BANCO DE LA NACIÓN

Financial Statements

As of December 31, 2010 and 2009

(including Independent Auditors' Report)

(TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH)

BANCO DE LA NACIÓN

Financial Statements
As of December 31, 2010 and 2009

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(TRANSLATION OF A REPORT ORIGINALLY ISSUED IN SPANISH)

INDEPENDENT AUDITORS' REPORT

The 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, 2010, and the related statements of income, changes in equity and cash flows for the year then ended, and the summary of significant accounting policies and other explanatory notes. The financial statements of Banco de la Nación as of December 31, 2009 were examined by other independent auditors, whose report dated March 12, 2010, expressed an unqualified opinion on those statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with accounting standards established for financial institutions in Peru by the 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 financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. The audit also includes evaluating the appropriateness of accounting 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, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting standards established for financial institutions in Peru by the SBS, as discussed in notes 2 and 3 to the financial statements.

March 11, 2011

Caipo y Asociados

Countersigned by

____________________________ (Partner)

Eduardo Alejos P.
Peruvian Certified Public Accountant
Registration 29180

BANCO DE LA NACIÓN

Balance Sheet

As of December 31, 2010 and 2009

(Stated in thousands of nuevos soles)

Assets	2010	2009
Cash and cash equivalents (note 5):		
Cash	621,607	614,750
Peruvian Central Reserve Bank	11,822,697	9,524,110
Banks and other entities of the financial system in the country	11,715	13,735
Banks and other entities of the financial system abroad	168,467	134,631
Clearing	76,166	57,205
Accrued income on cash on hand and other cash on hand	24,686	9,592
	12,725,338	10,354,023
Interbank funds (note 6)	-	260,100
Trading, available for sale and held-to-maturity investments (note 7)	3,150,197	5,440,589
Loan portfolio, net (note 8)	4,238,870	3,168,984
Accounts receivable, net (note 9)	303,272	337,726
Property, furniture, and equipment, net (note 10)	305,331	312,381
Deferred income tax and profit sharing (note 11)	91,432	79,305
Other assets (note 12)	350,477	245,468
Total assets	21,164,917	20,198,576
Contingent and memorandum accounts (note 20)		
Contingent receivable	3,191,246	1,957,003
Debit memorandum accounts	48,261,659	60,569,241
Receivable trust and commissions of a trustee	1,475,289	2,303,397
	52,928,194	64,829,641

Liabilities and Equity	2010	2009
Obligations (note 13)	18,737,196	17,780,233
Deposits in financial system enterprises and international financial entities (note 14)	376,082	370,618
Accounts payable (note 15)	91,512	117,805
Provisions (note 16)	122,397	138,064
Other liabilities (note 17)	112,053	100,861
Total liabilities	19,439,240	18,507,581
Equity (note 18):		
Share capital	1,000,000	1,000,000
Additional capital	677	677
Legal reserve	350,000	350,000
Unrealized Results	(6,853)	817
Retained earnings	381,853	339,501
Total equity	1,725,677	1,690,995
Contingencies (note 19)		
Total liabilities and equity	21,164,917	20,198,576
Contingent and memorandum accounts (note 20)		
Contingent payable	3,191,246	1,957,003
Contra memorandum accounts	48,261,659	60,569,241
Payable trust and commissions of a trustee	1,475,289	2,303,397
	52,928,194	64,829,641

See the accompanying notes to the financial statements.

BANCO DE LA NACIÓN

Income Statement

For the years ended December 31, 2010 and 2009

(Stated in thousands of nuevos soles)

	2010	2009
Interest income (note 21)	922,583	1,022,053
Interest expenses (note 22)	(93,602)	(141,291)
Gross financial margin	828,981	880,762
Provisions for loan losses, net	(20,673)	(8,198)
Net financial margin	808,308	872,564
Income from financial services (note 23)	482,355	405,325
Expenses on financial services	(8,296)	(5,362)
Operating margin	1,282,367	1,272,527
Administrative expenses (note 24)	(734,930)	(817,571)
Net operating margin	547,437	454,956
Valuation of assets and provisions (note 25)	(88,874)	(71,014)
Operating results	458,563	383,942
Other income and expenses, net (note 26)	41,885	65,986
Results before workers' profit sharing and income tax	500,448	449,928
Deferred workers' sharing (note 11)	1,201	(2,659)
Workers' profit sharing (note 27)	(18,901)	(13,823)
Deferred income tax (note 11)	6,843	(15,155)
Income tax (note 28)	(107,738)	(78,790)
Net income for the year	381,853	339,501

See the accompanying notes to the financial statements.

BANCO DE LA NACIÓN

Statement of Changes in Equity

For the years ended December 31, 2010 and 2009

(Stated in thousands of nuevos soles)

	Capital stock (note 18.a)	Additional capital	Legal reserve (note 18.b)	Unrealized results	Retained earnings (note 18.c)	Total equity
Balances as of January 1, 2009	1,000,000	677	350,000	(31,154)	416,539	1,736,062
Payment of profits to Public Treasury	-	-	-	-	(292,470)	(292,470)
Compensation of debt with Public Treasury	-	-	-	-	(125,344)	(125,344)
Adjustment of 2008 income tax	-	-	-	-	1,275	1,275
Unrealized results in available-for – sale investments	-	-	-	31,971	-	31,971
Net income for the year	-	-	-	-	339,501	339,501
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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 in available-for-sale investments	-	-	-	(7,670)	-	(7,670)
Net income for the year	-	-	-	-	381,853	381,853
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Balances as of December 31, 2010	1,000,000	677	350,000	(6,853)	381,853	1,725,677
	========	========	========	========	========	========

See the accompanying notes to the financial statements.

BANCO DE LA NACIÓN

Statement of Cash Flows

For the years ended December 31, 2010 and 2009

(Stated in thousands of nuevos soles)

	2010	2009
Cash flows from operating activities:		
Net income for the year	381,853	339,501
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	49,658	46,865
Provision for loan losses	32,700	14,951
Provision reversal	(7,885)	-
Provision for accounts receivable	6,266	1,586
Provision for liquid, received as payment, repossessed and no-longer-in-use assets	18	54
Provisions for contingencies and other	23,697	22,563
Deferred income tax and deferred workers' profit sharing	(8,044)	-
Impairment of fixed assets	9,252	-
Loss (gain) in sale of investment securities	2,115	(14,613)
Debits and credits due to net changes in assets and liabilities:		
Interest, commissions and other accounts receivable	85,982	(205,117)
Interest, commissions and other accounts payable	(30,566)	(31,820)
Other liabilities	(152,323)	(78,564)
Other assets	(4,348)	28,948
Cash and cash equivalents provided by operating activities	388,375	124,354
Cash flows from investing activities:		
Purchase of property, furniture, and equipment	(38,545)	(24,288)
Purchase of other non-financial assets	(6,641)	(9,908)
Cash and cash equivalent applied to investing activities	(45,186)	(34,196)
Cash flows from financing activities:		
Net increase in deposits and other obligations	1,079,661	1,156,793
Payment of profits to Public Treasury	-	(292,470)
Net increase (decrease) in other financial liabilities	7,108	(25,016)
Net increase in loan portfolio	(1,093,861)	(324,704)
Net decrease (increase) in investment securities	1,882,746	(1,947,787)
Decrease (increase) in interbank funds	260,100	(260,100)
Dividends received	730	780
Net (increase) decrease in other financial liabilities	(108,358)	71,751
Cash and cash equivalents provided by (applied to) financing activities	2,028,126	(1,620,753)
Net decrease in cash and cash equivalents	2,371,315	(1,530,595)
Cash and cash equivalents at the beginning of the year	10,354,023	11,884,618
Cash and cash equivalents at the end of the year	12,725,338	10,354,023

Non-cash flow generating transactions:
As of December 31, 2010, the compensation of the debt between Banco de la Nación and the Ministry of Economy and Finance of S/. 339,501 thousand has not been considered in the preparation of the statement of cash flow as of that date because they do not represent cash flows (S/. 125,344 thousand as of December 31, 2009).

