNC

A number of new standards and amendments to standards and interpretations that are effective internationally have not yet been approved by the CNC as of December 31, 2011:

- IFRS 10 *Consolidated Financial Statements*. Effective date: January 1, 2013.
- IFRS 11 *Joint Arrangements*. Effective date: January 1, 2013.
- IFRS 12 *Disclosure of Interests in Other Entities*. Effective date: January 1, 2013.
- IFRS 13 *Fair Value Measurement*. Effective date: January 1, 2013.

Certain standards have also been improved, among them we can mention:

- IFRS 9 *Financial Instruments: Classification and Measurement*. Effective date: January 1, 2013.
- IAS 19 *Employee Benefits*. Effective date: January 1, 2013.
- IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*. Effective date: January 1, 2013.
- IAS 1 *Presentation of Financial Statements – presentation of other comprehensive income items*. Effective date: July 1, 2012.
- IAS 24 (revised), *Related party disclosure*. Effective date: January 1, 2011.

- IFRS 7 *Financial Instruments: disclosures– requirement to present additional disclosures for the derecognition of financial assets.* Effective date: July 1, 2011.

- IAS 12 *Deferred Tax*: *recovery of underlying assets.* Effective on or after January 1, 2012.

iii) SBS pronouncements

- Official Letter SBS Nº 15014-2011, dated March 28, 2011, established that entities under its supervision shall prepare financial statements and complementary information in conformity with IFRS beginning January 2012. As of the date of this report, the Bank is evaluating the effects on the preparation of its financial statements that may arise from the application of IFRS until the SBS issue the corresponding regulation within the framework of the IFRS harmonization process.

- SBS Resolution Nº 914-2010, extended the application of IFRS 7 *Financial Instruments: Disclosures* and IFRS 8 *Operating Segments.* This postponement is effective until the SBS issue corresponding regulation as part of the process to harmonize its accounting regulations to IFRS.

As indicated in note 2(a), the standards and interpretations above detailed will only be applicable to the Bank, in absence of applicable SBS regulations for situations not covered in the Accounting Manual.

(4) <u>Foreign Currency Balances</u>

The balance sheets include balances of foreign currency transactions, mainly in U.S. dollars (US$), which are recorded in nuevos soles (S/.) at exchange rates established by the SBS. As of December 31, 2011 and 2010, these rates were US$1 = S/. 2.696 and S/. 2.809, respectively.

Foreign currency transactions carried out in the country and international trade transactions authorized by Banco Central de Reserva del Perú - BCRP (Central Bank), are channeled through the called Free Banking Market. As of December 31, 2011, the buy and sell exchange rates used were US$ 1 = S/. 2.695 and US$ 1 = S/. 2.697, respectively (US$ 1 = S/. 2.808 and US$ 1 = S/. 2.809, the buy and sell rates, respectively as of December 31, 2010).

Foreign currency balances stated in thousands of U.S. dollars as of December 31, are summarized as follows:

	In thousands of US$	
	2011	2010
Assets:		
Cash and due from banks	750,902	619,111
Trading and held-to-maturity investments	114,584	136,352
Loan portfolio	73,108	60,836
Accounts receivable	103,218	96,811
Other assets	4,368	2,952
	1,046,180	916,062
Liabilities:		
Deposits and obligations	(924,643)	(803,745)
Deposits in financial system enterprises and international financial bodies	(100,313)	(100,129)
Accounts payable	(1,054)	(269)
Other liabilities	(11,000)	(26,524)
	(1,037,010)	(930,667)
Net asset (liability) position	9,170	(14,605)

As of December 31, 2011, the Bank has contingent operations in foreign currency amounting to US$ 235,947 thousand, equivalent to S/. 636,113 thousand (US$ 480,091 thousand equivalent to S/. 1,348,575 thousand as of December 31, 2010).

(5) Cash and Due from Banks

It comprises of the following:

	In thousands of S/. 2011	In thousands of S/. 2010
Cash		
Main office	319,668	291,654
Branches and agencies	280,755	202,896
Dependencies	143,533	103,885
Cash in transit	14,552	22,843
Gold and silver minted in bars	329	329
	758,837	621,607
Central Reserve Bank of Peru		
Ordinary account	1,595,181	1,915,283
Special account	9,157,093	8,592,868
Overnight deposits	1,577,160	1,280,904
Time deposits	14,095	33,642
	12,343,529	11,822,697
Banks and other entities of local financial system	20,605	11,715
Banks and other entities of foreign financial system	148,953	168,467
Clearing	74,183	76,166
Accrued income on cash and due from banks and others	27,654	24,686
	13,373,761	12,725,338

As of December 31, 2011, they include US$ 98,510 thousand and S/. 2,062,313 thousand (US$ 89,033 thousand and S/. 2,309,876 thousand as of December 31, 2010) that are assigned to cover legal cash reserve that the Bank must set aside to cover deposits from third parties, according to limits established by current legislation. These funds are held both at Banco Central de Reserva del Perú (BCRP) and kept in the Bank's vault.

Legal cash reserve funds held at BCRP do not accrue interest except for the required amount in foreign currency and local currency that exceeds the minimum legal cash reserve. As of December 31, 2011, the excess of minimum legal cash reserve in foreign currency and local currency accrue an annual interest rate of 0.17% and 2.45%, respectively (annual interest rate of 0.16% and 1.20%, respectively, as of December 31, 2010).

As of December 31, 2011 and 2010, "overnight" transactions deposited at BCRP, amount to US$ 585,000 thousand and US$ 456,000 thousand, respectively.

Deposits at local and foreign banks correspond, mainly, to balances in nuevos soles and in U.S. dollars, and lower amounts in other currencies, with free withdrawal option and accrue interest at market rates.

In 2011, revenue from interest on cash and due from banks amounts to S/. 306,502 thousand (S/. 178,968 thousand in 2010) and are included under the interest income in the income statement (note 20).

