SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2010 and 2009

(With the Independent Auditors' Report Thereon)

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

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

INDEPENDENT AUDITORS' REPORT

The Shareholders and Board of Directors
Scotiabank Perú S.A.A.

We have audited the accompanying consolidated financial statements of Scotiabank Perú S.A.A. (a subsidiary of The Bank of Nova Scotia - BNS, an entity established in Canada) and Subsidiaries, which comprise the consolidated balance sheet as of December 31, 2010 and 2009, and the consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended, and the summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 pertinent to the preparation and fair presentation of the consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Peru. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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 pertinent to the Bank and Subsidiaries preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Scotiabank Perú S.A.A. and Subsidiaries as of December 31, 2010 and 2009, and the consolidated results of their operations and their consolidated cash flows for the years then ended 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, as discussed in notes 2 and 3 to the consolidated financial statements.

February 21, 2011

Countersigned by

Caipo y Asociados

Eduardo Alejos P. (Partner)
Peruvian Certified Public Accountant
Registration 29180

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Balance Sheet

As of December 31, 2010 and 2009

(Stated in thousands of nuevos soles)

Assets	2010	2009
Cash and due from banks (note 5):		
Cash	604,948	520,593
Deposits with Banco Central de Reserva del Perú	6,987,711	2,806,084
Deposits with local and foreign banks	376,991	338,976
Clearing	120,934	181,854
Accrued interest and due from banks	19,858	9,700
	8,110,442	3,857,207
Interbank funds	192,580	143,205
Investments at fair value with changes in results and available-for-sale (note 6)	1,708,204	3,637,054
Loan portfolio, net (note 7)	17,148,245	14,573,225
Accounts receivable, net (note 8)	356,569	483,795
Investments in associates	86,914	72,196
Goodwill (note 9)	278,818	278,818
Property, furniture, and equipment, net (note 10)	496,544	520,531
Other assets, net (note 11)	663,889	622,396
Total assets	29,042,205	24,188,427
Contingent and memoranda accounts (note 18):		
Contingent accounts	29,055,319	13,620,930
Memoranda accounts	180,405,018	179,728,097
	209,460,337	193,349,027

Liabilities and shareholders' equity	2010	2009
Deposits and obligations (note 12):		
Demand deposits	5,652,617	4,973,339
Savings deposits	3,942,311	3,383,981
Time deposits	9,063,650	8,980,125
Other obligations	760,968	737,675
	19,419,546	18,075,120
Interbank funds	36,005	20,001
Borrowings and financial obligations (note 13)	3,782,680	1,656,929
Securities, bonds and obligations issued (note 14)	1,317,058	696,602
Provisions and other liabilities (note 15)	1,031,567	779,203
Total liabilities	25,586,856	21,227,855
Shareholders' equity (note 16):		
Capital stock	1,569,109	1,427,511
Additional capital	368,553	212,371
Capital in progress	-	297,780
Legal reserve	332,160	268,455
Unrealized earnings	16,968	19,435
Retained earnings	1,168,559	735,020
Total shareholders' equity	3,455,349	2,960,572
Contingencies and commitments (note 17)		
Total liabilities and shareholders' equity	29,042,205	24,188,427
Contingent and memoranda accounts (note 18):		
Contingent accounts	29,055,319	13,620,930
Memoranda accounts	180,405,018	179,728,097
	209,460,337	193,349,027

See the accompanying notes to the consolidated financial statements.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Income Statement

For the years ended December 31, 2010 and 2009

(Stated in thousands of nuevos soles)

	2010	2009
Financial income (note 19)	2,302,763	2,393,258
Financial expenses (note 20)	(442,690)	(592,218)
Gross financial income	1,860,073	1,801,040
Provision for doubtful loans (note 7)	(686,342)	(760,636)
Recovery of provision for doubtful loans (note 7)	263,053	198,936
	(423,289)	(561,700)
Net financial income	1,436,784	1,239,340
Income from financial services, net (note 21)	449,729	490,790
Operating margin	1,886,513	1,730,130
Administrative expenses (note 22)	(969,598)	(961,123)
Net operating margin	916,915	769,007
Provisions for doubtful and other accounts receivable, realizable and repossessed assets, and other	(139,837)	(48,713)
Depreciation of property, furniture, and equipment	(58,627)	(53,691)
Amortization of intangibles	(6,975)	(7,989)
	(205,439)	(110,393)
Operating results	711,476	658,614
Other income, net (note 23)	315,049	219,767
Profit before employees' profit sharing and income tax	1,026,525	878,381
Deferred employees' profit sharing (note 25)	4,018	(9,822)
Employees' profit sharing (note 26)	(55,079)	(25,855)
Deferred income tax (note 25)	22,808	(55,638)
Income tax (note 24)	(309,912)	(150,013)
Net profit	688,360	637,053
Basic and diluted earnings per share (in nuevos soles) (note 27)	5.294	12.654
Weighted average of common shares issued (in thousands of shares)	130,020	50,344

See the accompanying notes to the consolidated financial statements.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Statement of Changes in Shareholders' Equity

For the years ended December 31, 2010 and 2009

(Stated in thousands of nuevos soles)

	Capital stock (note 16.b)	Additional capital (note 16.b)	Capital in progress (note 16.b)	Legal reserve (note 16.c)	Unrealized earnings	Retained earnings (note 16.d)	Total shareholders' equity
Balances as of December 31, 2008	533,554	212,539	318,177	268,455	-	1,147,527	2,480,252
Formalization of capital stock increase	893,319	(2,956)	(20,397)	-	-	(869,966)	-
Dividends declared in cash	-	-	-	-	-	(179,594)	(179,594)
Capital increase	734	2,757	(3,491)	-	-	-	-
Capital decrease	(96)	-	-	-	-	-	(96)
Shares subscription	-	-	3,491	-	-	-	3,491
Sale of treasury shares	-	31	-	-	-	-	31
Unrealized income on available-for-sale investments	-	-	-	-	19,435	-	19,435
Net profit	-	-	-	-	-	637,053	637,053
Balances as of December 31, 2009	1,427,511	212,371	297,780	268,455	19,435	735,020	2,960,572
Formalization of capital stock increase	141,598	156,182	(297,780)	-	-	-	-
Dividends declared in cash	-	-	-	-	-	(191,116)	(191,116)
Application to legal reserve	-	-	-	63,705	-	(63,705)	-
Capital contribution	-	-	178,036	-	-	-	178,036
Refund of capital contribution	-	-	(178,036)	-	-	-	(178,036)
Unrealized losses on available-for-sale investments and other	-	-	-	-	(2,467)	-	(2,467)
Net profit	-	-	-	-	-	688,360	688,360
Balances as of December 31, 2010	1,569,109	368,553	-	332,160	16,968	1,168,559	3,455,349

See the accompanying notes to consolidated financial statements.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated 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 profit	688,360	637,053
Adjustments to reconcile net profit to net cash provided by operating activities:		
Provision for doubtful loans	686,342	760,636
Provision for impairment of investments and other assets	4,370	104
Provision for accounts receivable	96,951	33,215
Provision for contingencies and indirect loans	38,516	15,394
Depreciation and amortization	65,602	61,680
Recovery of provision for realizable and repossessed assets	(13,880)	(8,743)
Recovery of provision for accounts receivable	(131,650)	(5,726)
Provision for impairment and depreciation of repossessed assets	5,475	10,377
Recovery of provision for loan portfolio	(263,053)	(198,936)
Provision for severance indemnities	31,995	30,745
Gains on sale of property, furniture, and equipment	(14,414)	(223)
Gains on sale of realizable and repossessed assets	(7,471)	(4,938)
Net variations in assets and liabilities:		
Decrease (increase) in interest, commissions, and other accounts receivable	150,842	(68,553)
Increase (decrease) in interest, commissions, and other accounts payable	33,722	(109,419)
Other assets	(49,370)	42,117
Other liabilities	(24,909)	(63,678)
Cash and cash equivalents provided by operating activities	1,297,428	1,131,105
Cash flows from investing activities		
Acquisition of property, furniture, and equipment	(60,861)	(24,572)
Acquisition of other non-financial assets	(5,824)	(8,527)
Income from sale of property, furniture, and equipment	35,908	7,640
Income from sale of other non-financial assets	49,600	26,004
Cash and cash equivalents provided by investing activities	18,823	545
Cash flows from financing activities		
Increase in loan portfolio	(3,017,071)	(7,516)
Decrease (increase) in investments	1,910,142	(943,620)
Increase (decrease) in deposits and obligations	1,344,157	(69,433)
Increase (decrease) in borrowings, financial obligations and interbank funds	2,141,755	(1,447,930)
Increase in securities, bonds and obligations issued	620,456	89,348
Payment of dividends	(191,116)	(179,594)
Cash contribution	178,036	3,491
Cash and cash equivalents provided by (applied to) financing activities	2,986,359	(2,555,254)
Net increase (decrease) in cash and cash equivalents	4,302,610	(1,423,604)
Cash and cash equivalents at beginning of the year	4,000,412	5,424,016
Cash and cash equivalents at end of the year	8,303,022	4,000,412

See the accompanying notes to the consolidated financial statements.

(1) Operations

Scotiabank Perú S.A.A. (herein the Bank) is a subsidiary of The Bank of Nova Scotia-BNS (a financial entity from Canada), which holds directly and indirectly 97.71% of the Bank's capital stock as of December 31, 2010. As of December 31, 2010, the Bank of Nova Scotia directly owned 2.32% of the Bank's shares, and indirectly through NW Holdings Ltd. and Scotia Perú Holdings S.A. owned 55.32% and 40.07%, respectively.

The Bank is a public corporation established on February 2, 1943 and is authorized to operate as a banking entity by Superintendencia de Banca, Seguros y Administradoras Privadas de Fondos de Pensiones (Superintendency of Banking, Insurance, and Private Pension Fund Administrators, herein SBS). The Bank's operations mainly consist of retail, commercial and merchant banking services. The Bank's operations are governed by the SBS through the Ley General del Sistema Financiero y del Sistema de Seguros y Orgánica, Law 26702 (herein the Banking Law). This law establishes the requirements, rights, obligations, guarantees, restrictions, and other operating conditions to which Peruvian banking and insurance legal entities are governed.

The head office of the Bank is located at Av. Dionisio Derteano 102, San Isidro, Lima, Peru. As of December 31, 2010, the Bank performed its activities with a national network of 169 branches, and one branch abroad (as of December 31, 2009, it had 163 Peruvian branches and one branch abroad).

The accompanying consolidated financial statements include those corresponding to Scotiabank Perú S.A.A. and its Subsidiaries (referred to herein as "Scotiabank Perú S.A.A. and Subsidiaries"), which include: CrediScotia Financiera S.A., engaged in intermediation operations for the small-business and consumer sectors; Servicios, Cobranzas e Inversiones S.A.C., engaged in collections and domicile verification, among other activities; Scotia Sociedad Agente de Bolsa S.A., engaged in intermediation activities in the Peruvian securities market, Depósitos S.A., engaged in warehousing services; Scotia Fondos Sociedad Administradora de Fondos S.A., engaged in mutual funds management; Scotia Sociedad Titulizadora S.A., engaged in the management of trusts; SBP DPR Finance Company, special purpose entity and Promoción de Proyectos Immobiliarios y Comerciales S.A. engaged in the purchase and sale of goods in general, among other activities. As at December 31, 2010 and 2009 Promoción de Proyectos Immobiliarios y Comerciales S.A. is an inactive company.

Below are the main balances of the Bank and Subsidiaries presented as of December 31, 2010 and 2009 indicating the Bank's shareholding percentage in the Subsidiaries as of that date, as well as other relevant information in this regard:

As of December 31, 2010:

Entity	Activity	Percentage of shareholding	In thousands of S/. Assets	Liabilities	Shareholders' equity
Scotiabank Perú S.A.A.	Banking	-	27,302,105	23,854,920	3,447,185
CrediScotia Financiera S.A.	Finance	100.00	2,618,968	2,270,815	348,153
Servicios, Cobranzas e Inversiones S.A.C.	Collection services	100.00	170,970	30,953	140,017
Scotia Sociedad Agente de Bolsa S.A.	Stock market broker	100.00	148,811	85,398	63,413
Depósitos S.A.	Warehousing	100.00	59,182	19,194	39,988
Scotia Fondos Sociedad Administradora de Fondos S.A.	Administration of mutual funds	100.00	30,866	6,244	24,622
Scotia Sociedad Titulizadora S.A.	Securitization	100.00	3,350	32	3,318
SBP DPR Finance Company	Special purpose entity	-	843,994	843,994	-

As of December 31, 2009:

Entity	Activity	Percentage of shareholding	In thousands of S/. Assets	Liabilities	Shareholders' equity
Scotiabank Perú S.A.A.	Banking	-	22,809,284	19,848,712	2,960,572
CrediScotia Financiera S.A.	Finance	100.00	2,018,431	1,755,492	262,939
Servicios, Cobranzas e Inversiones S.A.C.	Collection services	100.00	164,669	42,784	121,885
Scotia Sociedad Agente de Bolsa S.A.	Stock market broker	100.00	112,644	64,820	47,824
Depósitos S.A.	Warehousing	100.00	57,209	15,540	41,669
Scotia Fondos Sociedad Administradora de Fondos S.A.	Administration of mutual funds	100.00	23,635	3,053	20,582
Scotia Sociedad Titulizadora S.A.	Securitization	100.00	3,752	116	3,636

The consolidated financial statements as of December 31, 2010 were approved by management on February 21, 2011. These consolidated financial statements have been prepared based on the individual financial statements of each company comprising Scotiabank Perú S.A.A. and Subsidiaries. The individual financial statements comprising the consolidated financial statements as of December 31, 2009 were approved by the corresponding general shareholders' meeting made within legal terms.