See the accompanying notes to the financial statements.

(1) Incorporation and Objectives

Banco de la Nación (hereinafter the Bank) was incorporated by Law 16000 dated January 27, 1966, as a company under public law which belongs to the Economy and Finance Sector and operating with economic, financial and administrative autonomy in the performance of its functions. Subsequently, its Incorporation Act was updated through Legislative Decree 199 dated June 12, 1981. Since November 27, 1992, when issuing the Decree Law 25907, exclusive rights concerning functions and powers contained in section III of the Organic Law then in force, were left without effect.

The Bank is governed by its bylaws approved by Supreme Decree 07-94-EF dated January 26, 1994, amended by Emergency Decree 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 26702 (hereinafter the Bank 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 Treasury Department. 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 domestic 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 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 can be assigned by 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 484 agencies and offices located in the country (27 branches and 411 agencies and offices in 2009).

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

	2010	2009
Managers	26	24
Officers	906	882
Workers	3,077	3,027
	4,009	3,933

Agreement on Consolidation, Offsetting and Settlement of Obligations

Through Supreme Decree 002-2007-EF dated January 11, 2007, the Ministry of Economy and Finance (hereinafter MEF) repealed the Supreme Decree 210-2006-EF dated December 27, 2006, that stipulated among others, the reconciliation of other reciprocal obligations held by MEF and the Bank as of September 30, 2006, signing a settlement agreement on December 28, 2006.

Supreme Decree 002-2007-EF ratified the settlement agreement of reciprocal obligations between the MEF and the Bank dated December 28, 2006 and established that the compensation and total settlement of obligations of 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.

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 MEF in favor of the Bank for US$ 31,335 thousand and debts of the Bank in favor of MEF for US$ 72,414 thousand, establishing a net debt in favor of 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	
	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 002-2007-EF and refined by the Agreement on Consolidation, Compensation and Settlement of obligations signed between MEF and the Bank on March 26, 2007, the following conditions resulting from the compensation of reciprocal obligations between MEF and the Bank were specified:

a) 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 7); therefore, the debt in U.S dollars was converted at the selling exchange rate published by the SBS at closing of operations of January 2, 2007 for S/. 3.193 for US$ 1.

b) The bond was issued under the following characteristics:

- In nuevos soles
- Non negotiable
- Maturity at 30 years
- 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 60% of 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. Through Supreme Decree 081-2009-EF dated April 2, 2009 article 5 of Supreme Decree 002-2007-EF was modified, as a consequence, the minimum percentage of amortization of the bond was modified, from 60% to 30%.

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

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

Approval of the Financial Statements
Board of Directors' Meeting 1799, held on March 18, 2010, approved the financial statements for the year ended December 31, 2009. On January 18, 2011, management approved the financial statements as of December 31, 2010, which will be presented to Board of Directors for corresponding approval as indicated by Management. In management's opinion, the accompanying financial statements will be approved by the Board of Directors without any modifications.

(2) Basis for the Preparation of Financial Statements

(a) Statement of Compliance
The accompanying financial statements have been prepared based on the Bank's accounting book balances, and are presented in accordance with current legal provisions and accounting principles generally accepted in Peru applicable to financial entities, which comprise the accounting standards and practices authorized by the SBS and some provisions issued by the 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, 2010 and 2009 will be applied.

(b) Basis of Measurement
The financial statements have been prepared according to the historical cost principle except for available-for-sale investments which are measured at fair value and obligations for retirement pensions which are measured at present value.

(c) Presentation Currency
The financial statements are presented in nuevos soles (S/.) which is the Bank's functional and presentation currency. All the financial information is presented in nuevos soles (S/.) and has been rounded to the closest thousands of (S/. 000), except as otherwise indicated.

(d) Significant Accounting Estimates and Criteria

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. Accounting estimates may differ from respective actual results. 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 period.

The accounting estimates and criteria used by Management are continuously evaluated and are based on experience and other factors, including reasonable future assumptions on each of the circumstances. Final results of such estimates may differ from respective actual results.

The most significant accounting estimates related to the financial statements correspond to the impairment of loan portfolio and accounts receivable, valuation of investments, estimation of useful life, and recoverable value of property, furniture, and equipment and intangible assets, and retirement pensions, the accounting criteria for which is described in note 3 below.

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

(3) Significant Accounting Policies

The main accounting principles and practices applied to prepare the Bank's financial statements, which have been consistently applied with those of previous period, unless otherwise indicated, are the following:

(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 assets, liabilities, 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 are compensated when the Bank has the legal right to compensate them, and management has the intention of paying them on a net basis or negotiating the asset, and paying the liability simultaneously.

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

(b) Investments

As from March 2009, the recording and valuation of investments are made according to SBS Resolution 10639-2008 "Regulations for Classification and Valuation of Investments of Financial System Companies" that classify investments in 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 eliminating the permanent investment category. This standard was applied prospectively.

The criteria for the initial recognition and valuation of the Bank's investments according to SBS Resolution 10639-2008, are detailed as follows:

(i) Available-for-Sale Investment

The initial recording is made at fair value including transactions costs that will be directly attributable to the acquisition of such investments. They are subsequently measured at fair value, recognizing fluctuations in the equity under Unrealized Results unless there is a permanent impairment in its value. When the instrument is sold or realized, the gain or loss that was previously recognized in the equity, will be transferred and recorded in profit and loss for the period.

If the value for available-for-sale investments is deteriorated, the accumulated losses measured as the difference of the acquisition cost (net of the payment of principal and its amortization) and their current fair value, less any impairment of the asset previously recognized in the income statement is retired from the equity and recognized in the income statement. In the case of unquoted equity shares, impairment will be the difference between the carrying amount and the present value of future cash flows, discounted at current market rates for similar assets.

Gains or losses on exchange differences account related to capital share are recognized in equity, in the "Unrealized Results" while those related to debt instruments are recognized in the income statement.

Interest income is recognized on the available-for-sale investment using the effective interest rate, calculated over the expected useful life of the asset. Premiums and/or discounts originated on the investment purchase date are included in the calculation of its effective interest rates. Dividends are recognized in the income statement when the right to receive payment has been established.

(ii) Held-to-Maturity Investments

Comprise the representative securities of debt acquired by the Bank with the intention of holding them until maturity. They are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest method, less impairment losses. Likewise, these instruments have been classified in conformity with the requirements of article 7 of Resolution SBS 10639-2008.

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. The accumulated loss is measured as the difference between the asset acquisition cost (net of any reimbursements of the principal and amortization) and its current fair value, less any impairment loss of the asset previously recognized in the profit and loss.

Investment instruments held by the Bank can be subject to reclassification within the framework of article 15 of Resolution SBS 10639-2008, as follows:

(i) investment instrument at fair value with change through profit and loss cannot be reclassified except for (i) unquoted equity shares that lack reliable fair value estimations or (ii) when given in guarantee or transferred through a repurchase agreement.

(ii) Held-to-maturity investments cannot be reclassified except for as a result of a change in the financial capacity of the issuer. In this situation the investment shall be reclassified as Available-for-Sale Investments and shall be measured at fair value. The difference between its carrying amount and the fair value shall be recognized in accordance with the corresponding valuation criteria. This category change is subject to the restrictions described in article 17 of Resolution SBS 10639-2008.

(c) Loans 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.