(6) Trading and Held-to-Maturity Investments

They comprise the following:

	In thousands of S/. 2011	In thousands of S/. 2010
Available-for-sale investments		
Securities and bonds issued by the Peruvian government:		
Sovereign bonds (a)	748,149	639,252
Global bonds (a)	210,841	152,792
BCRP certificates of deposit (b)	241,122	-
	1,200,112	792,044
Accrued returns	17,381	11,613
	1,217,493	803,657
Securities and bonds issued by foreign government:		
U.S. global bonds- with investment level	-	21,184
	-	21,184
Accrued returns	-	64
	-	21,248
Securities and bonds issued by other firms:		
Corporate bonds (c)	131,862	317,957
Financial lease bonds	5,396	11,010
Commercial papers	4,469	1,354
Securitized bonds	8,111	15,584
Certificates of marketable deposits	7,153	3,185
Shares	19,463	23,263
	176,454	372,353
Accrued returns	1,657	2,957
	178,111	375,310
	1,395,604	1,200,215
Held-to-maturity investments		
Peru's Public Treasury Bonds S.D. 002-2007 bonds (d)	1,889,890	1,949,982
	1,889,890	1,949,982
	3,285,494	3,150,197

(a) Sovereign and global bonds have been acquired at rates and prices offered in the market as of the date of the negotiation. As of December 31, 2011, sovereign bonds generate returns at annual interest rates in local currency that range from 4.25% to 6.59% (between 4.35% and 6.68% as of December 31, 2010) and mature between 2013 and 2042. Likewise, global bonds at the end of the period generate returns with an internal rate of return that range from 1.95% to 4.86% (between 2.31% and 5.09% in 2010) and mature between 2012 and 2033.

(b) BCRP certificates of deposit are bearer securities freely negotiable; they have current maturity and were acquired through public bids of BCRP and marketed in the Peruvian secondary market. As of December 31, 2011, internal rates of return in local currency range from 4.02% to 4.72% being interest rates for each bid determined by the BCRP.

(c) Corporate bonds correspond to instruments acquired from first-level companies. As of December 31, 2011, annual interest rates range from 0.16% to 8.08% (as of December 31, 2010, from 0.98% to 8.3%).

(d) As of December 31, 2011 and 2010, held-to-maturity investments comprise the Supreme Decree Nº 002-2007 Bond issued by the MEF for the compensation and consolidation of reciprocal debts between this entity and the Bank (note 1). Such bond accrues interest at an annual internal rate of return of 6.3824%, is payable quarterly and is amortized on an annual basis with a 30-year maturity. In 2011, the bond generated interest for S/. 120,556 thousand (S/. 124,354 thousand in 2010), recognized in the revenues from trading and held-to-maturity investments item of the income statement.

    At Board of Directors meeting Nº 1848 held on March 24, 2011, the Board approved the distribution of the Bank's 2010 net profits to the Public Treasury. Consequently, the Supreme Decree Nº 002-2007-EF Bond was amortized in the amount of S/. 60,000 thousand as a result of such distribution (note 17(c)).

Securities and bonds issued by other partnerships as of December 31, are distributed in the following economic sectors:

	In thousands of S/.		In %	
	2011	2010	2011	2010
Financial companies	104,423	236,350	59	63
Telephone companies	24,200	60,294	13	16
Power companies	22,470	41,245	13	11
Industrial companies	25,361	32,048	14	9
Other	-	2,416	-	1
Accrued returns	1,657	2,957	1	-
	178,111	375,310	100	100

As of December 31, 2011 and 2010, the accrued return on available-for-sale, and held-to-maturity investments amounted to approximately S/. 181,290 thousand and S/. 219,261 thousand, respectively, and it is included in the interest income item in the income statement (note 20).

Available-for-sale and held-to-maturity investments as of December 31, 2011 and 2010 has the following maturities:

	In thousands of S/.	
	2011	2010
Up to 3 months	102,053	47,767
3 months - 1 year	313,403	62,502
1 - 3 years	32,838	216,280
3 - 5 years	163,119	785,528
5 year +	2,654,457	2,014,714
Without maturity (shares)	19,624	23,406
	3,285,494	3,150,197

(7) Loan Portfolio, Net

It comprises of the following:

	In thousands of S/.			
	2011	%	2010	%
Direct loans				
Current	5,055,566	102	4,341,280	103
Refinanced	305	-	148	-
Overdue	19,857	-	16,580	-
Loans in legal collection	47,164	1	47,056	1
	5,122,892	103	4,405,064	104
Income from deferred interest on refinanced loans	(97)	-	(37)	-
Accrued interest of current loans	40,172	1	34,443	1
Provision for loans	(197,781)	(4)	(200,600)	(5)
Total direct loans, net	4,965,186	100	4,238,870	100
Indirect loans (note 19)	671,343		1,377,732	

Loan portfolio (direct and indirect) is guaranteed with collaterals received from clients, most of them state pensioners, workers from governmental organisms or governmental organisms that hold deposits at the Bank.

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

	%			
	2011		2010	
	Local currency	Foreign currency	Local currency	Foreign currency
Overdrafts	7 - 17	12	7 - 16	12
Corporate loans	7 - 13	8	4 - 10	8
Consumer loans	13 - 19	-	9 - 18	-
Mortgage loans	8 - 9	-	8 - 9	-

As of December 31, according to current SBS regulations, the Bank's loan portfolio is risk rated as follows:

	2011								2010							
	Number of		In thousands of S/.						Number of		In thousands of S/.					
Risk rating	debtors	%	Direct	%	Indirect	%	Total	%	debtors	%	Direct	%	Indirect	%	Total	%
Standard	513,815	95	4,980,878	97	671,343	100	5,652,221	98	578,429	94	4,287,295	97	1,295,782	94	5,583,077	97
Potential problem	3,605	1	24,703	1	-	-	24,703	-	2,860	-	14,828	-	-	-	14,828	-
Substandard	4,661	1	18,184	-	-	-	18,184	-	5,612	1	13,014	-	-	-	13,014	-
Doubtful	12,105	2	34,821	1	-	-	34,821	1	22,011	4	28,506	1	81,950	6	110,456	2
Loss	5,796	1	64,306	1	-	-	64,306	1	6,294	1	61,421	2	-	-	61,421	1
	539,982	100	5,122,892	100	671,343	100	5,794,235	100	615,206	100	4,405,064	100	1,377,732	100	5,782,796	100

As of December 31, direct loans are distributed among economic sectors as follows:

	In thousands of S/.			
	2011	%	2010	%
Consumer loans	2,834,243	55	2,654,970	60
Public administration and defence	1,582,736	31	1,119,349	25
Financial intermediation	300,058	6	459,529	11
Manufacturing industry	199,240	4	76,868	2
Other community-service activities	149,268	3	63,393	1
Mortgage loans	47,915	1	21,279	1
Trade loans	5,873	-	6,097	-
Transportation, warehousing and communications	1,738	-	1,745	-
Other	1,821	-	1,834	-
	5,122,892	100	4,405,064	100

Direct loans have the following contractual maturities as of December 31:

	In thousands of S/.	
	2011	2010
Up to 1 month	221,342	199,637
1 - 6 months	978,174	650,721
6 months - 1 year	681,295	649,184
1 year +	3,084,375	2,739,328
	4,965,186	4,238,870

The provision for direct loans activity is as follows:

	In thousands of S/.		
	Specific	Generic	Total
Balances as of December 31, 2009	88,702	89,864	178,566
Additions debited to results	2,848	29,852	32,700
Foreign exchange difference	(917)	(87)	(1,004)
Recovery of provisions	(6,334)	(1,551)	(7,885)
Write-off and transfers	(1,777)	-	(1,777)
Balances as of December 31, 2010	82,522	118,078	200,600
Additions debited to results	10,580	12,417	22,997
Foreign exchange difference	(1,274)	(144)	(1,418)
Recovery of provisions	(98)	(23,536)	(23,634)
Write-off and transfers	(764)	-	(764)
Balances as of December 31, 2011	90,966	106,815	197,781

As of December 31, the generic provision comprises the following:

	In thousands of S/.	
	2011	2010
Procyclical provision	36,352	32,656
Provision for debt overhang risk of retail debtors	27,381	25,845
Discretionary provision	-	21,812
Other	43,081	37,765
	106,814	118,078

In 2011, the Bank reversed the discretionary generic provision for S/. 21,812 thousand, as a result of the review of the assumptions used as a basis to record the provision.

The Bank records the potential losses in loan portfolio according to the policy described in note 3c.

In management's opinion, the loan provision, recorded as of December 31, 2011 and 2010, meets SBS regulations in force at those dates.

(8) Accounts Receivable, net

It comprises of the following:

	In thousands of S/. 2011	2010
Accounts receivable from Cofide	264,314	275,392
Other accounts receivable	98,606	54,897
	362,920	330,289
Provision for doubtful accounts	(25,305)	(27,017)
	337,615	303,272

Emergency Decree Nº 024-2009 of February 19, 2009, established the creation of the trust called Business Guarantee Fund – FOGEM for up to an amount of S/. 300,000 thousand; the objective of the trust was to guarantee loans that the entities of the National Financial System grant to micro and small productive, service and trade companies, as well as to medium-size companies that are engaged in the production and/or services within the non-traditional export chains.

Based on this Emergency Decree, the Bank was authorized to contribute to the FOGEM, as Trustee, with S/. 300,000 thousand.

FOGEM is managed in Trust by Corporación Financiera de Desarrollo S.A. (Cofide), under the terms and conditions of the contract entered into by both entities.

The term to use the FOGEM was 2 years counted from the effective date of the Operating Regulations; however, by means of Emergency Decree Nº 058-2011 dated October 26, 2011, the term was extended to September 30, 2012.

As of December 31, 2011 and 2010, accounts receivable from Cofide correspond to the amount transferred to FOGEM amounting to US$ 98,039 thousand (equivalent to S/. 264,314 thousand as of December 31, 2011 and S/. 275,392 thousand as of December 31, 2010).

The activity of the provision for doubtful accounts is as follows:

	In thousands of S/. 2011	2010
Balances as of January 1	27,017	24,345
Additions debited to results	10,658	6,266
Other, net	(12,370)	(3,594)
Balances as of December 31	25,305	27,017

(9) Property, Furniture, and Equipment, Net

It comprises of the following:

Year 2011:

	In thousands of S/.					
	Balances as of 12.31.2010	Additions	Disposals	Transfers	Adjust.	Balances as of 12.31.2011
Cost:						
Land	54,428	-	-	-	-	54,428
Buildings and premises	369,392	-	-	11,199	(296)	380,295
Furniture and equipment	84,912	3,306	(544)	878	(16)	88,536
IT equipment	115,794	19,072	(4,110)	630	(5)	131,381
Vehicles	6,843	-			92	6,935
Work-in-progress	44,763	15,536	-	(15,415)	(3,275)	41,609
Goods in transit	4,968	2,561	-	(599)	(1,139)	5,791
Premises and improvements in leased properties	19,801	-	-	3,307	(832)	22,276
	-----------	-----------	----------	-----------	-----------	-----------
	700,901	40,475	(4,654)	-	(5,471)	731,251
	-----------	======	======	======	======	-----------
Depreciation:						
Buildings and premises	216,489	12,085	-	-	(14)	228,560
Furniture and equipment	38,857	7,015	(434)	-	(4)	45,434
IT equipment	79,582	14,593	(4,101)	-	-	90,074
Vehicles	5,101	660	-	-	-	5,761
Premises and improvements in leased properties	14,410	2,398	-	-	-	16,808
	-----------	-----------	-----------	-----------	-----------	-----------
	354,439	36,751	(4,535)	-	(18)	386,637
	-----------	======	======	======	======	-----------
Less, property deterioration	41,131	-	-	-	-	41,131
	-----------	======	======	======	======	-----------
	305,331					303,483
	=======					=======

Year 2010:

	In thousands of S/.					
	Balances as of 12.31.2009	Additions	Disposals	Transfers	Adjust.	Balances as of 12.31.2010
Cost:						
Land	40,896	-	-	13,532	-	54,428
Buildings and premises	339,397	-	-	28,370	1,625	369,392
Furniture and equipment	69,597	9,813	(467)	7,160	(1,191)	84,912
IT equipment	107,718	5,708	(2,329)	4,701	(4)	115,794
Vehicles	6,595	-	-	248	-	6,843
Work-in-progress	35,167	23,024	-	(14,709)	1,281	44,763
Goods in transit	15,990	-	-	(11,052)	30	4,968
Premises and improvements in leased properties	15,942	-	-	3,629	230	19,801
	631,302	38,545	(2,796)	31,879	1,971	700,901
Depreciation:						
Buildings and premises	204,576	11,966	-	-	(53)	216,489
Furniture and equipment	32,801	6,628	(362)	-	(210)	38,857
IT equipment	65,302	16,599	(2,319)	-	-	79,582
Vehicles	4,157	944	-	-	-	5,101
Premises and improvements in leased properties	12,085	3,127	-	-	(802)	14,410
	318,921	39,264	(2,681)	-	(1,065)	354,439
Less, property deterioration	-	-	-	31,879	9,252	41,131
	312,381					305,331

In December 2010, the Bank reviewed the property deterioration comparing the net cost to respective market values. As a result of this review a provision for deterioration of property was recorded for S/. 9,252 thousand.

According to current legislation, banks in Peru are not allowed to give as guarantee the component items that are part of their property, furniture, and equipment, except for those acquired through finance lease operations.

(10) Deferred Income Tax

Under IAS 12 revised, the Bank applied the liability methodology for the determination of the deferred income tax as of December 31, 2011 and 2010.