(2) Basis for the Preparation of Financial Statements

The accompanying consolidated financial statements are prepared based on the accounting book balances of Scotiabank Perú S.A.A. and Subsidiaries, and are presented in accordance with the standards issued by the SBS and, in the absence of applicable SBS standards, in accordance with the International Financial Reporting Standards (IFRS), made official in Peru, which include the International Accounting Standards (IAS) and pronouncements of the Standing Interpretations Committee (SIC).

For comparative purposes, necessary reclassifications were made on the previous year's consolidated financial statements to present them on a consistent basis. The modification of comparative information does not imply changes in the decisions made based on it.

(a) Basis of Measurement
The consolidated financial statements have been prepared in conformity with the historical cost principle, except for the following:

- Derivative instruments are measured at fair value.
- Financial instruments at fair value with changes in the results are measured at fair value.
- Available-for-sale financial instruments are measured at fair value.

(b) Presentation Currency
The consolidated financial statements are presented in nuevos soles (S/.), according to SBS standards. The information presented in nuevos soles (S/.) has been rounded to the unit of thousands, except otherwise indicated.

(c) Critical Accounting Estimates and Criteria
The preparation of the consolidated financial statements in conformity with accounting principles requires management to use certain critical accounting estimates and criteria. Estimates and criteria are evaluated continuously according to experience and include reasonable future assumptions in each of the circumstances. Since these are estimates, final results might differ; however, it is the management's opinion that no significant adjustments will arise on the asset and liability balances in the following year.

The significant estimates related to the accompanying consolidated financial statements correspond to provision for doubtful loans, valuation of investments, estimation of useful life and the recoverable amount of property, furniture, and equipment, goodwill and intangibles, the provision for realizable assets, received as payment and repossessed assets, and the valuation of derivative financial instruments through profit and loss, the accounting criteria of which are described in note 3.

(3) Accounting Principles and Practices
The main accounting principles and practices applied to prepare the consolidated financial statements of Scotiabank Perú S.A.A and Subsidiaries, which have been consistently applied in this period and previous period, unless otherwise indicated, are the following:

(a) Consolidation
The consolidated financial statements include the financial statements of the companies described in note 1, after the elimination of significant balances and transactions among the consolidated companies, and profits and losses resulting from those transactions. All the subsidiaries have been consolidated since their incorporation or acquisition date.

The subsidiaries are all the companies in which the Bank owns more than 50% of the voting shares and has the power to control their financial and operating policies.

The accounting records of companies within Scotiabank Perú S.A.A. and Subsidiaries comply with reporting requirements established by the SBS.

The financial statements of the subsidiaries included in the consolidation represent 14.16% and 9.42% of total assets before intra-company eliminations as of December 31, 2010 and 2009; respectively. As of those dates, the Bank did not have any minority interest arising from the consolidation process.

(b) 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, whether classified as an asset or liability, are recorded as income or expense in the consolidated income statement. The financial instruments shall be offset when Scotiabank Perú S.A.A. and Subsidiaries have the legally enforceable right, and management has the intention to settle on a net basis, or to realize the asset, and settle the liability simultaneously.

The financial assets and liabilities presented in the consolidated balance sheet correspond to balances presented in cash and due from banks, interbank funds, investments, loan portfolio, accounts receivable and liabilities in general. Likewise, all derivative products and indirect credits are considered financial instruments. The recognition and valuation criteria of those items are disclosed in the accounting principles policies related to those notes herein.

(c) Derivative Instruments

The accounting treatment for derivative instruments that financial entities shall apply is established in SBS Resolution 1349-2008, dated May 8, 2008.

This standard is consistent with IAS 39 Financial Instruments: Recognition and Measurement and establish accounting criteria for held-for-trading, hedging, and embedded derivatives, as detailed below:

(i) Held-for-Trading

Derivative instruments are initially recognized in the consolidated balance sheet at fair value; subsequently, any change in the fair value of such derivative generates an asset or liability in the consolidated balance sheet, as applicable, and will affect the results of the period.

(ii) Hedging

Derivative instruments for the financial hedging of a risk are designated in books as derivatives for hedging purposes if, at the moment of trading, it is foreseen that changes in fair value or in cash flows will be highly effective in achieving offsetting changes in fair value or cash flows of the item hedged directly attributable to the risk hedged from the beginning and during the period of the hedging relationship. This should be documented from the inception of negotiation of the derivative instrument and during the period of the hedging relationship.

The effectiveness of a hedge shall be measured reliably on a prospective basis at the moment the derivative instrument is designated as being used for hedging purposes and on a retrospective basis with a monthly frequency. A hedge is considered to be effective if the results of the retrospective tests are within a range of 80%-125% of effectiveness.

In the event that the SBS considers the documentation to be unsatisfactory or finds weaknesses in the methodologies used, it can request immediate dissolution of hedging and the simultaneous recording of the derivative as a held-for-trading derivative.

(iii) Embedded Derivatives

Certain derivatives embedded in other financial instruments (main or host contract) are treated as separate derivatives when they meet simultaneously the following conditions: i) the economic characteristics and inherent risks are not closely related to the economic characteristics and risks of the host contract; ii) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and iii) the hybrid instrument is not a trading investment for financial intermediation, according to the Regulation of Investments, or other financial instrument measured at fair value against the income statement. These embedded derivatives are separated from the derivative host and measured at fair value with the changes in fair value recognized in the consolidated income statement, unless Scotiabank Perú S.A.A. and Subsidiaries choose to designate the hybrid contract (host and embedded derivatives) at fair value with effect in the consolidated income statement.

As of December 31, 2010 and 2009, Scotiabank Perú S.A.A. and Subsidiaries did not have embedded derivatives.

In addition to their recording in the balance sheet, derivative instruments described above are recorded in contingent accounts at their notional amounts converted in nuevos soles at the exchange rate established by the SBS at the end of the period.

(d) Investments

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”. Through this resolution, the SBS has amended and clarified investment classification, valuation and provisioning and modified the Accounting Manual for Financial System Companies in order to harmonize the recording criteria with international accounting practices, primarily with the classification and valuating criteria of IAS 39 Financial Instruments: Recognition and Measurement. These changes were applied prospectively.

Scotiabank Perú S.A.A. and Subsidiaries apply the criteria established in SBS Resolution 10639-2008 as detailed below:

(i) Investments at Fair Value with Changes in Results

Debt securities and equity shares are classified as Investments at Fair Value with Changes in Results if they have been acquired principally for the purpose of selling in the near future, or they form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. These financial assets are recognised on trade date, when Scotiabank Perú S.A.A. and Subsidiaries enter into contractual arrangements with counterparties to purchase securities, and are normally derecognised when sold.

Measurement is initially at fair value, with transaction costs taken to the consolidated income statement. Subsequently, their fair values are remeasured, and all gains and losses from changes therein are recognised in the consolidated income statement.

Interest income is recognised using the effective interest rate method, calculated over the asset's expected life. Dividends are recognised in the consolidated income statement when the right to receive payment has been established.

Investment Instruments at Fair Value with Changes in Results that are given in guarantee or transferred through a repurchase agreement shall be reclassified as available-for-sale. Once these transactions are concluded, the above mentioned instruments shall be reclassified at their initial category, transferring the unrealized results from shareholders equity to the consolidated income statement.

(ii) Available-for-Sale Investments

Available-for-Sale Investments are all investment instruments that are not classified as Investments at Fair Value with Changes in Results, Held-to-Maturity Investments or Investments in Associates. Likewise, investment instruments will be included in this category when explicitly required by the SBS.

Available-for-Sale Investments are initially recognised on the trade date and measured at fair value plus direct and incremental transaction costs. They are subsequently remeasured at fair value, and changes therein are recognised in equity in the ''Unrealised Earnings'' account until the securities are either sold or impaired. When available-for-sale securities are sold, cumulative gains or losses previously recognised in equity are recognised in the consolidated income statement.

If an available-for-sale security is impaired, the cumulative loss (measured as the difference between the asset's acquisition cost, net of any principal repayments and amortisation, and its current fair value, less any impairment loss on that asset previously recognised in the consolidated income statement) is removed from equity and recognised in the consolidated income statement. In the case of unquoted equity shares, the impairment loss shall be the difference between the carrying value and the present value of estimated future cash flows, discounted using current market rates for similar assets.

Gains or losses from foreign exchange difference related to equity shares shall be recognized in equity in the "Unrealized Earnings" account while those related to debt instruments shall be recognized in the consolidated income statement.

Interest income is recognised on available-for-sale securities using the effective interest rate method, calculated over the asset's expected life. Premiums and/or discounts arising on the purchase of dated investment securities are included in the calculation of their effective interest rates. Dividends are recognised in the consolidated income statement when the right to receive payment has been established.

(iii) Investments in Associates

Equity shares acquired in order to participate with and/or have significant influence over companies and institutions. This category shall include the goodwill determined in the purchase of such investments. Investments in Associates are initially measured at fair value plus transactions costs directly attributable to their acquisition, and are subsequently measured applying the equity participation method, meaning; the carrying amount of the investment will be increased or decreased by proportional recognition of the period's results obtained post acquisition date.

When the variations in the equity are due to concepts other than the results of the year; these variations shall be recorded directly in the shareholders' equity. The dividends are recorded reducing the carrying amount of the investment.

Investment instruments held by companies can be subject to reclassification. If investment instruments at fair value with changes in results cannot be reclassified except: (1) for unquoted equity shares that lack reliable fair value estimations or (2) when given in guarantee or transferred through a repurchase agreement as previously noted in section d (i).

(e) Loans, Classification and Provision for Doubtful Loans

Direct loans are recorded when fund disbursements are made to clients. Indirect loans (contingent) are recorded when documents that support such credit facilities are issued and may became direct loans and generate a liability against third parties. Changes in loan payment conditions due to debtors' payment difficulties are considered as refinancing or restructuring.

Finance leases are accounted for using the financial method, recording as loans the amount of the receivable instalments. Interest income is accrued for as earned in accordance with the terms of the contract. Initial direct costs are recognized immediately as expenses.

The Portfolio Risk Management's Debtor Classification Unit 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 and CrediScotia Financiera S.A. applied SBS Resolution 808-2003 and its amendments until June 2010 and SBS Resolution 11356-2008 and its amendments starting in July 2010.

Type of loans

According to SBS Resolution 11356-2008 the Bank and CrediScotia Financiera S.A. classify the loan portfolio in Wholesale Banking: i) Corporate loans, ii) Large company loans, iii) Medium company loans; and Retail Banking: iv) Small business loans, v) Micro business loans, vi) Revolving consumer loans, vii) Non-revolving consumer loans, viii) Mortgage loans. These classifications take into consideration the nature of the client (i.e. corporate, government or individual), the purpose of credit, and the size of the business measured by revenues, indebtedness, among other indicators.

Risk rating categories

The loan rating categories established by the SBS are the following: Standard, Potential Problem, Substandard, Doubtful, and Loss, which are assigned according to credit history of the debtor.

In the case of wholesale banking, the Bank and CrediScotia Financiera S.A. mainly consider 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 the classification of retail banking, the rating is based mainly on the level of compliance with credit payments, which is reflected in the days delinquent and their classification in other financial system entities. The Bank on its own initiative and pursuant to a more conservative approach, has included in the automatic rating process the no retail debtors loan portfolio with credits up to US$100 thousand, taking into consideration the debtor payment in arrears and the rating alignment with the Peruvian financial system.

Provisions for doubtful loans

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

Up to June 2010, the entire indirect loan exposure was used to calculate the required provision, and from July 2010 the calculation only considers the equivalent credit risk exposure of the indirect loans, which are calculated multiplying the different types of indirect credits per credit conversion factors (CCF), presented below according to SBS's guidelines:

	Description	CCF (%)
(i)	Confirmation of irrevocable letters of credit up to one year, when the issuing bank is a first level entity from a foreign financial system.	20
(ii)	Standby letters of credit that support obligations to do or not do.	50
(iii)	Import credit guarantees, and those not included in the previous item, as well as bank acceptances.	100
(iv)	Undisbursed loans granted and unused credit lines.	0
(v)	Other not considered above.	100

The requirements of the provisions for doubtful loans are determined by considering the risk rating of the debtor, if it is backed by collaterals or not, and depending on the type of collateral.

The Bank and CrediScotia Financiera S.A. applies the following percentages from July 2010 to determine provisions for the loan portfolio in accordance with SBS Resolution 11356-2008:

Risk rating	Without collateral	With preferred collateral	With preferred easily realizable collateral	With preferred readily realizable collateral
Standard				
- Corporate loans	0.70%	0.70%	0.70%	0.70%
- Large company loans	0.70%	0.70%	0.70%	0.70%
- Medium company loans	1%	1%	1%	1%
- Small business loans	1%	1%	1%	1%
- Micro business loans	1%	1%	1%	1%
- Consumer loans (*)	1%	1%	1%	1%
- Mortgage loans	0.70%	0.70%	0.70%	0.70%
Potential problem	5%	2.50%	1.25%	1%
Substandard	25%	12.50%	6.25%	1%
Doubtful	60%	30%	15%	1%
Loss	100%	60%	30%	1%

(*) Include revolving consumer loans and no revolving consumer loans.

Up to June 2010, the provisions for doubtful loans were determined in conformity with the guidelines established by SBS Resolution 808-2003 and amendments, according to the percentages shown below:

Risk rating	Without collateral	With preferred collateral	With preferred easily realizable collateral	With preferred readily realizable collateral
Standard				
- Commercial loans	0.70%	0.70%	0.70%	0.70%
- Small business loans	1%	1%	1%	1%
- Consumer loans	1%	1%	1%	1%
- Mortgage loans	0.70%	0.70%	0.70%	0.70%
Potential problem	5%	2.5%	1.25%	1%
Substandard	25%	12.5%	6.25%	1%
Doubtful	60%	30%	15%	1%
Loss	100%	60%	30%	1%

Procyclical component

From July 2010 the percentages of procyclical component to calculate the provisions for direct loans and credit risk exposure of indirect loans for debtors classified in standard risk rating are as follows:

Type of credit	Procyclical component %
Corporate loans	0.40
Large company loans	0.45
Medium company loans	0.30
Small business loans	0.50
Micro business loans	0.50
Revolving consumer loans	1.50
No revolving consumer loans	1.00
Mortgage loans	0.40

For corporate, large company and mortgage loans that have preferred readily realizable collateral, the procyclical component is 0.30%. For all other types of credit with preferred readily realizable collateral, the procyclical component is 0% for the portion covered by such collateral.