By SBS official letter 4579-2003 dated February 25, 2003, the Bank is allowed to a special accounting treatment for the amount owed by the MEF in conformity with Supreme Decree 158-2002-EF, in the sense of recording as loans in force and not as refinanced. Recording this transaction as a refinanced loan will not reflect the actual management of the Bank since it was originated by applying the Supreme Decree in which the other party is the Central Government. Concerning the interest of this loan, the Bank recognizes revenues profit or loss based on income earned, taking into consideration that it is a refinanced loan.

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. The Bank applied Resolution SBS 808-2003 and its amendments until June 2010 and Resolution SBS 11356-2008 and amendments as from July 2010.

Provisions for direct loans are presented by deducting the balance from the corresponding asset, and provisions for indirect loans are presented in liabilities.

Type of Loan

In conformity with Resolution 11346-2008, loans are classified as: 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.

Rating Categories

Debtor rating categories established by the SBS are the following: Standard, Potential Problem, Substandard, Doubtful, or Loss. Loan rating of non-retailers loans portfolio (corporate, large, and small companies) mainly takes into account the payment capacity of the debtor, cash flow, level of compliance with obligations, rating designated by other companies in the financial system, financial position, and management quality. In the case of small-business loans and micro-business loans, consumer loans (revolving and non-revolving), and mortgage loans, the rating is based on the level of compliance with credit payments, which is reflected in the arrears and in their classification in other entities of the financial system.

Provision Requirements

According to current regulations, the Bank considers provisions for doubtful loans: generic and specific provisions. The generic provision is recorded in a preventive manner for standard risk direct and indirect loans, and additionally for the procyclical component when the SBS orders its application. The specific provision is recorded for direct loans and the exposure equivalent to credit risk of indirect loans for which a specific risk, higher than standard has been identified.

Until June 2010, total exposure of indirect loans was used to calculate the provision for loans, and as from July 2010, the calculation only considers an exposure equivalent to the credit risk, which is calculated by multiplying the different types of indirect loans by the credit conversion factor (CCF), as follows:

	Description	CCF (%)
i)	Confirmations of irrevocable letters of credit for up to a year, when the issuer 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 "(i) as well as banker´s acceptance, (ii) and confirmation of letter of credits not included in the subparagraph.	100
(iv)	Granted loans not disbursed and unused credit lines.	0
(v)	Other indirect loans not covered by the previous subparagraphs.	100

Provisions for loan portfolio are determined according to Resolution SBS 11356-2008.

(i) For loans classified under the "standard category" as of December 31, 2010, the following percentages are applied:

Risk category	Fixed rate	Procyclical component(*)
Corporate loans	0.70%	0.40%
Large-business loans	0.70%	0.45%
Medium-business loans	1.00%	0.30%
Small-business loans	1.00%	0.50%
Micro-business loans	1.00%	0.50%
Revolving consumer loans	1.00%	1.50%
Non-revolving consumer loans	1.00%	1.00%
Mortgage loans	0.70%	1.40%

(ii) For loans classified under the "standard" category as of December 31, 2009 the following percentages were applied:

Risk category	Fixed rate	Procyclical component (*)
Commercial	0.70%	0.45%
Micro-business	1.00%	0.50%
Mortgage loans	0.70%	0.40%
Consumer	1.00%	0.30 – 1.50%

(*) In case that the granted loan has preferred readily realizable collaterals, the procyclical component will be 0%, 0.25% and 0.30% depending on the type of loan.

(iii) For loans classified under the categories “potential problem”, “substandard”, “Doubtful” and “Loss”, as it concerns loans without collateral, preferred collateral loans, loans that have easily realizable preferred collaterals or loans that have preferred readily realizable collateral, as of December 31, 2010 and 2009, the following percentages are used:

Risk category	Without collateral	Preferred collateral	Easily realizable preferred collateral	Preferred readily realizable collateral
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 Bank records procyclical provisions for the loan portfolio under the standard category when the procyclical rule is currently applicable.

The SBS is entitled to decide on the application or discontinuance of the procyclical component depending on the behavior of the annual average percentage of the gross domestic product (GDP). By Circular SBS B-2193-2010, the SBS established the application of the procyclical rule as from the information as of September 2010.

The Bank is not able to generate profits for the reversal of procyclical provisions, they should be reallocated for the recording of obligatory specific provisions.

(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 10). Disbursements incurred after acquisition are only recognized 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. 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 finally operative. 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.

Depreciation is calculated by straight-line method based on the estimated useful life of assets, according to the following table:

	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. This loss, if any, is treated as a decrease in the 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.

The Bank assesses on the date of each balance sheet, if there is an indication that the previous year impairment loss does not exist anymore or has decreased. If such evidence exists, the reversal is recorded in the income statement.

(f) Workers' and Pensioners' Fringe Benefits

Workers' and pensioners' fringe benefits are composed of:

(i) Profit Sharing

The Bank recognizes a liability and an expense for workers' profit sharing in profits equivalent to 5% of taxable base determined according to the current tax legislation.

On January 21, 2011, through Official Letter 4049-2011-SBS, the SBS ordered the application of the new treatment in relation to workers' profit sharing. Such profit sharing shall be recorded according to IAS 19 *Employee Benefit*, recognizing it as a personnel expense and a liability corresponding to services rendered by the workers; consequently, the deferred workers' profit sharing shall be eliminated, since it will not be part of the calculation of the deferred income tax, in conformity with IAS 12 *Income Taxes*. This new treatment is effective as from January 2011, thus the accumulated balances of deferred assets and liabilities for workers` profit sharing as of December 31, 2010, will be reversed affecting the equity account of the retained earnings.

(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 on the total workers' indemnities, according to current legislation. The payments made, which are considered as definitive, are deposited in financial institutions selected by the workers. The computation is made for the amount that should have to be paid as at the balance sheet date and is recorded when accrued, and 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 include mainly pension fund obligations of the Pension System by Decree Law 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 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 043-2003-EF published on March 28, 2003, which states that State companies will be governed by Accounting Resolution 159-2003-EF/93.01 published on March 12, 2003, which approved the Chart of Accounts 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 001-2003-EF/93.10 of the Peruvian Board of Public Accountancy, 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 227-2009-Jefatura/ONP dated December 4, 2009. The value of the pension determined according to the acturial calculation is measured at present value of all future payments of pensions using a discount rate of 4.75% since financial instruments owned by the Bank assure profitability rates exceeding 4% for a long-term horizon.

(g) Current and Deferred Income Tax

Current income tax is determined based on the taxable income and recorded according to tax legislation applicable to the Bank (note 28).

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 applying 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 11).

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

Current and deferred workers' profit sharing is determined using the same criteria used to determine the current and deferred income tax, respectively. They are recorded according to legislation applicable to the Bank (notes 27 and 11).

(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 will be required to settle the obligation, and it is possible to reliably estimate its amount. Provisions are reviewed and adjusted in each period to reflect the best estimates as of the balance sheet date.

(ii) Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed in the notes 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 results of the period 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 in the opinion of Management there are reasonable doubts about the collectibility of the principal of a loan, the Bank suspends the recognition of interest in the income statement. The interest in suspense is recorded in memorandum accounts recognized as earned when collected. When management considers that the financial situation of the debtor has improved and that the doubt about the collectibility of the principal has dissipated, it reestablishes the accounting of the interest on an accrual basis.

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 recorded 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 on hand of the balance sheet as cash and cash equivalents. According to SBS standards, the statement of cash flows for banks is presented through the indirect method.

(k) Trustee Activities

Assets from trust operations where there is an engagement to return these assets 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 established by the SBS at the date of the transactions. 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) New International Accounting Pronouncements

As of December 31, 2010, in Peru, the CNC authorized current IASs 1 to 41, IFRSs 1 to 8, SICs 7 to 32, and all the pronouncements from 1 to 14 issued by the IFRS Interpretations Committee (IFRIC). Such an application is mandatory in the country, except for the financial entities if the SBS has issued specific accounting standards.

