

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Interim Consolidated Financial Statements

September 30, 2012

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

**Interim Consolidated Financial Statements
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Contents	Page
Independent Auditors' Review Report on Interim Consolidated Financial Statements	
Interim Consolidated Financial Statements	
Interim Consolidated Balance Sheet	1
Interim Consolidated Income Statement	2
Interim Consolidated Statement of Changes in Shareholders' Equity	3
Interim Consolidated Statement of Cash Flows	4
Notes to the Interim Consolidated Financial Statements	5 - 54



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INDEPENDENT AUDITORS' REVIEW REPORT
ON INTERIM CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders and Board of Directors of
Scotiabank Perú S.A.A.

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, 2012 and the related interim consolidated statements of income, changes in shareholders' equity and cash flows for the nine-month periods ended September 30, 2012 and 2011, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these interim consolidated 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 interim consolidated 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, 2012, and the consolidated results of their operations and their consolidated cash flows for the nine-month periods ended September 30, 2012 and 2011, 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.

Lima, Peru

November 23, 2012

Countersigned by:

Caipo y Asociados

Javier Candiotti (Partner)
Peruvian Certified Public Accountant
Registration N° 11177

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Interim Consolidated Balance Sheet

As of September 30, 2012 and December 31, 2011

(Stated in thousands of nuevos soles)

<u>Assets</u>	<u>09.30.2012</u> (Unaudited)	<u>12.31.2011</u> (Audited)	<u>Liabilities and shareholders' equity</u>	<u>09.30.2012</u> (Unaudited)	<u>12.31.2011</u> (Audited)
Cash and due from banks (note 5):			Deposits and obligations (note 12):		
Cash	658,557	719,889	Demand deposits	7,162,050	6,772,507
Deposits with Banco Central de Reserva del Perú	6,082,112	5,856,563	Savings deposits	4,262,223	4,461,212
Deposits with local and foreign banks	629,226	503,139	Time deposits	9,135,141	9,402,416
Clearing	162,959	212,121	Other obligations	723,868	787,076
Accrued interest and due from banks	56,597	16,518		-----	-----
	-----	-----		21,283,282	21,423,211
	7,589,451	7,308,230			
Interbank funds	267,117	123,220	Interbank funds	85,137	189,204
Investments at fair value through profit or loss and available-for-sale (note 6)	1,456,027	1,659,254	Borrowings and financial obligations (note 13)	5,258,596	4,024,030
Loan portfolio, net (note 7)	22,227,179	20,869,482	Securities, bonds and obligations issued (note 14)	1,728,715	1,470,937
Accounts receivable, net (note 8)	455,897	488,318	Provisions and other liabilities (note 15)	1,025,520	981,101
Investments in associates	107,269	97,358		-----	-----
Goodwill (note 9)	278,818	278,818	Total liabilities	29,381,250	28,088,483
Property, furniture, and equipment, net (note 10)	516,131	513,141		-----	-----
Other assets, net (note 11)	883,368	793,394	Shareholders' equity (note 16):		
Total assets	-----	-----	Capital stock	2,852,818	2,299,303
	33,781,257	32,131,215	Additional paid-in capital	368,553	368,553
	=====	=====	Legal reserve	479,029	400,180
			Unrealized earnings	33,849	42,421
			Retained earnings	665,758	932,275
				-----	-----
			Total shareholders' equity	4,400,007	4,042,732
			Contingencies (note 17)		
				-----	-----
			Total liabilities and shareholders' equity	33,781,257	32,131,215
				=====	=====
Contingent and memoranda accounts (note 18):			Contingent and memoranda accounts (note 18):		
Contingent accounts	30,982,966	25,225,312	Contingent accounts	30,982,966	25,225,312
Memoranda accounts	181,476,142	158,741,305	Memoranda accounts	181,476,142	158,741,305
	-----	-----		-----	-----
	212,459,108	183,966,617		212,459,108	183,966,617
	=====	=====		=====	=====

See the accompanying notes to the interim consolidated financial statements.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Interim Consolidated Income Statement

For the nine-month periods ended September 30, 2012 and 2011

(Stated in thousands of nuevos soles)

	<u>2012</u> (Unaudited)	<u>2011</u> (Unaudited)
Finance income (note 19)	2,407,744	2,072,785
Finance expenses (note 20)	(474,085)	(409,112)
Gross finance income	<u>1,933,659</u>	<u>1,663,673</u>
Provision for doubtful loans, net of recoveries (note 7)	(493,089)	(380,874)
Net finance income	<u>1,440,570</u>	<u>1,282,799</u>
Income from finance services, net (note 21)	477,739	437,630
Operating margin	<u>1,918,309</u>	<u>1,720,429</u>
Administrative expenses (note 22)	(980,974)	(873,708)
Net operating margin	<u>937,335</u>	<u>846,721</u>
Provision for doubtful and other accounts receivable realizable, and repossessed assets, and other assets	(54,550)	(65,278)
Depreciation of property, furniture, and equipment	(48,925)	(44,615)
Amortization of intangible assets	(7,076)	(5,910)
	<u>(110,551)</u>	<u>(115,803)</u>
Operating results	826,784	730,918
Other income, net (note 23)	45,715	59,922
Net income before income tax	<u>872,499</u>	<u>790,840</u>
Deferred income tax (note 25)	24,048	47,911
Income tax (note 24)	(294,152)	(282,254)
Net profit	<u>602,395</u>	<u>556,497</u>
Earnings per share (in nuevos soles) (note 27)	<u>2.133</u>	<u>2.291</u>
Weighted average of common shares issued (in thousands of shares) (note 27)	<u>282,480</u>	<u>242,941</u>

See the accompanying notes to the interim consolidated financial statements.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Interim Consolidated Statement of Changes in Shareholders' Equity

For the nine-month periods ended September 30, 2012 and 2011

(Stated in thousands of nuevos soles)

	Capital stock (note 16.b)	Additional paid - in capital (note 16.b)	Legal reserve (note 16.c)	Unrealized earnings	Retained earnings (note 16.d)	Total shareholders' equity
Balances as of December 31, 2010 (Audited)	1,569,109	368,553	332,160	16,968	1,168,559	3,455,349
Application to legal reserve	-	-	68,020	-	(68,020)	-
Dividend distribution	-	-	-	-	(204,059)	(204,059)
Capitalization of retained earnings	730,198	-	-	-	(730,198)	-
Unrealized losses on available-for-sale investments 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)	2,299,307	368,553	400,180	32,404	708,731	3,809,175
Balances as of December 31, 2011 (Audited)	2,299,303	368,553	400,180	42,421	932,275	4,042,732
Application to legal reserve	-	-	78,849	-	(78,849)	-
Dividend distribution	-	-	-	-	(236,548)	(236,548)
Capitalization of retained earnings	553,515	-	-	-	(553,515)	-
Unrealized losses on available-for-sale investments and other	-	-	-	(8,572)	-	(8,572)
Net profit	-	-	-	-	602,395	602,395
Balances as of September 30, 2012 (Unaudited)	2,852,818	368,553	479,029	33,849	665,758	4,400,007

See the accompanying notes to the interim consolidated financial statements.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Interim Consolidated Statement of Cash Flows

For the nine-month periods ended September 30, 2012 and 2011

(stated in thousands of nuevos soles)

	<u>2012</u>	<u>2011</u>
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Net profit	602,395	556,497
Adjustments to reconcile net profit to net cash from operating activities:		
Provision for doubtful loans, net of recoveries	493,089	380,874
Impairment of investments and other assets	916	-
Provision for contingencies and indirect loans	7,079	44,564
Depreciation and amortization	56,001	50,525
Net recovery for realizable and repossessed assets	(2,254)	(1,022)
Net provision (recovery) for accounts receivable	1,890	(11,363)
Provision for severance indemnities	29,068	26,338
Provision for income tax	270,104	234,343
(Gain) loss on sale of property, furniture, and equipment	(5,978)	3,025
(Gain) loss on sale of realizable and repossessed assets	(5,833)	2,442
Net changes in assets and liabilities:		
Net decrease (increase) in interest, commissions, and other accounts receivable	29,875	(38,237)
Net increase in interest, commissions, and other accounts payable	30,359	19,145
Net increase in other assets	(82,134)	(70,978)
Net decrease in other liabilities	(272,912)	(242,042)
	-----	-----
Net cash and cash equivalents from operating activities	1,151,665	954,111
	-----	-----
Cash flows from investing activities		
Acquisition of property, furniture, and equipment	(58,802)	(77,805)
Acquisition of other non-financial assets	(4,837)	(4,645)
Proceeds from the sale of property, furniture, and equipment	8,267	348
Proceeds from the sale of other non-financial assets	17,156	9,970
	-----	-----
Net cash and cash equivalents applied to investing activities	(38,216)	(72,132)
	-----	-----
Cash flows from financing activities		
Net increase in loan portfolio	(1,854,264)	(2,980,260)
Net decrease (increase) in investments	173,786	(362,109)
Net (decrease) increase in deposits and obligations	(149,341)	1,044,875
Net increase in borrowings, financial obligations and interbank funds	1,130,498	508,171
Net increase in securities, bonds and obligations issued	247,538	115,894
Payment of dividends	(236,548)	(204,059)
	-----	-----
Net cash and cash equivalents applied to financing activities	(688,331)	(1,877,488)
	-----	-----
Net increase (decrease) in cash and cash equivalents	425,118	(995,509)
Cash and cash equivalents at beginning of the period	7,431,450	8,303,022
	-----	-----
Cash and cash equivalents at end of the period	7,856,568	7,307,513
	=====	=====

See the accompanying notes to the interim consolidated financial statements.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

(1) Operations

Scotiabank Perú S.A.A. (hereinafter the Bank) is a subsidiary of Bank of Nova Scotia - BNS (a financial entity from Canada), which holds directly and indirectly 97.75% of the Bank's capital stock as of September 30, 2012. 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 40.11%, 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 the SBS). 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 that Peruvian banking and insurance legal entities are governed.