For consumer loans that are supported by payroll discount agreements, the procyclical component is 0.25%.

Up to June 2010 the percentages of procyclical provisions on direct and indirect loans of debtors classified in standard risk rating were the follows:

Type of credit	Procyclical component %
Commercial loans	0.40
Micro business loans	0.50
Revolving consumer loans	1.50
No revolving consumer loans	1.00
Mortgage loans	0.40

The SBS has the faculty to activate or deactivate the application of the procyclical component by assessing whether the average annual percentage of Gross Domestic Product (GDP) is above or below 5%. It also, sets other conditions of activation or deactivation that are set out in Annex I of SBS Resolution 11356-2008. The application of the procyclical component was activated from December 2008 to August 2009, deactivated from September 2009 to August 2010 and re-activated from September 2010.

The SBS has established that during the deactivation of the application of the procyclical component, financial institutions cannot, under any circumstances, generate profits for the reversals of such provisions, which should only be used to record specific mandatory provisions.

Provisions for direct loans are presented by deducting the balance from the corresponding asset, and provisions for indirect loans are presented as liabilities. Provisions booked by the Bank and CrediScotia Financiera S.A., in the opinion of the Scotiabank Perú S.A.A. and Subsidiaries' management, are sufficient to cover losses in the loan portfolio as of the reporting date.

(f) Securities Trading Transactions on Behalf of Customers

Securities trading transactions conducted by the subsidiary Scotia Sociedad Agente de Bolsa S.A. on behalf of its customers are recorded as accounts receivable or accounts payable, as appropriate, if, at their maturity, they have not been collected or paid, respectively. Transactions that have not yet been settled by the Lima Stock Exchange are recorded in memoranda accounts until corresponding collection or payment.

Fees in favor of the Lima Stock Exchange and CONASEV (Peruvian Securities and Exchange Commission) for these securities trading transactions are recorded in consolidated balance sheet accounts (they do not affect the Scotiabank Perú S.A.A. and Subsidiaries' income or expenses).

Reporting operations, loans of consumable property, and over-the-counter transactions conducted by Scotia Sociedad Agente de Bolsa S.A. through third parties acting as buyers and/or sellers and whose operations are awaiting settlement (collection or payment) are recorded in memoranda accounts.

(g) Property, Furniture, and Equipment

The property, furniture, and equipment are recorded at acquisition cost, less accumulated depreciation and impairment losses. Disbursements incurred after acquisition for property, furniture, and equipment are only recognized as assets when there are probable future economic benefits associated with the asset and their cost can be reliably measured.

Maintenance and repair expenses are charged to the consolidated income statement in the period when 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.

Depreciation has been computed based on the straight-line method and using the following estimated useful lives:

	Years
Property	20
Furniture and fixtures, and premises	10
Vehicles	5
Computing equipment	4

Up to December 31, 2009, the estimated useful life of property was 33 years. That estimated useful life was reviewed by the Scotiabank Perú S.A.A. and Subsidiaries' management and changed to 20 years, effective on January 1, 2010. The change in useful life of property has been applied prospectively.

The impact of the change in the estimated useful life resulted as of December 31, 2010 in an increase in depreciation expenses of property by S/. 8,943 thousand.

The cost and accumulated depreciation of assets disposed or sold are eliminated from their respective accounts, and any resulting gain or loss is included in the consolidated income statement of the period in which they are incurred.

The residual value and the useful life of an asset are reviewed and adjusted, if necessary, at each consolidated balance sheet date. The book value of an asset is written off immediately at its recoverable amount when the carrying amount of the asset exceeds its value in use.

(h) Realizable Assets, Received as Payment, and Repossessed Assets

Realizable assets, received as payment, and repossessed assets (note 11) are regulated by SBS Resolution 1535-2005 of October 6, 2005. They mainly include property, plant, and equipment received as payment for doubtful loans, and are initially recorded at the lower of the value determined by the court, arbitrator, recovery value, estimated market value and the value of the unpaid amount of debt.

According to current legislation, the treatment for this type of goods is as follows:

- Realizable assets, received as payment and repossessed assets are initially recorded at book value (cost), recognizing, at the same time, a provision equivalent to 20% of the cost. If the net realizable value, shown in the valuation report, demonstrates that the asset is impaired by a percentage higher than 20%, then the required initial provision shall be recorded at an amount equivalent to the amount effectively impaired.

- For the plant and equipment, the Bank records a monthly provision equivalent to 1/18 of the cost, less the aforementioned initial provision, commencing the first month of repossession or recovery. Regarding goods that have not been sold or leased within a one-year term and that do not have the extension established in the Banking Law, the provision shall be completed up to 100% of the value upon repossession or recovery less the impairment provision, at the close of the corresponding year.

- A provision shall be recorded for real estate that has not been sold or leased within one year from its recovery or repossession. This provision shall be a uniform monthly provision over a term of three and a half years until there is a 100% provision of the net book value obtained in the eighteenth or twelfth month, depending on if there is or is not an extension approved by the SBS, respectively.

An impairment loss is recognised in the consolidated income statement when the net realizable value is lower than net book value. In cases where the net realizable value is higher than the net book value, the higher value shall not be recognized in the books.

The valuation reports on real estate may not be aged over a year.

(i) Impairment of Assets

When events or circumstantial economic changes indicate that the value of an asset might not be recoverable, Scotiabank Perú S.A.A. and Subsidiaries review the value of the long-term asset to determine if there is impairment. When the book value of the long-term asset exceeds its recoverable amount, the entity recognizes an impairment loss in the consolidated income statement for the assets held at cost.

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

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

(j) Income Tax and Employees' Profit Sharing

Current income tax is determined based on the taxable income and recorded according to tax legislation applicable to the Bank and each subsidiary independently (note 24).

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 of each company composing Scotiabank Perú S.A.A. and Subsidiaries. Deferred income tax is determined based on tax rates and legislation expected to be applied to each company composing Scotiabank Perú S.A.A. and Subsidiaries when the deferred tax asset is realized or the deferred tax liability is settled (note 25).

Deferred assets and liabilities are recognized without considering the estimated time when the temporary differences will disappear. A 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.

Up to December 31, 2010 employees' profit sharing comprises both current and deferred employees' profit sharing. They are determined using the same criteria used to determine the current and deferred income tax, respectively, and are recorded according to legislation applicable to each company composing Scotiabank Perú S.A.A. and Subsidiaries. As indicated in note 3(v) starting in January 1, 2011, employees' profit sharing should be recognised as personnel expense and liability corresponding to services of the employee, therefore, temporary differences between financial and tax bases shall not be recognized (notes 25 and 26).

(k) Intangible Assets

Intangibles are mainly related to acquired brand rights and investment made in the acquisition and development of computing software shown in the "Other Assets" item and are amortized using the straight-line method over 10 and 5 years, respectively.

Costs related to the development or maintenance of computing software are recognized in the consolidated income statement when they are incurred. However, costs that are directly related to a single and identifiable computing software, package or program, controlled by Scotiabank Perú S.A.A. and Subsidiaries and that will give future economic benefits higher than their cost in a period exceeding one year, are considered as an intangible asset. Direct costs related to the development of computing programs include personnel costs of the development team and a fractional part of general expenses.

(l) Goodwill

Business acquisitions are recorded using the purchase accounting method. This means, recognizing identifiable assets of the acquired company at fair value. Any excess between the acquisition cost and the fair value of the identifiable net assets is recognized as goodwill.

When the acquisition agreement foresees adjustments to the price based on the compliance with some future assumptions, and at the moment of the initial accounting, its occurrence has not occurred or the value cannot be reliably estimated, this adjustment is not included in the acquisition cost. If, subsequently, such adjustment becomes likely and can be reliably estimated, the additional amount will be treated as an adjustment to the acquisition cost.

The Scotiabank Perú S.A.A. and Subsidiaries' management assesses at the end of each reporting period whether there is any indication that the goodwill may be impaired. In addition, the goodwill is tested for impairment at the same time every year. This accounting policy is in line with SBS Resolution 1967-2010.

(m) Securities, Bonds, and Obligations Issued

This includes liabilities for the issuance of redeemable subordinated bonds, financial lease bonds and corporate bonds; which are recorded at amortized costs determined by the effective interest method. The discounts granted or the generated income is amortized during the effectiveness term of these instruments.

Interest is recognized as expenses when accrued.

(n) Provisions and Contingencies

(i) Provisions

Provisions are recognized when Scotiabank Perú S.A.A. and Subsidiaries have a present obligation, either legal or assumed, 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 reporting date. When the effect of the time value of money is material, provisions are discounted using an interest rate reflecting the current market rate for time value of money and specific risks of liabilities.

The provision for severance payment (CTS) is calculated according to current legislation, on the total employees' indemnities and should be paid through deposits in authorized financial entities as chosen by them. The computation is made for the amount that should have to be paid as at the reporting date and is included in the "Provision for severance indemnities" account. It is presented in the consolidated balance sheet under "Other liabilities".

(ii) Contingencies

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

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

(o) Income and Expense Recognition

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

When management considers that there are reasonable doubts about the collectibility of the principal of a loan, the Bank and CrediScotia Financiera S.A. suspend the recognition of interest in the consolidated income statement. The interest in suspense is recorded in memoranda accounts and 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 been 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.

Brokerage service fees for buying and selling securities on the stock market are recorded in the "financial services income" account when these transactions have been performed. These transactions are settled within three days after execution.

Revenues from sales of securities and its cost are recognized when the seller has transferred all the risks and rewards of ownership to the buyer and are recorded in the account "other income, net" on the consolidated income statement.

The Scotiabank Perú S.A.A. and Subsidiaries' other income and expenses are recorded in the fiscal period in which they are accrued.

(p) Capital Stock

Common shares are classified as equity. Preferred shares, if any, are recorded as other debt instruments; the difference between the redeemable amount of preferred shares and their par value is recorded in the capital account. Dividends on preferred shares are recorded as liabilities and charged against the income statement of the period.

(q) Earning per Share

Basic and diluted earnings per share result from dividing the net profit attributable to the common shareholders by the weighted average number of issued shares in the period, having deducted the treasury shares as of the date of the consolidated financial statements. Diluted earning per share corresponds to the basic earnings per share, adjusted for the dilutive effects of shares coming from the conversion of bonds or convertible shares, among others. As of December 31, 2010 and 2009, Scotiabank Perú S.A.A. and Subsidiaries did not have financial instruments with dilutive effects, therefore basic and diluted earning per share are the same.

(r) Consolidated Statement of Cash Flows

For the purposes of these consolidated financial statements, the balances of “Cash and due from banks” and “Interbank funds”, of the assets, as of December 31, 2010 and 2009 were considered as cash and cash equivalents.

(s) Trust Funds

Assets from trust operations where there is an engagement to return these assets to the clients and the Bank and Scotia Sociedad Titulizadora S.A. act as trustee are not included in the consolidated financial statements since they do not belong to the Bank nor Scotia Sociedad Titulizadora S.A. but are recorded in memoranda accounts for their corresponding control.

(t) Repurchase Agreements

Shares sold under repurchase agreements are presented in the consolidated financial statements as committed assets when transfer has been made subject to an agreement to repurchase the collateral and the legal ownership of corresponding investments has not been transferred; the liability with the counterparty is recorded under “borrowings and financial obligations” in the consolidated balance sheet. The difference between sale and repurchased price is treated as interest and accrued over the life of the agreements using the effective interest method.

(u) Foreign Currency Transactions and Balances

Foreign currency transactions are those transactions carried out in a currency that is different from the nuevo sol. Foreign currency transactions are translated into nuevo sol using exchange rates reported at the dates of the transactions (note 4). Gains or losses on exchange differences resulting from the payment and receipt 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 consolidated income statement.

(v) New International Accounting Pronouncements

Certain standards and interpretations have been issued and are in force internationally. In Peru, these standards are awaiting approval by the Consejo Normativo de Contabilidad “CNC” (Peruvian Accounting Board):

- IFRS 9 “Financial Instruments”: Related to classification and measurement of financial assets, is mandatory from January 2013, earlier adoption is permitted. This IFRS does not replace IAS 39.

- IFRIC 18 “Transfers of Assets from Customers”: is mandatory from July 2009.

- Amendments to certain accounting standards and interpretations issued earlier became effective from periods beginning on or after January 1, 2010.

Management has not determined the potential impact of these standards in its consolidated financial statements, whose official approval in Peru is still pending by the CNC.

The standards made official and in force in Peru by the CNC as of December 31, 2010 are IAS 1 to 41, IFRS 1 to 8, Interpretations 7 to 32 of SIC and all the Interpretations 1 to 14 of the current International Financial Reporting Interpretations Committee (IFRIC), whose application is mandatory in Peru; except for financial entities when the SBS has issued specific accounting standards. Likewise, by Resolution 044-2010-EF/94 dated August 23, 2010 issued by CNC, it was approved the application in Peru starting January 1, 2011, the revision made in 2009 of these standards, as well as amendments to May 2010 of the IAS 1, 27 and 34, IFRS 1, 3 and 7 and IFRIC 13.

The SBS by means of Official Letter 60202-2009, dated December 30, 2009, communicated the postponement of the application of International Financial Reporting Standards: IFRS 4 Insurance Contracts, IFRS 7 Financial Instruments: Disclosures, and IFRS 8 Operating Segments. This postponement will be effective until the SBS issues corresponding regulations as part of the process to harmonize its accounting regulations to IFRS.