Resolution 044-2010-EF/94 issued by the CNC on August 23, 2010, made official the application in Peru, beginning January 1, 2011, of the 2009 version of IASs 1 to 41, IFRSs 1 to 8, IFRIC interpretations 1 to 19, and SIC interpretations 7 to 32, as well as the modifications of IASs 1, 27 and 34, IFRSs 1, 3 and 7, and IFRIC 13, as of May 2010 internationally issued and applied beginning January 1, 2009 except for the following standards:

- IFRS 9 *Financial Instruments*: this standard deals with the classification and measurement of financial assets. It is effective for periods beginning on or after January 1, 2013. Earlier application is permitted.
- IFRIC 18 *Transfers of Assets from Customers*: this standard is effective for transfers received on or after July 1, 2009.

However, since these standards only apply as a complement to the ones developed in SBS standards, these standards have no material effect in the preparation of the accompanying financial statements unless SBS adopts in a future through the modification of the Accounting Manual for Companies of the Financial System or the issuance of specific standards. The Bank has not estimated the effect on its financial statements if such standards were adopted by the SBS.

Concerning IAS 7 *Financial Instruments*: Information to be disclosed and IFRS 8 *Segment Reporting*, the SBS issued Resolution 914-2010 through which its effective date is extended without a defined term.

(4) Foreign Currency Balances

The balance sheet include balances of foreign currency transactions, mainly in U.S. dollars (US$), which are recorded at the exchange rate in S/. established by the SBS. As of December 31, 2010 and 2009, these rates were US$1 = S/. 2.809 and S/. 2.890, respectively.

Foreign currency transactions in the country and international trade transactions referred to the concepts authorized by Banco Central de Reserva del Perú - BCRP (Central Bank), are channeled through the foreign exchange market. As of December 31, 2010, the buy and sell exchange rates used were US$ 1 = S/. 2.808 and US$ 1= S/. 2.809, respectively (US$ 1= S/. 2.888 and US$ 1= S/. 2.891, buy and sell, respectively, as of December 31, 2009).

The net position in foreign currency as of December 31, 2010 and 2009 stated in thousands of US$ is summarized as follows:

	In thousands of US$	
	2010	2009
Assets:		
Cash on hand	619,111	367,223
Interbank funds	-	90,000
Trading, available-for-sale and held-to-maturity investments	136,352	214,846
Loan portfolio	60,836	78,658
Accounts receivable	96,811	100,020
Other assets	2,952	1,014
	916,062	851,761
Liabilities:		
Deposits and obligations	(803,745)	(719,811)
Deposits of financial system enterprises and international financial entities	(100,129)	(100,972)
Accounts payable	(269)	(5,818)
Other liabilities	(26,524)	(22,156)
	(930,667)	(848,757)
Net assets	14,605	3,004

As of December 31, 2010, the Bank has contingent operations in foreign currency amounting to approximately US$ 480,091 thousand, equivalent to S/. 1,348,575 thousand (US$ 359,771 thousand equivalent to S/. 1,039,738 thousand as of December 31, 2009).

(5) Cash and Cash Equivalents

They comprise the following:

	In thousands of S/. 2010	In thousands of S/. 2009
Cash		
Main office	291,654	301,766
Branches and agencies	202,896	205,775
Dependencies	103,885	97,517
Cash in transit	22,843	9,363
Gold and silver minted in bars	329	329
	621,607	614,750
Peruvian Central Reserve Bank		
Ordinary account	1,915,283	441,933
Special account	8,592,868	8,322,107
Overnight deposits	1,280,904	760,070
Time deposits	33,642	-
	11,822,697	9,524,110
Banks and other companies from the financial system in the country	11,715	13,735
Banks and other entities of the financial system overseas	168,467	134,631
Clearing	76,166	57,205
Other cash on hand	809	495
Accrued returns of cash on hand	23,877	9,097
	12,725,338	10,354,023

As of December 31, 2010, cash on hand includes US$ 89,033 thousand and S/. 2,309,876 thousand (US$ 53,560 thousand and S/. 839,672 thousand as of December 31, 2009), that are destined 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 BCRP and kept in the Bank's vault.

The legal cash reserve held at BCRP do not accrue interest except for the enforceable amount in foreign currency and local currency that exceeds the minimum legal cash reserve (as of December 31, 2009, only the excess of legal cash reserve in foreign currency generated interest). As of December 31, 2010, the excess of minimum legal cash reserve in foreign currency and local currency accrue an annual interest rate of 0.16% and 1.20%, respectively (0.14% in foreign currency as of December 31, 2009 as of December 31, 2009). In 2010, the Bank did not present excess of legal cash reserve in foreign currency held at BCRP.

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 2010, revenue from interest on cash and on hand amounts to S/. 178,968 thousand (S/. 320,673 thousand in 2009) and is included under the interest income item in the income statement (note 21).

(6) Interbank Funds

As of December 31, 2009, it comprises local interbank deposits held at Interbank and Banco Continental for US$ 40,000 thousand and US$ 50,000 thousand respectively that matured in January 2010 and generated interest at an annual effective rate of 0.35%.

(7) Available-for-Sale, and Held-to-Maturity Investments

They comprise the following:

	In thousands of S/.	
	2010	2009
Available-for-sale investments		
Securities and bonds issued by the Peruvian Government		
Sovereign bonds (a)	639,252	1,849,124
Global bonds (a)	152,792	256,945
Certificates of marketable deposits (b)	-	348,818
Accrued returns	11,613	31,006
	803,657	2,485,893
Securities and bonds issued by foreign governments		
Colombia global bonds- without investment level	-	17,176
Brazil global bonds- with investment level	21,184	35,490
Accrued returns	64	289
	21,248	52,955
Securities and bonds issued by other firms:		
Corporate bonds (c)	317,957	459,077
Financial lease bonds	11,010	14,166
Commercial papers	1,354	8,152
Securitized bonds	15,584	63,405
Certificates of marketable deposits	3,185	8,424
Shares	23,263	18,062
Accrued returns	2,957	4,844
	375,310	576,130
	1,200,215	3,114,978
Held-to-maturity investments		
Peru´s Public Treasury bonds		
S.D 002-2007 Bonds N° 002-2007 (d)	1,949,982	2,289,486
Accrued returns	-	36,125
	1,949,982	2,325,611
	3,150,197	5,440,589

(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, 2010, sovereign bonds generate returns at annual interest rates in domestic currency that range from 4.35% to 6.68% (between 3.10% and 6.36% as of December 31, 2009) and mature between 2015 and 2037. Likewise, global bonds at the end of the period show returns with an internal rate of return that range from 2.31% to 5.09% (between 1.42% and 6.03% in 2009) and mature between 2015 and 2037.

Through Supreme Decree 261-2009-EF dated November 20, 2009, the Peruvian Government approved the exchange of sovereign bonds maturing on August 10, 2011 for new sovereign bonds up to the amount of S/. 1,417,027 thousand. In November 2009, the Bank made the exchange of sovereign bonds maturing on August 10, 2011 held in investments with a face value of S/. 340,261 thousand for sovereign bonds maturing on August 12, 2026 with a face value of S/. 329,239 thousand generating a net loss of S/. 3,306 thousand.

In 2010, the management of the sovereign bond portfolio of the Bank was characterized by the sale trend encouraged by the improvement of prices as a result of the highest demand of such bonds by foreign investors and affiliates of foreign banks appealed by the best interest rates of the Peruvian market.

(b) BCRP certificates of deposit are bearer securities freely negotiable with current maturity; they were acquired through public bids of BCRP and marketed in the Peruvian secondary market. As of December 31, 2009, internal rates of return in domestic currency range from 1.25% to 7.30% being interest rates for each bid determined by the BCRP. In 2010, such position was settled.