The activity in the net assets for deferred income tax and their originating items were as follows:

	In thousands of S/.				
	Balances as of 12.31.2010	Adjustment	Equity	Results	Balances as of 12.31.2011
Temporary difference:					
Assets					
Generic provision for direct loans	33,661	-	-	(1,617)	32,044
Provision for litigations and claims	26,289	-	-	13,265	39,554
Provision for vacations	4,983	-	-	640	5,623
Generic provision for contingent loans	3,978	-	-	(1,866)	2,112
Provision for impairment of property	-	10,883	-	(1,137)	9,746
Other	4,521	(770)	-	(117)	3,634
Liabilities					
Property depreciation	1,790	(4,787)	-	1,631	(1,366)
Unrealized results	2,564	-	(5,338)	-	(2,774)
Total deferred asset	77,786	5,326	(5,338)	10,799	88,573

Likewise, in 2011, credit to results for deferred income tax, amounts to S/. 10,799 thousand (S/. 6,843 thousand in 2010).

As of December 31, 2011 and 2010, the Bank presents the deferred income tax generated from the unrealized results of available-for-sale investments, net of such item.

(11) Other Assets

They comprise the following:

	In thousands of S/.	
	2011	2010
Income tax partial payments	95,216	70,895
Transactions in progress (a)	85,724	105,963
Tax credit	61,318	79,461
Head office and branches (b)	26,572	63,326
Intangible assets, net of amortization of S/. 22,089 thousand and S/. 19,333 thousand, respectively	16,619	21,223
Anticipated payments and deferred charges	7,647	8,601
Various assets	989	1,006
Repossessed goods, net of provision of S/. 783 thousand and S/. 781 thousand, respectively	-	2
Other assets (note 3f(i))	-	13,646
	294,085	364,123

(a) Transactions in progress are those carried out during the last days of one month and are reclassified in the following month under their respective accounts in the balance sheet; these transactions do not affect the Bank's results. As of December 31, 2011, they included S/. 57,420 thousand corresponding to operations payable for debit outstanding accounts, which were transferred to their corresponding accounts in January 2012 (S/. 79,230 thousand as of December 31, 2010).

(b) The balance at head Office and branches corresponds to pending transactions between the Bank's offices located in the country, being the main type of transaction the cash remittances transferred from the Head Office through the Central Reserve Bank of Peru to agencies and offices in provinces.

(12) Deposits and Obligations

It comprises of the following:

	In thousands of S/.	
	2011	2010
Demand deposits	11,774,418	10,893,155
Savings deposits	3,860,512	3,093,290
Time deposits	351,714	503,670
Other obligations	3,957,298	4,158,518
Expenses payable on obligations	86,200	88,563
	20,030,142	18,737,196

Demand deposits are composed as follows:

	In thousands of S/.	
	2011	2010
Deposits in checking account	11,590,610	10,736,923
Certified checks	21,210	6,717
Cashier’s checks	114,728	94,567
Transfers payable	47,780	53,694
Collections payable	90	84
Trust liabilities	-	1,170
	11,774,418	10,893,155

Deposits in checking accounts mainly correspond to those made by: i) Private companies for approximately S/. 2,101,286 thousand and US$ 40,889 thousand (S/. 1,612,359 thousand and US$ 5,997 thousand in year 2010), ii) local governments for approximately S/. 1,383,541 thousand and US$ 1,951 thousand (S/. 1,043,674 thousand and US$ 2,589 thousand in year 2010), iii) regional governments for approximately S/. 1,351,961 thousand and US$ 8,712 thousand (S/. 1,870,538 thousand and US$ 6,838 thousand in year 2010), iv) Ministry of Economy and Finance for S/. 924,738 thousand and US$ 32,244 thousand (S/. 1,061,765 thousand and US$ 44,685 thousand in year 2010), and v) Prime Minister's Office for S/. 6,116 thousand and US$ 204,114 thousand (S/. 10,263 thousand and US$ 198,015 thousand in year 2010), and vi) Cofide for S/. 12,706 thousand and US$ 92,717 thousand (S/. 1,377 thousand and US$ 95,323 thousand in year 2010). Such deposits represent approximately 57% of deposits in checking account as of December 31, 2011 (60% as of December 31, 2010).

Saving deposits correspond to accounts opened to pay public sector salaries and pensions.

Time deposits include bank certificates, time deposits and severance payment (CTS) deposits in the amount of S/. 3,764 thousand, S/. 284,720 thousand and S/. 63,230 thousand, respectively (S/. 3,969 thousand, S/. 441,550 thousand and S/. 58,151 thousand, respectively as of December 31, 2010).

The annual effective interest rate established for saving and time deposits in force for 2011 was 0.40% to 1.80% in local currency (0.15% and 1.30% in year 2010) and from 0.09% to 0.40% in foreign currency (0.09% and 0.40% in 2010).

Balances of other obligations comprise the following:

	In thousands of S/.	
	2011	2010
Tax collection agencies	192,640	226,099
Restricted deposits and obligations	1,586,529	1,748,301
Workers' and pensioners' fringe benefits	2,178,129	2,184,119
	3,957,298	4,158,519

<u>Workers' and pensioners' fringe benefits</u>
Provision for fringe benefits represents assumed obligation for indemnities of serving workers; as well as provision for retirement of former workers and serving workers of the Bank, subject to the pension regime of Law Decree Nº 20530. As of December 31, they comprise the following:

	In thousands of S/.	
	2011	2010
Law Nº 4916 Labor Regime	3,953	3,318
D. L. Nº 11377 Labor Regime	144	145
D.L. Nº 20530 Retirement Pensions	2,174,032	2,180,656
	2,178,129	2,184,119

<u>D.L. Nº 20530 Retirement Pensions</u>
Retirement pensions principally correspond to the present value of future pension payments to current and former Bank's workers under Decree Law Nº 20530.

They comprise life annuity received by pensioners for severance pay, disability, widows' and orphans' pension funds. Pension fund transactions have been traditionally considered among the actuarial operations of life; however, it has specific characteristics, economic importance and requires actuarial specialization. Considering the particularities of the social pension fund operations, those are defined as operations where the potential period for risk coverage is the whole life of the insured individual.

Supreme Decree Nº 043-2003-EF was published on March 28, 2003, introducing rules on registration of pension fund obligations under the pension scheme provided by Decree Law Nº 20503 and amendments, not financed with Treasury funds. This decree amended Supreme Decree Nº 106-2002-EF, by including the rules contained in Supreme Decree Nº 026-2003-EF of February 27, 2003, in the actuarial calculation for pensions and, as applicable, those of Accounting Resolution Nº 159-2003-EF/93.01 of March 6, 2003 and other provisions adopted by the Peruvian Board of Public Accountancy for the purposes of registration and control of pension obligations.

Under article 2º of Supreme Decree Nº 043-2003-EF, Fonafe will issue regulatory provisions governing the constitution of funds necessary to finance the retirement pension obligations of entities and companies under its scope. The Bank does not have assets belonging to the pension plan as of the balance sheet date.