The SBS by means of Official Letter 4049-2011, dated January 21, 2011, established a change in the treatment of employees' profit sharing indicating that this should be recorded according to IAS 19 Employee Benefits. Consequently, this profit sharing should be recognized as personnel expense and liability related with benefits to employees and shall not recognized deferred assets or liability as a result of temporary differences between financial and tax bases. This change can be made starting the financial information corresponding to January 2011 or, optionally, starting in December 31, 2010. Management will implement this change starting from January 2011, therefore, from that date, the accumulated balances of deferred assets or liabilities for employees' profit sharing as of December 31, 2010, will be reversed against retained earnings account.

(4) Balances in Foreign Currency

The consolidated balance sheets include balances of transactions in foreign currency, mainly in U.S. dollars (US$), which are recorded in nuevos soles (S/.) at the exchange rate 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 channelled through an interbank 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 buy rate, and US$1= S/. 2.891 sell rate as of December 31, 2009).

Foreign currency balances stated in thousands of U.S. dollars as of December 31, 2010 and 2009, are summarized as follows:

	2010			2009		
	U.S. Dollars	Euros	Other currencies	U.S. Dollars	Euros	Other currencies
Assets:						
Cash and due from banks	1,298,226	17,471	117	1,122,899	15,622	212
Investments at fair value with changes in results and available-for-sale	32,138	30,740	-	46,980	57,963	-
Loan portfolio, net	3,351,313	-	-	2,829,385	-	-
Account receivable, net	33,489	116	129	32,218	432	-
Other assets	100,512	3,056	-	33,819	32	1,658
	4,815,678	51,383	246	4,065,301	74,049	1,870
Liabilities:						
Deposits and obligations	3,504,742	70,427	28	3,564,868	70,585	107
Borrowings and financial obligations	1,392,216	-	-	492,772	-	-
Securities, bonds, and obligations issued	73,054	-	-	83,133	-	-
Other liabilities	272,071	4,987	-	177,410	4,310	1,901
	5,242,083	75,414	28	4,318,183	74,895	2,008
Net (liability) asset position on consolidated balance sheet	(426,405)	(24,031)	218	(252,882)	(846)	(138)
Transactions with derivative instruments	435,783	22,579	-	269,904	-	-

As of December 31, 2010, Scotiabank Perú S.A.A. and Subsidiaries recorded under financial income, gains on foreign exchange difference of various operations amounting to S/. 174,026 thousand (gains of S/. 212,754 thousand as of December 31, 2009), see note 19.

As of December 31, 2010, Scotiabank Perú S.A.A. and Subsidiaries has contingent operations in foreign currency amounting to US$ 5,976,267 thousand, equivalent to S/. 16,787,334 thousand (US$ 2,599,545 thousand equivalent to S/. 7,512,685 thousand as of December 31, 2009).

(5) Cash and Due From Banks

As of December 31 it comprises the following:

	In thousands of S/.	
	2010	2009
Cash (a)	604,948	520,593
Deposits with Banco Central de Reserva del Perú (a)	6,987,711	2,806,084
Deposits with local banks (b)	69,332	46,182
Deposits with foreign banks (b)	307,659	292,794
Clearing	120,934	181,854
Restricted funds (c)	17,110	9,210
Other funds	181	99
Accrued interest on cash and due from banks (d)	2,567	391
	8,110,442	3,857,207

(a) As of December 31, 2010, funds held in cash and deposits with Banco Central de Reserva del Perú (BCRP) include US$ 776,042 thousand and S/. 659,440 thousand (US$ 976,420 thousand and S/. 386,303 thousand as of December 31, 2009) destined to cover the legal cash reserves that the Bank and CrediScotia Financiera S.A. must set aside to cover deposits from third parties according to limits established by current legislation. These funds are held both at Banco Central de Reserva del Perú (BCRP) and kept in the Bank and CrediScotia Financera S.A. vaults.

Up to September 30, 2010, the cash reserves held at BCRP did not accrue interest, except for the amount in foreign currency that exceeded the minimum legal cash reserve. From October 1, 2010, the amount in local currency that exceeds the minimum legal cash reserve also accrues interest. As of December 31, 2010, the daily average in excess in foreign currency amounted to US$ 779,995 thousand (daily average US$ 884,196 thousand as of December 31, 2009), and accrued interest in U.S. dollars at an annual rate of 0.1570% (annual rate of 0.1396% as of December 31, 2009). Likewise, as of December 31, 2010, the daily average in excess in local currency amounted to S/. 182,735 thousand and accrued interest in nuevos soles at an annual rate of 1.20%. As of December 31, 2010, the remuneration referred to above amounted to S/. 398 thousand for funds in local currency and S/. 1,001 thousand for funds in foreign currency.

As of December 31, 2010, deposits with BCRP did include “overnight” operations of US$ 406,000 thousand and S/. 652,700 thousand, such operations accrued interest at an annual nominal rate of 0.19%, and between 2.20% and 3.00%, respectively (US$ 28,200 thousand at an annual nominal rate of 0.13% as of December 31, 2009).

(b) Deposits in local and foreign banks correspond, mainly, to balances in nuevos soles and in U.S. dollars, and small amounts in other currencies, with free withdrawal option and accrue interest at market rates. As of December 31, 2010, deposits in foreign banks, included deposits held at The Bank of Nova Scotia by US$ 6,093 thousand and Canadian dollars by $ 49 (US$ 8,899 thousand and Canadian dollars by $ 12 thousand as of December 31, 2009).

As of December 31, 2010, and 2009, Scotiabank Perú S.A.A. and Subsidiaries have no significant deposits with any commercial bank.

(c) As of December 31 2010, restricted funds of US$ 5,476 thousand and S/. 1,727 thousand (US$ 2,720 thousand and S/. 1,350 thousand as of December 31, 2009) are mainly related to guarantee funds and restricted funds due to lawsuits against the Bank and CrediScotia Financiera S.A.

(d) During the year 2010, revenue from interest on cash and due from banks amounted to S/. 23,690 thousand (S/. 8,986 thousand as of December 31, 2009) and is included as financial income item in the consolidated income statement (see note 19).

(6) Investments at Fair Value with Changes in Results and Available-for-Sale

As of December 31 it comprises the following:

	In thousands of S/.	
	2010	2009
Investments at fair value with changes in results:		
BCRP certificates of deposit (a)	49,921	-
Peruvian Treasury Bonds (b)	43,106	86,034
	93,027	86,034
Available-for-sale investments:		
BCRP certificates of deposit (a)	661,728	2,826,398
Peruvian Treasury Bonds (b)	862,786	597,392
Mutual funds (c)	73,097	74,386
Unlisted shares	7,963	10,679
Listed shares	1,140	877
Corporate bonds	7	7
Negotiable certificates of deposits	-	7,156
Investments in securitizations - Equity 2 (d)	-	2,275
	1,606,721	3,519,170
Total investments at fair value with changes in results and available-for-sale	1,699,748	3,605,204
Plus:		
Accrued return on investments	8,456	31,850
Total investments at fair value with changes in results and available-for-sale	1,708,204	3,637,054

(a) BCRP certificates of deposit are bearer securities freely negotiable in local currency; they are acquired through public bids of BCRP and marketed in the Peruvian secondary market. As of December 31, 2010, annual interest rate in local currency ranged from 0.09% to 2.88% (from 1.20% to 7.02% as of December 31, 2009) and had maturities between January and June 2011 (between January 2010 and July 2010, as of December 31, 2009).

Likewise, as of December 31, 2010, and 2009, Scotiabank Perú and Subsidiaries have no certificates of deposit issued by BCRP with restricted availability.

(b) The Peruvian Treasury Bonds correspond to sovereign bonds issued in local currency by the Peruvian Ministry of Economy and Finance and represent internal public debt instruments of the Republic of Peru. As of December 31, 2010, these bonds accrued interest at annual rates ranging from 4.42% to 6.76% (from 4.30% to 6.17% annually as of December 31, 2009), with maturities between May 2015 and August 2037 (between March 2010 and August 2026 as of December 31, 2009).

(c) As of December 31, 2010, mutual fund included US$ 21,911 thousand corresponding to investments in mutual funds mainly managed by a subsidiary (US$ 25,743 thousand as of December 31, 2009).

(d) In May 2003, the Bank and Scotia Sociedad Titulizadora S.A. signed an addendum to the securitization trust master agreement (Equity 2), through which they agreed to convert bonds and certificates of participation into certificates of securitization.

As of December 31, 2010 and 2009, the accrued interest on investments amounted to S/. 70,825 thousand and S/. 58,947 thousand, respectively, and is included in the Financial Income item in the consolidated income statement.

Management estimates the market value of investment at fair value with changes in results and available-for-sale investments based on quoted market prices at the Lima Stock Exchange or, when those are not available, by discounting the expected cash flows at an interest rate reflecting the risk of the security. In the opinion of the Scotiabank Perú S.A.A. and Subsidiaries' management the market value of securities and the provisions, recorded to have them at their estimated market value, are enough to cover any eventual losses as of December 31, 2010 and 2009.

Investment at fair value with changes in results and available-for-sale investments, as of December 31, 2010 and 2009, present the following maturities:

	In thousands of S/.	
	2010	2009
Up to 3 months	149,939	1,785,647
From 3 months to 1 year	634,887	1,160,488
Over 1 year	923,378	690,919
	1,708,204	3,637,054

(7) Loan Portfolio, net

As of December 31 it comprises the following:

	In thousands of S/.			
	2010	%	2009	%
Direct loans:				
Current loans	17,689,305	97	14,941,438	96
Refinanced loans	226,376	1	230,263	1
Restructured loans	75,915	-	127,079	1
Past due loans	257,343	2	362,179	2
Lawsuits loans	71,348	-	43,777	-
	18,320,287	100	15,704,736	100
Plus (less):				
Accrued interest on current loans	136,096		144,791	
Non-accrued interest	(534,637)		(406,096)	
Provision for doubtful loans	(773,501)		(870,206)	
	17,148,245		14,573,225	
Indirect loans (note 18)	3,432,761		2,439,911	

As of December 31, 2010, and 2009, fifty-one percent of the direct and indirect loan portfolio of the Bank and CrediScotia Financiera S.A. were concentrated in 705 and 481 clients, respectively.

The loan portfolio (direct and indirect) is mainly collateralized by collaterals received from clients, which are mainly composed of mortgages, industrial and merchant pledges, third-party letters of guarantees and securities. The value of these mortgages and pledges has been determined based on net realizable value in the market, less selling expenses according to SBS regulations.

Annual interest rates are regulated by the market and may be fixed freely by Scotiabank Perú S.A.A. and Subsidiaries. As of December 31, 2010 and 2009, the annual average effective rates for the main products were the following:

	%			
	2010		2009	
	Local currency	Foreign currency	Local currency	Foreign currency
Overdraft (*)	37.71 - 85.00	23.10 - 55.00	37.71 - 72.49	23.10 - 30.15
Discounts and commercial loans	2.31 - 40.60	2.12 - 30.20	4.71 - 46.40	4.23 - 28.50
Consumer loans	13.08 - 50.16	6.94 - 38.40	16.17 - 59.20	8.27 - 46.10

(*) For credits in excess of S/. 100 thousand and US$ 100 thousand, respectively.

As of December 31, 2010, and 2009, according to current SBS regulations, the loan portfolio was rated by risk as follows:

	2010				2009			
		In thousands of S/.				In thousands of S/.		
Risk rating	N° of debtors	Direct	Indirect	Total	N° de debtors	Direct	Indirect	Total
Standard	785,609	17,098,035	3,408,612	20,506,647	788,182	14,284,289	2,415,096	16,699,385
Potential problem	48,003	440,509	14,148	454,657	67,687	458,482	16,278	474,760
Substandard	29,521	162,084	1,673	163,757	38,118	226,789	1,288	228,077
Doubtful	53,863	272,241	1,420	273,661	66,659	372,445	1,715	374,160
Loss	23,285	347,418	6,908	354,326	32,019	362,731	5,534	368,265
	940,281	18,320,287	3,432,761	21,753,048	992,665	15,704,736	2,439,911	18,144,647

As of December 31 2010, and 2009, direct loans were distributed among the following sectors:

	In thousands of S/.			
	2010	%	2009	%
Mortgage and consumer loans	5,304,905	29	4,810,623	29
Manufacturing	2,543,140	14	2,142,275	14
Real estate business and lease service	2,461,163	13	758,791	4
Trade	2,191,813	12	1,676,551	11
Mining	795,394	4	819,031	5
Transportation	751,016	4	692,139	4
Electricity, gas, and water	724,983	4	751,590	5
Financial intermediation	599,113	3	523,063	3
Education, services, and other	390,083	2	274,012	2
Fishing	298,408	2	244,716	2
Construction	243,514	1	204,725	1
Agriculture and livestock	242,064	1	193,402	1
Hotel and restaurants	130,111	1	115,426	1
Public administration and defence	8,671	-	22,114	-
Other (mainly non-profit, healthcare and automotive)	1,635,909	10	2,476,278	18
	18,320,287	100	15,704,736	100

The movement of the provision for doubtful loans (direct) is as follows:

	In thousands of S/.		
	Specific	Generic	Total
Balance as of December 31, 2008	496,014	239,076	735,090
Additions charged to income statement	702,913	57,723	760,636
Recovery of provisions	(149,063)	(49,813)	(198,876)
Transfers and other	114,754	52,452	167,206
Write-offs and forgiveness	(564,766)	-	(564,766)
Exchange difference	(19,456)	(9,628)	(29,084)
Balance as of December 31, 2009	580,396	289,810	870,206
Additions charged to income statement	593,960	92,382	686,342
Recovery of provisions	(215,779)	(40,735)	(256,514)
Transfers and other	(34,040)	(13,150)	(47,190)
Write-offs and forgiveness	(469,559)	-	(469,559)
Exchange difference	(6,651)	(3,133)	(9,784)
Balance as of December 31, 2010	448,327	325,174	773,501

As of December 31, 2010, the provision for foreign exchange credit risk amounts to S/. 1,139 thousand (S/. 1,493 thousand as of December 31, 2009).