The Bank's registered office address is Av. Dionisio Derteano N° 102, San Isidro, Lima, Peru. As of September 30, 2012, the Bank performed its activities through a national network of 190 branches, and one branch abroad (181 branches, and one branch abroad of December 31, 2011).

The accompanying interim consolidated financial statements include those corresponding to the Bank and other companies that are part of the consolidated group (hereinafter Scotiabank Perú S.A.A. and Subsidiaries), which are detailed as follows: CrediScotia Financiera S.A., engaged in intermediation operations for the small-business and consumer sectors; Servicios, Cobranzas e Inversiones S.A.C., engaged in collections and domicile verification, among other activities; Scotia Sociedad Agente de Bolsa S.A., engaged in intermediation activities in the Peruvian securities market; Depósitos S.A., engaged in warehousing services; Scotia Fondos Sociedad Administradora de Fondos S.A., engaged in mutual funds management; Scotia Sociedad Titulizadora S.A., engaged in the management of trusts; SBP DPR Finance Company, special purpose entity, and Promoción de Proyectos Inmobiliarios y Comerciales S.A. engaged in purchasing and selling of goods in general. The latter is an inactive company.

Below are the main balances of the Bank and other companies mentioned in the previous paragraph as of September 30, 2012 and December 31, 2011, indicating the Bank's shareholding percentage, as well as relevant information in this regard:

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

As of September 30, 2012:

Entity	Activity	Percentage of shareholding	In thousands of S/.		
			Assets	Liabilities	Shareholders' equity
Scotiabank Perú S.A.A.	Banking	-	31,184,378	26,784,371	4,400,007
CrediScotia Financiera S.A.	Finance	100.00	3,854,337	3,332,878	521,459
Scotia Sociedad Agente de Bolsa S.A.	Stock market broker	100.00	147,394	61,587	85,807
Servicios, Cobranzas e Inversiones S.A.C.	Collection services	100.00	131,985	56,845	75,140
Depósitos S.A.	Warehousing	100.00	66,635	25,512	41,123
Scotia Fondos Sociedad Administradora de Fondos S.A.	Administration of mutual funds	100.00	31,111	7,510	23,601
Scotia Sociedad Titulizadora S.A.	Securitization	100.00	3,248	133	3,115
SBP DPR Finance Company	Special purpose entity	-	886,450	886,450	-

As of December 31, 2011:

Entity	Activity	Percentage of shareholding	In thousands of S/.		
			Assets	Liabilities	Shareholders' equity
Scotiabank Perú S.A.A.	Banking	-	29,585,936	25,543,206	4,042,730
CrediScotia Financiera S.A.	Finance	100.00	3,496,436	3,047,004	449,432
Servicios, Cobranzas e Inversiones S.A.C.	Collection services	100.00	134,115	28,612	105,503
Scotia Sociedad Agente de Bolsa S.A.	Stock market broker	100.00	144,944	76,601	68,343
Depósitos S.A.	Warehousing	100.00	59,089	17,316	41,773
Scotia Fondos Sociedad Administradora de Fondos S.A.	Administration of mutual funds	100.00	32,910	4,918	27,992
Scotia Sociedad Titulizadora S.A.	Securitization	100.00	3,441	187	3,254
SBP DPR Finance Company	Special purpose entity	-	810,097	810,097	-

Approval of Consolidated Financial Statements

The interim consolidated financial statements as of September 30, 2012 were approved by the Bank's management, held on November 13, 2012. These interim consolidated financial statements have been prepared based on the individual financial statements of companies that are part of Scotiabank Perú S.A.A. and Subsidiaries and that will be presented for approval of the corresponding Board of Directors and General Shareholders' meeting within the terms established by law. The individual financial statements that are part of the consolidated financial statements as of December 31, 2011 were approved on March 28, 2012 by the corresponding General Shareholders' meeting within the terms established by law.

(2) Basis for the Preparation of Financial Statements(a) Statement of Compliance

The accompanying interim consolidated financial statements have been prepared from the accounting records of Scotiabank Perú S.A.A. and Subsidiaries and are presented in accordance with current legal regulation and accounting principles authorized by the SBS and, in the absence of such applicable SBS standards, the International Financial Reporting Standards (IFRS), made official in Peru by the Peruvian Accounting Board (CNC) are applied. The IFRSs include the International Accounting Standards (IAS) and the pronouncements of the Interpretations Committee (SIC and IFRIC).

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

(b) Basis of Measurement

The interim 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 through profit or loss are measured at fair value.
- Available-for-sale financial instruments are measured at fair value.

(c) Presentation Currency

The interim consolidated financial statements are presented in nuevos soles (S/.) according to SBS standards. Financial information is presented in nuevos soles (S/.) and has been rounded to the nearest thousand (S/. 000), except as otherwise indicated. The presentation currency does not differ from the functional currency.

(d) Critical Accounting Estimates and Criteria

The preparation of the interim 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 for each circumstance. Since these are estimates, final results might differ.

The significant estimates related to the accompanying interim 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, intangible assets, provision for realizable assets, received as payment and repossessed assets, and the valuation of derivative instruments through profit or loss. Accounting criteria is described in note 3.

(3) Accounting Principles and Practices

The primary accounting principles and practices applied to prepare the interim 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) Policies for Consolidation

The consolidated financial statements include the financial statements of entities comprising Scotiabank Perú S.A.A. and Subsidiaries, described in note 1, after eliminating significant balances and transactions among the consolidated companies, and the profits and losses resulting from those transactions. All subsidiaries have been consolidated from its date of incorporation or acquisition.

Subsidiaries are all companies over which the Bank holds shareholding over 50% of its voting shares; likewise, those where they are able to manage its financial and operating policies.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

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

The financial statements of the subsidiaries and special purpose entity have been included for consolidation purposes and represent 14.11% and 13.65%, of Scotiabank Perú S.A.A. and Subsidiaries' total assets before intra-company eliminations as of September 30, 2012 and December 31, 2011, respectively. As of those dates, there is no non-controlling interest resulting from the consolidation process.

(b) Financial Instruments

A 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. 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 are 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 them on a net basis or to realize the asset, and settle the liability simultaneously.

The financial assets and liabilities presented in the interim consolidated balance sheet correspond to balances of 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 follow is established in SBS Resolution 1349-2008, which is consistent with IAS 39 *Financial Instruments: Recognition and Measurement* and establishes the accounting criteria for held-for-trading, hedging, and embedded derivatives operations, 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.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

(ii) Hedging

Derivative instruments for 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 to be used for hedging purposes and retrospectively on a monthly minimum basis. A hedge is considered to be effective if the results of the retrospective tests are within a range of 80%-125% of effectiveness.

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

(iii) Embedded Derivatives

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

As of September 30, 2012 and December 31, 2011, 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.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

(d) Investments

Scotiabank Perú S.A.A. and Subsidiaries apply the recording and valuation criteria 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 stated in IAS 39 *Financial Instruments: Recognition and Measurement*, except for investments in associates; which are not within the scope of IAS 39, as detailed below:

(i) Investments at Fair Value through Profit or Loss

Debt securities and equity shares are classified as Investments at Fair Value through Profit or Loss if they have been acquired principally for the purpose of selling in a 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 recognized on trade date, when Scotiabank Perú S.A.A. and Subsidiaries enter into contractual arrangements with counterparties to purchase securities, and they are normally derecognized when sold. Measurement is initially made at fair value, without including transaction cost, which is recognized in the consolidated income statement. Subsequently, fair values are re-measured, and all gains and losses from changes therein are recognized in the consolidated income statement.

Interest income is recognized using the effective interest rate method. Dividends are recognized in the consolidated income statement when the right to receive the payment has been established.

Investments at fair value through profit or loss that are given in guarantee or transferred through a repurchase agreement shall be reclassified as available-for-sale investments. Once these transactions are concluded, instruments shall be reclassified at their initial category, transferring the unrealized earnings from shareholders' equity to the consolidated income statement.

(ii) Available-for-Sale Investments

Available-for-Sale Investments are all other investment instruments that are not classified as Investments at Fair Value through Profit or Loss, Held-to-Maturity Investments and Investments in Associates. Likewise, investment instruments will be included in this category when the SBS explicitly requires it.

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

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 amortization, and its current fair value, less any impairment loss on that asset previously recognized in the consolidated income statement) is removed from equity and recognized in the consolidated income statement of the period. 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 differences related to equity shares shall be recognized in the "unrealized earnings" account in equity while those related to debt instruments shall be recognized in the consolidated income statement.

Interest income is recognized 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 recognized in the consolidated income statement when the right to receive payment has been established.

(iii) Investments in Associates

The account includes equity shares acquired 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 direct and incremental transaction costs. They are subsequently measured applying the equity participation method, meaning; the carrying amount of the investment will be increased or decreased by proportional recognition of the period's results obtained post acquisition date.

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

Investment instruments held by companies can be reclassified within categories of classification. Investment instruments at fair value through profit or loss cannot be reclassified except: (1) for equity shares with no market quote lacking of reliable fair value estimations or (2) investment instruments transferred through a repurchase agreement or given in guarantee.

