

**SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES**

**Consolidated Financial Statements**

**September 30, 2011**

**(With the Independent Auditors' Report  
on Review of Interim Financial Statements)**

# **SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES**

## **Consolidated Financial Statements September 30, 2011**

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INDEPENDENT AUDITORS' REPORT ON REVIEW  
OF INTERIM FINANCIAL STATEMENTS

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

*Introduction*

We have reviewed the accompanying consolidated balance sheet of Scotiabank Perú S.A.A. (a subsidiary of The Bank of Nova Scotia – BNS, an entity established in Canada) and Subsidiaries as of September 30, 2011, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the nine-month periods ended September 30, 2011 and 2010, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these consolidated interim financial statements in conformity with accounting standards established for financial entities 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). Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

*Scope of Review*

We conducted our review in accordance with auditing standards generally accepted in Peru on review engagements of interim financial information performed by the independent auditor of the entity. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in Peru and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements do not present fairly, in all material respects, the financial position of Scotiabank Perú S.A.A. and Subsidiaries as of September 30, 2011, and the consolidated results of their operations and their consolidated cash flows for the nine-month periods ended September 30, 2011 and 2010, in conformity with accounting standards established for financial entities in Peru by the SBS, as discussed in notes 2 and 3 to the interim consolidated financial statements.

November 29, 2011

Countersigned by

Javier Candiotti  
Peruvian Certified Public Accountant  
Registration 11177

## SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

## Consolidated Balance Sheet

As of September 30, 2011 and December 31, 2010  
(Stated in thousands of nuevos soles)

<u>Assets</u>	<u>09.30.2011</u> (Unaudited)	<u>12.31.2010</u> (Audited)	<u>Liabilities and shareholders' equity</u>	<u>09.30.2011</u> (Unaudited)	<u>12.31.2010</u> (Audited)
Cash and due from banks (note 5):					
Cash	689,212	604,948	Deposits and obligations (note 12):		
Deposits with Banco Central de Reserva del Perú	5,693,611	6,987,711	Demand deposits	6,700,656	5,652,617
Deposits with local and foreign banks	394,386	376,991	Savings deposits	4,136,783	3,942,311
Clearing	77,693	120,934	Time deposits	8,902,868	9,063,650
Accrued interest and due from banks	28,371	19,858	Other obligations	733,104	760,968
	-----	-----		-----	-----
	6,883,273	8,110,442		20,473,411	19,419,546
Interbank funds	424,240	192,580	Interbank funds	42,012	36,005
Investments at fair value with changes in results and available-for-sale (note 6)	2,068,506	1,708,204	Borrowings and financial obligations (note 13)	4,284,844	3,782,680
Loan portfolio, net (note 7)	19,730,324	17,148,245	Securities, bonds and obligations issued (note 14)	1,443,368	1,317,058
Accounts receivable, net (note 8)	400,228	356,569	Provisions and other liabilities (note 15)	1,107,357	1,031,567
Investments in associates	97,301	86,914		-----	-----
Goodwill (note 9)	278,818	278,818	Total liabilities	27,350,992	25,586,856
Property, furniture, and equipment, net (note 10)	526,361	496,544		-----	-----
Other assets, net (note 11)	751,116	663,889	Shareholders' equity (note 16):		
	-----	-----	Capital stock	2,299,307	1,569,109
	31,160,167	29,042,205	Additional capital	368,553	368,553
	=====	=====	Legal reserve	400,180	332,160
			Unrealized earnings	32,404	16,968
			Retained earnings	708,731	1,168,559
				-----	-----
			Total shareholders' equity	3,809,175	3,455,349
			Contingencies (note 17)		
				-----	-----
			Total liabilities and shareholders' equity	31,160,167	29,042,205
				=====	=====
Contingent and memoranda accounts (note 18):			Contingent and memoranda accounts (note 18):		
Contingent accounts	26,984,659	29,055,319	Contingent accounts	26,984,659	29,055,319
Memoranda accounts	196,919,619	180,405,018	Memoranda accounts	196,919,619	180,405,018
	-----	-----		-----	-----
	223,904,278	209,460,337		223,904,278	209,460,337
	=====	=====		=====	=====

See the accompanying notes to the consolidated financial statements.

## SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

## Consolidated Income Statement

For the nine-month periods ended September 30, 2011 and 2010

(Stated in thousands of nuevos soles)

	<u>2011</u> (Unaudited)	<u>2010</u> (Unaudited)
Financial income (note 19)	2,061,486	1,700,040
Financial expenses (note 20)	( 397,813)	( 332,630)
	-----	-----
Gross financial income	1,663,673	1,367,410
	-----	-----
Provision for doubtful loans (note 7)	( 691,615)	( 502,929)
Recovery of provision for doubtful loans (note 7)	310,741	185,031
	-----	-----
	( 380,874)	( 317,898)
	-----	-----
Net financial income	1,282,799	1,049,512
	-----	-----
Income from financial services, net (note 21)	437,630	346,997
	-----	-----
Operating margin	1,720,429	1,396,509
	-----	-----
Administrative expenses (note 22)	( 873,708)	( 761,811)
	-----	-----
Net operating margin	846,721	634,698
	-----	-----
Provisions for doubtful and other accounts receivable, realizable and repossessed assets, and other	( 65,278)	( 61,240)
Depreciation of property, furniture, and equipment	( 44,615)	( 44,675)
Amortization of intangibles	( 5,910)	( 5,254)
	-----	-----
	( 115,803)	( 111,169)
	-----	-----
Operating results	730,918	523,529
	-----	-----
Other income, net (note 23)	59,922	190,696
	-----	-----
Profit before income tax	790,840	714,225
	-----	-----
Deferred income tax (note 25)	47,911	( 11,005)
Income tax (note 24)	( 282,254)	( 185,147)
	-----	-----
Net profit	556,497	518,073
	=====	=====
Basic and diluted earnings per share (in nuevos soles) (note 26)	2.709	2.682
	=====	=====
Weighted average of common shares issued (in thousands of shares)	205,426	193,156
	=====	=====

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 nine-month periods ended September 30, 2011 and 2010

(Stated in thousands of nuevos soles)

	Capital stock <u>(note 16.b)</u>	Additional capital <u>(note 16.b)</u>	Capital in progress <u>(note 16.b)</u>	Legal reserve <u>(note 16.c)</u>	Unrealized gains (losses) <u>earnings</u>	Retained earnings <u>(note 16.d)</u>	Total shareholders' <u>equity</u>
Balances as of December 31, 2009 (Audited)	1,427,511	212,371	297,780	268,455	19,435	735,020	2,960,572
Dividends declared in cash	-	-	-	-	-	( 191,116)	( 191,116)
Refund of capital contribution	-	-	( 178,036)	-	-	-	( 178,036)
Capital contribution	-	-	178,036	-	-	-	178,036
Capital increase	141,598	156,182	( 297,780)	-	-	-	-
Application to legal reserve	-	-	-	63,705	-	( 63,705)	-
Unrealized losses on available-for-sale investments, net of income tax	-	-	-	-	( 1,325)	-	( 1,325)
Net profit	-	-	-	-	-	518,073	518,073
Balances as of September 30, 2010 (Unaudited)	<u>1,569,109</u>	<u>368,553</u>	<u>-</u>	<u>332,160</u>	<u>18,110</u>	<u>998,272</u>	<u>3,286,204</u>
Balances as of December 31, 2010 (Audited)	1,569,109	368,553	-	332,160	16,968	1,168,559	3,455,349
Dividends declared in cash	-	-	-	-	-	( 204,059)	( 204,059)
Application to legal reserve	-	-	-	68,020	-	( 68,020)	-
Capital increase	730,198	-	-	-	-	( 730,198)	-
Unrealized gains on available-for-sale investments, net of income tax and other	-	-	-	-	15,436	-	15,436
Reversal of deferred employees' profit sharing	-	-	-	-	-	( 14,048)	( 14,048)
Net profit	-	-	-	-	-	556,497	556,497
Balances as of September 30, 2011 (Unaudited)	<u>2,299,307</u>	<u>368,553</u>	<u>-</u>	<u>400,180</u>	<u>32,404</u>	<u>708,731</u>	<u>3,809,175</u>

See the accompanying notes to consolidated financial statements.

## SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

## Consolidated Statement of Cash Flows

For the nine-month periods ended September 30, 2011 and 2010

(Stated in thousands of nuevos soles)

	<u>2011</u>	<u>2010</u>
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Net profit	556,497	518,073
Adjustments to reconcile net profit to net cash provided by operating activities:		
Provision for doubtful loans	691,615	502,929
Provision for impairment of investments and other assets	-	( 299)
Provision for accounts receivable	20,691	44,337
Provision for contingencies and indirect loans	44,564	17,202
Depreciation and amortization	50,525	49,929
Recovery of provision for realizable and repossessed assets	( 6,135)	( 12,661)
Recovery of provision for accounts receivable	( 32,054)	( 79,697)
Provision for impairment and depreciation of repossessed assets	5,113	5,574
Recovery of provision for loan portfolio	( 310,741)	( 185,031)
Provision for severance indemnities	26,338	23,894
Gains on sale of property, furniture, and equipment	3,025	187
Gains (loss) on sale of realizable and repossessed assets	2,442	( 5,699)
Net variations in assets and liabilities:		
(Increase) decrease in interest, commissions, and other accounts receivable	( 38,237)	199,334
Increase (decrease) in interest, commissions, and other accounts payable	19,145	( 32,531)
Increase in other assets	( 70,978)	( 220,076)
(Decrease) increase in other liabilities	( 7,699)	91,367
	-----	-----
Cash and cash equivalents provided by operating activities	954,111	916,832
	-----	-----
Cash flows from investing activities		
Acquisition of property, furniture, and equipment	( 77,805)	( 44,396)
Acquisition of other non-financial assets	( 4,645)	( 3,475)
Income from sale of property, furniture, and equipment	348	5,269
Income from sale of other non-financial assets	9,970	39,315
	-----	-----
Cash and cash equivalents applied to investing activities	( 72,132)	( 3,287)
	-----	-----
Cash flows from financing activities		
Increase in loan portfolio	( 2,980,260)	( 2,212,977)
Increase in investments	( 362,109)	( 99,185)
Increase (decrease) in deposits and obligations	1,044,875	( 275,670)
Increase in borrowings, financial obligations and interbank funds	508,171	2,423,657
Increase in securities, bonds and obligations issued	115,894	645,408
Payment of dividends	( 204,059)	( 191,116)
Cash contribution	-	178,036
	-----	-----
Cash and cash equivalents (applied to) provided by financing activities	( 1,877,488)	468,153
	-----	-----
Net (decrease) increase in cash and cash equivalents	( 995,509)	1,381,698
Cash and cash equivalents at beginning of the period	8,303,022	4,000,412
	-----	-----
Cash and cash equivalents at end of the period	7,307,513	5,382,110
	=====	=====

See the accompanying notes to the consolidated financial statements.

## SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

As of September 30, 2011 (unaudited), December 31, 2010 (audited)  
and September 30, 2010 (unaudited)

(1) Operations

Scotiabank Perú S.A.A. (hereinafter 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 September 30, 2011. As of September 30, 2011, 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, hereinafter 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 (hereinafter 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, Perú. As of September 30, 2011, the Bank performed its activities with a national network of 179 branches, and one branch abroad (as of December 31, 2010, it had 169 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 addresses 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 Inmobiliarios y Comerciales S.A. engaged in the purchase and sale of goods in general, among other activities. As at September 30, 2011 and December 31, 2010 Promoción de Proyectos Inmobiliarios y Comerciales S.A. is an inactive company.

Below are the main balances of the Bank and Subsidiaries presented as of September 30, 2011 and December 31, 2010 indicating the Bank's shareholding percentage in the Subsidiaries as of that date, as well as other relevant information in this regard:



## SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

As of September 30, 2011:

Entity	Activity	Percentage of shareholding	In thousands of S/.		
			Assets	Liabilities	Shareholders' equity
Scotiabank Perú S.A.A.	Banking	-	28,917,531	25,110,439	3,807,092
CrediScotia Financiera S.A.	Finance	100.00	3,280,952	2,868,436	412,516
Scotia Sociedad Agente de Bolsa S.A.	Stock market broker	100.00	147,484	79,177	68,307
Servicios, Cobranzas e Inversiones S.A.C.	Collection services	100.00	122,603	29,775	92,828
Depósitos S.A.	Warehousing	100.00	60,962	18,044	42,918
Scotia Fondos Sociedad Administradora de Fondos S.A.	Administration of mutual funds	100.00	31,649	5,678	25,971
Scotia Sociedad Titulizadora S.A.	Securitization	100.00	3,319	128	3,191
SBP DPR Finance Company	Special purpose entity	-	833,108	833,108	-

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	-

The consolidated financial statements as of September 30, 2011 were approved by the Bank's management on November 14, 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, 2010 were approved by the corresponding General Shareholders' meeting made according to legal requirements.

(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.

## SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

(a) Basis of Measurement

The accompanying 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 results are measured at fair value.
- Available-for-sale financial instruments are measured at fair value.

(b) Presentation Currency

The accompanying consolidated financial statements are presented in Nuevos Soles (S/.), according to SBS standards. The information presented in Nuevos Soles (S/.) has been rounded up to the nearest thousand, except otherwise indicated.

(c) Critical Accounting Estimates and Criteria

The preparation of the accompanying 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 accompanying 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 elimination of significant balances and transactions among the consolidated companies, and profits and losses resulting from those transactions. All subsidiaries have been consolidated since their incorporation or acquisition dates.

Subsidiaries refer to 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 are in compliance with the reporting requirements established by the SBS.

The financial statements of the subsidiaries included in the consolidation represent 13.41% and 12.40% of total assets before intra-company eliminations as of September 30, 2011 and December 31, 2010; respectively. As of those dates, the Bank did not have any minority interest arising from the consolidation process.

## SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

(b) Financial Instruments

Financial instrument is a contract that generates 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, except for gains and losses related to available for sale investments that recorded in the unrealized gains (losses) account. 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, except for the provision of income tax. 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.

This standard is consistent with IAS 39 Financial Instruments: Recognition and Measurement and establishes 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.

## SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

In the event the SBS considers the documentation to be unsatisfactory or finds weaknesses in the methodologies used, they can request immediate de-designation of hedging and 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 September 30, 2011 and December 31, 2010, 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

Scotiabank Perú S.A.A. and Subsidiaries apply the criteria for the recording and valuation of investments established in SBS Resolution 10639-2008 “Regulations for Classification and Valuation of Investments of Financial System Companies”, which is in line with the classification and valuation criteria of IAS 39 Financial Instruments: Recognition and Measurement, 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.

## SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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 back to 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 “Unrealized (losses) 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 (losses) 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 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

The account includes 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.

## SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

When variations in equity are due to concepts other than results of 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. 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).

Management estimates the market value of investment at fair value with changes in results and available-for-sale based on quoted market prices at the Lima Stock Exchange or, when those are not available, by discounting expected cash flows at interest rate reflecting the risk of the security.

(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 become direct loans and generate a liability against third parties. Changes in loan payment conditions due to debtors' payment difficulties are considered 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 as earned in accordance with the contract terms. 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 and its amendments, 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 based on debtor's credit history.

## SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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 aligning this portfolio on a monthly basis with the Peruvian financial system. The Bank on its own initiative and pursuant to a more conservative approach has included in the automatic rating process the non-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. determine 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.

The equivalent credit risk exposure of the indirect loans are determined on the basis of indirect loans multiplied by the different types of indirect credits per credit conversion factors (CCF), presented below according to SBS's guidelines:

<u>Description</u>	<u>CCF (%)</u>
(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 and expected loss, if it is backed by collaterals or not, and depending on the type of collateral.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Bank and the Financial apply the following percentages to determine provisions for the loan portfolio:

<u>Risk rating</u>	<u>Without collateral</u>	<u>With preferred collateral</u>	<u>With preferred easily realizable collateral</u>	<u>With preferred readily realizable collateral</u>
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.

Procyclical component

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:

<u>Type of credit</u>	<u>Procyclical component %</u>
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 having 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 supported by payroll discount agreements, the procyclical component is 0.25%.



## SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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 listed in Annex I of SBS Resolution 11356-2008 and its amendments. 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 deducting balances from the corresponding assets, 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 settlement date, 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 Lima Stock Exchange and SMV (Market Securities Superintendence) 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 capitalized only 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 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.

## SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

Depreciation is determined based on the straight-line method and using the following estimated useful lives:

	<u>Years</u>
Property	20
Furniture and fixtures, and premises	10
Vehicles	5
Computing equipment	4

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. 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.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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 obtain 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

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 if it is probable there would be future tax benefits, and the deferred asset can be used.