Scotiabank Perú S.A.A. and Subsidiaries record the provision for doubtful loans according to the policy described in note 3e.

In the opinion of Scotiabank Perú S.A.A. and Subsidiaries' management, as of December 31, 2010, and 2009 the provision for doubtful loans is recorded according to current SBS standards.

As of December 31, 2010 and 2009, direct loan portfolio had the following maturities:

	In thousands of S/.					
	2010			2009		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Up to 1 month	887,479	1,323,876	2,211,355	1,162,631	1,203,347	2,365,978
More than 1 to 3 months	1,414,959	2,049,606	3,464,565	772,047	1,891,453	2,663,500
More than 3 to 6 months	1,277,775	1,152,115	2,429,890	945,483	850,968	1,796,451
More than 6 to 12 months	1,573,409	974,249	2,547,658	1,354,706	776,337	2,131,043
Over 12 months	3,405,943	4,068,281	7,474,224	2,893,375	3,593,224	6,486,599
Overdue and lawsuit	171,360	157,331	328,691	186,396	219,560	405,956
Less, accrued interest on current loans	(94,108)	(41,988)	(136,096)	(111,694)	(33,097)	(144,791)
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	8,636,817	9,683,470	18,320,287	7,202,944	8,501,792	15,704,736
	=======	=======	========	=======	=======	========

(8) Accounts Receivable, net

As of December 31 it comprises the following:

	In thousands of S/.	
	2010	2009
Tax claims (a)	133,208	133,208
Accounts receivable from collections and warehousing services	45,013	57,114
Accounts receivable for differential of derivative financial instruments - forwards (b)	30,789	43,885
Commissions receivable	16,615	14,853
Accounts receivable from brokerage customers	15,880	5,859
Accounts receivable from guarantee trusts, net (c)	11,132	15,103
Payments on behalf of the thirds parties, net	4,703	5,286
Advances to personnel	2,094	1,763
Other accounts receivable, net (d)	97,135	206,724
	--------------	--------------
	356,569	483,795
	========	========

(a) The Scotiabank Perú S.A.A. and Subsidiaries tax proceedings as of December 31, 2010 and 2009, correspond to the compensation of the credit balance against ITAN (Temporary Tax on net Assets) for years 2006 and 2005, see note 24c.

Likewise, it also includes the process for the reply on an assessment related to land object of a lease agreement under tax treatment of Law Decree 299; which was definitively resolved in favor of Scotiabank Perú S.A.A. and Subsidiaries by the Supreme Court; thus remaining only the issuance of final resolutions.

(b) As of December 31, 2010, Scotiabank Perú S.A.A. and Subsidiaries hold sale and purchase "forward" transactions for a face value of US$ 1,392,761 thousand and US$ 1,851,123 thousand; respectively, with maturities until April 2013 (as of December, 31, 2009, held forward transactions for US$ 636,348 thousand and US$ 906,252 thousand, respectively, with maturities until April 2013). Forward transactions in 2010, generated a net loss of S/. 19,225 thousand (a net gain of S/. 20,915 thousand in 2009), see notes 19 and 20.

(c) The SBS, by means of Resolution 1796-2003, authorized the Bank to transfer to a guarantee trust a loan portfolio, provisions and guarantees related to this portfolio. This guarantee trust was to support a financing operation with Banco de Credito del Perú for US$ 10,000 thousand. The term of the trust agreement was established until December 29, 2011, which could be extended upon agreement of both parties. This agreement allows the Bank to replace or remove assets from the trust, in compliance with the terms of the contract. As of December 31, 2010, the Bank had not yet requested any disbursement under the facility. Likewise, as of December 31, 2010, the Bank had transferred loans to the guarantee trust for a net value of S/. 52,747 thousand (S/. 48,841 thousand as of December 31, 2009).

The provision for doubtful loans of the Guarantee Trust Agreement is calculated according to the criteria established in note 3e.

As of December 31, 2010 and 2009, the net balance of accounts receivable from the trust amounted to S/. 11,132 thousand and S/. 15,103 thousand, respectively, and included accumulated provisions for S/. 148,321 thousand and S/. 212,067 thousand, respectively.

(d) As of December 31, 2010, the balance of other accounts receivable, net of the related provision for doubtful accounts, is composed of: i) S/. 14,195 thousand of accounts receivable from the sale of investments (S/. 157,608 thousand as of December 31, 2009); ii) S/. 2,278 thousand of accounts receivable from property rental (S/. 8,612 as of December 31, 2009); and iii) S/. 70,743 thousand of various accounts receivable (S/. 35,003 thousand as of December 31, 2009).

(9) Goodwill

In 2008, the Bank acquired 100% of the capital stock of Banco del Trabajo S.A., currently CrediScotia Financiera S.A., and recognized goodwill as at December 31, 2010 and 2009 of S/. 278,818 thousand which includes a purchase price adjustment (earn-out) of S/. 83,290 thousand, calculated in accordance with the purchase agreement.

According to SBS standards, such goodwill is recorded at cost and has been assessed by management, concluding that there is no impairment as of December 31, 2010 and 2009.

(10) Property, Furniture, and Equipment, net

Is comprised of the following:

	In thousands of S/.				
	Balances as of 12.31.2009	Additions	Disposals	Reclassification / adjustments	Balances as of 12.31.2010
Cost:					
Land	215,359	-	(19,239)	(42,126)	153,994
Property and premises	713,436	2,636	(6,140)	(24,579)	685,353
Furniture, fixture, and computing equipment	292,348	23,992	(9,774)	2,786	309,352
Vehicles	5,193	1,387	(372)	-	6,208
Units in transit and replacing units	2,076	17,732	-	(16,862)	2,946
Work-in-progress	1,018	15,114	-	(2,802)	13,330
	1,229,430	60,861	(35,525)	(83,583)	1,171,183
Accumulated depreciation:					
Property and premises	388,109	31,732	(4,279)	26,414	441,976
Furniture, fixture, and computing equipment	213,616	26,299	(9,374)	(1,805)	228,736
Vehicles	3,703	596	(372)	-	3,927
	605,428	58,627	(14,025)	24,609	674,639
Provision for impairment of property	103,471	-	(2,766)	(100,705)	-
	520,531				496,544

In 2010, the balances of provisions for impairment of property, recognized in previous years, were assigned to specific items as required by SBS Resolution 914-2010. The amount reclassified from the total provision was S/. 100,705 thousand.

According to current legislation, banks and finance companies in Peru cannot give as collateral goods that are part of their property, furniture, and equipment, except for those acquired through the issuance of leasing bonds to carry out finance lease operations.

(11) Other Assets, net

As of December 31 it comprises the following:

	In thousands of S/.	
	2010	2009
Tax credits and other (a)	329,899	337,903
Deferred income tax and deferred employees' profit sharing (note 25)	105,655	78,922
Prepaid expenses (b)	96,790	92,553
Transactions in process (c)	68,283	38,930
Repossessed and realizable assets, net of accumulated depreciation and provision for impairment for S/. 130,918 thousand (S/. 136,583 thousand in 2009)	24,521	38,836
Inventories	12,869	12,537
Intangible assets, net of amortizations of S/. 184,977 thousand (S/. 260,188 thousand in 2009)	10,925	13,294
Other	14,947	9,421
	663,889	622,396

(a) As of December 31, 2010 and 2009, tax credit mainly includes: (i) the value added tax (VAT) for S/. 322,899 thousand and S/. 331,748 thousand respectively, for the acquisition of assets that have been transferred under a finance lease, which has not been applied against operations subject to taxation; and (ii) the balances of Temporary Tax on Net Assets (ITAN) paid and pending to apply to income tax; as of December 31, 2009 this balance amounted to S/. 5,564 thousand and was applied in the year 2010.

(b) As of December 31, 2010, prepaid expenses include mainly: i) deferred loan origination cost, related to fees paid to external sales S/. 37,080 thousand, ii) prepaid rent for S/. 6,032 thousand and iii) prepaid commissions of received borrowings for S/. 11,863 thousand (S/. 26,207 thousand, S/. 6,377 thousand and S/. 3,920 thousand; respectively as of December 31, 2009).

(c) Transactions in process are those carried out during the last days of the month and are reclassified in the following month to their respective accounts in the consolidated balance sheet; these transactions do not affect the results of Scotiabank Perú S.A.A. and Subsidiaries. As of December 31, 2010, this account includes S/. 56,276 thousand related to Treasury transactions and S/. 1,850 thousand for unsettled Unibanca transactions (S/. 27,243 thousand and S/. 987 thousand as of December 31, 2009; respectively).

(12) Deposits and Obligations

As of December 31 is composed of the following:

	In thousands of S/.			
	2010	%	2009	%
Individuals	6,470,634	33	6,614,148	37
Corporate clients	9,821,637	51	8,115,513	45
Non-profit organizations	2,144,642	11	2,321,195	13
Other	982,633	5	1,024,264	5
	19,419,546	100	18,075,120	100

Deposits and other obligations in U.S. dollars represent 51% and 57% of the total deposits as of December 31, 2010 and 2009, respectively. The amount owed for deposits included accounts which have been pledged in favour of Scotiabank Perú S.A.A. and Subsidiaries for loan operations for S/. 277,877 thousand and US$ 198,195 thousand as of December 31, 2010 and for S/. 222,972 thousand and US$ 182,678 thousand, as of December 31, 2009.

Likewise, as of December 31, 2010 and 2009, from the total of deposits and obligations of individuals and non-profit legal entities, the amounts of S/. 5,081,394 thousand and S/. 4,831,011 thousand respectively, are covered by the Peruvian deposit insurance fund (FSD), according to current legal regulations.

According to article 4 of SBS Resolution 0657-99, deposits supported by the FSD are the following:

(a) Registered deposits, under any modality, of individuals and private non-profit legal entities;

(b) Accrued interest on the above-mentioned deposits, as from their respective opening dates or their last renewal; and

(c) Demand deposits corresponding to legal entities.

The maximum amount covered for each individual as of December 31, 2010, amounted to S/. 86 thousand (S/. 82 thousand as of December 31, 2009).

The Bank and CrediScotia Financiera S.A. freely establish deposits interest rates based on supply and demand, and according to the type of deposits. Current rates in effect as of December 31, 2010 and 2009 fluctuated as shown below for the following main products (annual effective rate):

	%			
	2010		2009	
	Local currency	Foreign currency	Local currency	Foreign currency
Savings deposits	0.97 – 2.62	0.45 – 1.66	0.97 – 2.70	0.45 – 1.80
Time deposits	0.96 – 5.67	0.50 – 3.03	1.08 – 7.70	0.40 – 3.60
Bank certificates	-	0.26 - 1.38	-	0.40 – 1.70
Severance indemnities deposits	1.47 – 6.00	1.35 – 4.00	1.43 – 6.00	1.40 – 4.00

As of December 31, 2010 and 2009 the scheduled maturity dates of the time deposits were as follows:

	In thousands of S/.					
	2010			2009		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Up to 1 month	2,286,473	2,504,849	4,791,322	1,299,816	2,075,981	3,375,797
More than 1 to 3 months	618,384	442,233	1,060,617	541,941	825,426	1,367,367
More than 3 to 6 months	230,367	714,117	944,484	954,768	890,085	1,844,853
More than 6 to 12 months	129,811	609,304	739,115	465,743	1,256,610	1,722,353
Over 12 months	1,038,173	489,939	1,528,112	110,398	559,357	669,755
	4,303,208	4,760,442	9,063,650	3,372,666	5,607,459	8,980,125

Demand deposits, savings deposits and severance indemnity deposits (CTS) have no contractual maturities.

At the Board of Directors' meeting of CrediScotia Financiera S.A. held on October 28, 2008, the Second Program of short-term Negotiable Certificates of Deposits (NCD) was approved for an amount up to S/. 200,000 thousand. The first issuance was made in December 2010, amounting to S/. 50,000 thousand with a term to maturity of two years. The proceeds are recorded in the time deposits account.

(13) Borrowings and Financial Obligations

As of December 31 it comprises the following:

	In thousands of S/. 2010	In thousands of S/. 2009
COFIDE credits lines (a):		
Mivivienda	197,869	184,863
Working capital and other	300,000	200,000
Ordinary loans from abroad (b):		
Related banks	877,258	39,890
Other banks	2,391,286	1,212,049
	3,766,413	1,636,802
Interest payable	16,267	20,127
	3,782,680	1,656,929

(a) COFIDE - Corporación Financiera de Desarrollo S.A. (Finance Development Corporation) credit lines correspond to resources obtained for the granting of loans, mainly for the Fondo Mivivienda mortgage financing programs, which accrue a fixed rate adjusted for the VAC index. Likewise, as of December 31, 2010 and 2009, the borrowings with COFIDE include funds obtained in local currency to be used for working capital in the short term, which accrue interest at rates between 4.45% and 7.25% (between 7.15 % and 7.25% as of December 31, 2009).

(b) As of December 31, 2010, ordinary loans correspond to debts with two related foreign financial entities: Scotiabank Ltd Bahamas for US$ 303,165 thousand and The Bank of Nova Scotia for US$ 9,138 thousand (as of December 31, 2009 for US$ 3,165 thousand and US$ 10,638 thousand, respectively).

As of December 31, 2010, borrowings of Scotiabank Perú S.A.A. and Subsidiaries agreed with various foreign financial institutions for US$ 632,961 thousand accrued interest at average rates that ranged from 0.59% to 7.50% p.a. (1.53% to 7.50% p.a. as of December 31, 2009).