(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.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

Finance lease operations are accounted for using the financial method, recording the amount of the receivable installments as loans. Corresponding finance income is recorded on an accrual basis in conformity with the lease agreement terms. Initial direct costs are recognized immediately as expenses.

The Portfolio Risk Management's Debtor Classification Unit is responsible for conducting, the evaluation and rating of the loan portfolio on a permanent basis. Each debtor receives a credit risk rating according to the guidelines established by the SBS Resolution 11356-2008 and its amendments.

Loan Portfolio Classification

The Bank and CrediScotia Financiera S.A. classify their loan portfolio in two groups: Wholesale Banking (corporate, large companies and medium companies) and Retail Banking (small business, micro business, revolving consumer, non-revolving consumer and mortgage loans). These classifications are made considering the nature of the client (corporate, government or individual), the purpose of credit, and business size measured by revenues and indebtedness, among other indicators.

Credit Risk Rating Categories

The categories of credit risk rating established by SBS Resolution 11356-2008 and amendments are as follows: Standard, Potential Problem, Substandard, Doubtful, and Loss.

For the Wholesale Banking portfolio, the Bank and CrediScotia Financiera S.A. mainly consider the payment capacity of debtor, cash flow, level of compliance with obligations, rating designated by other companies in the financial system, financial position, and quality management. For Retail Banking portfolio, the rating is based mainly on the level of compliance with credit payments, which is reflected by number of delinquent days and their classification in other financial system entities if rating alignment is applicable. Retail Banking portfolio is classified through an automatic rating process. The Bank has included in the automatic rating process wholesale debtors loan portfolio with credits up to US\$100 thousand.

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, credit risk equivalent exposure of indirect loans, and additionally the procyclical component when the SBS orders its application. Specific provisions are recorded for direct loans and credit risk equivalent exposure of indirect loans for which a specific risk, higher than standard, has been identified.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

The equivalent credit risk exposure of indirect loans is determined by multiplying indirect loans by the different types of Credit Conversion Factors (CCF), as follows:

<u>Description</u>	<u>CCF (%)</u>
i) Confirmations of irrevocable letters of credit for up to a 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.	-
v) Other not considered above.	100

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

The Bank and CrediScotia Financiera S.A. 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 and non- revolving consumer loans.

Procyclical Component

The rates of procyclical component to calculate provisions for direct loans and credit risk equivalent exposure of indirect loans for debtors classified as Standard are as follows:

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

<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
Non-revolving consumer loans	1.00
Mortgage loans	0.40

For corporate, large company and mortgage loans that have preferred readily realizable collateral, the procyclical component rate is 0.3%. For all other types of credits 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 rate is 0.25%.

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

The SBS has established that during the deactivation of the procyclical component, financial institutions cannot, under any circumstances, generate profits caused by 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 asset, and provisions for indirect loans are presented as liabilities. In the opinion of management, provisions booked by the Bank and CrediScotia Financiera S.A. are sufficient to cover losses of the loan portfolio at the consolidated reporting date.

(f) Securities Trading Transactions Carried Out by Customers

Securities trading transactions conducted by the subsidiary Scotia Sociedad Agente de Bolsa S.A. through 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.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

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

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 waiting for settlement (collection or payment) are recorded in memoranda accounts.

(g) Property, Furniture, and Equipment

Property, furniture, and equipment are recorded at the historical acquisition cost, less accumulated depreciation and impairment losses. Disbursements incurred after acquisition of property, furniture, and equipment are capitalized only when there are probable future economic benefits associated with the asset are generated for Scotiabank Perú S.A.A. and Subsidiaries, and costs can be reliably measured.

Maintenance and repair expenses are recorded in 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 in operative condition.

Depreciation is calculated using the straight-line method to allocate their cost over their estimated useful lives, as follows:

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

Cost and accumulated depreciation of disposed or sold assets are eliminated from respective accounts, and any resulting gain or loss is included to results in the period they are incurred.

Residual value and useful life of an asset are reviewed and adjusted, if necessary, at each consolidated balance sheet date. The carrying amount of an asset is written off immediately at its recoverable amount when the carrying amount of the asset exceeds its value in use. Value in use is the present value of estimated future cash flows expected to arise from the continued use of an asset and from its subsequent disposal at the end of its useful life.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

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

Realizable assets include assets purchased specifically for granting financial leases which are recorded initially at their acquisition cost. Further, realizable assets not granted financial leases are recorded at the lower of its cost or market value. Likewise, realizable assets also include repossessed assets.

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

According to the current legislation, the treatment to record provisions for this type of assets is as follows:

- Repossessed assets, received as payment and repossessed assets are initially recorded at cost and at the same time, a provision equivalent to 20% of the cost. If net realizable value, according to a valuation report, is impaired by more than 20%; then the required initial provision shall be an amount equivalent to the amount effectively impaired.
- For plant and equipment, the Bank records a monthly provision equivalent to 1/18 of the cost in books, less the aforementioned initial provision. 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 carrying amount 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 recognized in the consolidated income statement when the net realizable value is lower than net carrying amount. In cases where the net realizable value is higher than the net carrying amount, the higher value shall not be recognized in the books.

Valuation reports of real estate may not be aged over a year.

(i) Impairment of Assets

Scotiabank Perú S.A.A. and Subsidiaries review the value of their long-term assets to determine if there is impairment, when existing events or circumstantial economic changes indicate that the value of an asset might not be recoverable. When the carrying amount 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.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

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

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

(j) Income Tax

Current income tax is determined based on the taxable income and recorded according to tax legislation applicable to the Bank and each company that is part of Scotiabank Perú S.A.A. and Subsidiaries 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 that is part of 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 that is part of Scotiabank Perú S.A.A. and Subsidiaries, when the deferred tax asset is realized or the deferred tax liability is settled (note 25).

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

(k) Intangible Assets

Intangible assets are mainly related to the acquisition and development cost of computing software shown in the "Other assets" item and are amortized using the straight-line method over a period of 3 years.

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 management and that will give future economic benefits higher than their cost in a period exceeding one year, are considered as an intangible asset. Direct costs related to the development of computing programs include personnel costs of the development team and a fractional part of general expenses.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

(l) Goodwill

Goodwill is the difference between the acquisition cost (amount paid) versus identifiable fair values of its subsidiary. Business acquisitions are recorded using the purchase accounting method. This means, recognizing identifiable assets of the acquired company at fair value. Any excess between the acquisition cost and the fair value of the identifiable net assets is recognized as goodwill.

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

Goodwill is not amortized and is only reduced in cases of impairment, which is reviewed at least annually, or more frequently, when there are events or circumstantial changes indicating that the goodwill balance might not be recoverable.

(m) Securities, Bonds, and Obligations Issued

This includes the liability for the issuance of redeemable subordinated bonds and corporate bonds. They are recorded at amortized costs determined by the effective interest method. Discounts granted or income generated during the bonds issuance is amortized during the terms of these instruments.

Interest is recognized in the consolidated income statement when accrued.

(n) Provisions and Contingencies

(i) Provisions

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

The provision for severance payment (CTS, for its Spanish acronym) 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 for the amount that should have to be paid as of the reporting date and it is included in the "Provision for severance indemnities" account. It is presented in the consolidated balance sheet under "Other liabilities".

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

(ii) Contingencies

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

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

(o) Income and Expense Recognition

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

When management considers that there are reasonable doubts about the collectability of the principal of a loan, the Bank and CrediScotia Financiera S.A. suspend the recognition of interest in the consolidated income statement. Interest in suspense is recorded in memoranda accounts and recognized as earned when collected. When management considers that the financial situation of the debtor has improved and that the doubt about the collectability of the principal has dissipated it re-establishes the accounting of the interest on an accrual basis.

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

Brokerage service fees for buying and selling securities on the stock market are recorded in the "finance services income" account when these transactions have been performed. These transactions are settled within three days after execution. Revenues from sales of securities and its cost are recognized when the seller has transferred all the risks and rewards of ownership to the buyer and are recorded in the account "other income, net" on the consolidated income statement.

Revenues from warehousing services are recognized when the service is rendered, can be reliably measured and it is probable that economic benefits arising from the rendering of this service will be received.

Other income and expenses of Scotiabank Perú S.A.A. and Subsidiaries are recognized as earned or incurred in the period they are accrued.

(p) Capital Stock

Common shares are classified as equity.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

(q) Employees' Profit Sharing

Up to December 31, 2010 employees' profit sharing comprised both current and deferred employees' profit sharing. They were determined using the same criteria used to determine the current and deferred income tax, respectively, and were recorded according to legislation applicable to that date for each company that is part of Scotiabank Perú S.A.A. and Subsidiaries.

The SBS with Official Letter 4049-2011, dated January 21, 2011, established a change in 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 recognize deferred assets or liability as a result of temporary differences between financial and tax bases.

Starting in January 1, 2011, employees' profit sharing shall be recognized as personnel expense and liability corresponding to services of the employee, therefore, temporary differences between financial and tax bases shall not be recognized as from that date. As of December 31, 2010 balances amounted to S/. 14,048 thousand for deferred employees' profit sharing was applied to retained earnings.

(r) Earnings per Share

Basic and diluted earnings per share result from dividing the net income attributable to the common shareholders by the weighted average number of issued shares in the period, less the weighted average number of treasury shares. Shares resulting from the capitalization of the previous year's profits are included in the calculation of the weighted average number of common shares as at the beginning of the following fiscal year regardless of the issuance date.