The activity of the retirement pension provision for pensioners and workers is as follows:

	In thousands of S/.	
	2011	2010
Balance at beginning of year	2,180,656	2,293,832
Increase debited to results (note 23)	186,278	76,554
Provisions, fractions and widows' and orphans' pension fund	3,998	4,284
Payment to pensioners	(196,900)	(194,014)
	-------------	-------------
Balance at end of year	2,174,032	2,180,656
	========	========

Liability for retirement pensions decreased compared to 2010, mainly due to a decrease in the number of pensioners from 6,348 as of December 31, 2010 to 6,083 pensioners as of December 31, 2011. Likewise, the Bank, in compliance with a court decision in favor of pensioners, made partial payments of labor refunds related to the D.U. Nº 090-96, Nº 073-96 and Nº 011-99 during November and December 2011 amounting to S/. 3,651 thousand and S/. 3,376 thousand, respectively.

Actuarial Assumptions

Main actuarial assumptions as of the balance sheet date are:

	2011	2010
Discount rate as of December 31	4.50%	4.75%
Average life term	20 years	21 years
Active service period	1 year	1 year
Pensioners entitled to Christmas bonus	811	831
Pensioners entitled to other bonuses	5,186	5,274
Pensioners not entitled to bonuses	86	90
Serving workers entitled to Christmas bonus	151	153

According to the Bank's management, the discount rate of 4.50% is being used because the Bank's financial instruments guarantees the existence of profitability rates higher than 4% with a long-term horizon.

The average life term and active service period have been determined based on the definition established in chart of accounts 20 of the Peruvian Board of Accountancy Nº 159-2003-EF/93.01. A period of active service equal to zero implies that the serving worker is in the condition to immediately become a pensioner.

The mortality tables used for actuarial calculations are the "Mortality Tables - 2005 Pension System (Peru)" for own right and right to healthy life, and the MI-85-H and MI-85-M mortality tables depending if disabled person is a man or a woman, respectively, all of them approved by the MEF in Ministerial Resolution Nº 757-2006-EF/15 and included as exhibit in Ministerial Resolution Nº 146-2007-EF/15 dated March 23, 2007.

The pension reserves have been calculated applying a maximum pension amount equivalent to two (2) Tax Units (equivalent to S/. 7,200).

Sensitivity Analysis

The calculation of retirement pension obligations is sensitive to the variations in the discount rate. A change of 0.50% in the discount rate would have the following effects:

	In thousands of S/.	
	Increase of 0.50%	Decrease of 0.50%
Effect in the results of the year	103,461	(103,461)
	=========	=========

Maturities of Deposits and Obligations

As of December 31, the scheduled maturity dates for deposits and obligations are as follows:

	In thousands of S/.	
	2011	2010
Up to 1 month	4,570,740	3,994,522
1-6 months	5,339,407	5,211,146
6 months - 1 year	3,256,331	3,119,863
1 year +	6,863,664	6,411,665
	20,030,142	18,737,196

(13) Deposits in Financial System Companies and International Financial Entities

As of December 31, 2011, they include demand deposits for S/. 99,202 thousand and US$ 100,313 thousand and saving deposits for S/. 1,821 thousand (demand deposits for S/. 92,416 thousand and US$ 100,129 thousand and saving deposits for S/. 2,403 thousand as of December 31, 2010).

(14) Accounts Payable

They comprise the following:

	In thousands of S/.	
	2011	2010
Remunerations and profit sharing payable	59,769	37,634
Various accounts payable	54,071	14,576
Suppliers	34,622	39,184
Other	113	118
	148,575	91,512

The increase of the balance for profit sharing and remunerations payable results mainly from provisions for list of demands and agreements with workers in 2011 for S/. 16,119 thousand and S/. 8,676 thousand, respectively.

Various accounts payable mainly comprise obligations payable arising from a court decision against the Bank for S/. 34,211 thousand and transactions made through ATMs of other banks and premises affiliated to VISA, pending confirmation for S/. 3,086 thousand and S/. 5,818 thousand, respectively.

(15) Provisions

It comprises of the following:

	In thousands of S/.	
	2011	2010
Provisions for contingent loans:		
Generic	7,040	13,958
Specific	-	819
	7,040	14,777
Other provisions:		
Provision for litigations and claims	97,637	92,218
Self-insurance reserve fund	3,127	2,921
Loan contingencies	3,375	3,386
Claims fund	2,739	3,059
Provision for country risk	73	418
Other	5,392	5,618
	112,343	107,620
	119,383	122,397

The provision for litigations and claims includes provisions for labor and pension claims as well as civil and arbitration proceedings filed against the Bank, in the amount of S/. 63,781 thousand and S/. 33,856 thousand, respectively (S/. 54,760 thousand and S/. 37,458 thousand, respectively as of December 31, 2010).

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

(16) Other Liabilities

It comprises of the following:

	In thousands of S/.	
	2011	2010
Transactions in progress	130,744	106,482
Agencies and branches in province	2,247	1,826
Cash Distribution	1,946	1,900
Deferred income from interest on repossessed goods and commissions from contingent operations	1,845	1,845
	136,782	112,053

Transactions in progress are those carried out during the last days of the month and are reclassified in the following month to their definitive respective accounts in the balance sheet. As of December 31, 2011 and 2010, these mainly included pending transfers to the State implementing units through the BCRP for S/. 109,681 thousand and S/. 46,960 thousand respectively.

(17) Equity

(a) Share Capital
The Bank's authorized capital amounts to S/. 1,000,000 thousand, fully subscribed and paid in by the Peruvian Government, pursuant to article 5 of the Bank's bylaws. No shares or securities are issued for the Bank's share capital.

(b) Legal Reserve
Under the Banking Act, banks shall reach a legal reserve of not less than 35% of its share capital. The reserve is made up through the annual transfer of at least 10% of net profits. Legal reserve as of December 31, 2011 and 2010, amounts to S/. 350,000 thousand, minimum amount required by the Banking Act.

(c) Retained Earnings
In conformity with article 40 of the Bank's bylaws, 50% of the net profit is used to cover the Bank's authorized capital, and the other 50% is for the Public Treasury. Once the authorized capital is covered, all of the net profit will go to the Treasury. As of December 31, 2011 and 2010, the Bank's authorized capital is 100% covered.

At Board of Directors meeting Nº 1848 held on March 24, 2011, the Board approved the distribution of the Bank's 2010 net profits to the Public Treasury. The amount distributed corresponded to 2010 net profits amounting to S/. 381,853 thousand less equity adjustments for S/. 9,857 thousand, consequently the amount of S/. 371,996 thousand was distributed in favor of Public Treasury as follows: S/. 60,000 thousand for the annual amortization of the Supreme Decree Nº 002-2007-EF Bond (note 1 and 6d) and remaining balances of S/. 311,996 thousand deposited in the checking account of the Public Treasury.