(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 intangible assets. Direct costs related to the development of computing programs include personnel costs of development team and a fractional part of general expenses.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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 acquisition agreement foresees adjustments to the price based on compliance with some future assumptions, and at the moment of the initial accounting, its occurrence has not happened or the value cannot be reliably estimated, this adjustment is not included in the acquisition cost. If, subsequently, such adjustment becomes likely to occur 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. Discounts granted or generated income is amortized during the effective term of these instruments. Interests are recorded as expenses when accrued.

(n) Provisions and Contingencies

(i) Provisions

Provisions are recorded when Scotiabank Perú S.A.A. and Subsidiaries have incurred in a 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.

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. Calculation is made to determine the amount that should have to be paid at the reporting date. It is included in the "Provision for severance indemnities" account. It is disclosed under "Other liabilities" in the consolidated balance sheet.

(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 disclosed in the consolidated financial statements, and they are only disclosed when an inflow of economic benefits is probable.

## SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

(o) Income and Expense Recognition

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

The Bank and CrediScotia Financiera S.A. suspend the recognition of interest in the consolidated income statement. When management considers that there are reasonable doubts about the collectibility of the principal of a loan. Interest in suspense is recorded in memoranda accounts and it is 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 re-establishes the accounting treatment of interest on an accrual basis.

Interest income includes the return on fixed-income investments and trading securities, as well as 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 a three-day window 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. Dividends on preferred shares are recorded as liabilities and charged to income 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 September 30, 2011 and December 31, 2010, 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", as of September 30, 2011 and 2010 were considered as cash and cash equivalents.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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 control purposes.

(t) Employees' Profit Sharing

Up to December 31, 2010 employees' profit sharing comprises both current and deferred employees' profit sharing. It's determined using the same criteria used to determine current and deferred income tax, respectively. They were recorded according to legislation applicable to each company composing Scotiabank Perú S.A.A. and Subsidiaries.

The SBS in its 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.

Starting in January 1, 2011, employees' profits sharing are recognized as personnel expense and liability corresponding to services of the employee, therefore, temporary differences between financial and tax bases are not recognized (note 25). The accumulated balances of deferred assets or liabilities for employees' profits sharing amounting to S/. 14,048 thousand as of December 31, 2010, have been reversed against retained earnings.

(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 in January 2013, earlier adoption is permitted. This IFRS does not replace IAS 39.
- IFRS 10 "Consolidated Financial Statements": Related to the presentation and preparation of such financial statements. This IFRS replaces IAS 27, is mandatory from January 2013, earlier adoption is permitted.
- IFRIC 18 "Transfers of Assets from Customers": is mandatory starting July 2009.

## SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”: is mandatory from July 2010, earlier adoption is permitted.
- 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 September 30, 2011 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 when the SBS issues the corresponding regulations as part of the process to harmonize its accounting regulations to IFRS.

The SBS by means of Official Letter 15014 – 2011, dated March 28, 2011, has established that financial entities shall prepare their financial statements in compliance with the IFRS starting January 2012. However, as of the date of this report, the SBS has not yet issued regulations detailing the applicable changes to the SBS current accounting policies.

## SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

(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 September 30, 2011 and December 31, 2010, these rates were US\$1 = S/. 2.773 and S/. 2.809, 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 the interbank foreign exchange market. As of September 30, 2011, the buy and sell exchange rates used were US\$1= S/. 2.772 and US\$1= S/. 2.773, respectively (US\$1= S/. 2.808 buy rate, and US\$1= S/. 2.809 sell rate as of December 31, 2010).

Foreign currency balances stated in thousands of U.S. dollars as of September 30, 2011 and December 31, 2010, are summarized as follows:

	09.30.2011			12.31.2010		
	U.S. Dollars	Euros	Other currencies	U.S. Dollars	Euros	Other currencies
<b>Assets:</b>						
Cash and due from banks	2,121,081	19,302	873	1,298,226	17,471	117
Investments at fair value with changes in results and available-for-sale	26,496	42,041	-	32,138	30,740	-
Loan portfolio, net	3,852,902	-	-	3,351,313	-	-
Account receivable, net	26,786	612	123	33,489	116	129
Other assets	29,045	2,945	6,201	100,512	3,056	-
	6,056,310	64,900	7,197	4,815,678	51,383	246
<b>Liabilities:</b>						
Deposits and obligations	3,916,982	63,358	25	3,504,742	70,427	28
Borrowings and financial obligations	1,520,493	-	-	1,392,216	-	-
Securities, bonds, and obligations issued	70,141	-	-	73,054	-	-
Other liabilities	244,841	2,948	6,490	272,071	4,987	-
	5,752,457	66,306	6,515	5,242,083	75,414	28
Net asset (liability) position on consolidated balance sheet	303,853	( 1,406)	682	( 426,405)	( 24,031)	218
Transactions with derivative instruments	( 336,735)	-	-	435,783	22,579	-

As of September 30, 2011, Scotiabank Perú S.A.A. and Subsidiaries recorded under financial income, gains on foreign exchange difference of various operations amounting to S/. 132,233 thousand (gains of S/. 137,588 thousand as of September 30, 2010), see note 19.

As of September 30, 2011 Scotiabank Perú S.A.A. and Subsidiaries have contingent operations in foreign currency amounting to US\$ 6,755,940 thousand, equivalent to S/. 18,734,222 thousand (US\$ 5,976,267 thousand equivalent to S/. 16,787,334 thousand as of December 31, 2010).



## SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

(5) Cash and Due From Banks

This caption comprises the following:

	<u>In thousands of S/.</u>	
	<u>09.30.2011</u>	<u>12.31.2010</u>
Cash (a)	689,212	604,948
Deposits with Banco Central de Reserva del Perú (a)	5,693,611	6,987,711
Deposits with local banks (b)	26,330	69,332
Deposits with foreign banks (b)	368,056	307,659
Clearing	77,693	120,934
Restricted funds (c)	27,138	17,110
Other funds	249	181
Accrued interest on cash and due from banks (d)	984	2,567
	-----	-----
	<u>6,883,273</u>	<u>8,110,442</u>
	=====	=====

- (a) As of September 30, 2011, funds held in cash and deposits with Banco Central de Reserva del Perú (BCRP) include US\$ 1,569,588 thousand and S/. 750,104 thousand (US\$ 776,042 thousand and S/. 659,440 thousand as of December 31, 2010) to cover the legal cash reserves 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 the CrediScotia Financiera 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 September 30, 2011, the daily average in excess in foreign currency amounted to US\$ 1,291,769 thousand (daily average US\$ 779,995 thousand as of December 31, 2010), and accrued interest in U.S. dollars at an annual rate of 0.14% (annual rate of 0.16% as of December 31, 2010). Likewise, as of September 30, 2011, the daily average in excess in local currency amounted to S/. 374,960 (S/. 182,735 thousands as of December 31, 2010) and accrued interest in nuevos soles at an annual rate of 2.45% (annual rate of 1.20% as of December 31, 2010). As of September 30, 2011, the remuneration referred to above amounted to S/. 3,569 thousands for funds in local currency and S/. 3,094 thousand for funds in foreign currency.

As of September 30, 2011, deposits with BCRP included “overnight” operations for US\$ 416,000 thousand and S/. 155,000 thousand. Such operations accrued interest at an annual nominal rate of 0.07% and 3.45%, (US\$ 406,000 thousand and S/. 652,700 thousand at an annual nominal rate of 0.19%, and between 2.20% and 3.0%, respectively as of December 31, 2010).

- (b) Deposits in local and foreign banks, mainly relate, 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 September 30, 2011, deposits in foreign banks, included deposits held at The Bank of Nova Scotia by US\$ 2,062 thousand and Canadian dollars by US\$ 15 thousand (US\$ 6,093 thousand and Canadian dollars by US\$ 49 thousand as of December 31, 2010).

## SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

As of September 30, 2011, and December 31, 2010, Scotiabank Perú S.A.A. and Subsidiaries have no significant deposits with any commercial bank.