Diluted earnings per share correspond 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, 2012 and December 31, 2011, the Bank does not have financial instruments with dilutive effects; therefore, basic and diluted earnings per shares are the same.

(s) Consolidated Statement of Cash Flows

For presentation purposes of this consolidated financial statement, the balances of cash and due from banks and interbank funds of assets as of September 30, 2012 and 2011, were considered as cash and cash equivalents.

(t) Trust Funds

Assets and income from trust operations, where there is an obligation to return the assets to clients and the Bank and Scotia Sociedad Titulizadora S.A. act as trustee, are not included in the consolidated financial statements since they belong do not to the Bank nor Scotia Sociedad Titulizadora S.A., and are recorded in memoranda accounts for control purposes (note 18). Commissions on those activities are included in income from finance services (note 21).

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

(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 current exchange rates at the dates of the transactions (note 4). Gains or losses on exchange differences resulting from the payment of such transactions and from the translation of monetary assets and liabilities stated in foreign currency at exchange rates reported at the closing of the period are recognized in the consolidated income statement.

(v) New International Accounting Pronouncements

i) Pronouncements of the Peruvian Accounting Board – CNC.

The CNC through Resolution 051-2012-EF/30 issued on August 29, 2012, approved the application from the day following of their issuance or later, according to the effective date specified in each specific standard of the year 2012, IFRSs 1 to 13, IASs 1 to 41, pronouncements from 7 to 32 (except for superseded pronouncements) issued by the interpretations committee (SIC) and all the interpretations from 1 to 20 of the current Interpretations Committee (IFRIC). This pronouncement supersedes Resolution 048-2011-EF/30 issued on January 6, 2012.

ii) Amendments not yet adopted by the CNC.

A number of amendments to standards have been improved by the IASB but are not effective internationally, as well as they have not yet been approved by the CNC as of September 30, 2012; among them we can mention:

- IFRS 1 *First-time Adoption of International Financial Reporting Standards*, published on 13 March 2012 and effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.
- IFRS 10 Consolidated Financial Statements, effective on or after January 1, 2013, which is aligned with the effective date of the IFRS.
- IFRS 11 Joint Arrangements, effective on or after January 1, 2013, which is aligned with the effective date of the IFRS.
- IFRS 12 Disclosure of Interests in Other Entities, effective on or after January 1, 2013, which is aligned with the effective date of the IFRS.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

iii) SBS pronouncements.

By means of Official Letter SBS 15014-2011, dated March 28, 2011, the SBS established that entities under its supervision shall prepare financial statements and complementary information in conformity with IFRS beginning on January 2012. As of the date of this report, Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. are evaluating the effects on the preparation of its financial statements that may arise from the application of IFRS until the SBS issue the corresponding regulation within the framework of the IFRS harmonization process.

(4) Balances in Foreign Currency

Consolidated balance sheet includes 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, 2012 and December 31, 2011, these rates were US\$1 = S/. 2.598 and S/. 2.696, respectively.

Foreign currency transactions in the country and international trade transactions referred to the concepts authorized by Banco Central de Reserva del Perú, are channeled through an interbank foreign exchange market. As of September 30, 2012, the buy and sell exchange rates used were US\$ 1 = S/. 2.597 and US\$ 1= S/. 2.598, respectively (US\$ 1= S/. 2.695 buy rate and US\$ 1= S/. 2.697 sell rate as of December 31, 2011).

Foreign currency balances stated in thousands of U.S. dollars and other currencies as of September 30, 2012 and December 31, 2011, are summarized as follows:

	09.30.2012			12.31.2011		
	U.S. Dollars	Euros	Other currencies	U.S. Dollars	Euros	Other currencies
Assets:						
Cash and due from banks	1,584,859	32,276	615	1,740,477	13,957	2,547
Investments at fair value through profit or loss and available-for-sale investments	739	-	-	42,689	39,285	-
Loan portfolio, net	4,370,310	-	-	3,986,438	-	-
Accounts receivable, net	19,018	-	-	20,733	-	-
Other assets	36,697	12,473	17	39,458	2,852	-
	6,011,623	44,749	632	5,829,795	56,094	2,547
Liabilities:						
Deposits and obligations	3,695,640	58,750	81	3,944,858	55,734	22
Borrowings and financial obligations	1,960,956	-	-	1,452,873	-	-
Securities, bonds and obligations issued	10,177	-	-	70,170	-	-
Other liabilities	259,070	18,170	518	282,935	18	2,001
	5,925,843	76,920	599	5,750,836	55,752	2,023
Net assets (liabilities) position on balance sheet	85,780	(32,171)	33	78,959	342	524
Transactions with derivative instruments	(152,685)	32,144	-	(129,743)	-	-

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

As of September 30, 2012 and 2011, Scotiabank Perú S.A.A. and Subsidiaries recorded under finance income, gains on foreign exchange difference of various operations amounting to S/. 114,215 thousand and S/. 132,233 thousand respectively, see note 19.

As of September 30, 2012, Scotiabank Perú S.A.A. and Subsidiaries have contingent operations in foreign currency amounting to US\$ 7,967,507 thousand, equivalent to S/. 20,699,583 thousand (US\$ 6,023,998 thousand equivalent to S/. 16,240,699 thousand as of December 31, 2011).

(5) Cash and Due from Banks

It comprises the following:

	<u>In thousands of S/.</u>	
	<u>09.30.2012</u>	<u>12.31.2011</u>
Cash (a)	658,557	719,889
Banco Central de Reserva del Perú (a)	6,082,112	5,856,563
Deposits with local banks (b)	45,964	44,155
Deposits with foreign banks (b)	583,262	458,984
Clearing	162,959	212,121
Restricted funds (c)	53,583	14,403
Accrued interest on cash and due from banks (d)	2,719	1,819
Other cash and due from banks	295	296
	-----	-----
	7,589,451	7,308,230
	=====	=====

(a) As of September 30, 2012, funds held in cash and deposits with Banco Central de Reserva del Perú (BCRP) include US\$ 1,169,706 thousand and S/. 1,826,985 thousand (US\$ 1,159,010 thousand and S/. 1,091,220 thousand as of December 31, 2011) of legal cash reserve the Bank and CrediScotia Financiera S.A. must set aside to cover deposits from third parties, according to limits established by current legislation. These funds are held both at Banco Central de Reserva del Perú (BCRP) and kept in the Bank and CrediScotia Financiera S.A. vaults.

Cash reserves held at BCRP do not accrue interest, except for amounts in local and foreign currency exceeding the minimum legal cash reserve. As of September 30, 2012, the excess of legal cash reserve in local and foreign currency accrued interest at annual rates of 2.45% and 0.13%, respectively (2.45% in local currency and 0.17% in foreign currency as of December 31, 2011). Interest accrued from the excess in foreign currency in 2012 amounts to US\$ 1,234 thousand (US\$ 1,559 thousand for year 2011). Interest accrued for the excess in local currency in 2012 amounts to S/. 13,332 thousand (S/. 7,456 thousand for year 2011).

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

As of September 30, 2012, deposits with BCRP include “overnight” operations of US\$ 180,000 thousand and S/. 25,000 thousand; such operations accrued interest at an annual nominal rate of 0.17% and 3.45%, respectively (US\$ 395,000 thousand at an annual nominal rates of 0.06%, as of December 31, 2011).

- (b) Deposits at local and foreign banks correspond, mainly, to balances in nuevos soles and in U.S. dollars, and small amounts in other currencies, with free withdrawal option and accrue interest at market rates. As of September 30, 2012, deposits in foreign banks, included deposits held at The Bank of Nova Scotia for US\$ 3,445 thousand and Canadian dollars for US\$ 42 thousand (US\$ 677 thousand and Canadian dollars for US\$ 2,019 thousand as of December 31, 2011).

As of September 30, 2012 and December 31, 2011, Scotiabank Perú S.A.A. and Subsidiaries have no significant deposits with any commercial banks.

- (c) As of September 30, 2012, restricted funds for US\$ 20,088 thousand and S/. 1,393 thousand (US\$ 4,588 thousand and S/. 2,035 thousand as of December 31, 2011), mainly relate to guarantee funds and restricted funds due to lawsuits against the Bank and CrediScotia Financiera S.A.

As of September 30, 2012 and 2011, interest revenue from cash and due from banks amounted to S/. 46,005 thousand and S/. 29,553 thousand respectively and it is included as finance income item in the consolidated income statement (see note 19).

(6) Investments at Fair Value through Profit or Loss and Available-for-Sale Investments

It comprises:

	<u>In thousands of S/.</u>	
	<u>09.30.2012</u>	<u>12.31.2011</u>
Investments at fair value through profit or loss:		
Peruvian Treasury Bonds (a)	55,831	85,846
Available-for-sale investments:		
BCRP certificates of deposit (b)	1,164,586	545,770
Peruvian Treasury Bonds (a)	212,447	835,038
Mutual funds (c)	14,261	179,714
Unlisted shares	7,877	11,739
Listed shares	1,025	1,145
Other	-	2
	-----	-----
Total investment at fair value through profit or loss and available-for-sale investments	1,456,027	1,659,254
	=====	=====

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

- (a) The Peruvian Treasury Bonds correspond to sovereign bonds issued in local currency by the Peruvian Ministry of Economy and Finance and represent internal public debt instruments of the Republic of Perú. As of September 30, 2012, these bonds accrue interest at annual rates ranging from 2.75% to 5.38% (from 4.16% to 6.48% annually as of December 31, 2011), with maturities between September 2013 and August 2037 (between September 2013 and August 2037 as of December 31, 2011).
- (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, 2012, these certificates accrue interest based on the BCRP reference rate which ranged from 4.07% to 4.25% annually (from 4.15% to 4.24% as of December 31, 2011) and have maturities between October 2012 and August 2013 (between January and December 2012, as of December 31, 2011).