In 2010, Ministerial Resolution Nº 146-2010-EF/75 authorized to amortize the Supreme Decree Nº 002-2007-EF bond (note 1) for up to an amount equivalent to the whole net profits generated during 2009, which amounted to S/. 311,996 thousand, charged to its own resources.

(d) Regulatory Net Worth
As of December 31, 2011, the Bank's regulatory net worth determined as per current legal rules amounts to approximately S/. 1,389,703 thousand (S/. 1,384,766 thousand as of December 31, 2010). This figure is used to calculate certain legal limits and restrictions according to the Banking Act, applicable to the Bank's operations in Peru and is determined as follows:

	In thousands of S/.	
	2011	2010
Tier - 1 regulatory net worth		
Paid-in capital	1,000,000	1,000,000
Legal reserve	350,000	350,000
Donations	677	677
Other deductions	(9,728)	(11,622)
	1,340,949	1,339,055
Tier 2 regulatory net worth		
Generic provision for loans	58,482	57,333
Other deductions	(9,728)	(11,622)
	48,754	45,711
Net regulatory worth	1,389,703	1,384,766

As of December 31, 2011, according to legislation applicable to financial institutions, the assets and contingent loans weighted by credit risk determined by the Bank amounted to S/. 4,624,262 thousand (S/. 4,514,927 thousand as of December 31, 2010).

According to the Banking Act, the regulatory net worth shall be equal to or higher than 10% of total risk weighted asset and contingent credits corresponding to the sum of: (i) net worth requirement for market risk multiplied by 10, (ii) net worth requirement for operational risk multiplied by 10, and iii) risk weighted asset and contingent credits. Such calculation shall include all exposure or asset in local or foreign currencies. The 10% requirement mentioned above was implemented in July 2011, according to Legislative Decree Nº 1028. As of December 31, 2011, the Bank's regulatory net worth represents 23.05% of the minimum capital requirements for market, operational and credit risk (24.26%, as of December 31, 2010).

On April 2, 2010, the SBS enacted Resolution Nº 2115-2009 approving the rules for the Net Worth Requirement of Operational Risk, which was effective July 1, 2009. On this respect, we should mention that as of the date of this report, the Bank has applied the base-indicator method for the calculation of the equity net worth for operational risk.

On July 20, 2011, the SBS enacted Resolution Nº 8425-2011 approving the Regulations on Additional Regulatory Net Worth Requirement indicating that net worth shall be equal to the sum total of regulatory net worth requirements, calculated per each of the following components: i) economic cycle, ii) concentration risk, iii) market risk concentration, iv) interest rate risk in banking records, and v) other risks. Financial entities have a five-year term starting from the effective date of this regulation to conform all of its regulatory net worth to the level.

(18) Contingencies

As of December 31, 2011, the Bank has various pending proceedings for claims and appeals related to its developed activities and in opinion of the Management, no significant liabilities, additional to those already recorded by the Bank, will arise (note 15).

(19) Contingent and Memorandum Accounts

They comprise the following:

	In thousands of S/.	
	2011	2010
Contingent operations:		
Indirect loans (a):		
Granted letters of guarantee	134,002	231,653
Letters of credit	537,341	1,146,079
	671,343	1,377,732
Unused credit lines and approved loans that were not disbursed	1,351,735	1,812,303
Litigations, pending claims, and other contingencies	355	1,211
	2,023,433	3,191,246
Memorandum accounts:		
Interest on loans and income-in-suspense (b)	53,595,797	34,005,741
Write-off of bad debts	3,895,640	3,910,461
Own securities under collection	3,120,683	2,919,020
Collateral received for loan operations	1,226,284	1,337,989
Payment approval - Public Treasury	1,179,530	1,188,580
Guarantees Supreme Government foreign debt (c)	1,097,507	1,166,090
Portfolio, guarantees and credit transfer MEF/Banco latino	850,128	1,033,297
Payment schedule - Ministry of the Presidency	352	12,669
Loans on behalf of third party	51,820	8,026
Guarantees received for services	63,603	68,392
D.U. 065-2002 immobilized savings	55,475	55,501
Supreme Government liabilities for foreign debt	-	3,539
Own goods and securities in custody	12,551	12,845
Consignments received	743	567
Other debit memorandum accounts	820,603	718,017
Other credit memorandum accounts	1,882,459	1,820,925
	67,853,175	48,261,659
Trust and commissions of a trustee (d)	1,458,748	1,475,289
	71,335,356	52,928,194

(a) In the normal course of its operations, the Bank performs contingent operations that expose it to additional credit risk beyond the amount recognized in the balance sheet. The credit risk in contingent operation is defined as the possibility of a loss occurring as a result of the failure of one of the parties in contingent operations to comply with the terms of the agreement.

The loans loss risk of the Bank through letters of credit is represented by the amounts stipulated in these instrument agreements. Bearing in mind that the majority of contingent operations shall expire without being drawn on by the Bank, they do not necessarily represent future cash outflows.

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

(b) Interest on loans and income-in-suspense comprises interest and commissions generated principally from overdue and loans in legal collection.

(c) The Supreme Government guarantees and liabilities for foreign debt record the operations in which the Bank participates as financial agent of the Government for the implementation of loans agreed between the country and other countries, mainly through bilateral refinancing agreements and the Paris Club, as well as financial entities and suppliers in virtue of corresponding legal provisions.

(d) The Bank manages, as Trustor, the following equity trusts:

	In thousands of S/. 2011	In thousands of S/. 2010
Equity trust fund Nº 036-2000 and RM 099-2000-EF/10	597,552	703,513
MINDES – FONCODES-BN Trust	172,497	163,912
Cajamarca Regional Government - Drinking Water and Sewerage	143,763	162,090
Loreto Regional Government– Banco de la Nación	126,170	86,173
D.U. Nº 034-99 Fiduciary Trust	67,726	99,993
EPS SEDAPAR-BN Trust	61,474	-
Arequipa Regional Government – Majes II	54,819	-
Loreto Regional Government – PAFE III	47,931	27,615
EMPSSAPAL Trust	44,564	42,259
Cajamarca Regional Government – PAFE III	43,853	88,851
RM-307-2006-EF/75 Trust	37,997	14,039
Armed Forces Fund	25,453	45,815
MML-IBRD-IDB Urban Transport	12,337	15,828
Ministry of Energy and Mines - UGP FONER CF	12,267	17,347
SEDACUSCO – BN	8,415	4,606
EPS SED ALORETO-BN trust	1,278	2,832
Cuzco Regional Government - Plan Meriss trust	428	416
EPSEL S.A. Trust	224	-
	1,458,748	1,475,289

Assets held in trust are not included in the Bank’s financial statements. However, the Bank is responsible for the appropriate management of such trusts up to the limits established by corresponding law and contracts.