- (c) As of September 30, 2011, restricted funds of US\$ 9,049 thousand and S/. 2,045 thousand (US\$ 5,476 thousand and S/. 1,727 thousand as of December 31, 2010) are mainly related to guarantee funds and restricted funds due to lawsuits against the Bank and CrediScotia Financiera S.A.
- (d) As of September 30, 2011 revenue from interest on cash and due from banks amounted to S/. 29,553 thousand (S/. 4,150 thousand as of September 30, 2010) 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  
This caption relates to the following:

	<u>In thousands of S/.</u>	
	<u>09.30.2011</u>	<u>12.31.2010</u>
Investments at fair value with changes in results:		
Peruvian Treasury Bonds (a)	115,349	43,106
BCRP certificates of deposit (b)	-	49,921
	-----	-----
	115,349	93,027
	-----	-----
Available-for-sale investments:		
Peruvian Treasury Bonds (a)	962,739	862,786
BCRP certificates of deposit (b)	941,793	661,728
Mutual funds (c)	13,818	73,097
Unlisted shares	10,705	7,963
Listed shares	1,146	1,140
Corporate bonds	-	7
	-----	-----
	1,930,201	1,606,721
	-----	-----
Total investments at fair value with changes in results and available-for-sale	2,045,550	1,699,748
Plus:		
Accrued return on investments	22,956	8,456
	-----	-----
Total investments at fair value with changes in results and available-for-sale	2,068,506	1,708,204
	=====	=====

- (a) The Peruvian Treasury Bonds correspond to sovereign bonds issued in local currency by the Peruvian Ministry of Economy and Finance and they represent internal public debt instruments of the Republic of Peru. As of September 30, 2011, these bonds accrued interest at annual rates ranging from 4.23% to 5.82% (from 4.42% to 6.76% annually as of December 31, 2010), with maturities between September 2013 and August 2026 (between May 2015 and August 2037 as of December 31, 2010).
- (b) BCRP certificates of deposit are securities freely negotiable in local currency; they are acquired through BCRP public bids and traded in the Peruvian secondary market. As of September 30, 2011, those certificates mainly accrued interest at the BCRP's reference interest rate, which ranged from 0.09% to 4.35% (as of December 31, 2010, BCRP certificates accrued interest at a fixed rate, which ranged from 0.09% to 2.88%) and had maturities between October 2011 and September 2012 (between January and June 2011, as of December 31, 2010).

## SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

Likewise, as of September 30, 2011, and December 31, 2010, Scotiabank Perú S.A.A. and Subsidiaries did not have certificates of deposit issued by BCRP with restricted availability.

- (c) As of September 30, 2011, mutual fund included S/. 12,838 thousand and US\$ 353 thousand corresponding to investments in mutual funds mainly managed by a subsidiary (S/. 11,548 thousand and US\$ 21,911 thousand as of December 31, 2010).

As of September 30, 2011 and 2010, the accrued interest on investments amounted to S/. 56,951 thousand and S/. 55,412 thousand, respectively, and they are included under Financial Income like in the consolidated income statement.

Investment at fair value with changes in results and available-for-sale investments as of September 30, 2011 and December 31, 2010, have the following maturities:

	<u>In thousands of S/.</u>	
	<u>09.30.2011</u>	<u>12.31.2010</u>
Up to 3 months	865,382	149,939
From 3 months to 1 year	211,679	634,887
Over 1 year	991,445	923,378
	-----	-----
	2,068,506	1,708,204
	=====	=====

(7) Loan Portfolio, net

This caption relates to the following:

	<u>In thousands of S/.</u>			
	<u>09.30.2011</u>	<u>%</u>	<u>12.31.2010</u>	<u>%</u>
Direct loans:				
Current loans	20,250,253	97	17,689,305	97
Restructured loans	75,611	-	75,915	-
Refinanced loans	208,263	1	226,376	1
Past due loans	271,690	2	257,343	2
Lawsuits loans	97,600	-	71,348	-
	-----	----	-----	----
	20,903,417	100	18,320,287	100
	=====	====	=====	====
Plus (minus):				
Accrued interest on current loans	173,542		136,096	
Non-accrued interest	( 482,621)		( 534,637)	
Provision for doubtful loans	( 864,014)		( 773,501)	
	-----		-----	
	19,730,324		17,148,245	
	=====		=====	
Indirect loans (note 18)	3,744,859		3,432,761	
	=====		=====	

## SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

As of September 30, 2011 and December 31, 2010, 51% of the direct and indirect loan portfolio of the Bank and CrediScotia Financiera S.A. were concentrated in 1,106 and 705 clients, respectively.

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

Interest rates are regulated by the market and may be fixed freely by Scotiabank Perú S.A.A. and Subsidiaries. As of September 30, 2011 and December 31, 2010, the annual average effective rates for the Bank's main products were the following:

	(Percentages ( % ) )			
	09.30.2011		12.31.2010	
	Local currency	Foreign currency	Local currency	Foreign currency
Overdraft (*)	55.00 – 85.00	21.00 – 55.00	55.00 - 85.00	23.10 - 55.00
Discounts and commercial loans	3.93 – 42.00	2.55 – 28.90	2.31 - 40.60	2.12 - 30.20
Consumer loans	14.86 – 50.00	5.83 – 21.70	13.08 - 50.16	6.94 - 38.40

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

As of September 30, 2011 and December 31, 2010, according to current SBS regulations, the loan portfolio risk-based ratings are as follows:

Risk rating	N° of debtors	09.30.2011			N° de debtors	12.31.2010		
		In thousands of S/.				In thousands of S/.		
		Direct	Indirect	Total		Direct	Indirect	Total
Standard	865,673	19,557,823	3,723,527	23,281,350	785,605	17,098,035	3,408,612	20,506,647
Potential problem	52,567	507,563	14,356	521,919	48,003	440,509	14,148	454,657
Substandard	30,649	185,599	1,985	187,584	29,521	162,084	1,673	163,757
Doubtful	52,935	281,356	789	282,145	53,863	272,241	1,420	273,661
Loss	20,705	371,076	4,202	375,278	23,285	347,418	6,908	354,326
	1,022,529	20,903,417	3,744,859	24,648,276	940,277	18,320,287	3,432,761	21,753,048

## SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

As of September 30, 2011 and December 31 2010, direct loans were distributed by sectors, as follows:

	In thousands of S/.			
	09.30.2011	%	12.31.2010	%
Mortgage and consumer loans	6,481,559	31	5,304,905	29
Manufacturing	2,852,562	14	2,543,140	14
Trade	2,688,230	13	2,191,813	12
Real estate business and lease service	1,651,520	8	2,461,163	13
Electricity, gas, and water	983,771	5	724,983	4
Mining	946,135	5	795,394	4
Transportation	927,017	4	751,016	4
Financial intermediation	729,548	3	599,113	3
Education, services, and other	477,849	2	390,083	2
Fishing	376,366	2	298,408	2
Construction	326,920	2	243,514	1
Agriculture and livestock	301,231	1	242,064	1
Hotel and restaurants	185,904	1	130,111	1
Public administration and defence	5,602	-	8,671	-
Other (mainly non-profit, healthcare and automotive)	1,969,203	9	1,635,909	10
	20,903,417	100	18,320,287	100

The provision for doubtful loans (direct) activity is as follows:

	In thousands of S/.		
	Specific	Generic	Total
Balance as of December 31, 2009	580,396	289,810	870,206
Additions charged to income statement	443,956	58,973	502,929
Recovery of provisions	( 144,597)	( 35,263)	( 179,860)
Transfers and other	29,291	( 6,850)	22,441
Write-offs and forgiveness	( 368,897)	-	( 368,897)
Exchange difference	( 7,740)	( 3,969)	( 11,709)
Balance as of September 30, 2010	532,409	302,701	835,110
Balance as of December 31, 2010	448,327	325,174	773,501
Additions charged to income statement	517,213	174,402	691,615
Recovery of provisions	( 197,415)	( 96,451)	( 293,866)
Transfers and other	14,738	( 22,982)	( 8,244)
Write-offs and forgiveness	( 294,648)	-	( 294,648)
Exchange difference	( 2,430)	( 1,914)	( 4,344)
Balance as of September 30, 2011	485,785	378,229	864,014

As of September 30, 2011, the provision for foreign exchange credit risk amounted to S/. 1,021 thousand (S/. 1,139 thousand as of December 31, 2010).

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

## SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

In the opinion of Scotiabank Perú S.A.A. and Subsidiaries' management, as of September 30, 2011 and December 31, 2010, the provision for doubtful loans is recorded according to current SBS standards.