Likewise, as of September 30, 2012 and December 31, 2011, the Bank did not have certificates of deposit issued by the BCRP with restricted availability.

- (c) As of September 30, 2012, the participants in mutual funds included S/. 13,326 thousand and US\$ 360 thousand corresponding to investments in mutual funds managed mainly by a subsidiary (held S/. 69,512 thousand and US\$ 40,876 thousand as of December 31, 2011).

As of September 30, 2012 and 2011, the accrued interest on investments amounted to S/. 58,451 thousand and S/. 68,250 thousand, respectively, and is included in the finance income item in the consolidated income statement (see note 19).

Investment at fair value through profit or loss and available-for-sale investments as of September 30, 2012 and December 31, 2011, have the following maturities:

	<u>In thousands of S/.</u>	
	<u>09.30.2012</u>	<u>12.31.2011</u>
Up to 3 months	544,156	473,724
3 to 12 months	690,522	337,603
Over 12 months	221,349	847,927
	-----	-----
	1,456,027	1,659,254
	=====	=====

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

(7) Loan Portfolio, net

It comprises the following:

	In thousands of S/.			
	09.30.2012	%	12.31.2011	%
Direct loans:				
Current loans	22,746,181	97	21,410,972	97
Refinanced loans	185,142	1	198,713	1
Restructured loans	43,166	-	72,844	-
Past due loans	322,386	1	286,650	2
Loans in litigation	151,594	1	104,274	-
	-----	----	-----	----
	23,448,469	100	22,073,453	100
	=====	====	=====	====
Plus (less):				
Accrued interest on loans	206,130		190,176	
Non-accrued interest	(432,098)		(488,468)	
Provision for doubtful loans	(995,322)		(905,679)	
	-----		-----	
	22,227,179		20,869,482	
	=====		=====	
Indirect loans (note 18)	4,343,038		3,948,281	
	=====		=====	

As of September 30, 2012 and December 31, 2011, fifty-one percent of the direct and indirect loan portfolio of the Bank and CrediScotia Financiera S.A. was concentrated in 1,676 and 1,245 clients, respectively.

The loan portfolio (direct and indirect) of the Bank and CrediScotia Financiera S.A. is mainly backed up with collateral received from clients, mainly consisting of mortgages, industrial and merchant pledges, third-party letters of guarantees and securities. The value of these mortgages and pledges has been determined based on net realizable value in the market, less selling expenses according to the SBS regulations.

The Bank and CrediScotia Financiera S.A. freely establish the interest rate of loan portfolio based on the supply and demand, and type of loan. The annual average effective of main products fluctuated as follows:

	%			
	09.30.2012		12.31.2011	
	Local currency	Foreign currency	Local currency	Foreign currency
Overdrafts (*)	55.00 - 85.00	30.00 - 55.00	55.00 - 85.00	30.00 - 55.00
Discounts and commercial loans	5.44 - 43.90	3.49 - 28.30	3.05 - 41.39	1.56 - 29.88
Consumer loans	14.35 - 46.30	9.43 - 20.66	14.71 - 67.49	7.29 - 30.81

(*) For loans over S/. 100 thousand and US\$100 thousand, respectively.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

As of September 30, 2012 and December 31, 2011, according to current SBS regulations, the loan portfolio of Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. risk-based ratings are as follows:

Risk rating	09.30.2012				12.31.2011			
	N° of debtors	In thousands of S/.			N° of debtors	In thousands of S/.		
		Direct	Indirect	Total		Direct	Indirect	Total
Standard	890,905	21,812,412	4,315,388	26,127,800	899,057	20,691,588	3,926,265	24,617,853
Potential problem	55,483	680,352	18,613	698,965	48,501	515,510	12,573	528,083
Substandard	32,084	235,829	5,196	241,025	30,657	199,387	3,366	202,753
Doubtful	53,978	299,305	566	299,871	54,637	281,057	1,880	282,937
Loss	24,995	420,571	3,275	423,846	22,497	385,911	4,197	390,108
	1,057,445	23,448,469	4,343,038	27,791,507	1,055,349	22,073,453	3,948,281	26,021,734

As of September 30, 2012 and December 31, 2011, direct loans were distributed by sectors as follows:

	In thousands of S/.			
	09.30.2012	%	12.31.2011	%
Mortgage and consumer loans	7,779,237	33	6,939,328	31
Trade	2,965,326	13	2,779,470	13
Manufacturing	2,823,572	12	2,742,342	12
Real estate business and lease service	2,025,637	9	1,886,416	9
Transportation	1,060,147	4	923,083	4
Electricity, gas, and water	896,988	4	916,804	4
Financial intermediation	713,301	3	775,411	4
Mining	617,999	3	997,006	5
Education, services, and other	486,632	2	502,406	2
Agriculture and livestock	439,905	2	368,882	2
Fishing	367,053	2	420,839	2
Construction	338,776	1	312,934	1
Hotel and restaurants	300,443	1	238,505	1
Public administration and defense	9,888	-	7,678	-
Other (mainly non-profit, healthcare and automotive)	2,623,565	11	2,262,349	10
	23,448,469	100	22,073,453	100

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

(8) Accounts Receivable, net

It comprises the following:

	<u>In thousands of S/.</u>	
	<u>09.30.2012</u>	<u>12.31.2011</u>
Tax claims (a)	225,666	268,667
Accounts receivable for differential of derivative financial instruments (b)	105,681	55,996
Accounts receivable for collection and warehousing services	53,111	49,358
Commissions receivable	17,143	17,172
Advances to personnel	6,985	2,146
Payments on behalf of third parties, net	4,570	4,772
Accounts receivable from guarantee trusts, net	3,418	-
Accounts receivable from sale of investments	983	41,950
Accounts receivable from brokerage customers	916	2,712
Other accounts receivable, net (c)	37,424	45,545
	-----	-----
	455,897	488,318
	=====	=====

- (a) Scotiabank Perú S.A.A. and Subsidiaries tax proceedings as of September 30, 2012 and December 31, 2011, correspond to the compensation of the credit balance against ITAN (Temporary Tax on net Assets) for years 2006 and 2005 (see note 24e).
- (b) As of September 30, 2012, Scotiabank Perú S.A.A. had held for trading derivative instruments with sale and purchase transactions for a notional value of US\$ 2,196,589 thousand and US\$ 2,076,048 thousand; respectively, and maturities until July 2017 (as of December 31, 2011, hold sale and purchase transactions for a notional value of US\$ 1,348,492 thousand and US\$ 1,218,749 thousand, respectively, and maturities until April 2013). These derivative instruments generated net gains of S/. 21,151 thousand and S/. 330 thousand respectively, as of September 30, 2012 and 2011 see note 19.
- (c) As of September 30, 2012, the balance of other accounts receivable, net of the related provision for doubtful accounts, is mainly composed of: i) accounts receivable from property rental for S/. 1,400 thousand (S/. 1,708 thousand as of December 31, 2011); and ii) various accounts receivable for S/. 36,024 thousand (S/. 43,837 thousand as of December 31, 2011).

(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 of September 30, 2012 and December 31, 2011 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.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

According to SBS standards, such goodwill has been assessed by management, concluding that there is no impairment as of September 30, 2012 and December 31, 2011.

(10) Property, Furniture, and Equipment, net

It comprises the following:

	In thousands of S/.				Balance as of 09.30.12
	Balance as of 12.31.11	Additions	Disposals	Reclass. & Adjust.	
Cost:					
Land	153,994	596	(989)	-	153,601
Property and premises	710,461	2,197	(5,041)	16,868	724,485
Furniture, fixture, and IT	349,183	20,358	(5,093)	4,250	368,698
Vehicles	5,110	-	(34)	-	5,076
Units in transit and replacing units	6,367	14,176	-	(7,323)	13,220
Work-in-progress	9,306	21,475	-	(18,393)	12,388
	<u>1,234,421</u>	<u>58,802</u>	<u>(11,157)</u>	<u>(4,598)</u>	<u>1,277,468</u>
Accumulated depreciation:					
Property and premises	471,812	24,324	(3,993)	-	492,143
Furniture, fixture, and IT	246,291	24,050	(4,841)	-	265,500
Vehicles	3,177	551	(34)	-	3,694
	<u>721,280</u>	<u>48,925</u>	<u>(8,868)</u>	<u>-</u>	<u>761,337</u>
	<u>513,141</u>				<u>516,131</u>

According to current legislation, banks and finance companies in Perú cannot give as collateral the 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

It comprises the following:

	In thousands of S/.	
	09.30.2012	12.31.2011
Tax credits and other (a)	354,738	367,973
Deferred income tax (note 25)	184,248	164,800
Transactions in process (b)	111,588	78,662
Prepaid expenses (c)	96,433	118,220
Income tax prepayment, net	81,982	-
Repossessed and realizable assets, net of accumulated depreciation and provision for impairment for S/. 127,339 thousand (S/. 129,743 thousand in 2011)	21,679	28,135
Intangible assets, net of amortizations of S/. 197,986 thousand (S/. 191,726 thousand in 2011)	17,965	16,376
Inventories	3,155	6,995
Other	11,580	12,233
	<u>883,368</u>	<u>793,394</u>

(a) As of September 30, 2012 and December 31, 2011, tax credit mainly includes the value added tax (VAT) from acquisition of assets that have been transferred under finance leases, which have not yet been applied to taxable operations.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

- (b) Transactions in process are those carried out during the last days of the month and are reclassified in the following month to their definitive respective accounts in the consolidated balance sheet; these transactions do not affect the results of Scotiabank Perú S.A.A. and Subsidiaries. As of September 30, 2012, they comprise S/. 93,501 thousand related to treasury transactions, S/. 11,453 thousand for invoices in transit for services received and S/. 2,096 thousand for Unibanca unsettled transactions (as of December 31, 2011 for S/. 61,920 thousand, S/. 1,373 thousand and S/. 3,852 thousand, respectively).
- (c) As of September 30, 2012, prepaid expenses include mainly: (i) deferred loan origination costs, fees paid to external sales of S/. 52,654 thousand (S/. 49,876 thousand as of December 31, 2011); (ii) prepaid rent of S/. 5,904 thousand (S/. 6,499 thousand as of December 31, 2011); (iii) prepaid commissions of received borrowings for S/. 9,255 thousand (S/. 11,931 thousand as of December 31, 2011); (iv) advertising and marketing services for S/. 6,400 thousand (S/. 7,341 thousand as of December 31, 2011); and, (v) commissions on financing of S/. 12,702 thousand (S/. 13,091 thousand as of December 31, 2011).