(20) Interest Income

It comprises of the following:

	In thousands of S/. 2011	In thousands of S/. 2010
Interest and commissions on direct credits	489,819	400,472
Interest on cash and due from banks	306,502	178,968
Income from trading and held-to-maturity investments	181,290	219,261
Exchange difference from various operations	91,731	100,821
Trading of securities	20,527	20,235
Other finance income	1,144	2,686
Interest and commissions on interbank funds	234	140
	1,091,247	922,583

Increase in interest on cash and due from banks corresponds to the higher return on the cash and due from banks funds that the Bank holds at BCRP due to the increase in the remunerative rate. Therefore, while in 2011, the rate ranged from 3.24% to 3.50%, in 2010 it ranged from 1.25% to 3.00%.

(21) Interest Expenses

It comprises of the following:

	In thousands of S/.	
	2011	2010
Interest and commissions on deposits and obligations	51,419	44,263
Loss on valuation of trading and held-to-maturity investments	20,130	24,217
Trading of securities	6,770	22,350
Other interest expenses	714	2,772
	79,033	93,602

(22) Income from Finance Services

It comprises of the following:

	In thousands of S/.	
	2011	2010
Income from cash desk services	296,752	255,889
Revenues from transfers services	81,521	80,270
Revenue from tax collection services	37,637	34,685
Commissions on insurance sales	21,854	6,384
Commissions on credit and debit cards use	21,591	17,006
Services for shared premises	13,120	12,811
Revenues from contingent operations	4,407	4,775
Other	78,643	70,535
	555,525	482,355

Income from cash desk services correspond mainly to commissions for management of funds collected by the Bank for the General Treasury Directorate for S/. 240,639 thousand, Multired ATMs for S/. 33,858 thousand and correspondent services for S/. 18,930 thousand (S/. 205,113 thousand, S/. 33,858 thousand and S/. 14,887 thousand, respectively, for year 2010).

The other revenues from finance services correspond mainly to commission on cheques received from other banks, commissions for issuance of new debit cards, commissions for services to ONP, commission for services to social programs, commissions for interbank transfers, other commissions on checking accounts and savings accounts, among others for S/. 56,265 thousand (S/. 46,579 thousand in 2010).

(23) Administrative Expenses

They comprise the following:

	In thousands of S/. 2011	2010
Personnel and Board expenses	650,142	450,804
Third party services expenses	192,398	209,815
Taxes	37,115	46,809
	879,655	707,428

In 2011, personnel and Board expenses principally include the remuneration of personnel amounting to S/. 319,908 thousand, and the retirement pension provision amounting to S/. 186,278 thousand (S/. 302,718 thousand and S/. 76,544 thousand, respectively in 2010).

In 2011, third party service expenses principally comprise the insurance amounting to S/. 21,750 thousand, police forces amounting to S/. 21,544 thousand, communications amounting to S/. 20,756 thousand, service tenants for S/. 20,158 thousand, repairing and maintenance for S/. 16,834 thousand, leases for S/. 13,291 thousands, and the workers' fund for the health care program - PAM amounting to S/. 13,129 thousand. In 2011, expenses for the transportation and the supply funds to Multired's ATMs for S/. 34,594 thousand and S/. 8,507 thousand, respectively were recorded within the expenses for finance services item; consequently, for comparative purposes, the 2010 expenses for such concepts amounting to S/. 45,202 thousand were reclassified to income from finance services.

In 2010, third party service expenses principally comprise the insurance amounting to S/. 22,134 thousand, police forces amounting to S/. 19,428 thousand, communications amounting to S/. 22,525 thousand, service tenants for S/. 22,629 thousand, repairing and maintenance for S/. 21,773 thousand, leases for S/.16,162 thousand and the workers' fund for the health care program - PAM amounting to S/. 12,577 thousand.

(24) Asset and Provision Valuation

It comprises of the following:

	In thousands of S/. 2011	2010
Provision for litigations and claims	43,153	16,367
Depreciation and deterioration of property, furniture and equipment	36,438	48,516
Provision for loan losses	10,658	6,266
Amortization of intangible assets	9,302	10,394
Provision for contingent loans	781	7,264
Other	252	67
	100,584	88,874

Provisions for litigations and claims comprise provisions for labor proceedings amounting to S/. 28,941 thousand and for civil trials amounting to S/. 14,212 thousand (provisions for labor proceedings amounting to S/. 15,307 thousand and for civil trials amounting to S/. 1,060 thousand in 2010).

(25) Other Income and Expenses, Net

It comprises of the following:

	In thousands of S/.	
	2011	2010
Other income:		
Various income	42,491	62,878
Other extraordinary income	6,051	6,329
Net income from credit recovery	-	3
	48,542	69,210
Other expenses:		
Extraordinary expenses	(23,132)	(4,137)
Various expenses	(285)	(23,188)
Net expenses from credit recovery	(1)	-
	(23,418)	(27,325)
Other income, net	25,124	41,885

In 2011, the various income item mainly comprise the recovery of provisions for accounts receivable amounting to S/. 12,379 thousand, in conformity with Law Nº 29608, *Law of Accounting Restructuring* (note 2.e) and the recovery of the provisions for contingent loans for S/. 6,236 thousand (in 2010, it comprises mainly the recovery of provision for vacations amounting to S/. 15,921 thousand and recovery of provision for contingent loans for S/. 3,294 thousand).

Extraordinary expenses mainly comprise the written-off accounts receivable amounting to S/. 12,440 thousand, in conformity with Law Nº 29608 *Law of Accounting Restructuring* (note 2(e)).

(26) Workers' Profit Sharing

The Bank's workers are entitle to a profit sharing plan to be computed on 5% of annual taxable income.

In 2011, the Bank determined that the legal workers' profit sharing amounted to S/. 14,687 thousand (S/. 18,901 thousand in 2010) and is recorded as personnel charges (note 23).

(27) Tax Matters

(a) Fiscal years 2006 through 2011, inclusive, are open to review of Peruvian tax authorities. In 2011, the Bank has presented to tax authorities an application for the refund of the income tax determined for fiscal period 2006. Any major expenses exceeding the provisions made to cover the tax obligations will be charged to the results of the year in which those expenses are finally settled. The Bank's management and tax advisors consider that no significant liabilities affecting the financial statements as of December 31, 2011 will arise as a result of such review.

In accordance with current tax legislation, corporate income tax for 2011 and 2010 is calculated on the basis of the net taxable profit at a rate of 30%.