As of September 30, 2011 and December 31, 2010, the direct loan portfolio had the following maturities:

	In thousands of S/.					
	09.30.2011			12.31.2010		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Up to 1 month	1,117,799	1,536,764	2,654,563	887,479	1,323,876	2,211,355
More than 1 to 3 months	1,095,189	2,408,971	3,504,160	1,414,959	2,049,606	3,464,565
More than 3 to 6 months	1,318,091	1,207,771	2,525,862	1,277,775	1,152,115	2,429,890
More than 6 to 12 months	2,328,552	1,074,792	3,403,344	1,573,409	974,249	2,547,658
Over 12 months	4,000,194	4,619,546	8,619,740	3,405,943	4,068,281	7,474,224
Overdue and lawsuit	201,132	168,158	369,290	171,360	157,331	328,691
Less, accrued interest on current loans	( 118,100)	( 55,442)	( 173,542)	( 94,108)	( 41,988)	( 136,096)
	9,942,857	10,960,560	20,903,417	8,636,817	9,683,470	18,320,287
	=====	=====	=====	=====	=====	=====

(8) Accounts Receivable, net

This caption relates to the following:

	In thousands of S/.	
	09.30.2011	12.31.2010
Tax claims (a)	133,208	133,208
Accounts receivable for differential of derivative financial instruments - forwards (b)	62,991	30,789
Accounts receivable from collections and warehousing services	49,083	45,013
Commissions receivable	18,208	16,615
Accounts receivable from guarantee trusts, net (c)	15,165	11,132
Advances to personnel	9,062	2,094
Payments on behalf of the thirds parties, net	3,843	4,703
Accounts receivable from brokerage customers	1,590	15,880
Other accounts receivable, net (d)	107,078	97,135
	400,228	356,569
	=====	=====

(a) The Scotiabank Perú S.A.A. and Subsidiaries tax proceedings as of September 30, 2011 and December 31, 2010, correspond to the compensation of the credit balance against ITAN (Temporary Tax on Net Assets) for years 2006 and 2005, see note 24(c).

## SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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 resolved in favor of Scotiabank Perú S.A.A. and Subsidiaries by the Supreme Court. The open only remaining item is issuance of final resolutions.

- (b) As of September 30, 2011, Scotiabank Perú S.A.A. and Subsidiaries hold sale and purchase "forward" transactions for a notional value of US\$ 1,989,570 thousand and US\$ 1,652,835 thousand; respectively, with maturities until April 2013 (as of December, 31, 2010, held forward transactions for US\$ 1,392,761 thousand and US\$ 1,851,123 thousand, respectively, with maturities until April 2013). Forward transactions as of September 30, 2011, generated a net gains of S/. 330 thousand (a net loss of S/. 24,176 thousand as of September 30, 2010), see notes 19 and 20.
- (c) The SBS, through its 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 September 30, 2011, the Bank had not yet requested any disbursement under the facility. From January 1 to September 30, 2011, the Bank had transferred loans to the guarantee trust for a net value of S/. 8,557 thousand (S/. 52,747 thousand during 2010).

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

As of September 30, 2011 and December 31, 2010, the net balance of accounts receivable from the trust amounted to S/. 15,165 thousand and S/. 11,132 thousand, respectively, and included accumulated provisions for S/. 130,615 thousand and S/. 143,821 thousand, respectively.

- (d) As of September 30, 2011, the balance of other accounts receivable, net of the related provision for doubtful accounts, is composed of: i) S/. 37,663 thousand of accounts receivable from the sale of investments (S/. 14,195 thousand as of December 31, 2010); ii) S/. 2,448 thousand of accounts receivable from property rental (S/. 2,278 as of December 31, 2010); and iii) S/. 66,967 thousand of various accounts receivable (S/. 80,662 thousand as of December 31, 2010).
- (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 September 30, 2011 and December 31, 2010 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 September 30, 2011 and December 31, 2010.

## SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

(10) Property, Furniture, and Equipment, net

This caption relates to the following:

	In thousands of S/.				Balances as of 09.30.2011
	Balances as of 12.31.2010	Additions	Disposals	Reclassification / adjustments	
Cost:					
Land	153,994	-	-	-	153,994
Property and premises	685,353	3,266	( 593)	16,400	704,426
Furniture, fixture, and computing equipment	309,352	26,257	( 8,058)	4,477	332,028
Vehicles	6,208	117	( 1,502)	-	4,823
Units in transit and replacing units	2,946	28,767	-	( 4,273)	27,440
Work-in-progress	13,330	19,398	-	( 19,503)	13,225
	<u>1,171,183</u>	<u>77,805</u>	<u>( 10,153)</u>	<u>( 2,899)</u>	<u>1,235,936</u>
Accumulated depreciation:					
Property and premises	441,976	23,053	( 596)	-	464,433
Furniture, fixture, and computing equipment	228,736	20,995	( 7,601)	( 5)	242,125
Vehicles	3,927	567	( 1,477)	-	3,017
	<u>674,639</u>	<u>44,615</u>	<u>( 9,674)</u>	<u>( 5)</u>	<u>709,575</u>
	<u>496,544</u>				<u>526,361</u>

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

This caption relates to the following:

	In thousands of S/.	
	09.30.2011	12.31.2010
Tax credits and other (a)	368,916	329,899
Deferred income tax (note 25)	137,687	89,921
Prepaid expenses (b)	110,091	96,790
Transactions in process (c)	65,916	68,283
Realizable Assets, Received as Payment, and Repossessed Assets net of accumulated depreciation and provision for impairment for S/. 129,849 thousand (S/. 130,918 thousand in 2010)	36,778	24,521
Intangible assets, net of amortizations of S/. 196,334 thousand (S/. 190,452 thousand in 2010)	11,679	10,925
Inventories	7,143	12,869
Deferred employees' profit sharing	-	15,734
Other	12,906	14,947
	<u>751,116</u>	<u>663,889</u>



## SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

- (a) As of September 30, 2011 and December 31, 2010, the Tax credit relates primarily to sales tax (IGV) related to the acquisition of assets that have been granted in leasing, which have not yet been applied against taxable transactions.
- (b) As of September 30, 2011, prepaid expenses include mainly: i) deferred loan origination cost, related to fees paid to external sales S/. 47,707 thousand, ii) prepaid rent for S/. 6,855 thousand, iii) prepaid commissions of received borrowings for S/. 9,197 thousand and iv) ITAN prepayment for S/. 17,048 thousand (S/. 37,080 thousand, S/. 6,032 thousand, S/. 11,683 thousand and S/. 14,540 thousand; respectively as of December 31, 2010).
- (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 September 30, 2011, this account mainly S/. 59,041 thousand related to Treasury transactions; S/. 1,448 thousand related to leasing transactions in process to disbursement and S/. 955 unsettled Unibanca transactions (S/. 56,276 thousand, S/. 295 thousand and S/. 1,850 thousand as of December 31, 2010; respectively).

(12) Deposits and Obligations

This caption relates to the following:

	In thousands of S/.			
	<u>09.30.2011</u>	<u>%</u>	<u>12.31.2010</u>	<u>%</u>
Individuals	6,700,725	33	6,470,634	33
Corporate clients	10,651,096	52	9,821,637	51
Non-profit organizations	2,174,667	11	2,144,642	11
Other	946,923	4	982,633	5
	-----	----	-----	----
	20,473,411	100	19,419,546	100
	=====	====	=====	====

Deposits and other obligations in U.S. dollars represent 53% and 51% of the total deposits as of September 30, 2011 and December 31, 2010, 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/. 290,312 thousand and US\$ 176,150 thousand as of September 30, 2011 and for S/. 277,877 thousand and US\$ 198,195 thousand, as of December 31, 2010.

Likewise, as of September 30, 2011 and December 31, 2010, from the total of deposits and obligations of individuals and non-profit legal entities, the amounts of S/. 5,292,084 thousand and S/. 5,081,394 thousand respectively, are covered by the Peruvian Deposit Insurance Fund (FSD), according to current legal regulations.

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

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

## SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

- (b) Accrued interest on the above-mentioned deposits, from their respective opening dates their last renewal; and
- (c) Demand deposits corresponding to legal entities.

The maximum amount covered for each individual as of September 31, 2011, amounted to S/. 90 thousand (S/. 86 thousand as of December 31, 2010).