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

(d) As of December 31, 2010, held-to-maturity investments comprise the Supreme Decree 002-2007 Bond issued by the MEF (note 1) for the compensation and consolidation of reciprocal debts between MEF and the Bank for S/. 1,949,982 thousand. Such bond accrues interest at an annual internal rate of return of 6.5329% is payable quarterly and is amortized on an annual basis with a 30 year maturity. In 2010, bonds generated interest for S/. 124,354 thousand (S/. 146,146 thousand in 2009), recognized in the revenues from trading and held-to-maturity investments item of the income statement.

Likewise, through Emergency Decree 081-2009-EF dated April 1, 2009, article 5 of Supreme Decree 002-2007 was modified; as a consequence the minimum percentage of amortization of the Bank was reduced from 60% to 30%. In that sense, the Board of Directors of the Bank approved through Board of Directors' meeting 1799 dated March 18, 2010, to distribute profits of period 2009, corresponding to the Public Treasury, 100% of net profits for S/. 339,501 thousand, that were totally applied in the annual amortization of the Supreme Decree 002-2007-EF Bond (note 1).

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

	In thousands of S/.		In %	
	2010	2009	2010	2009
Financial companies	236,350	339,179	63	59
Telephone companies	60,294	129,334	16	23
Power companies	41,245	72,141	11	13
Industrial companies	32,048	21,096	9	4
Other	2,416	9,536	1	1
Accrued returns	2,957	4,844	-	-
	375,310	576,130	100	100

As December 31, 2010 and 2009, the accrued return on available-for-sale, and held-to-maturity investments amounted to approximately S/. 219,261 thousand and S/. 267,342 thousand, respectively, and is included in the interest income item in the income statement (note 21).

Available-for-sale, and held-to-maturity investments as of December 31, 2010 and 2009 present the following maturities:

	In thousands of S/.	
	2010	2009
Up to 3 months	47,767	193,366
3 months to 1 year	62,502	466,274
1 to 3 years	216,280	602,212
3 to 5 years	785,528	502,400
Over 5 years	2,014,714	3,658,081
Without maturity (shares)	23,406	18,256
	3,150,197	5,440,589

(8) Loan Portfolio, Net

They comprise the following:

	In thousands of S/. 2010	%	2009	%
Direct loans				
Current	4,341,280	103	3,249,398	102
Refinanced	148	-	41	-
Overdue	16,580	-	18,598	1
Lawsuit loans	47,056	1	44,912	2
	4,405,064	104	3,312,949	105
Income from deferred interest on refinanced loans	(37)	-	(6)	-
Accrued interest of current loans	34,443	1	34,607	1
Provision for loans	(200,600)	(5)	(178,566)	(6)
Total direct loans, net	4,238,870	100	3,168,984	100
Indirect loans (note 20)	1,377,732		1,008,594	

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

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

	% 2010 Local currency	Foreign currency	2009 Local currency	Foreign currency
Overdrafts	7 - 16	12	7 – 15	10
Corporate loans	4 -10	8	3 – 9	6
Consumer loans	9 - 18	-	10 – 16	-
Mortgage loans	8 - 9	-	8 - 9	-

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

	2010						2009					
	Number of	In thousands of S/.					Number of	In thousands of S/.				
Risk rating	debtors	Direct	%	Indirect	%	Total	debtors	Direct	%	Indirect	%	Total
Standard	578,429	4,287,295	97	1,295,782	94	5,583,077	566,036	3,151,016	95	983,031	97	4,134,047
Potential problem	2,860	14,828	-	-	-	14,828	4,858	48,208	2	-	-	48,208
Substandard	5,612	13,014	-	-	-	13,014	7,076	15,477	-	-	-	15,477
Doubtful	22,011	28,506	1	81,950	6	110,456	20,086	36,814	1	25,563	3	62,377
Loss	6,294	61,421	2	-	-	61,421	4,859	61,434	-	-	-	61,434
	615,206	4,405,064	100	1,377,732	100	5,782,796	602,915	3,312,949	100	1,008,594	100	4,321,543

As of December 31, direct loans are distributed among the following economic sectors:

	In thousands of S/.			
	2010	%	2009	%
Commercial:				
Public administration and defense	1,119,349	25	428,389	13
Financial intermediation	459,529	11	398,713	12
Manufacturing industry	76,868	2	232,027	7
Transportation, warehousing and communications	1,745	-	1,750	-
Other community service activities	63,393	1	177,558	6
Consumer loans	2,654,970	60	2,063,562	62
Mortgage loans	21,279	1	2,683	-
Trade loans	6,097	-	6,284	-
Other	1,834	-	1,983	-
	4,405,064	100	3,312,949	100

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

	In thousands of S/.	
	2010	2009
Up to 1 month	199,637	203,261
1 month to 6 months	650,721	441,855
6 months to 1 year	649,184	623,100
Over 1 year	2,739,328	1,900,768
	4,238,870	3,168,984

Movement of the provision for direct loans was as follows:

	In thousands of S/.		
	Specific	Generic	Total
Balances as of January 1, 2009	83,695	89,436	173,131
Additions debited to results	8,895	6,056	14,951
Exchange difference	(2,866)	(115)	(2,981)
Recovery of provision	(678)	(5,513)	(6,191)
Write-off and transfers	(344)	-	(344)
Balances as of December 31, 2009	88,702	89,864	178,566
Additions debited to results	2,848	29,852	32,700
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

The generic provision comprises the following:

	In thousands of S/.	
	2010	2009
Procyclical provision	32,656	17,531
Provision for debt overhang risk of retail debtors	25,845	19,733
Discretionary provision	21,812	21,812
Other	37,765	30,788
	118,078	89,864

The SBS through official letter B-2193-2010, dated September 28, 2010, reestablished the application of the procyclical component rates of the provisions on direct and indirect loans of debtors rated as “Standard” (note 3c). In 2009, the procyclical component was applied by the SBS on periods between December 1, 2008 to August 31, 2009.

In management’s opinion, the loan provision, recorded as of December 31, 2010 and 2009, conforms to SBS regulations in force at those dates.

(9) Accounts Receivable, Net

They comprise the following:

	In thousands of S/. 2010	In thousands of S/. 2009
Accounts receivable from COFIDE – Equity trust	275,392	283,333
Other accounts receivable	54,897	78,738
	-------------	--------------
	330,289	362,071
Provision for doubtful accounts	(27,017)	(24,345)
	-------------	--------------
	303,272	337,726
	========	========

As of December 31, 2010, accounts receivable from COFIDE–Equity Trust correspond to funds transferred to the trust called Business Guarantee Fund – FOGEM, signed between the Bank as Trustee and Corporación Financiera de Desarrollo – COFIDE as Trustor, in virtue of Emergency Decree 024-2009 of February 19, 2009 and its Operative Regulation approved by Ministerial Resolution 159-2009-EF-15 dated March 24, 2009. The life of the agreement shall not exceed two years counted from the entry into force of the Operative Regulation. The Equity Trust was set up for an amount of up to S/. 300,000 thousand, which the Bank would transfer from its self-generated funds so this Trust managed by COFIDE, can guarantee loans that the entities of the National Financial System grant to micro and small productive, service and business companies, as well as to medium-size companies that are engaged in the production and/or services within the traditional export chains. At 2010 and 2009 year-ends, the amount transferred to FOGEM amounted to US$ 98,039 thousand (equivalent to S/. 275,392 thousand and S/. 283,333 thousand respectively).