Bank's income tax for the period ended December 31, 2011 amounts to S/. 83,714 thousand (S/. 107,738 thousand as of December 31, 2010).

Calculation:	In thousands of S/.	
	2011	2010
Profit before income tax	559,630	482,748
Plus:		
Non-tax deductible	311,707	323,387
Less:		
Exempted income and taxed income from previous years	(592,290)	(447,008)
Taxable income	279,047	359,127
Current income tax	83,714	107,738

(b) In 2005, a new tax named Temporary Tax on Net Assets (ITAN, for its Spanish acronym) was established. The taxable base is the prior period adjusted net asset value less depreciations, amortizations, legal cash reserve, and specific provisions for credit risk. Tax rate is 0.4% for 2011 and 2010 and is applied over net assets exceeding S/. 1,000 thousand. It may be paid in cash or in nine consecutive monthly installments. The paid amount can be used as a credit for partial payments of income tax general regime for the taxable periods from March to December of the fiscal period in which the tax was paid until maturity date of each of the partial payment, and against the payment for regularization of income tax of the corresponding taxable period. The Bank has determined that temporary tax on net assets amounts to S/. 85,613 thousand in 2011 (S/. 81,444 thousand in 2010).

Tax refund can be requested only in the cases where it can be demonstrated that tax loss has been incurred or where a lower payment of income tax has been determined based on general regime norms.

(c) Technical assistance provided by non-domiciled legal entities will be subject to a 15% withholding income tax, regardless of the location the service was rendered.

(d) As of December 31, 2010 and until March 31, 2011, the tax rate on financial transactions was 0.05%. Effective April 1, 2011, the rate changed to 0.005%. Tax is applied on charges and debits in bank accounts or movements of funds made through the financial system, unless accounts are tax-exempt.

(c) Reconciliation of income tax effective rate to the tax rate is as follows:

	2011		2010	
	In thousands of S/.	%	In thousands of S/.	%
Profit before income tax	559,630	100.00	488,748	100.00
Income tax calculated as at current rate	167,889	30.00	146,624	30.00
Tax effect on additions and deductions for permanent differences	(94,974)	(16.97)	(45,729)	(9.36)
Current and deferred income tax recorded as at effective rate	72,915	13.03	100,895	20.64

(d) Income tax expense comprises:

	In thousands of S/.	
	2011	2010
Current	83,714	107,738
Deferred (note 10)	(10,799)	(6,843)
	72,915	100,895

(28) Fair Value of Financial Instruments

Fair value is the amount for which an asset could be exchanged between knowledgeable willing parties, or a liability settled between a debtor and a creditor in an arm's length transaction. Fair value is not the amount that the Bank may receive or pay in a forced transaction, in an involuntary settlement, or in a sale in the case of financial difficulties.

The following information provides a disclosure of the fair value of the financial instruments owned by the Bank, and required by accounting principles. Various limitations are inherent in the fair value presentation, including the following:

- The data excludes non-financial assets and liabilities, such as property, furniture and equipment, and other assets and liabilities.

- Due to the fact that the data represents management's best estimates, significant estimates regarding current economic and characteristics of market risk are required.

The methods and estimates used by the Bank to estimate the fair value of financial instruments include the following:

- Cash and due from banks represent cash and short-term deposits that are not considered to be a significant credit risk. Therefore, their carrying amount is close to fair value.

- Fair value of available-for-sale investment is close to carrying amount since they are valued at market value. Held-to-maturity investments that do not have a market value due to their non-negotiable condition are recorded at amortized cost.

- The carrying amount of loans is affected by the recording of generic and specific provisions. The Bank has not determined the market value of such credits and considers that the net carrying amount of loans is lower that their corresponding market value, and assumes a conservative position.

- Financial obligations accrue interest at variable and preferred rates taking into consideration that carrying amounts are similar to their corresponding market values.

- The Bank conducts various contingent operations, as granting guarantees, standby letters, letters of credit and other. These operations expose the Bank to credit risks additional to the figures recognized in the financial statements. Based on the level of commissions collected for the conduction of these operations and considering the maturity and interest rates as well as the solvency of the counter parties of these operations, the value is not material. Due to the uncertainty to determine the likelihood and the timing in which those guarantees can become demandable, and due to the fact that there is not real market to trade them, it is not feasible for the Bank to determine the fair value of the guarantees granted.

(29) Financial Risk Management

The Bank is exposed to a variety of financial risks that include effects of foreign exchange fluctuations, interest rates, credit concentration, and liquidity requirements. Based on the Bank's policies, its knowledge of the market and experience in the sector, management has established policies for the control of risks that cover credit, liquidity, interest and currency risks, in order to minimize potential adverse effects in its financial behavior.

a) Credit Risk

As part of its financial intermediation activities the Bank grants loans to its customers, in particular Public Sector Workers and Pensioners, as well as Local and Regional Governments, financial intermediation institutions (agricultural and municipal credit unions and SME development entities), and public sector agencies. The largest concentration of loans goes to Public Sector Workers and Pensioners, representing approximately 49% of direct loans and indirect loans, which amounts to approximately S/. 2,812,769 thousand.

Credit risk is controlled at the Bank mainly through the assessment and analysis of individual transactions. In 2011, the main component of the loan portfolio was consumer loans to Public Sector Workers and Pensioners, which represents a lower risk because the remunerations of these borrowers are deposited in the Bank. An analysis of the portfolio is provided in note 7. Information on the deposits and other liabilities appears in note 12.

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

b) Liquidity Risk

Liquidity risk implies keeping or developing a balance structure both in the assets portfolio and in the liabilities portfolio, in order to keep a variety of financing sources and staggered maturity dates between assets and liabilities. The Bank controls its liquidity by balancing asset and liability maturities.

c) Interest Rate Risk

The Bank is exposed to movements of interest rates when a change in the market interest rate results in a change in the Bank's interest expense, but no similar change occurs in the interest income as compensation. The Bank manages the interest rate risk through monthly measurements of interest rate risk exposure to determine gains on risk and equity exposure on risk according to the SBS requirements and risk valuation methodologies.

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

d) Exchange Risk

Exchange risk is the risk of financial loss to the Bank due to adverse fluctuation in the value of financial assets and liabilities arising from variations in exchange rates. The risk magnitude depends on the imbalance of the Bank´s assets and liabilities in foreign currency and on the exchange rate of the underlying contract of the foreign currency transactions pending as of the closing.

The Bank carries out transactions in foreign currency mainly in U.S. dollars related to financing activities mostly; therefore it is exposed to exchange rate fluctuation risk. Net assets exposed to exchange rate fluctuation risk are disclosed in note 4.