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 September 30, 2011 and December 31, 2010 fluctuated as shown below for the following main products (annual effective rate):

	Percentage (%)			
	09.30.2011		12.31.2010	
	Local currency	Foreign currency	Local currency	Foreign currency
Savings deposits	0.97 – 1.62	0.45 – 0.81	0.97 – 2.62	0.45 – 1.66
Time deposits	1.05 – 5.99	0.33 – 2.46	0.96 – 5.67	0.50 – 3.03
Bank certificates	–	0.26 – 0.73	–	0.26 – 1.38
Severance indemnities deposits	1.52 – 6.00	1.51 – 4.00	1.47 – 6.00	1.35 – 4.00

As of September 30, 2011 and December 31, 2010 the scheduled maturity dates of time deposits were as follows:

	In thousands of S/.					
	09.30.2011			12.31.2010		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Up to 1 month	1,153,420	2,629,111	3,782,531	2,286,473	2,504,849	4,791,322
More than 1 to 3 months	1,258,257	1,008,292	2,266,549	618,384	442,233	1,060,617
More than 3 to 6 months	662,463	417,647	1,080,110	230,367	714,117	944,484
More than 6 to 12 months	589,974	576,166	1,166,140	129,811	609,304	739,115
Over 12 months	222,199	385,339	607,538	1,038,173	489,939	1,528,112
	3,886,313	5,016,555	8,902,868	4,303,208	4,760,442	9,063,650

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 and valid for two years. As of September 30, 2011 it has issued the total amount of the program (S/. 50,000 thousand was issued as of December 31, 2010). The proceeds are recorded in the time deposits account.

## SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

(13) Borrowings and Financial Obligations

This caption relates to the following:

	<u>In thousands of S/.</u>	
	<u>09.30.2011</u>	<u>12.31.2010</u>
COFIDE credits lines (a):		
Mivivienda	242,918	197,869
Working capital and other	428,000	300,000
Ordinary loans from abroad (b):		
Related banks	1,417,496	877,258
Other banks	2,180,098	2,391,286
	-----	-----
	4,268,512	3,766,413
Interest payable	16,332	16,267
	-----	-----
	<u>4,284,844</u>	<u>3,782,680</u>
	=====	=====

- (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 September 30, 2011 and December 31, 2010, 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 6.15% and 8.05% (between 4.45 % and 7.25% as of December 31, 2010).
- (b) As of September 30, 2011, ordinary loans correspond to debts with two related foreign financial entities: Scotiabank Ltd Bahamas for US\$ 503,165 thousand and The Bank of Nova Scotia for US\$ 8,013 thousand (as of December 31, 2010 for US\$ 303,165 thousand and US\$ 9,138 thousand, respectively).

As of September 30, 2011, borrowings of Scotiabank Perú S.A.A. and Subsidiaries agreed with various foreign financial institutions for US\$ 661,188 thousand (for US\$ 726,294 thousand to December 31, 2010), accrued interest at average rates that ranged from 0.67% to 7.50% p.a. (0.59% to 7.50% p.a. as of December 31, 2010).

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 they 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 accrued interest at LIBOR rate plus 1.25% annually, with a total term of three years totally paid by June 2011.

## SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

As of September 30, 2011 and December 31, 2010, the scheduled maturity dates of borrowings from banks and other financial institutions were as follows:

	<u>In thousands of S/.</u>	
	<u>09.30.2011</u>	<u>12.31.2010</u>
Up to 1 month	357,244	560,770
More than 1 to 3 months	633,973	786,303
More than 3 to 6 months	257,665	760,629
More than 6 to 12 months	468,574	252,258
More than 12 months	2,567,388	1,422,720
	-----	-----
	4,284,844	3,782,680
	=====	=====

(14) Securities, Bonds and Obligations Issued

This caption relates to the following:

<u>Issuance</u>	<u>Annual interest</u>	<u>Maturity</u>	<u>Outstanding balances in thousands of S/.</u>	
			<u>09.30.2011</u>	<u>12.31.2010</u>
Negotiable notes (a)				
Series A	5.25%	2017	138,650	140,450
Series B	3m LIBOR + 2.75%	2017	346,625	351,125
			-----	-----
			485,275	491,575
			-----	-----
Redeemable subordinated bonds (b)				
1st issuance	9.75% - 9.10%	2012 and 2013	193,868	196,140
2nd issuance E	8.25%	2011	-	8,427
			-----	-----
			193,868	204,567
			-----	-----
Corporate bonds (c)				
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
2nd issuance A	7.72%	2014	60,000	-
3rd issuance A	6.81%	2013	150,000	150,000
3rd issuance A	6.81%	2013	75,920	-
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	60,000
8th issuance A	7.31%	2017	100,000	100,000
			-----	-----
			748,060	612,140
			-----	-----
			1,427,203	1,308,282
			-----	-----
Interest payable (d)			16,165	8,776
			-----	-----
			1,443,368	1,317,058
			=====	=====

## SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

- (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) From 2007 to 2011, Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. issued Corporate Bonds for S/. 748,060 thousand within a term of 1 and 6 years. The proceeds were exclusively destined to the financing of loan operations.
- (d) As of September 30, 2011, interest payable on securities and obligations mainly included interest accrued on the securities issued by Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. for S/. 16,165 thousand (as of December 31, 2010, it includes, interest accrued and cumulative dividends unpaid as of that date for preferred shares amounting to S/. 8,776 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 September 30, 2011 and December 31, 2010, the maturity of securities issued by the Bank was as follows:

	<u>In thousands of S/.</u>	
	<u>09.30.2011</u>	<u>12.31.2010</u>
Between 6 and 12 months	268,963	17,203
More than 12 months	1,174,405	1,299,855
	-----	-----
	1,443,368	1,317,058
	=====	=====

## SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

(15) Provisions and Other Liabilities

This caption relates to the following:

	<u>In thousands of S/.</u>	
	<u>09.30.2011</u>	<u>12.31.2010</u>
Various accounts payable (a)	212,479	175,935
Provisions for litigations and legal claims (b)	123,386	113,877
Transactions in process (c)	107,644	115,431
Income tax provision	89,364	120,443
Accounts payable for differential of derivative financial instruments – “forwards” (note 8b)	78,574	31,916
Generic provision (d)	61,596	64,383
Put option (e)	53,931	52,527
Accounts payable to customers	52,027	46,786
Provision for indirect loans	50,064	28,747
Dividends, vacations, profit sharing and remunerations payable	49,357	99,972
Dividends from securities held in custody payable to customers	18,907	19,176
Deferred income on portfolio sale and other	16,484	15,541
Deferred income tax (note 25)	3,673	9,606
Deferred employees' profit sharing	-	1,686
Other provisions (f)	189,871	135,541
	-----	-----
	1,107,357	1,031,567
	=====	=====

(a) As at September 30, 2011, this account was mainly composed of accounts payable to: i) suppliers for S/. 122,344 thousand; ii) tax agencies for S/. 4,808 thousand; iii) counterparties for the purchase of investments for S/. 36,366 thousand; iv) insurance companies for services agreed-upon by customers for S/. 7,341 thousand; v) premiums to the deposit insurance fund for S/. 5,997 thousand and vi) merchants for purchases with credit cards issued for S/. 7,858 thousand (S/. 62,140 thousand, S/. 8,379 thousand, S/. 8,826 thousand, S/. 7,341 thousand, S/. 5,560 thousand and S/. 7,556 thousand; respectively, as of December 31, 2010).

(b) As of September 30, 2011 and December 31, 2010, 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.

(c) 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 September 30, 2011, liability transactions in process included mainly S/. 67,164, thousand related to Treasury operations, S/. 6,267 thousand related to settlement to clients in process, S/. 2,014 thousand related to credit card transactions, and S/. 7,693 thousand related to clearing process in the Cámara de Compensación Electrónica S.A. (S/. 55,647 thousand, S/. 15,419 thousand, S/. 10,369 thousand and S/. 578 thousand; respectively, as of December 31, 2010).

## SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- (d) As of September 30, 2011 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, they shall be reallocated to deficits of provisions in other asset accounts of the Bank for S/. 40,622 thousand (S/. 45,862 thousand as of December 31, 2010); and ii) generic provision charged to income statement of the period for S/. 20,974 thousand (S/. 18,521 thousand as of December 31, 2010).
- (e) As of September 30, 2011 and December 31, 2010, 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.
- (f) As of September 30, 2011, other provisions included provision for personnel expenses for S/. 102,073 thousand (S/. 27,633 thousand as of December 31, 2010) and the acquisition cost (earn out) provision for the capital stock of CrediScotia Financiera S.A. for S/. 55,169 thousand (S/. 83,290 thousand as of December 31, 2010), which was determined in conformity with the purchase agreement. This agreement 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. In March 2011 the Bank paid the first instalment of US\$ 10,000 thousand.