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

	In thousands of S/. 2010	In thousands of S/. 2009
Balances as of January 1	24,345	23,653
Additions debited to results	6,266	1,586
Other, net	(3,594)	(894)
	--------------	--------------
Balances as of December 31	27,017	24,345
	========	========

(10) Properties, Furniture, and Equipment, Net

They comprise the following:

	In thousands of S/.					
	Balances as of 12.31.2009	Additions	Disposals	Transfers	Other changes	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 receivable	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 deterioration of properties comparing the net cost to respective market values. As a result of this review a provision for deterioration of property was recorded in the amount of S/. 9,252 thousand.

Banks in Peru cannot give as guarantee goods that are part of their property, furniture, and equipment, except for those acquired through finance lease operations.

(11) Deferred Income Tax and Profit Sharing

Under IAS 12 revised, the Bank applied the liability methodology for the determination of the deferred income tax and deferred workers' profit sharing as of December 31, 2010 and 2009.

The movement of the net asset due to deferred income tax and deferred workers' profit sharing and their originating items, is as follows:

	In thousands of S/.		
	Balances as of 12.31.2009	Additions (deductions)	Balances as of 12.31.2010
Temporary difference:			
Generic provision for loans	30,102	9,454	39,556
Provision for litigations and claims	37,087	(6,194)	30,893
Provision for vacations	5,088	769	5,857
Provision for generic contingencies	3,701	975	4,676
Property depreciation	-	2,104	2,104
Other	4,396	936	5,332
	80,374	8,044	88,418
Unrealized results	(1,069)	4,083	3,014
Total deferred asset	79,305	12,127	91,432

As of December 31, 2010 and 2009, the balance of net asset from deferred income tax and deferred workers' profit sharing comprises:

	In thousands of S/.	
	2010	2009
Deferred workers' profit sharing	13,646	11,896
Deferred income tax	77,786	67,409
	91,432	79,305

The credit (charge) to the results for deferred income tax and deferred workers' profit sharing in 2010 and 2009 comprises:

	In thousands of S/.	
	2010	2009
Deferred workers' profit sharing	1,201	(2,659)
Deferred income tax	6,843	(15,155)
	8,044	(17,814)

(12) Other Assets

They comprise the following:

	In thousands of S/. 2010	In thousands of S/. 2009
Transactions in progress (a)	105,963	36,659
Tax credit (b)	79,461	9,984
Payments on account of income tax (b)	70,895	121,664
Head office, branches and agencies	63,326	39,935
Intangible assets, net of accumulated amortization of S/. 19,333 thousand and S/. 22,722 thousand, respectively	21,223	24,627
Anticipated payments and deferred charges	8,601	11,647
Repossessed assets, net of provision of S/. 781 thousand and S/. 763 thousand, respectively	2	19
Various assets	1,006	933
	350,477	245,468

(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 results of the Bank. As of December 31, 2010, they included S/. 79,230 thousand corresponding to operations payable for debit outstanding accounts, which were transferred to their corresponding accounts in January 2011.

(b) The higher tax credit accumulated as of December 2010 is due to the reclassification of the 2009 income tax credit amounting to S/. 42,874 thousand and tax applicable to temporary tax on net assets corresponding to period 2010 amounting to S/. 26,604 thousand.

(13) Deposits and Obligations

They comprise the following:

	In thousands of S/. 2010	In thousands of S/. 2009
Demand deposits	10,893,154	10,157,076
Savings deposits	3,093,290	2,485,685
Time deposits	503,670	1,121,907
Other obligations	4,158,519	3,922,728
Expenses payable on obligations	88,563	92,837
	18,737,196	17,780,233

The annual effective interest rate established for saving and time deposits in force for 2010 was 0.15% to 1.30% in local currency (0.15% and 1.15% in year 2009) and from 0.09% to 0.40% in foreign currency (0.25% and 0.65% in 2009).

Demand deposits are composed as follows:

	In thousands of S/. 2010	2009
Deposits in checking account	10,736,923	10,025,771
Certified checks	6,717	4,276
Cashier`s draft	94,567	86,653
Transfers payable	53,693	39,106
Collections payable	83	53
Trust liabilities	1,171	1,217
	10,893,154	10,157,076

As of December 31, 2010, fifty-one percent of deposits in checking accounts mainly correspond to those made by Local Governments, MEF, COFIDE, Office of the President of the Council of Ministers, Regional Governments, and Ministry of Transport and Communications (56% as of December 31, 2009 by the same institutions).

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/. 3,969 thousand, S/. 441,550 thousand and S/. 58,151 thousand (S/. 4,027 thousand, S/. 1,062,678 thousand and S/. 55,202 thousand, respectively as of December 31, 2009).

The balance of other obligations comprises the following:

	In thousands of S/. 2010	2009
To tax collection agencies	226,099	173,284
Restricted deposits and obligations	1,748,301	1,452,366
Workers' and pensioners' fringe benefits	2,184,119	2,297,078
	4,158,519	3,922,728

Maturity

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

	In thousands of S/.	
	2010	2009
Up to 1 month	3,994,522	3,367,434
1 month to 6 months	5,211,146	4,156,806
6 months to 1 year	3,119,863	3,385,724
Over 1 year	6,411,665	6,870,269
	18,737,196	17,780,233

Workers' and pensioners' fringe benefits

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 20530 and comprise the following:

	In thousands of S/.	
	2010	2009
Law 4916 Labor Regime	3,318	3,099
D.L. 11377 Labor Regime	145	147
D.L. 20530 Retirement Pensions	2,180,656	2,293,832
	2,184,119	2,297,078

D.L. 20530 Retirement Pensions

Retirement pensions principally correspond to the present value of future pension payments to current and former Bank workers under Decree Law 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 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 20503 and amendments, not financed with Treasury funds. This decree amended Supreme Decree 106-2002-EF, by including the rules contained in Supreme Decree 026-2003-EF of February 27, 2003, in the actuarial calculation for pensions and, as applicable, those of Public Accounting Resolution 159-2003-EF/93.01 of March 6, 2003 and other provisions adopted by the Peruvian Board of Public Accountancy for the purposes of registration and control of pension obligations.

Under article 2 of Supreme Decree 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 movement for the retirement pension provision for pensioners and workers is as follows:

	In thousands of S/.	
	2010	2009
Balance at beginning of year	2,293,832	2,293,677
Increase debited to results (note 24)	76,554	205,857
Provisions, fractions and widows' and orphans` pension fund	4,284	3,472
Payment to pensioners	(194,014)	(209,174)
	--------------	--------------
Balance at end of year	2,180,656	2,293,832
	========	========

Liability for retirement pensions decreased compared to 2009, mainly due to a decrease in the number of pensioners from 6,495 as of December 31, 2009 to 6,348 pensioners as of December 31, 2010. Likewise, Banco de la Nación´s Pensioners Association (ANPEBAN) filed an administrative claim against the Bank related to an alleged right in favor of this Association (1,090 members) to the collection of bonuses established in Emergency Decrees 090-96, 073-97 and 011-99. As of December 31, 2010, the actuarial calculation of the retirement pensions does not include such provision. As of December 31, 2009, due to a jurisdictional decision, this claim was momentarily complied, and therefore corresponding provision was recorded. Later, in 2010, the jurisdictional body accepted the appeal filed by the Bank and the provision was suspended.

Actuarial Assumptions

Main actuarial assumptions as of the balance sheet date are:

	2010	2009
Discount rate as of December 31	4.75%	4.75%
Average life term	21 years	21 years
Active service period	1 year	2 years
Pensioners entitled to Christmas bonus	831	821
Pensioners entitled to other bonuses	5,274	5,429
Pensioners not entitled to bonuses	90	85
Serving workers entitled to Christmas bonus	153	160

According to the Bank's management, the discount rate of 4.75% 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 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 757-2006-EF/15 and included as exhibit in Ministerial Resolution 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 0.75% in the discount rate would have the following effects:

	In thousands of S/.	
	Increase of 0.75%	Decrease of 0.75%
Effect in the results of the year	(158,512)	158,512
	==========	==========

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

As of December 31, 2010, they include demand deposits for S/. 92,416 thousand and US$ 100,129 thousand and saving deposits for S/. 2,403 thousand (demand deposits for S/. 78,809 thousand and US$ 100,972 thousand as of December 31, 2009).