During 2010, Scotiabank Perú S.A.A. negotiated borrowings with two foreign financial institutions for US$ 125,000 thousand maturing in September 2017. From this amount, US$ 62,500 thousand accrues interest at a fixed rate of 3.88% while US$ 62,500 thousand accrue interest at a variable rate of 3 – month LIBOR plus a spread of 2.10%. These transactions contain standard clauses of compliance with financial ratios and other administrative matters. In the opinion of the Scotiabank Perú S.A.A. and Subsidiaries' management those clauses do not affect the Bank's operations and are being met.

In June 2008, the Bank agreed a medium-term syndicated loan with resources from abroad. The loan amounted to US$ 280,000 thousand and accrues interest at LIBOR rate plus 1.25% annually, with a total term of three years payable from the second year, in three equal semi-annual instalments finishing in June 2011. This transaction contains standard clauses of compliance with financial ratios, which in opinion of management do not affect the Bank's operations and are being met.

As of December 31, 2010 and 2009, the scheduled maturity dates of borrowings from banks and other financial institutions were as follows:

	In thousands of S/. 2010	In thousands of S/. 2009
Up to 1 month	560,770	123,405
More than 1 to 3 months	786,303	3,589
More than 3 to 6 months	760,629	341,132
More than 6 to 12 months	252,258	505,693
More than 12 months	1,422,720	683,110
	3,782,680	1,656,929

(14) Securities, Bonds and Obligations Issued

As of December 31 it comprises the following:

Issuance	Annual interest	Maturity	Outstanding balances in thousands of S/. 2010	Outstanding balances in thousands of S/. 2009
Negotiable notes (a)				
Series A	5.25%	2017	140,450	-
Series B	3m LIBOR + 2.75%	2017	351,125	-
			491,575	-
Redeemable subordinated bonds (b)				
1st issuance	9.75% - 9.10%	2012 and 2013	196,140	201,460
2nd issuance E	8.25%	2011	8,427	8,670
			204,567	210,130
Leasing bonds (c)				
1st issuance A	5.75%	2010	-	28,900
Corporate bonds (d)				
1st issuance A	5.69%	2012	30,000	30,000
1st issuance B	5.78%	2012	26,660	26,660
1st issuance A	6.34%	2013	100,000	100,000
3rd issuance A	6.81%	2013	150,000	150,000
5th issuance A	6.44%	2014	40,900	40,900
5th issuance B	6.59%	2014	25,150	25,150
5th issuance C	6.31%	2014	49,290	49,290
6th issuance A	4.66%	2012	30,140	30,140
7th issuance A	7.19%	2017	60,000	-
8th issuance A	7.31%	2017	100,000	-
			612,140	452,140
			1,308,282	691,170
Interest payable (e)			8,776	5,432
			1,317,058	696,602

(a) In January 2010, SBP DPR Finance Company (special purpose entity established in Grand Cayman and consolidated by Scotiabank Perú S.A.A. and Subsidiaries) made a securitization agreement of Diversified Payment Rights (DPR), in which SBP DPR Finance Company acquired the rights and future flows from remittances received from correspondent banks up to the deadline specified in the contract. SBP DPR Finance Company issued two series of long-term notes, Series “A” for US$ 50,000 thousand and Series B for US$ 125,000 thousand, both series with maturities in 2017. The Series “A” accrue interest at a fixed rate of 5.25% and Series “B” accrue interest at the three-month LIBOR rate plus 2.75%. The notes are guaranteed by remittances received by the Bank through SWIFT messages and are transferred to SBP DPR Finance Company. The issuance of these notes has standard clauses on the compliance of financial ratios and other administrative matters, which, in Management’s opinion, do not affect the Bank’s operation and are being met.

(b) During 2000, the Bank issued, through public auction, subordinated bonds for US$70,000 thousand denominated Banco Wiese Sudameris Subordinated Bonds – First Issuance with SBS authorization – Resolution 366-2000. The issuance of these bonds concluded in 2001 and was executed in seven series (identified with letters A, B, C, D, E, F, and G) of 1,000 bonds per series at a par value of US$10 thousand maturing in 2012 and 2013. The proceeds obtained were used to finance loan operations.

(c) Correspond to the outstanding balance of the issuance of leasing bonds denominated Banco Sudamericano Leasing Bonds – Eleventh Issuance (11th Issuance) made in 2005 by former Banco Sudamericano up to an amount of US$ 30,000 thousand, which were totally placed and matured in 2010.

(d) From 2007 to 2011, the Bank issued Corporate Bonds for S/. 612,140 thousand within a term of 2 and 7 years. The proceeds were exclusively destined to the financing of loan operations.

(e) As of December 31, 2010, interest payable on securities and obligations mainly included unpaid interest corresponding to securities issued by the Bank for S/. 8,776 thousand (as of December 31, 2009, it includes, among others, cumulative dividends unpaid as of that date for preferred shares amounting to S/. 5,432 thousand).

Subordinated bonds issued by the Bank do not have specific collateral; however, they have a generic guarantee on shareholders’ equity of the Bank.

As of December 31, 2010 and 2009, the maturity of securities issued was as follows:

	In thousands of S/.	
	2010	2009
Up to 1 month	-	4,220
More than 1 to 3 months	-	113
More than 3 to 6 months	-	111
More than 6 to 12 months	17,203	29,888
More than 12 months	1,299,855	662,270
	1,317,058	696,602

(15) Provisions and Other Liabilities

As of December 31 it comprises the following:

	In thousands of S/. 2010	In thousands of S/. 2009
Various accounts payable (a)	175,935	104,142
Income tax provision	120,443	38,645
Transactions in process (b)	115,431	76,178
Provisions for litigations and legal claims (c)	113,877	110,047
Vacations, profit sharing and remunerations payable	99,972	68,794
Put option (d)	52,527	51,217
Accounts payable to customers	46,786	39,670
Generic provision (e)	45,862	36,674
Accounts payable for differential of derivative financial instruments – “forwards” (note 8b)	31,916	47,591
Provision for indirect loans	28,747	899
Dividends from securities held in custody payable to customers	19,176	16,538
Deferred income on portfolio sale and other	15,541	32,063
Deferred income tax and employees’ profit sharing (note 25)	11,292	7,804
Other provisions (f)	154,062	148,941
	1,031,567	779,203

(a) As at December 31, 2010, this account was composed of accounts payable to: i) suppliers for S/. 59,361 thousand; ii) tax agencies for S/. 18,598 thousand; iii) purchase of investments for S/. 8,826 thousand; iv) insurance companies for services agreed-upon by customers for S/. 7,341 thousand and v) merchants for purchases with credit cards issued for S/. 6,230 thousand (S/. 73,925 thousand, S/. 7,275 thousand, S/. 2,197 thousand, S/. 4,619 thousand and S/. 3,564 thousand; respectively, as of December 31, 2009).

(b) Transactions in process are mainly those carried out during the last days of the month and are reclassified in the following month to their definitive respective accounts in the consolidated balance sheet. These operations do not affect the results of Scotiabank Perú S.A.A. and Subsidiaries. As of December 31, 2010, liability transactions in process included S/. 55,647 thousand related to Treasury operations (S/. 32,342 thousand as of December 31, 2009).

(c) As of December 31, 2010 and 2009, Scotiabank Perú S.A.A. and Subsidiaries have various legal actions, which are related to civil and labor claims, among others. These legal actions are related to activities that are performed in the normal course of the Scotiabank Perú S.A.A. and Subsidiaries’ operations and are not anticipated to have any significant impact on operations or their results.

(d) As of December 31, 2010 and 2009, the Bank has signed a put option contract on its own common shares held in a trust, entitling the trustee the right to sell to the Bank all of these shares at a price calculated based on this contract. This option is effective from September 15, 2006 through December 31, 2015 and its book value does not differ significantly from its estimated market value.

(e) As of December 31, 2010 the generic provision account mainly corresponds to: i) reversals or recoveries of provisions recorded since 2002 charged to equity accounts, which, according to SBS Official Letter 23797-2003, shall be reallocated to deficits of provisions in other asset accounts of the Bank for S/. 27,356 thousand (S/. 24,300 thousand as of December 31, 2009); and ii) generic provision made with charge to the income statement of the period for S/. 18,506 thousand (S/. 12,374 thousand as of December 31, 2009).

(f) As of December 31, 2010, other provisions included provision for personnel expenses for S/. 27,633 thousand (S/. 10,547 thousand as of December 31, 2009). Likewise, from 2009 this balance included the adjustment to the acquisition cost (earn out) of the capital stock of CrediScotia Financiera S.A. for S/. 83,290 thousand, which was determined in conformity with the purchase agreement; which allowed the possibility to adjust the acquisition cost upon achievement of certain results indicated in the purchase contract. The payment of the contingent amount shall be made based on the criteria set out in that agreement (see note 9).

(16) Shareholders' Equity

(a) General

The regulatory net worth of Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. are determined in accordance with the Banking Law and amount to S/. 2,018,359 thousand and S/. 292,139 thousand, respectively (as of December 31, 2009 S/. 1,883,445 thousand and S/. 284,814 thousand; respectively). These figures are used to calculate certain legal limits and restrictions according to the Peruvian banking law applicable to the financial institutions' operations in Peru.

As of December 31, 2010, risk weighted assets and contingent credits determined by Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. according to the legislation applicable to financial institutions amounted to approximately S/. 16,453,820 thousand and S/. 2,308,068 thousand, respectively (S/. 14,780,472 thousand and S/. 1,736,514 thousand, respectively as of December 31, 2009).

As of December 31, 2010, the Banking Law establishes as global limit a requirement that the regulatory net worth should be equal to or greater than 9.8% of total risk weighted assets and contingent credits (9.5% as of December 31, 2009), which includes the sum of the amount of regulatory net worth requirements for market and operational risks multiplied by 10.2 and contingent assets and risk weighted credit (10.5 as of December 31, 2009). As of December 31, 2010, the global limit of Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. determined by current legal rules amounts to 11.53% and 12.33%, respectively (11.91% and 15.83%, respectively, as of December 31, 2009).

(b) Capital Stock

As of December 31, 2010 the Bank's capital stock comprised 154,108,966 common shares (139,949,195 common shares as of December 31, 2009). All shares have voting rights and a par value of S/. 10.00 each. As of December 31, 2010, the quoted value of common shares of the Bank was S/. 78.00 per share (as of December 31, 2009, was S/. 146.40 for common shares). As of December 31, 2010 and 2009, monetary inflation adjustment corresponding to 2001 through 2004 and amounting to S/. 28,019 thousand was pending of capitalization.

At the Board of Directors' meeting dated June 16, 2010 and pursuant to the delegation conferred by the General Shareholders' meeting held on March 26, 2009, the Board approved a capital stock increase amounting to S/. 141,598 thousand. This increase was made after completion of the subscription and payment process of S/. 297,780 thousand equivalent to 14,159,771 new common shares, which were subscribed and paid for at a subscription price of S/. 21.0300011 per share. Of the total subscribed amount, S/. 141,598 thousand corresponds to capital stock increase and S/. 156,182 thousand represents the premium paid. The cash contribution of S/. 297,780 thousand was provided initially by a shareholder to whom other shareholders reimbursed the amount of S/. 178,036 thousand subscribed by them.

At the Board of Directors' meeting held on January 28, 2009 and pursuant to the delegation conferred by the General Shareholders' meeting dated February 27, 2006, the capital increase related to the capitalization of subordinated loans was approved to allow minority shareholders to maintain their proportion in the capital stock according to the Companies General Law, having agreed to increase the capital stock up to the amount of S/. 3,491 thousand through the issuance of 73,428 nominal common shares with voting rights of a face value of S/. 10.00 to be covered through cash contributions through the preferred subscription procedures established in such meeting.

At the Board of Directors' meeting dated March 25, 2009, after finishing the subscription and payment of 73,428 new common shares at a subscription price of S/. 47.55, each of them represented the payment amounting to S/. 3,491 thousand from which S/. 734 thousand correspond to the increase of capital stock and S/. 2,757 thousand represent a premium of issuance.

At the Shareholders' meeting held on March 26, 2009, it was approved the decrease of capital in an amount of S/. 96 thousand resulting from 9,650 preferred shares for a face value of S/. 10.00 each. Additionally, it was approved the increase of capital stock for an amount of S/. 921,338 thousand for the capitalization of equity accounts. Likewise, it was delegated to the Board of Directors of the Bank the faculty of indicating when the increase should be made.

At the Board of Directors' meeting held on December 17, 2009, based on the authority conferred by the Shareholders' meeting indicated in the previous paragraph, the Board approved the capitalization of S/. 893,319 thousand, of which S/. 2,956 thousand corresponds to additional capital, S/. 20,397 thousand corresponds to capital in progress and S/. 869,966 thousand corresponds to retained earnings; by which the capital stock increased from S/. 506,173 thousand to S/. 1,399,492 thousand.

The shareholding in the Bank's capital stock as of December 31, 2010 and 2009, is as follows:

	2010		2009	
Percentage of shareholding	Number of shareholders	Total percentage of shareholding	Number of shareholders	Total percentage of shareholding
0.01 to 1	2,514	2.29	2,751	2.32
1.01 to 50	2	42.39	2	42.38
50.01 to 100	1	55.32	1	55.30
	2,517	100.00	2,754	100.00

As of December 31, 2010, the Banking Law requires that the capital stock of the Bank should reach the minimum amount of S/. 23,176 thousand (S/. 22,383 thousand as of December 31, 2009), which is a constant value and shall be updated annually at the closing of each period, based on the wholesale price index (WPI), as published by the Instituto Nacional de Estadística e Informática (National Institute of Statistics).

(c) Legal Reserve

In accordance with the Banking Law, the Bank is required to have a legal reserve of at least 35% of its capital stock. This reserve is created by an annual transfer of no less than 10% of after-tax profits, and supersedes the reserve referred to in the Companies Act. On the other hand, as stipulated in the Banking Law, the amount of this reserve may also be increased with contributions made by the shareholders for this purpose.