(12) Deposits and Obligations

It comprises the following:

	In thousands of S/.			
	09.30.2012	%	12.31.2011	%
Individuals	6,841,354	32	6,954,267	32
Corporate clients	11,187,477	53	11,213,141	53
Non-profit organizations	1,924,970	9	2,129,085	10
Other	1,329,481	6	1,126,718	5
	21,283,282	100	21,423,211	100

Deposits and other obligations in U.S. dollars represent 45% and 50% of the total deposits as of September 30, 2012 and December 31, 2011, respectively. Deposits included accounts pledged in favor of Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. for credit operations for S/. 326,456 thousand and US\$ 185,393 thousand as of September 30, 2012 and S/. 301,583 thousand and US\$ 191,905 thousand as of December 31, 2011.

Likewise, as of September 30, 2012 and December 31, 2011, from the total of deposits and obligations from individuals and non-profit legal entities, the amounts of S/. 5,456,405 thousand and S/. 5,493,735 thousand, respectively, are covered by the Peruvian Deposit Insurance Fund (FSD, for its Spanish acronym), according to current legal regulations.

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

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

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

The maximum amount covered for each individual as of September 30, 2012, and December 31, 2011 amounted to S/. 91 thousand.

The Bank and CrediScotia Financiera S.A. freely establish deposits interest rates based on supply and demand, and the type of deposits. Effective annual rates for main products fluctuated as follows:

	%			
	09.30.2012		12.31.2011	
	Local currency	Foreign currency	Local currency	Foreign currency
Savings deposits	0.74 - 1.69	0.33 - 0.67	0.96 - 2.97	0.45 - 1.71
Term deposits	3.44 - 6.37	0.87 - 2.41	1.28 - 5.81	0.73 - 3.08
Bank certificates	-	0.26 - 0.74	-	0.18 - 1.04
Severance indemnities (CTS) deposits	2.74 - 6.00	1.85 - 4.00	1.50 - 6.00	1.42 - 4.00

As of September 30, 2012 and December 31, 2011, the scheduled maturity dates of the time deposits were as follows:

	In thousands of S/.					
	09.30.2012			12.31.2011		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Up to 1 month	1,720,439	2,308,849	4,029,288	2,029,422	2,214,016	4,243,438
1 to 3 months	1,439,190	509,645	1,948,835	1,066,844	1,300,964	2,367,808
3 to 6 months	780,599	333,686	1,114,285	503,051	370,236	873,287
6 to 12 months	659,035	477,816	1,136,851	602,510	592,888	1,195,398
Over 12 months	492,697	413,185	905,882	339,600	382,885	722,485
	-----	-----	-----	-----	-----	-----
	5,091,960	4,043,181	9,135,141	4,541,427	4,860,989	9,402,416
	=====	=====	=====	=====	=====	=====

Demand deposits, savings deposits and severance indemnities (CTS, for its Spanish acronym) deposits have no contractual maturities.

CrediScotia Financiera S.A. has issued short-term Negotiable Certificate of Deposits (CDN, for its Spanish acronym) as follows:

Issuance	Annual interest	Maturity	Outstanding balance in thousands of S/.	
			09.30.2012	12.31.2011
2nd Program CDN	4.50% - 4.84%	2012	-	150,000
3rd Program CDN	4.41% - 4.97%	2013	190,000	107,740
			-----	-----
			190,000	257,740
			=====	=====

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

(13) Borrowings and Financial Obligations

It comprises the following:

	<u>In thousands of S/.</u>	
	<u>09.30.2012</u>	<u>12.31.2011</u>
COFIDE credits lines (a)		
Mivivienda	282,176	254,012
Working capital and other	388,000	432,000
Ordinary loans from abroad (b):		
Related banks	1,817,763	1,377,124
Other banks	2,750,346	1,938,419
	-----	-----
	5,238,285	4,001,555
Interest payable	20,311	22,475
	-----	-----
	<u>5,258,596</u>	<u>4,024,030</u>
	=====	=====

(a) COFIDE - Corporación Financiera de Desarrollo S.A. (Finance Development Corporation) credit lines correspond to resources obtained for loans granting, mainly for Fondo Mivivienda mortgage financing programs, which accrue a fixed interest rate adjusted to the VAC index. Likewise, as of September 30, 2012, this line includes 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 6.10% and 6.75% (between 6.60% and 8.05% as of December 31, 2011).

(b) As of September 30, 2012, ordinary loans correspond to debts with related foreign financial entities: Scotiabank Ltd. Bahamas for US\$ 693,165 thousand and The Bank of Nova Scotia for US\$ 6,513 thousand (as of December 31, 2011 for US\$ 503,165 thousand and US\$ 7,638 thousand, respectively).

As of September 30, 2012, this line includes borrowings agreed with various foreign financial institutions for US\$ 866,941 thousand and S/. 43,382 thousand (US\$ 593,998 thousand as of December 31, 2011), which accrue interest at annual average rates ranging from 1.92% to 7.50% in foreign currency and 8.08% in local currency (from 1.91% to 7.50% in foreign currency as of December 31, 2011).

Likewise, as of September 30, 2012, the Bank maintains borrowings agreed with foreign financial institutions for US\$ 175,000 thousand maturing between June and September 2017. From this amount, US\$ 62,500 thousand accrue interest as at fixed rate of 3.88%; while US\$ 112,500 thousand accrue interest at a variable rate of 3-month LIBOR plus a spread between 2.49% and 2.64%. These transactions contain standard clauses of compliance with financial ratios and other administrative matters. In the opinion of the management those clauses do not affect the Bank's operations and are being met.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

As of September 30, 2012 and December 31, 2011 the scheduled maturity dates of borrowings from banks and other financial institutions were as follows:

	In thousands of S/.	
	09.30.2012	12.31.2011
Up to 1 month	716,228	237,514
1 to 3 months	484,902	467,379
3 to 6 months	1,001,411	380,893
6 to 12 months	578,811	361,040
Over 12 months	2,477,244	2,577,204
	-----	-----
	5,258,596	4,024,030
	=====	=====

(14) Securities, Bonds and Obligations Issued

It comprises the following:

Issuance	Annual interest	Maturity	Outstanding balance in thousands of S/.	
			09.30.2012	12.31.2011
Negotiable notes (a)				
Series A	5.25%	2017	123,063	134,800
Series B	3m LIBOR + 2.75%	2017	307,658	337,000
			-----	-----
			430,721	471,800
			-----	-----
Redeemable subordinated bonds				
1st Issuance (b)	9.10%	2013	25,980	188,563
1st Issuance A (c)	7.41%	2027	130,000	-
			-----	-----
			155,980	188,563
			-----	-----
Corporate bonds (d)				
1st Issuance A-First program	5.69%	2012	-	30,000
1st Issuance A-First program	6.34%	2013	100,000	100,000
1st Issuance B-First program	5.78%	2012	-	26,660
2nd Issuance A-First program	7.72%	2014	60,000	60,000
2nd Issuance B-First program	6.28%	2014	50,000	50,000
2nd Issuance C-First program	5.53%	2015	50,000	-
3rd Issuance A-First program	6.81%	2013	150,000	150,000
5th Issuance A-First program	6.44%	2014	40,900	40,900
5th Issuance B-First program	6.59%	2014	25,150	25,150
5th Issuance C-First program	6.31%	2014	49,290	49,290
6th Issuance A-First program	4.66%	2012	-	30,140
7th Issuance A-First program	7.19%	2017	60,000	60,000
8th Issuance A-First program	7.31%	2017	100,000	100,000
1st Issuance A-Second program	5.72%	2017	100,000	-
1st Issuance B-Second program	5.19%	2017	50,000	-
1st Issuance C-Second program	5.16%	2017	50,000	-
3rd Issuance A-Second program	6.78%	2018	75,920	75,920
3rd Issuance B-Second program	5.56%	2019	100,000	-
5th Issuance A-Second program	5.09%	2017	58,000	-
			-----	-----
			1,119,260	798,060
			-----	-----
			1,705,961	1,458,423
			22,754	12,514
			-----	-----
Interest payable and obligations			1,728,715	1,470,937
			=====	=====

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

- (a) In January 2010, SBP DPR Finance Company (special purpose entity established in Grand Cayman and consolidated by Scotiabank Group) 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" accrues interest at a fixed rate of 5.25% and Series "B" accrues interest at the three-month LIBOR rate plus 2.75%. The notes are guaranteed by remittances received through SWIFT messages and are transferred to SBP DPR Finance Company. These contracts and transactions contain standard clauses of compliance with financial ratios and other administrative matters. In the opinion of the management those clauses do not affect the Bank's operations and are being met.
- (b) During 2000, the Bank issued, through public auction, subordinated bond for US\$ 70,000 thousand denominated Banco Wiese Sudameris Subordinated Bonds – First Issuance with SBS authorization – Resolution N° 366-2000. The issuance of these bonds concluded in 2011 and was executed in seven series (identified with letter G) of 1,000 bonds per series at a par value of US\$10 thousand maturing in October 2013. The proceeds were exclusively destined to finance loan operations.
- (c) In July 2012, CrediScotia Financiera S.A. issued subordinated bonds for S/. 130,000 thousand through public auction with SBS authorization - Resolution No. 4873-2012. Bonds have maturity in July 2027 and a put option from the tenth years. The proceeds were exclusively destined to finance credit operations.
- (d) From 2007 to date, the Bank and CrediScotia Financiera S.A. have issued corporate bonds for S/. 959,260 and S/. 160,000 thousand, respectively within terms ranging from 1 to 7 years. Proceeds were exclusively destined to credit operations financing.