#### (16) Shareholders' Equity

##### (a) General

As of September 30, 2011 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/. 2,493,030 thousand and S/. 342,621 thousand, respectively (as of December 31, 2010 S/. 2,018,359 thousand and S/. 292,139 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 September 30, 2011, credit 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/. 19,455,707 thousand and S/. 2,932,574 thousand, respectively (S/. 16,453,820 thousand and S/. 2,368,519 thousand, respectively as of December 31, 2010).

As of September 30, 2011, the Banking Law establishes as global limit requirement indicating that the regulatory net worth should be equal to or greater than 10% of total risk weighted assets and contingent credits, 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. As of September 30, 2011, the global limit of Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. determined by current legal rules amounts to 12.08% and 11.68%, respectively (11.53% and 12.33%, respectively, as of December 31, 2010).

According to SBS Official Letter 12440-2011, the Bank and CrediScotia Financiera S.A. performed a self-assessment analysis of their capital adequacy. As a result, neither the Bank nor CrediScotia Financiera S.A. found evidence of capital management gaps or weaknesses.

## SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

(b) Capital Stock

As of September 30, 2011 the Bank's capital stock comprised 202,128,755 common shares (154,108,966 common shares as of December 31, 2010). All shares have voting rights and a par value of S/. 10.00 each. As of September 30, 2011 and December 31, 2010, 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 August 25, 2011 and pursuant to the delegation conferred by the General Shareholders' meeting held on March 31, 2011, the Board approved a capital stock increase for an amount of S/. 250,000 thousand; this increase results from the 2010 retained earnings capitalization and will be performed through the issuance of 25,000,000 new common shares with a face value of S/. 10.00 per share. As of September 30, 2011, these shares are in process of issuance.

At the Bank's annual obligatory general shareholders' meeting held on March 31, 2011, the capitalization of S/. 480,198 thousand corresponding to retained earnings through the issuance of 48,019,798 new common shares with a face value of S/. 10.00 per share was approved. Consequently, as of September 30, 2011 the Bank's capital stock comprised 202,128,764 shares.

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. This increase was made after completion of the subscription and payment process for S/. 297,780 thousand, equivalent to 14,159,771 new common shares, which were subscribed and paid 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.

As of September 30, 2011, the quoted value of common shares of the Bank was S/. 42.70 per share (as of December 31, 2010, was S/. 78.00 for common shares).

The Bank's capital stock shareholding as of September 30, 2011 and December 31, 2010, is as follows:

<u>Percentage of shareholding</u>	<u>09.30.2011</u>		<u>12.31.2010</u>	
	<u>Number of shareholders</u>	<u>Total percentage of shareholding</u>	<u>Number of shareholders</u>	<u>Total percentage of shareholding</u>
0.01 to 1	2,291	2.29	2,514	2.29
1.01 to 50	2	42.39	2	42.39
50.01 to 100	1	55.32	1	55.32
	-----	-----	-----	-----
	<u>2,294</u>	<u>100.00</u>	<u>2,517</u>	<u>100.00</u>
	=====	=====	=====	=====



SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2011, the Banking Law requires that the capital stock of the Bank should reach the minimum amount of S/. 24,500 thousand (S/. 23,176 thousand as of December 31, 2010), 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 shareholders for this purpose.

At the Bank's annual obligatory general shareholders' meeting held on March 31, 2011, it was decided to apply to legal reserve an amount of S/. 68,020 thousand, corresponding to 10% of net profit for the year 2010. Likewise, 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.

(d) Retained Earnings

At the Bank's annual obligatory general shareholders' meeting held on March 31, 2011, the profit sharing corresponding to year 2010 for S/. 680,197 thousand was agreed, as follows:

- (i) Distribution of dividends of common shares for S/. 204,059 thousand.
- (ii) Increase the legal reserve, allocating 10% of net income, amounting to S/. 68,020 thousand.
- (iii) Non-distributed balance of S/. 408,118 thousand will be held in the equity account of 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) Increase of the legal reserve, allocating 10% of net income, amounting to S/. 63,705 thousand.
- (iii) Non-distributed balance of S/. 382,232 thousand will be held in the equity account of Retained earnings.

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.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(17) 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 the Bank’s management and its internal legal advisors, these claims will not result in additional liabilities to those already recorded by the Bank; therefore, no additional provisions are necessary for these contingencies (note 15b).

(18) Contingent and Memoranda Accounts

In the normal course of business, the Bank and CrediScotia Financiera S.A. perform contingent transactions with off balance sheet credit risk (contingent assets). These transactions expose the Bank and CrediScotia Financiera S.A. to additional credit risk, beyond the amounts disclosed, in the consolidated balance sheet. Credit risk for contingent transactions are recorded in memoranda accounts under the probability that any participant of the respective contract will not comply with agreed terms. The related contracts consider the amount that the Bank and CrediScotia Financiera S.A. would assume for credit losses in contingent transactions. The Bank and CrediScotia Financiera S.A. apply the same credit policies to evaluate and grant direct and indirect loans.

## SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

As of September 30, 2011 and December 31, 2010, the contingent and memoranda accounts comprised the following:

	<u>In thousands of S/.</u>	
	<u>09.30.2011</u>	<u>12.31.2010</u>
Indirect loans:		
Guarantees and stand-by letters of credit	3,322,484	2,881,937
Issued letters of credit	368,103	483,284
Due from bank acceptances	54,272	67,540
	-----	-----
	3,744,859	3,432,761
Unused credit lines	13,201,196	16,593,711
Financial derivative contracts	10,038,062	9,028,305
Other	542	542
	-----	-----
	26,984,659	29,055,319
Memoranda accounts:		
Securities held in custody	6,618,928	5,819,445
Suspended interest on loans	2,175,625	1,236,582
Goods transferred in trust	3,981,725	3,862,591
Guarantees received	40,602,674	36,628,640
Securities in collection	11,735,315	10,731,022
Own securities in custody	3,063,663	1,907,208
Written-off loans	3,506,238	3,531,924
Advised letters of credit	355,491	215,718
Securities granted as warranties	750,921	554,791
Trust and debt trust commissions	2,696,595	2,664,771
Control of returned checks	58,305,306	50,760,169
Loans and other control	20,268,365	17,136,682
Other memoranda accounts	42,858,773	45,355,475
	-----	-----
	196,919,619	180,405,018
	-----	-----
	223,904,278	209,460,337
	=====	=====

Due to many 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 of a customer in a form of an obligation to a third party.

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 September 30, 2011, loan balances covered by guarantees amount to S/. 9,246,461 thousand (S/. 8,434,235 thousand as of December 31, 2010).

## SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

(19) Financial Income

This caption comprises the following:

	<u>In thousands of S/.</u>	
	<u>09.30.2011</u>	<u>09.30.2010</u>
Interest and commissions on loan portfolio	1,800,869	1,461,109
Foreign exchange difference from operations	132,233	137,588
Income from investment valuation	56,951	55,412
Interest on cash and due from banks	29,553	4,150
Gains on associated	7,213	6,822
Interest and commissions on interbank funds	3,755	1,225
Gains on derivative instruments, net	330	-
Other financial income	30,582	33,734
	-----	-----
	2,061,486	1,700,040
	=====	=====

(20) Financial Expenses

This caption comprises the following:

	<u>In thousands of S/.</u>	
	<u>09.30.2011</u>	<u>09.30.2010</u>
Interest on obligations	183,888	140,606
Interest on borrowings from banks and financial institutions	65,848	45,268
Interest on securities, bonds and obligations issued	61,139	49,339
Loss on derivative instruments, net	-	24,176
Deposit insurance fund premiums	17,536	16,325
Interest on deposits of financial entities	6,126	4,269
Other financial expenses	63,276	52,647
	-----	-----
	397,813	332,630
	=====	=====

## SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

(21) Income from financial services, net

This caption comprises the following:

	<u>In thousands of S/.</u>	
	<u>09.30.2011</u>	<u>09.30.2010</u>
Income:		
Income from services and maintenance of credit / debit cards	122,898	111,059
Income from deposit transactions, services and transfer fees	111,940	108,812
Other fees and commissions from banking services	67,361	67,921
Income from warehousing	60,121	27,809
Income from purchased portfolio recoveries	49,484	7,488
Income from payment and collections services	35,807	46,895
Income from remunerations of mutual fund and administration fees	20,003	21,420
Income from teleprocessing services	19,099	27,190
Income from brokerage services	8,810	6,916
Income from structuring and administration services	5,968	6,493
Income from leased property	1,961	1,639
Other various income	35,225	15,818
	-----	-----
	538,677	449,460
	-----	-----
Expenses:		
Credit / debit cards expenses	( 32,957)	( 32,296)
Insurance services expenses	( 9,339)	( 7,001)
Other expenses	( 38,456)	( 46,220)
Warehousing expenses	( 20,295)	( 16,946)
	-----	-----
	( 101,047)	( 102,463)
	-----	-----
Total income from financial services, net	437,630	346,997
	=====	=====

(22) Administrative Expenses

This caption comprises the following:

	<u>In thousands of S/.</u>	
	<u>09.30.2011</u>	<u>09.30.2010</u>
Personnel and board of directors expenses	492,158	449,563
Expenses for services received from third parties	328,186	268,805
Taxes and contributions	53,364	43,443
	-----	-----
	873,708	761,811
	=====	=====

## SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

(23) Other Income, net

This caption comprises the following:

	<u>In thousands of S/.</u>	
	<u>09.30.2011</u>	<u>09.30.2010</u>
Income from repossessed assets	2,902	17,388
Income from recovery of accounts receivable and other	34,970	93,817
Income from previous periods	27,552	78,992
(Loss) gain on sale of out of use goods	( 60)	194
Other extraordinary (expenses) income, net	( 5,442)	305
	-----	-----
	<u>59,922</u>	<u>190,696</u>
	=====	=====

(24) Tax Matters

(a) Tax returns of Scotiabank Perú S.A.A. and Subsidiaries, which are subject to audit by local tax regulator, are as follows:

<u>Entities</u>	<u>Tax returns subject to audit</u>
Scotiabank Perú S.A.A.	2007 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.	2007 through 2010
Depósitos S.A.	2006 through 2010
Servicios, Cobranzas e Inversiones S.A.C.	2006 through 2010

Expenses exceeding provisions already made to cover tax obligations will be charged to results in the period those expenses are finally settled. In the opinion of Scotiabank Perú S.A.A. and Subsidiaries' management, no significant liabilities will arise affecting the consolidated financial statements as of September 30, 2011.

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

The Income tax (current and deferred) amounts per entity is as follows:

<u>Entities</u>	<u>In thousands of S/.</u>	
	<u>09.30.2011</u>	<u>09.30.2010</u>
Scotiabank Perú S.A.A.	188,091	172,887
CrediScotia Financiera S.A.	30,642	25,137
Servicios, Cobranzas e Inversiones S.A.C.	9,542	8,018
Scotia Fondos Sociedad Administradora de Fondos S.A.	2,436	2,661
Scotia Sociedad Agente de Bolsa S.A.	2,141	1,526
Depósitos S.A.	1,357	1,761
Scotia Sociedad Titulizadora S.A.	134	176

## SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- (b) Effective 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 criteria for pricing. Scotiabank Perú S.A.A. and Subsidiaries' management consider that pricing regarding aforementioned transactions has been made in accordance with tax legislation; consequently, no significant liabilities will arise as of September 30, 2011.
- (c) Effective 2005, a Temporary Tax on Net Assets (ITAN) was established. Taxable basis is the net asset value adjusted at the end of period before payment is made, deducting depreciation, amortization, legal cash reserve, and specific provisions for credit risk. Tax rate is 0.4% for assets exceeding S/. 1,000 thousand. Tax can be paid in cash or in nine consecutive monthly instalments. The amount actually paid may be used as credit against payments of 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 decided not to pay the ITAN for the years 2005 and 2006 as it was considered unconstitutional. However, the Constitutional Court resolved the majority of the proceedings filed by the Bank, declaring the constitutionality of the aforementioned tax; and ordered the Tax Administration (SUNAT, for its Spanish acronym) not to collect accrued interest on late payment.

The outstanding balance of this tax excluding interest was S/. 122,958 thousand, which the Bank requested SUNAT compensate against Income Tax credit. The Tax Court ordered SUNAT to offset the ITAN debt from 2005 and 2006 against the Income Tax credit from 2004 and 2005. SUNAT has filed an appeal to nullify that resolution.

SUNAT applied its own methodology to implement the Tax Court resolution requiring the payment of a tax liability amounting to S/. 138,606 thousand. In October 2011, the Bank paid S/. 135,458 thousand as a result of the collection process executed by SUNAT. In the opinion of the Bank's management and its legal advisors, this payment will be recovered by the Bank at the end of the legal process.

- (d) Tax on Financial Transactions (ITF, for its Spanish acronym) for 2011 and 2010 has been fixed at a rate of 0.05%. 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, effective January 1, 2010, the tax exemption on capital gains and interest from securities issued by government-owned entities and Central Bank (BCRP for its Spanish acronym) certificates of deposit, was eliminated.

Management considers that provision recorded by the Bank is sufficient to cover any liability related to the aforementioned tax contingencies.

## SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

(25) Deferred Income Tax

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

	Balance as of 12.31.2010	(Debit) credit to retained earnings	(Debit) credit to results	Balance as of 09.30.2011
Asset:				
Generic provision for loans	47,726	-	29,077	76,803
Doubtful loans provision	10,325	-	19,062	29,387
Transferred loan portfolio	16,003	-	( 4,793)	11,210
Provision for vacations	11,269	-	340	11,609
Intangibles	3,611	-	( 2,285)	1,326
Provision for credit card rewards	2,835	-	271	3,106
Fixed assets	1,850	-	( 56)	1,794
Provision for debit card rewards	803	-	( 201)	602
Provision for inventories and repossessed and realizable assets	800	-	8,494	9,294
Time deposits interest	4,632	-	( 4,632)	-
Other	( 9,933)	( 5)	2,494	( 7,444)
	89,921	( 5)	47,771	137,687
Liability:				
Valuation of investments in associates	( 9,225)	5,793	-	( 3,432)
Other	( 381)	-	140	( 241)
	( 9,606)	5,793	140	( 3,673)
Deferred income tax, net	80,315	5,788	47,911	134,014

(26) 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 period end	Weighted average of common shares (in thousands)
Year 2011:			
Balance as of January 1, 2011	202,129 (a)	273	202,129
Subscription of new shares	25,000 (b)	36	3,297
Balance as of September 30, 2011	227,129		205,426

(a) Includes 154,109 thousand shares outstanding as at January 1, 2011 and 48,020 thousand shares issued on March 31, 2011 related to the capitalization of retained earnings from previous years.

(b) Includes 25,000 thousand of shares in process of issuance as of September 30, 2011 related to the approved capitalization of retained earnings from previous year, see note 16 b).



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	Shares issued		Weighted average of common shares (in thousands)
	Shares issued (in thousands)	Effective days until period end	
Year 2010:			
Balance as of January 1, 2010	187,969 (c)	273	187,969
Subscription of new shares	14,160	100	5,187
Balance as of September 30, 2010	202,129		193,156

(c) Includes 139,949 thousand of shares outstanding as at January 1, 2010, and 48,020 thousand shares issued on March 31, 2011 related to the capitalization of retained earnings from previous years by 89,332 thousand of shares.

Calculation of basic and diluted earnings per share as of September 30, 2011 and 2010 is as follows:

Third Quarter	In thousands of S/ Profit (numerator)	In thousands Weighted average common shares (denominator)	In S/ Earning per share
2011	556,497	205,426	2.709
2010	518,073	193,156	2.682

(27) Financial Risk Management

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

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.

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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 the 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.

#### Liquidity Risks

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.

Main guidelines to manage 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.

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#### Interest Rate Risk

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

Interest rate risk exposure for 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 of 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 is 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 Area.

Trading Management area 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.

#### Investments Portfolio Risk

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

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#### Credit Risk

Credit risk is controlled mainly through evaluation and analysis of individual client transactions, considering aspects such as: payment capacity, 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.

#### (28) 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 Scotiabank Perú S.A.A. and Subsidiaries assets and liabilities correspond to short-term financial instruments with maturities shorter than one year. 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.

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- (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 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) 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. 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, estimated market value does not differ significantly from book value.
  - (h) Securities, bonds and obligations issued accrue interest at fixed rates. 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, 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.
- (29) 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 September 30, 2011, the allocated value of assets in trusts and trust fees amounted to S/. 1,900,635 thousand (S/. 1,980,681 thousand as of December 31, 2010).