(15) Accounts Payable

They comprise the following:

	In thousands of S/. 2010	In thousands of S/. 2009
Suppliers	39,184	52,409
Remunerations and profit sharing payable	37,634	33,590
Various accounts payable	14,576	31,684
Other	118	122
	91,512	117,805

(16) Provisions

They comprise the following:

	In thousands of S/. 2010	In thousands of S/. 2009
Provisions for contingent loans:		
Generic	13,958	11,048
Specific	819	475
	14,777	11,523
Other provisions:		
Provision for litigations and claims (a)	92,218	110,711
Other provisions	5,618	5,780
Loan contingency (b)	3,386	3,471
Claims fund	3,059	3,252
Self-insurance reserve fund	2,921	1,890
Provision for country risk	418	1,437
	107,620	126,541
	122,397	138,064

(a) The provision for litigations and claims included provisions for labor and pension claims as well as civil and arbitration proceedings filed against the Bank, in the amount of S/. 54,760 thousand and S/. 37,458 thousand respectively (S/. 46,203 thousand and S/. 64,508 thousand, respectively as of December 31, 2009).

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

(17) Other liabilities

They comprise the following:

	In thousands of S/. 2010	2009
Transactions in progress	106,482	95,466
Cash over	1,900	1,675
Deferred income from interest on repossessed goods	1,845	1,845
Head office, branches and agencies	1,826	1,875
	112,053	100,861

Transactions in progress are those carried out during the last days of the month and are reclassified in the following month to their definitive accounts in the balance sheet. As of December 31, 2010 and 2009, these mainly included pending transfers to the State Implementing Units through the BCRP for S/. 46,960 thousand and S/. 70,270 thousand, respectively.

(18) 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 capital stock.

(b) Legal Reserve

Under the Bank Act, the Bank shall reach a legal reserve of not less than 35% of its paid-in capital. This reserve is made up through the annual transfer of at least 10% of net profits.

(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 goes to the Treasury.

At Meeting 1799 held on March 18, 2010, the Board of Directors approved the distribution of the Bank´s 2009 net profits to the Public Treasury.

By means of Ministerial Resolution 146-2010-EF/75, it was approved to amortize the Bond granted to the Bank, for up to an amount equal to all the net profits generated during 2009.

At meeting 1753 held on April 2, 2009, the Board of Directors approved the distribution of 2008 profits for the amount of S/. 417,814 thousand, only to the Public Treasury, as follows: 30% equivalent to S/. 125,344 thousand to amortize the Supreme Decree 002-2007-EF bond. The balance of 70% amounting to S/. 292,470 thousand to credit to the Public Treasury account, carried out on April 3, 2009.

(d) Regulatory Net Worth

As of December 31, 2010, the Bank's regulatory net worth determined as per current legal rules amounts to S/. 1,384,766 (S/. 1,385,887 as of December 31, 2009). This figure is used to calculate certain legal limits and restrictions according to the Bank Act, applicable to the Bank's operations in Peru and is determined as follows:

	In thousands of S/.	
	2010	2009
Level 1 regulatory net worth		
Paid-in capital	1,000,000	1,000,000
Legal and discretionary reserve	350,000	350,000
Donations	677	677
Other deductions	(11,622)	(9,021)
	1,339,055	1,341,656
Level 2 regulatory net worth		
Generic provision for loans	57,333	53,352
Other deductions	(11,622)	(9,021)
	45,711	44,331
	1,384,766	1,385,987

As of December 31, 2010, according to legislation applicable to financial institutions, the assets and contingent loans weighted by credit risk determined by the Bank amount to S/. 4,514,927 thousand (S/. 4,222,512 as of December 31, 2009).

In conformity with the Bank Act, regulatory net worth shall be equal to or higher than 9.8% of total risk weighted asset and contingent credits corresponding to the amount of: (i) the requirement of regulatory net worth per market risk multiplied by 10.2, (ii) the requirement of regulatory net worth per operational risk multiplied by 10.2, and iii) risk weighted asset and contingent credits. Such calculation shall include all exposure or asset in domestic or foreign currency. This ratio will be implemented in July 2011, as per percentages and dates established in the Act.

On April 2, 2009, by means of resolution 2115-2009 the SBS approved the rules for the Requirement of Net Worth Equity for Operational Risk, effective as from 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.

(19) Contingencies

As of December 31, 2010, the Bank has various pending proceedings for claims and appeals related to their developed activities and in opinion of the Management, no significant liabilities, additional to those already recorded by the Bank, will arise (note 16).

(20) Contingent and Memorandum Accounts

They comprise the following:

	In thousands of S/. 2010	In thousands of S/. 2009
Contingent operations:		
Indirect loans (a):		
Granted letters of guarantee	231,653	240,343
Letters of credit	1,146,079	768,251
	1,377,732	1,008,594
Unused credit lines and approved loans that were not disbursed	1,812,303	647,204
Litigations, pending claims, and other contingencies	1,211	301,205
	3,191,246	1,957,003
Memorandum accounts:		
Risk-weighted assets and loans rating (b)	-	25,785,722
Interest on loans and income-in-suspense (c)	34,005,741	21,161,411
Write-off of bad debts	3,910,461	3,924,994
Own securities under collection	2,919,020	2,491,114
Guarantees Supreme Government foreign debt	1,166,090	1,269,454
Collateral received for loan operations	1,337,989	935,166
Portfolio, guarantees and credit transfer MEF/Banco latino	1,033,297	946,972
Payment approval - Public Treasury	1,188,580	870,511
Payment schedule - Ministry of the Presidency	12,669	45,076
Loans on behalf of third party	8,026	12,693
Guarantees received for services	68,392	67,819
D-U 065-2002 immobilized savings	55,501	55,579
Supreme Government liabilities for foreign debt	3,539	11,538
Own goods and securities in custody	12,845	13,243
Consignments received	567	3,479
Other debit memorandum accounts	718,017	451,296
Other credit memorandum accounts	1,820,925	2,523,174
	48,261,659	60,569,241
Trusts (e)	1,475,289	2,303,397
	52,928,194	64,829,641

(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 are expected to expire without being drawn on, they do not necessarily represent future cash outflows.

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

(b) As established by SBS, as from July 2010, balances of risk weighted assets and contingent will not require to be reported in memorandum accounts.

(c) Interest on loans in income-in-suspense comprises interest and commissions generated principally from overdue and lawsuit loans.

(d) 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 Club de Paris, as well as financial entities and suppliers in virtue of corresponding legal provisions.

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

	In thousands of S/.	
	2010	2009
Equity trust fund 036-2000 and RM 099-2000-EF/10	703,513	819,910
MML-BIRF-BID Urban Transport	15,828	668,724
D.U. Fiduciary Trust 034-99	99,993	49,825
RM-307-2006-EF/75 Trust	14,039	262,675
MINDES – FONCODES-BN Trust	163,912	152,507
Cuzco Regional Government - Plan Meriss trust	416	50,408
EPS SED ALORETO-BN trust	2,832	5,469
Armed Forces Fund	45,815	47,639
EMPSSAPAL Trust	42,259	27,373
Loreto Regional Government– Banco de la Nación	86,173	50,804
Loreto Regional Government – PAFE III	27,615	4,576
Cajamarca Regional Government - Drinking Water and sewerage	162,090	57,131
Cajamarca Regional Government – PAFE III	88,851	103,848
SEDACUSCO – BN	4,606	688
Ministry of Energy and Mines - UGP FONER CF	17,347	1,820
	1,475,289	2,303,397

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.