As of September 30, 2012 and 2011, the interest expense from issued securities of the Bank and Subsidiaries amounted to S/. 72,151 thousand and S/. 61,139 thousand, respectively and it is included as finance expenses item in the consolidated financial statements (see note 20).

Subordinated bonds issued by the Bank and CrediScotia Financiera S.A. do not have specific collateral; however, they have a generic guarantee on shareholders' equity of each company separately.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

As of September 30, 2012 and December 31, 2011, the maturities of issued securities were as follows:

	<u>In thousands of S/.</u>	
	<u>09.30.2012</u>	<u>12.31.2011</u>
Up to 3 months	3,750	30,446
3 to 6 months	49,588	188,472
6 to 12 months	302,240	30,600
Over 12 months	1,373,137	1,221,419
	-----	-----
	<u>1,728,715</u>	<u>1,470,937</u>
	=====	=====

(15) Provisions and Other Liabilities

It comprises the following:

	<u>In thousands of S/.</u>	
	<u>09.30.2012</u>	<u>12.31.2011</u>
Other accounts payable (a)	188,688	131,843
Transactions in process (b)	158,730	102,539
Provisions for litigations and legal claims (c)	113,566	119,757
Accounts payable for differential of derivative financial instruments (note 8b)	105,553	51,904
Generic provision (d)	72,346	63,702
Provision for indirect loans	54,545	52,562
Put option (e)	53,418	53,106
Dividends, vacations, profit sharing and remunerations payable	52,213	104,692
Accounts receivable from principals	24,623	49,970
Dividends payable to principals	17,279	19,068
Deferred income on portfolio sale and other	13,863	12,096
Deferred income tax (note 25)	2,831	5,038
Income tax provision	1,231	98,130
Other provisions (f)	166,634	116,694
	-----	-----
	<u>1,025,520</u>	<u>981,101</u>
	=====	=====

(a) As at September 30, 2012, this account was composed mainly of accounts payable to: i) suppliers for S/. 131,511 thousand; ii) tax agencies for S/. 10,766 thousand; iii) purchase of investments for S/. 24,929 thousand; iv) insurance companies for services agreed-upon by customers for S/. 7,855 thousand; and v) merchants for purchases with credit cards issued for S/. 6,407 thousand (S/. 82,248 thousand, S/. 7,820 thousand, S/. 12,729 thousand, S/. 7,400 thousand, and S/. 12,014 thousand; respectively as of December 31, 2011).

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

- (b) Transactions in process are mainly those carried out during the last days of the month and are reclassified in the following month to their definitive respective consolidated balance sheet accounts. These operations do not affect the results of Scotiabank Perú S.A.A. and Subsidiaries. As of September 30, 2012, liability transactions in process mainly include S/. 109,584 thousand related to Treasury transactions, S/. 3,968 thousand related to credit card operations, S/. 283 thousand related to the clearing process at the electronic clearinghouse, and S/. 7,017 thousand related to debit purchase transactions (as of December 31, 2011, the amounts of S/. 53,076 thousand, S/. 15,710 thousand, S/. 1,380 thousand, and S/. 4,123 thousand, respectively).
- (c) As of September 30, 2012 and December 31, 2011, Scotiabank Perú S.A.A. and Subsidiaries have various legal actions underway, which are related to civil and labor claims, among others. These legal actions resulted from activities and operations performed during the normal course of Scotiabank Perú S.A.A. and Subsidiaries' operations, it is not anticipated they will have any significant impact on operations or results.
- (d) As of September 30, 2012, the generic provision account corresponds to: i) reversals or recoveries of provisions recorded since 2002 charged to equity accounts, which, according to SBS Official Letter 23797-2003, shall be reallocated to deficits of provisions in other asset accounts of the Bank for S/. 40,565 thousand (S/. 40,594 thousand as of December 31, 2011); and ii) generic provision made with charge to income statement of the period for S/. 31,781 thousand (S/. 23,108 thousand as of December 31, 2011).
- (e) As of September 30, 2012 and December 31, 2011, 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.
- (f) As of September 30, 2012, the balance of other provisions mainly include: i) provisions for personnel expenses for S/. 112,738 thousand (S/. 31,615 thousand as of December 31, 2011), ii) deposit insurance fund premiums for S/. 6,183 thousand (S/. 6,001 thousand as of December 31, 2011), iii) the balance of the adjustment to the acquisition cost (earn out) of the shares of CrediScotia Financiera S.A. for S/. 28,579 thousand (S/. 55,169 thousand as of December 31, 2011) and iv) the balance of the provisions for cross border for S/. 269 thousand (S/. 3,608 thousand as of December 31, 2011).

The adjustment to the acquisition cost was determined in conformity with the purchase agreement; which allowed the possibility to adjust the acquisition cost upon achievement of certain results indicated in the purchase agreement. The payment of the contingent amount shall be made based on the criteria set out in that agreement, to that effect in March 2011 and April 2012, the Bank made the first and second payment amounting to US\$ 10,000 thousand each.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

(16) Shareholders' Equity

(a) General

The regulatory capital of Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. are determined in accordance with the Banking Law and as of September 30, 2012 amounts to S/. 3,050,453 thousand and S/. 524,682 thousand, respectively (S/. 2,455,924 thousand and S/. 346,099 thousand, respectively as of December 31, 2011). This figure is used to calculate certain legal limits and restrictions according to the Peruvian Banking Law applicable to the financial institutions' operations in Perú.

As of September 30, 2012, 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 S/. 23,323,607 thousand and S/. 3,339,347 thousand, respectively (S/. 21,230,475 thousand and S/. 3,213,061 thousand, respectively, as of December 31, 2011).

As at September 30, 2012, the Banking Law established as a global limit that the regulatory capital shall be equal to or greater than 10% of the total risk weighted assets and contingent credits, which corresponds to the sum of: the amount of regulatory capital requirements for market risk multiplied by 10, plus the amount of the regulatory capital requirements for operational risk multiplied by 10, plus the risk weighted credit related assets and contingencies.

As of September 30, 2012, the regulatory capital of Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. represents 12.28% and 15.14% respectively of the total aforementioned risk weighted assets and contingent credits (10.94% and 10.77% respectively as of December 31, 2011).

Likewise, by means of SBS Resolution 2115-2009, the SBS approved the rules for the regulatory capital requirement for operational risk, effective July 1, 2009. In this respect, as of the date of this report, Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. have applied the alternative standard method for the calculation of the regulatory capital requirement for operational risk.

Finally, by means of SBS Resolution 8425-2011 and amendments, dated July 20, 2011, the SBS approved the methodology for the calculation of additional regulatory capital requirement, which establishes that this requirement shall be equal to the sum of the regulatory capital requirements, calculated for each of the following components: i) economic cycle, ii) concentration risk, iii) market risk concentration, iv) interest rate risk in the banking books, and v) other risks. This additional requirement will come into force progressively as from July 2012.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

(b) Capital Stock

As of September 30, 2012 and December 31, 2011, the Bank's capital stock comprised 282,480,263 and 227,128,755 common shares respectively. All shares have voting rights and a par value of S/. 10.00 each. As of September 30, 2012 and December 31, 2011, the quoted value of common shares of the Bank was S/. 38.60 and S/. 36.50 per share, respectively. As of September 30, 2012 and December 31, 2011, the monetary inflation adjustment of 2001 through 2004 amounting to S/. 28,019 thousand is pending of capitalization.

Pursuant to the delegation conferred by the General Shareholders' meeting held on March 31, 2011, the Board of Directors approved a capital stock increase for an amount to S/. 395,397 thousand and S/. 158,118 thousand, respectively from the 2011 and 2010 retained earnings capitalization; consequently the capital stock will be increased to S/. 2,824,803 thousand and will be comprised through the issuance of 282,480 thousand common shares, with a par value of S/. 10.00 each.

Likewise, in the year 2011, the Board of Directors approved a capital stock increase for an amount to S/. 730,198 thousand from the previous years retained earnings capitalization of through the issuance of 73,020 thousand common shares, with a par value of S/. 10.00 each. Consequently, the capital stock increased to S/. 2,271,287 thousand and was comprised by 227,129 thousand common shares, with a par value of S/. 10.00 each.