At the Bank's annual obligatory general shareholders meeting held on March 17, 2010, it was decided to apply to legal reserve an amount of S/. 63,705 thousand, corresponding to 10% of net profit for the year 2009. During 2009, there was no increase to the legal reserve balance since at the date of its establishment (March 2009), the reserve balance exceeded the minimum amount required.

(d) Retained Earnings

At the Bank's annual obligatory general shareholders' meeting held on March 17, 2010, the distribution of profits corresponding to year 2009 for a total of S/. 637,053 thousand was agreed, as follows:

(i) Distribution of dividends of common shares was agreed for S/. 191,116 thousand.

(ii) Allocate 10% of net income, amounting to S/. 63,705 thousand to increase the legal reserve.

(iii) Non-distributed balance, amounting to S/. 382,232 thousand will be held in the equity account of Retained earnings.

Afterwards, at the Board of Directors' meeting dated March 30, 2010, the Board agreed to allocate retained earnings up to S/. 200,000 thousand as profit with capitalization agreement.

At the Bank's annual obligatory general shareholders' meeting held on March 26, 2009, the distribution of profits corresponding to year 2008 for a total of S/. 598,648 thousand was agreed, as follows:

(i) Payment of dividends in cash in favour of the holders of common shares, for an amount of S/. 179,594 thousand.

(ii) Make a profit capitalization up to S/. 330,000 thousand previously authorized by SBS.

(iii) Non-distributed balance, amounting to S/. 89,054 thousand will be held in the equity account of Retained earnings.

(17) Contingencies and Commitments

(a) Pending Reply to the Peruvian Tax Authorities' Assessment

In December 1999, the Bank received the 012-02-0000409 resolution from the Tax Authority, through which the authority made an observation on the use of a tax credit against value added tax for S/. 388,111 thousand, including accrued interest as of December 31, 2010, mainly in the case of former bank Banco Wiese Limitado, the authority considered that the tax credit obtained from the purchase and sale of gold between 1997 and 1998 was not correct. Tax Court has annulled the allegations of the Tax Authority at first instance, and has ordered the issuance of a new pronouncement. Scotiabank Perú S.A.A. and Subsidiaries' management and its legal advisors estimate that no new material liabilities will arise as a result of that tax audit.

(b) Contingencies

In February 2006, previous to Banco Wiese Sudameris (BWS) acquisition by The Bank of Nova Scotia ("BNS") from Banca Intesa S.p.A, BNS reached an agreement with Banca Intesa S.p.A. to not include the subsidiary Wiese Sudameris Leasing S.A. (currently denominated Gestiones y Recuperaciones de Activos S.A. "GYRASA") in the acquisition of BWS due to possible contingencies, and also transferred assets and liabilities from Wiese Sudameris Leasing S.A. to the Bank's leasing business.

In March 2006, BNS, BWS and Banca Intesa S.p.A. signed an indemnity agreement through which Scotiabank Perú S.A.A. will assume the costs resulting from any potential legal or tax contingency that may arise for GYRASA and/or Banca Intesa S.p.A with regards to transferred assets.

Additionally, Scotiabank Perú S.A.A. and Subsidiaries have several pending court claims related to their ongoing activities. In the opinion of management and its internal legal advisors, these claims will not result in additional liabilities to those recorded by the Bank; therefore, management considers that no additional provision is necessary for these contingencies (note 15c).

(c) Commitments

i) During 2009, 9,650 preferred shares (see note 16b) were redeemed at US$ 560.98064 per share, thus the Bank paid US$ 5,413 thousand. Additionally, these preferred shares had a guarantee fixed dividend of 10%, which at payment date represented US$ 52.514 per share. The Bank paid for this concept an amount of US$ 52.514 per share.

ii) At the Board of Directors' meeting of CrediScotia Financiera S.A. held on October 28, 2008, the Board approved the issuance of the First Corporate Bonds Program up to S/. 300,000 thousand which will be valid for two years from the date of registration of the program with the CONASEV public registry of securities. As of December 31, 2010 CrediScotia Financiera S.A. has not issued any corporate bonds.

(18) Contingent and Memoranda Accounts

In the normal course of business, the Bank and CrediScotia Financiera S.A. perform contingent transactions with credit risk in off balance sheet (contingent assets). These transactions expose the Bank and CrediScotia Financiera S.A. to additional credit risk, beyond of the amounts presented in the consolidated balance sheet. Credit risk for contingent transactions are recorded in the Memoranda Accounts and are related with amounts that the Bank and CrediScotia Financiera S.A. would assume by the commitments that bank's customers have contracted; by which compliance the Bank and CrediScotia Financiera S.A. have been blamed. The Bank and CrediScotia Financiera S.A. apply the same credit policies to evaluate and grant direct loans as indirect loans.

As of December 31, 2010 and 2009, the contingent and memoranda accounts comprised the following:

	In thousands of S/.	
	2010	2009
Indirect loans:		
Guarantees and stand-by letters of credit	2,881,937	1,923,625
Issued letters of credit	483,284	426,118
Due from bank acceptances	67,540	90,168
	3,432,761	2,439,911
Unused credit lines (a)	16,593,711	6,536,722
Financial derivative contracts	9,028,305	4,435,664
Other	542	208,633
	29,055,319	13,620,930
Memoranda accounts:		
Securities held in custody	5,819,445	4,822,299
Suspended interest on loans	1,236,582	631,231
Goods transferred in trust	3,862,591	4,733,417
Guarantees received (b)	36,628,640	36,291,370
Qualification of assets and contingent (c)	-	39,668,638
Securities in collection	10,731,022	9,165,928
Own securities in custody	1,907,208	1,680,801
Written-off loans	3,531,924	3,691,713
Advised letters of credit	215,718	272,529
Securities granted as warranties	554,791	427,581
Trust and debt trust commissions	2,664,771	4,211,402
Control of returned checks	50,760,169	38,135,497
Loans and other control	17,136,682	15,522,812
Other memoranda accounts	45,355,475	20,472,879
	180,405,018	179,728,097
	209,460,337	193,349,027

Due to the fact that many of the indirect loans are expected to expire without any disbursement being required from Scotiabank Perú S.A.A. and CrediScotia Financiera S.A., the total committed amounts do not necessarily represent future cash outflows. Also, documentary credits, such as export and import letters of credit and guarantees and stand-by letters of credit are conditional commitments issued by the Bank and CrediScotia Financiera S.A. to guarantee the performance by a customer of an obligation to a third party.

(a) As of December 31, 2009 balances of unused credit lines do not include S/. 9,278,936 thousand of corporate credit lines, which have been recorded since July 2010.

(b) Guarantees received are recorded at the value of the guarantee agreed as of the date of the loan contract. This balance does not necessarily represent the market value of guarantees received by the Bank and CrediScotia Financiera S.A. As of December 31, 2010, loan balances covered by guarantees amount to S/. 8,434,235 thousand (S/. 6,597,529 thousand as of December 31, 2009).

(c) According to SBS regulations, since July 2010, the asset and contingent asset balances and categories, used to calculate the credit risk capital requirement, were no longer reported in the memoranda accounts.

(19) Financial Income

As of December 31 it comprises the following:

	In thousands of S/.	
	2010	2009
Interest and commissions on loan portfolio	1,980,400	1,984,452
Exchange difference from operations	174,026	212,754
Income from investment valuation	79,845	69,501
Interest on cash and due from banks	23,690	8,986
Interest and commissions on interbank funds	2,170	4,885
Gains on derivative instruments, net	-	20,915
Other financial income	42,632	91,765
	2,302,763	2,393,258

(20) Financial Expenses

As of December 31 it comprises the following:

	In thousands of S/.	
	2010	2009
Interest on obligations	191,569	353,963
Interest on securities, bonds and obligations issued	72,119	48,566
Interest on borrowings from banks and financial institutions	65,716	85,041
Deposit insurance fund premiums	21,898	24,211
Loss on derivative instruments, net	19,225	-
Interest on deposits of financial entities	5,919	5,943
Loss on valuation of investments	2,341	36,136
Other financial expenses	63,903	38,358
	442,690	592,218

(21) Income from financial services, net

As of December 31 it comprises the following:

	In thousand of S/. 2010	2009
Income:		
Income from services and maintenance of credit / debit cards	150,434	157,899
Income from deposit transactions, services and transfer fees	147,330	148,703
Income from payment and collections services	64,193	52,039
Income from warehousing	39,121	41,082
Income from purchased portfolio recoveries	37,386	38,116
Income from teleprocessing services	34,851	29,557
Income from remunerations of mutual fund and administration fees	28,987	18,790
Other fees and commissions from banking services	25,626	75,173
Income from brokerage services	9,804	9,145
Income from structuring and administration services	8,848	7,711
Income from leased property	3,581	3,914
Other various income	42,317	40,582
	592,478	622,711
Expenses:		
Credit / debit cards expenses	(43,888)	(40,015)
Insurance services expenses	(11,692)	(5,978)
Other expenses	(63,631)	(62,568)
Warehousing expenses	(23,538)	(23,360)
	(142,749)	(131,921)
Total income from financial services, net	449,729	490,790

(22) Administrative Expenses

As of December 31 it comprises the following:

	In thousands of S/. 2010	2009
Personnel and board of directors expenses	558,688	556,127
Expenses for services received from third parties	355,412	353,809
Taxes and contributions	55,498	51,187
	969,598	961,123

(23) Other Income, net

As of December 31 it comprises the following:

	In thousands of S/. 2010	2009
Income from recovery of accounts receivable and other	142,419	134,137
Income from previous periods	131,534	70,477
Income from repossessed assets	25,575	13,396
Gain (loss) on sale of out of use goods	14,887	(3,168)
Other extraordinary income, net	634	4,925
	315,049	219,767

(24) Tax Matters

(a) Tax returns of Scotiabank Perú S.A.A. and Subsidiaries, which remain subject to audits by local tax regulator are the following:

Company	Tax returns subject to audit
Scotiabank Perú S.A.A.	2006 through 2010
CrediScotia Financiera S.A.	2006 through 2010
Scotia Sociedad Agente de Bolsa S.A.	2006 through 2010
Scotia Fondos Sociedad Administradora de Fondos S.A.	2006 through 2010
Scotia Sociedad Titulizadora S.A.	2006 through 2010
Depósitos S.A.	2006 through 2010
Servicios, Cobranzas e Inversiones S.A.C.	2006 through 2010

Any major expenses exceeding the provisions made to cover tax obligations will be charged to the results of the periods in which those expenses are finally settled. In the opinion of Scotiabank Perú S.A.A. and Subsidiaries' management, as a result of this review no significant liabilities will arise affecting the consolidated financial statements as of December 31, 2010.

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

Income tax (current and deferred) per company is presented as follows:

Income tax by entity	In thousands of S/. 2010	2009
Scotiabank Perú S.A.A.	244,967	126,470
CrediScotia Financiera S.A.	36,903	-
Servicios, Cobranzas e Inversiones S.A.C.	19,584	15,247
Scotia Fondos Sociedad Administradora de Fondos S.A.	3,915	1,993
Depósitos S.A.	3,105	3,559
Scotia Sociedad Agente de Bolsa S.A.	2,479	1,924
Scotia Sociedad Titulizadora S.A.	229	297

(b) As from 2001, for income and value added tax purposes, transfer pricing for transactions carried out with economically-related parties, and with companies domiciled in territories with low or null taxation, shall be supported with documentation and information about the valuation methods used, and the criteria considered, for the pricing. The Scotiabank Perú S.A.A. and Subsidiaries' management consider that for income and value added tax purposes, pricing regarding transactions such as those aforementioned has been made in accordance with tax legislation; consequently, no significant liabilities will arise as of December 31, 2010.

(c) As from 2005, a temporary tax on net assets has been established. Its taxable base is composed of the net asset value adjusted as of the ended period before the payment was made, deducting the depreciation, amortization, legal cash reserve, and specific provisions for credit risk. The tax rate applicable to the amount of assets that exceeds S/. 1,000 thousand is 0.4%. It may be paid in cash or in nine consecutive monthly instalments. The amount actually paid may be used as a credit against advance payments of the income tax for taxable periods March to December of the fiscal period for which the tax was paid until maturity of each of the advance payments and against the payment for regularization of income tax of the corresponding taxable period.

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

The Bank has opposed the Temporary Tax on Net Assets for years 2005 and 2006 for considering it unconstitutional. However, the Constitutional Court has resolved the majority of the proceedings filed by the Bank, declaring the constitutionality of the aforementioned tax; additionally, it ordered the Tax Administration not to collect accrued interest on late payment.

The amount of the debt for this item, excluding interest, is S/. 122,958 thousand, which the Bank requested to SUNAT to compensate with its balance in favour of Income Tax. Once this request was denied, the Bank contested this denial and filed a claim action in order to revoke the administrative decision. To date, the process is in the second instance pending resolution and the Bank and its legal advisors consider that this process shall confirm the decision of the first instance that revoked the denial of compensation. Management considers that provisions recorded by the Bank are sufficient to cover any liability related to tax contingencies.

(d) Tax on Financial Transactions (ITF, for its Spanish acronym) for 2010 has been fixed at a rate of 0.05% (0.06% in 2009), respectively. It is applied on each deposit and withdrawal made to and from a banking account, unless the account is tax-exempt.

(e) According to Legislative Decree 972, starting from January 1, 2010, the tax exemption on capital gains and interest from securities issued by legal entities incorporated or established in the country by the Peruvian State, and BCRP certificates of deposit, was eliminated.