The decrease is mainly due to a change in the policy for the treatment of fixed assets of the MML-BIRF-BID Urban Transport, thus resulting in a decrease in its assets.

(21) Interest Income

They comprise the following:

	In thousands of S/.	
	2010	2009
Interest and commissions on direct credits	400,472	332,794
Income from trading and held-to-maturity investments	219,261	267,342
Interest on cash on hand	178,968	320,673
Exchange difference from various operations	100,821	41,215
Trading of securities	20,235	42,124
Other financial income	2,686	14
Interest and commissions on interbank funds	140	247
Income from accounts receivable	-	953
Income from valuation of trading and held-to-maturity investments	-	16,691
	922,583	1,022,053

Decrease in interest on cash on hand corresponds to the lower return on the cash on hand that the Bank holds at BCRP due to the decrease in the reference rate. Therefore, while in 2009, the reference interest rate ranged from 6.50% to 1.25%, in 2010 it ranged from 1.25% to 3.00%.

(22) Interest Expenses

They comprise the following:

	In thousands of S/.	
	2010	2009
Interest and commissions on deposits and obligations	44,263	113,753
Loss on valuation of trading and held-to-maturity investments	24,217	-
Results from purchase trading of equity securities	22,350	27,511
Other interest expenses	2,772	27
	93,602	141,291

The decrease in interest and commissions on deposits and obligations is mainly due to the decrease in the Bank´s borrowing rate.

(23) Income from Financial Services

They comprise the following:

	In thousands of S/. 2010	In thousands of S/. 2009
Income from cash desk	255,889	201,640
Revenues from transfers services	80,270	56,560
Revenue from tax collection services	34,685	32,621
Credit and debit cards	17,006	12,956
Services for shared premises	12,811	10,215
Revenues from contingent operations	4,775	6,720
Other	76,919	84,613
	482,355	405,325

Income from cash desk correspond mainly to commissions for management of funds collected by the Bank for the General Treasury Directorate for S/. 205,113 thousand, Multired ATMs for S/. 32,093 thousand and correspondent services for S/. 14,887 thousand.

(24) Administrative Expenses

They comprise the following:

	In thousands of S/. 2010	In thousands of S/. 2009
Worker and board expenses	433,103	526,433
Expenses on third-party services	255,018	244,850
Taxes	46,809	46,288
	734,930	817,571

In 2010, worker and board expenses principally include the remuneration of personnel amounting to S/. 302,718 thousand, and the retirement pension provision amounting to S/. 76,544 thousand (S/. 308,829 thousand and S/. 205,857 thousand, respectively in 2009).

In 2010, third party service expenses in 2010 principally include the transfer of securities amounting to S/. 35,313 thousand, the employees` fund for the health care program - PAM amounting to S/. 12,577 and communications amounting to S/. 22,525 thousand (in 2009, transfer of securities amounting to S/. 30,617 thousand, the employees` fund for the health care program - PAM amounting to S/. 11,209 thousand and communications amounting to S/. 19,571 thousand).

(25) Asset and Provision Valuation

They comprise the following:

	In thousands of S/. 2010	In thousands of S/. 2009
Depreciation of deterioration of property, furniture and equipment	48,516	37,130
Provision for litigations and claims	16,367	11,667
Amortization of intangible assets	10,394	9,734
Provisions for contingent credits	7,264	10,896
Provision for loan losses	6,266	1,586
Other	67	1
	88,874	71,014

The increase in depreciation and deterioration of property, furniture and equipment is due to the fact that, in 2010, the Bank recorded a value deterioration for S/. 9,252 thousand (note 10).

(26) Other Income and Expenses, Net

They comprise the following:

	In thousands of S/. 2010	In thousands of S/. 2009
Other income:		
Prior period other income	62,665	81,845
Other extraordinary income	6,329	6,953
Income from reimbursements of taxes	213	4,450
Net income from credit recovery	3	1,788
Other	-	2,167
	69,210	97,203
Other expenses:		
Prior period personnel expenses	(16,750)	(19,648)
Other prior period expenses	(6,438)	(883)
Extraordinary expenses	(4,137)	(10,686)
Other income, net	(27,325)	(31,217)
	41,885	65,986

In 2010, the prior period other income item mainly comprises the recovery of provisions for litigations and claims filed against the Bank amounting to S/. 33,448 thousand and recovery of provision for vacations amounting to S/. 15,921 thousand (in 2009, it comprises recoveries of provisions for litigations and claims amounting to S/. 71,549 thousand).

(27) Workers' Profit Sharing

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

In 2010, the Bank has determined workers` profit sharing according to the taxable profit determined in conformity with Income Tax Law amounting to S/. 18,901 thousand (S/. 13,823 thousand in 2009).

(28) Tax Matters

(a) Tax returns for 2005 through 2010, inclusive, are open for review by the Peruvian tax authorities. 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 legal advisors consider that, as a result of such review, no significant liabilities affecting the financial statements as of December 31, 2010, will arise.

In accordance with current tax legislation, corporate income tax for 2010 and 2009 is calculated on the basis of the net taxable profit at a rate of 30%.

The Bank computed its taxable base for the year ended December 31, 2010, and determined that its income tax amounts to S/. 107,738 thousand (S/. 78,790 thousand as of December 31, 2009).

(b) As from 2005, the Temporary Tax on Net Assets (ITAN, for its Spanish acronym) has been established. Its taxable base is composed of the net asset value adjusted as of the closing of the period before the payment was made, deducting the depreciations, amortization, legal cash reserve, and specific provisions for credit risk. The tax rate is 0.4% for years 2010 and 2009 applicable to the amount of assets that exceeds S/. 1,000 thousand. It may be paid in cash or in nine consecutive monthly installments. The amount actually paid may be used as a credit against payments on account of Income Tax General Regime for taxable periods from March to December of the fiscal period for which the tax was paid until maturity date of each of the payments on account, and against the payment for regularization of income tax of the corresponding taxable period. The Bank has determined that its temporary tax on net assets amounts to S/. 81,444 thousand (S/. 77,479 thousand in 2009).

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

(c) Likewise, technical assistance provided by entities not domiciled in the country will be subject to a 15% income tax withholding, regardless of the place where the service is rendered, and that Income Tax Law requirements are met.

(d) Tax on Financial Transactions (ITF) for fiscal periods 2010 and 2009 was fixed at the rates of 0.05% and 0.06%, respectively. This tax is applied on charges and debits in bank accounts or movements of funds made through the financial system, unless the account is tax-exempt.

(e) Reconciliation of the income tax effective rate to the combined tax rate.

Reconciliation of combined effective rate of income tax and workers' profit sharing is:

	In thousands of S/.			
	2010	%	2009	%
Profit before workers' profit sharing and tax	500,448	100.00	449,928	100.00
Deferred workers' profit sharing and calculated income tax according to combined tax rate	167,650	33.50	150,726	33.50
Tax effect on additions and deductions:				
Permanent differences	(49,055)	(9.80)	(40,299)	(9.00)
Current and deferred workers' profit sharing and income tax recorded as per effective rate	118,595	23.70	110,427	24.50

(29) 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 a voluntary settlement of 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 on hand 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.

(30) 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 46% of direct loans and indirect loans, which amounts to approximately S/. 2,654,970 thousand.

Credit risk is controlled at the Bank mainly through the assessment and analysis of individual transactions. In 2010, 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 8. Information on the deposits and other liabilities appears in note 13.

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 Banks financial assets generate interest. Its financial liabilities include both non interest-bearing and interest-bearing liabilities. Interest-bearing assets and liabilities are based on rates set in accordance with the regulations in force.

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.