(25) Deferred Income Tax and Employees' Profit Sharing

Deferred income tax has been calculated according to IAS 12, and is attributed to the following items:

	Balance as of 12.31.09	(Debit) credit retained earnings	(Debit) credit to results	Balance as of 12.31.10
Asset:				
Tax loss carry-forward	22,021	-	(22,021)	-
Generic provision for loans	-	-	56,099	56,099
Transferred loan portfolio	20,160	-	(1,349)	18,811
Provision for vacations	11,609	-	1,637	13,246
Doubtful loans provision	9,805	-	2,331	12,136
Time deposits interest	1,747	-	3,698	5,445
Intangibles	3,560	-	684	4,244
Provision for credit card rewards	2,867	-	465	3,332
Fixed assets	1,772	-	402	2,174
Provision for debit card rewards	763	-	181	944
Provision for inventories and repossessed and realizable assets	1,439	-	(499)	940
Other	3,179	-	(14,895)	(11,716)
	------------	-------------	------------	-------------
	78,922	-	26,733	105,655
	------------	-------------	------------	-------------
Liability:				
Valuation of investments in associates	(7,263)	(3,581)	-	(10,844)
Other	(541)	-	93	(448)
	------------	-------------	------------	-------------
	(7,804)	(3,581)	93	(11,292)
	------------	-------------	------------	-------------
Income tax and employees' profit sharing assets, net (*)	71,118	(3,581)	26,826	94,363
	========	========	========	========
(*) It comprises:				
Deferred employees' profit sharing	10,558	(528)	4,018	14,048
Deferred income tax	60,560	(3,053)	22,808	80,315
	------------	------------	------------	-------------
	71,118	(3,581)	26,826	94,363
	========	=======	=======	========

(26) Employees' Profit Sharing

According to Legislative Decree 677, the Bank's employees are entitled to a profit-sharing plan to be computed at 5% of the net income, similarly to employees of the companies of Scotiabank Perú S.A.A. and Subsidiaries. This profit sharing is treated as deductible expenses for income tax calculation purposes. As of December 31, 2010, the Bank established a consolidated legal employees' profit sharing for S/. 55,079 thousand, which was recorded in the consolidated income statement (S/. 25,855 thousand as of December 31, 2009).

(27) Basic and Diluted Earnings per Share

The calculation of weighted average of basic and diluted earnings per share is as follows:

	Shares issued		
	Shares issued (in thousands)	Effective days until year end	Weighted average of common shares (in thousands)
Year 2010:			
Balance as of January 1, 2010	50,617(*)	365	50,617
Subscription of new shares (March)	89,332	294	71,955
Subscription of new shares (June)	14,160	192	7,448
	--------------		--------------
Balance as of December 31, 2010	154,109		130,020
	========		========

(*) It does not include 89,332 shares for which the issuance is pending.

	Shares issued		
	Shares issued (in thousands)	Effective days until year end	Weighted average of common shares (in thousands)
Year 2009:			
Balance as of January 1, 2009	47,536	365	47,536
Subscription of new shares (February)	3,008	334	2,753
Subscription of new shares (March)	73	275	55
	--------------		--------------
Balance as of December 31, 2009	50,617(*)		50,344
	========		========

(*) It does not include 89,332 shares for which the issuance is pending.

Calculation of the basic and diluted earning per share as of December 31, 2010 and 2009 is presented as follows:

Year	In thousands of S/. Profit (numerator)	In thousands Weighted average common shares (denominator)	In S/. Earning per share
2010	688,360	130,020	5.294
2009	637,053	50,344	12.654

(28) Financial Risk Management

The Scotiabank Perú S.A.A. and Subsidiaries' management, based on its experience and skills, controls risks related to market, liquidity, interest rate, currency and credit according to the following:

Market Risk

This is comprised of the risk of loss of value of the Scotiabank Perú S.A.A. and Subsidiaries portfolios due to fluctuations in interest rates and exchange rates, among others. Scotiabank Perú S.A.A. and Subsidiaries assumes market risk in its trading, financing, and investment activities.

The objective of Market Risk Management is to establish the policies, processes, and controls to balance profitability with the volatility in the market, i.e., maintain an appropriate risk level. The monitoring of such risks has had particular relevance during the international financial crisis and greater volatility in the market. In this sense, Market Risks Management plays an important role at Scotiabank Perú S.A.A. and Subsidiaries, applying the best practices of the market and Scotiabank Perú S.A.A. and Subsidiaries with regard to risk management.

Treasury and trading activities management are limited by various limits that require adequate risk level which are periodically reviewed so that the needs and strategies of management are addressed, as well as variations in market conditions.

Trading activities are managed according to the following approved limits: maximum exposure limits for currency, maximum exposure limits for type of investment and term, VaR Limits (Value at Risk), "Delta Risk" Limits, Tolerance limits of expected maximum loss ("Stop Loss" and "Management Action Trigger" or MAT), among others.

Treasury activities, as part of the process of the Scotiabank Perú S.A.A. and Subsidiaries management assets and liabilities, identify, manage, and control the liquidity and interest rate risk arising from its financing and investment activities. Such trading activities are managed according to the following approved limits: accumulated limits on the analysis of interest and liquidity rate gaps; maximum exposure limits per currency, economic value and margin sensitivity limits; limit on minimum liquid assets per currency; limits on concentration of deposits; limits on deposits with banks; and limits on funding through “swaps”, among others.

The Asset and Liability Committee (ALCO) supervise the Scotiabank Perú S.A.A. and Subsidiaries market risks with the participation of executive management. Among its main duties, ALCO defines the strategy for handling assets and liabilities, establishes and reviews market risk limits, reviews and manages the exposure of the Scotiabank Perú S.A.A. and Subsidiaries assets and liabilities to interest rate risk, and reviews and establishes hedging policies in order to maximize profits and protect shareholders’ equity.

Additionally, the Risks Control Committee monitors market risks of Scotiabank Perú S.A.A. and Subsidiaries. Its main responsibilities are to:

- Approve policies and structures for the management of interest risk, as well as modifications made to them.
- Define the level of tolerance and the level of exposure to risk that Scotiabank Perú S.A.A. and Subsidiaries are able to assume in its business development.

- Decide the necessary steps for the implementation of required corrective actions, in the case of the deviations in levels of tolerance to risk and the level of assumed exposures.
- Approve the exposures involving significant variations in the risk profile of the Bank or the equity managed under the responsibility of Scotiabank Perú S.A.A. and Subsidiaries.

The Global Risk Control Department of the Bank evaluates and approves market risk limits and reviews patterns and policies used for the management of market risk. Patterns, policies, and limits are subject to periodic formal reviews by this department.

<u>Liquidity Risks</u>
This relates to the risk that Scotiabank Perú S.A.A. and Subsidiaries may not be able to comply with its financial obligations on a timely basis and at reasonable prices; this risk is managed by management of the Treasury. Among the financial obligations, there are deposits, payments of borrowings, obligations for derivative instrument agreements, settlement of securities taken as loans, and investment and borrowings commitments.

The ALCO supervises liquidity risk at the executive management level, and meets every month to review the Scotiabank Perú S.A.A. and Subsidiaries liquidity profile.

The main guidelines followed are managing liquidity risk are:

- Establishing limits for control of liquidity.
- Performing gap analysis: mismatch for maturity term.
- Diversifying financing sources.
- Keeping an appropriate level of liquid assets.
- Performing stress tests.
- Having a liquidity contingency plan.

Interest Rate Risk

This is comprised of the risk of loss due to variations in interest rates. Scotiabank Perú S.A.A. and Subsidiaries, through the Treasury, actively manages its interest rate exposure risk in order to improve its net interest income according to pre-established policies on tolerance to risk.

Interest rate risk exposure to each currency is controlled through:

- Measurement of mismatch of interest rate gap.
- Sensitivity analysis, to evaluate the effect of interest rate fluctuations over the current financial margin.
- Stress simulating scenarios for interest rates which allow Scotiabank Perú S.A.A. and Subsidiaries to analyze the impact that an extraordinary change may have on it.

Every month the Market Risk Management presents to the Risk Control Committee and the Board of Directors, the Interest Rate Risk Report detailing the exposure to such currency risk, as well as the results of measurement tools, use of limits and interest rate risk stress tests, among others issues related to market risk management in compliance with regulatory provisions of BNS and the Bank.

Exchange Rate Risk

This comprised of the risk of loss due to adverse variations in exchange rates of currencies negotiated by Scotiabank Perú S.A.A. and Subsidiaries. This risk is managed by the Trading Management.

The Trading Management is responsible for managing foreign exchange operations and the Bank's forwards portfolio, in accordance with policies, procedures and controls designed to ensure profitable business opportunities, while considering the adequate levels of risk of Scotiabank Perú S.A.A. and Subsidiaries and the volatility of the market variables professionally and cautiously.

Market risks associated with this are conducted within the VaR limits and stress tests based on market variables. The consistency of such results is validated through periodic backtesting analysis where actual losses and/or gains are compared with those obtained through a model.

Risk in Investments Portfolio

Scotiabank Perú S.A.A. and Subsidiaries has both investment and trading portfolios, which are managed by the Treasury and Trading Management, respectively.

The investment portfolio is administered in order to manage liquidity and interest rate risks, long-term capital investment at longer terms or investment with more attractive returns. It is managed in accordance with approved policies and limits on the type and terms of investment. On the other hand, trading portfolio is acquired with the intention of being negotiated and generating benefits from differences in prices in the short term.

Investment portfolios are composed of liquid instruments, mainly certificates of deposits issued by the Banco Central de Reserva del Perú and Public Treasury Bonds of the Republic of Perú issued in local currency and foreign currency.

Credit Risk

Credit risk is controlled mainly through the evaluation and analysis of individual client transactions, considering aspects such as: payment capacity of the client, the economic environment, financial position, credit history, rating of risk given by Scotiabank Perú S.A.A. and Subsidiaries and other financial system companies, and quality of management. It also takes into account the updated value of guarantees, according to their realizable value and the recording of provisions, in conformity with regulations established by the SBS and BNS.

In order to mitigate credit risk, consideration is also given to the Bank's and conglomerate compliance with legal limits established by the SBS, BNS and internal operational policies, as well as portfolio analysis, according to aspects such as: levels of credit concentration, economic sector risk, overdue portfolio, products and rating in such case seeking to avoid credit concentrations in order to diversify credit and liquidity risk. Likewise, a review of the credit portfolio is carried out periodically to detect, on a timely basis, potential defaults and negative client credit developments in order to take necessary corrective measures.

(29) Fair Value

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

When a financial instrument is traded in a liquid and active market, its quoted market price in an actual transaction provides the best evidence of its fair value.

When a quoted market price is not available, or may not be indicative of the fair value of the financial instrument, to determine such fair value, the current market value of another financial instruments that is substantially similar, discounted cash flow analysis or other estimation techniques may be used, all of which are based on subjective factors and, in some cases, on inexact factors; for this reason, any change in them or in the estimation methodology used could have a material effect on the fair values of financial instruments. Even though Scotiabank Perú S.A.A. and Subsidiaries' management has used its best judgment in estimating the fair values of these financial instruments, a fair value is not an indication of net realizable gain or liquidation value.

A significant portion of the Scotiabank Perú S.A.A. and Subsidiaries assets and liabilities correspond to short-term financial instruments maturing in terms shorter than one year. The fair values of these financial instruments are equivalent to their corresponding book value at the period end.

Methodology and assumptions used depend on the terms and risks characteristics of the different financial instruments, as shown below:

(a) Cash due from banks and interbank funds represent cash and short-term deposits that are not considered to be a significant credit risk.

(b) Investments at fair value with changes in results are recorded at their estimated market value, which is the same as the book value.

(c) Available-for-sale investments are generally listed or have a market value through future discounted cash flows. Available-for-sale investments in securitizations do not have a market value, for this reason, their fair value is determined by the net cost value of their accumulated provision according to SBS regulations, and corresponds to the value of recovery established by the Scotiabank Perú S.A.A. and Subsidiaries' management.

(d) Market value of the portfolio of short-term loans are similar to carrying amounts, net of their corresponding provisions for doubtful accounts, due to their short-term character which is considered by management as the estimated recoverable amount as of the date of the consolidated financial statements. Additionally, portfolio of long-term loans accrues fixed interest rates which are similar to their market rates. Placements of Mivivienda mortgage loans are agreed-upon at a fixed interest rate.

(e) Investments in associates are valued according to the equity method; such valuation is similar to the fair value of these instruments considering that they are not trading securities.

(f) The market value of deposits and obligations corresponds to their respective carrying amount mainly because interest rates are similar to those of other liabilities.

(g) Debts to banks and correspondent banks accrue interest at fixed and floating rates and have maturities of short and long term. The fair value of these financials instruments has been calculated based on discounted future cash flows, using the current interest rate for liabilities with similar characteristics in Scotiabank Perú S.A.A. and Subsidiaries. Consequently, the estimated market value does not differ significantly from book value.

(h) Securities, bonds and obligations issued accrue interest at fixed rates. The fair value of these financials instruments have been calculated based on discounted future cash flows, using the current interest rate for liabilities with similar characteristics in Scotiabank Perú S.A.A. and Subsidiaries. Consequently, the estimated market value does not differ significantly from book value.

(i) As described in note 18, Scotiabank Perú S.A.A. and Subsidiaries have granted guarantees, stand-by letters, import and export documentary credits, and has received guarantees in support of the credits granted. Based on the level of commissions currently collected for granting contingent loans, and considering the maturity, and the interest rates and current creditworthiness of the counterparts, Scotiabank Perú S.A.A. and Subsidiaries estimate that the difference between the book value and the fair value is not significant.

(j) Purchase and sale agreements in foreign currency at a future date are recorded in the books at their estimated market values; therefore, no differences with their respective fair values exist.

(30) Trust Fund Activities

Scotiabank Perú S.A.A. and Subsidiaries offer structuring and administration services of trust operations and trust fees, and is in charge of the preparation of agreements related to these operations. Assets kept in trust are not included in the consolidated financial statements. Scotiabank Perú S.A.A. and Subsidiaries are responsible for the appropriate management of these trusts based on the limits established by applicable laws and the respective agreement. As of December 31, 2010, the allocated value of assets in trusts and trust fees amounted to S/. 1,980,681 thousand (S/. 3,287,917 thousand as of December 31, 2009).