Shares participation on the Bank's capital stock as of September 30, 2012 and December 31, 2011, is as follows:

<u>Percentage of shareholding</u>	<u>09.30.2012</u>		<u>12.31.2011</u>	
	<u>Number of shareholders</u>	<u>%</u>	<u>Number of shareholders</u>	<u>%</u>
0.01 to 1	2,089	2.25	2,279	2.29
1.01 to 50	2	42.43	2	42.39
50.01 to 100	1	55.32	1	55.32
	-----	-----	-----	-----
	2,092	100.00	2,282	100.00
	=====	=====	=====	=====

As of September 30, 2012, the Banking Law requires that the capital stock of the Bank shall reach the minimum amount of S/. 25,001 thousand (S/. 24,853 thousand as of December 31, 2011), 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).

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

(c) Legal Reserve

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

At the Bank's Annual Obligatory General Shareholders' meeting, held on March 28, 2012, it was decided to apply to the legal reserve an amount of S/. 78,849 thousand, corresponding to 10% of net profit for the year 2011.

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

(d) Retained Earnings

At the Bank's Annual Obligatory General Shareholders' meeting, held on March 28, 2012, the distribution of net profit 2011 for a total of S/. 788,493 thousand was approved, as follows:

- (i) Cash dividends payment for S/. 236,548 thousand.
- (ii) Allocate 10% of net income, amounting to S/. 78,849 thousand, to increase the legal reserve.
- (iii) Remaining balance, amounting to S/. 473,096 thousand will be held in the retained earnings account.

At the Bank's Annual Obligatory General Shareholders' meeting, held on March 31, 2011, the distribution of net profit 2010 for a total of S/. 680,197 thousand was approved, as follows:

- (i) Cash dividends payment for S/. 204,059 thousand.
- (ii) Allocate 10% of net income, amounting to S/. 68,020 thousand, to increase the legal reserve.
- (iii) Remaining balance, amounting to S/. 408,118 thousand will be held in the retained earnings account.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

(17) Contingencies

In February 2006, previous to the acquisition of Banco Wiese Sudameris (BWS) 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. would 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 has several pending court claims related to their ongoing activities. In the opinion of management and their internal legal advisors, these claims will not result in liabilities additional to those recorded by the Bank and its Subsidiaries; therefore, management considers that no additional provision is necessary for these contingencies (note 15c).

(18) Contingent and Memoranda Accounts

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

Many of the indirect loans are expected to expire without any withdrawal required by the Bank and CrediScotia Financiera S.A. The total committed amounts do not necessarily represent future cash outflows. Also, documentary credits, like 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 a customer obligation before a third party.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

As of September 30, 2012 and December 31, 2011, the contingent and memoranda accounts comprised the following:

	<u>In thousands of S/.</u>	
	<u>09.30.2012</u>	<u>12.31.2011</u>
Indirect loans:		
Guarantees and stand-by letters of credit	3,772,138	3,421,005
Issued letters of credit	490,890	479,787
Due from bank acceptances	80,010	47,489
	-----	-----
	4,343,038	3,948,281
Unused credit lines	15,655,428	14,467,629
Financial derivative contracts	10,983,961	6,808,862
Other	539	540
	-----	-----
	30,982,966	25,225,312
	-----	-----
Memoranda accounts:		
Guarantees received	49,357,839	44,316,206
Loans and other control	23,461,571	21,316,765
Control of returned checks	21,777,227	20,238,257
Securities in collection	12,714,822	12,126,698
Securities held in custody	6,528,055	6,932,796
Suspended interest on loans	4,797,420	2,664,017
Goods transferred in trust	3,857,417	3,906,930
Written-off loans	3,421,180	3,404,937
Own securities in custody	2,735,205	3,657,501
Trust and debt trust commissions	2,660,245	2,028,553
Securities granted as warranties	743,404	766,951
Notified letters of credit	595,022	426,926
Other memoranda accounts	48,826,735	36,954,768
	-----	-----
	181,476,142	158,741,305
	-----	-----
	212,459,108	183,966,617
	=====	=====

Guarantees received from credit operations 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, 2012, loan balances covered by guarantees amount to S/. 10,491,899 thousand (S/. 9,414,316 thousand as of December 31, 2011).

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

(19) Finance Income

It comprises the following:

	<u>In thousands of S/.</u>	
	<u>09.30.2012</u>	<u>09.30.2011</u>
Interest and commissions on loan portfolio	2,103,767	1,800,869
Gain on exchange difference from operations	114,215	132,233
Interest from trading and available for sale investments	58,451	68,250
Interest on cash and due from banks	46,005	29,553
Gains on derivative instruments, net	21,151	330
Gains in associates	8,004	7,213
Interest and commissions on interbank funds	4,903	3,755
Other finance income	51,248	30,582
	-----	-----
	2,407,744	2,072,785
	=====	=====

(20) Finance Expenses

It comprises the following:

	<u>In thousands of S/.</u>	
	<u>09.30.2012</u>	<u>09.30.2011</u>
Interest on obligations	238,630	183,888
Interest on borrowings from banks and financial institutions	79,446	65,848
Interest on issued securities	72,151	61,139
Deposit insurance fund premiums	18,537	17,536
Commissions on financial obligations	14,372	10,566
Loss on valuation of investments	9,891	11,299
Interest on deposits of financial entities	9,598	6,126
Interest and commissions on interbank funds	3,015	3,241
Other finance expenses	28,445	49,469
	-----	-----
	474,085	409,112
	=====	=====

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

(21) Income from Finance Services, net

It comprises the following:

	<u>In thousands of S/.</u>	
	<u>09.30.2012</u>	<u>09.30.2011</u>
Income:		
Income from services and maintenance fees of credit / debit cards	126,576	122,898
Income from deposit transactions, services and transfer fees	111,129	111,940
Other fees and commissions from banking services	78,453	67,361
Income from commissions from collections services	60,488	60,121
Income from purchased portfolio recoveries	54,066	49,484
Income from warehousing	37,747	35,807
Income from teleprocessing services	24,052	19,099
Income from remunerations of mutual funds and administration fees	20,354	20,003
Income from brokerage services	10,429	8,810
Income from structuring and administration services	6,682	5,968
Income from leased property	2,159	1,961
Other various income	40,445	35,225
	-----	-----
	572,580	538,677
	-----	-----
Expenses:		
Credit / debit cards expenses	(34,102)	(32,957)
Warehousing expenses	(23,597)	(20,295)
Insurance services expenses	(1,456)	(9,339)
Other expenses	(35,686)	(38,456)
	-----	-----
	(94,841)	(101,047)
	-----	-----
Total income from finance services, net	477,739	437,630
	=====	=====

(22) Administrative Expenses

It comprises the following:

	<u>In thousands of S/.</u>	
	<u>09.30.2012</u>	<u>09.30.2011</u>
Personnel and board of directors expenses	547,896	492,158
Expenses for services received from third parties	376,581	328,186
Taxes and contributions	56,497	53,364
	-----	-----
	980,974	873,708
	=====	=====

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

(23) Other Income, net

It comprises the following:

	<u>In thousands of S/.</u>	
	<u>09.30.2012</u>	<u>09.30.2011</u>
Income from recovery of accounts receivable and other	27,509	34,970
Income from previous periods	12,558	27,552
Income from repossessed assets, net	6,961	2,902
Proceeds on sale of out of use goods	(3,129)	(60)
Other extraordinary expenses, net	(4,442)	(5,442)
	-----	-----
	45,715	59,922
	=====	=====

(24) Tax Matters

(a) In accordance with current tax legislation, corporate income tax is calculated applying the statutory income tax rate of 30%. The income tax (current and deferred) of each company composing Scotiabank Perú S.A.A. and Subsidiaries has been determined as follows:

	<u>In thousands of S/.</u>	
	<u>09.30.2012</u>	<u>09.30.2011</u>
Scotiabank Perú S.A.A.	206,674	188,091
CrediScotia Financiera S.A.	45,615	30,642
Servicios, Cobranza e Inversiones S.A.	10,591	9,542
Depósitos S.A.	3,359	1,357
Scotia Fondos Sociedad Administradora de Fondos S.A.	2,286	2,436
Scotia Sociedad Agente de Bolsa S.A.	1,482	2,141
Scotia Sociedad Titulizadora S.A.	97	134

(b) The tax authority has the right to audit and, if applicable, to modify the income tax calculated by each company composing Scotiabank Perú S.A.A. and Subsidiaries during the next four years after the year the income tax return was filed. Income tax returns of Scotiabank Perú S.A.A. and Subsidiaries that have not yet been reviewed by the tax authority are the following:

<u>Company</u>	<u>Tax returns subject to audit</u>
Scotiabank Perú S.A.A.	2007 through 2011
CrediScotia Financiera S.A.	2007, 2008, 2010 and 2011
Scotia Sociedad Agente de Bolsa S.A.	2007 through 2011
Scotia Fondos Sociedad Administradora de Fondos S.A.	2007 through 2011
Scotia Sociedad Titulizadora S.A.	2007 through 2011
Depósitos S.A.	2007, 2008, 2010 and 2011
Servicios, Cobranzas e Inversiones S.A.C.	2007, 2008, 2010 and 2011

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

Due to the possibility of various interpretations by the tax authority of the current regulation, it is not possible to determine, to date, whether a future tax audit will result or not in future liabilities; therefore, any taxes, surcharges and sanctions that might arise from eventual tax audits would be applied to results of the period in which they are determined. However, it is the opinion of management and its legal advisors that any possible additional tax settlement would not be significant to the financial statements of Scotiabank Perú S.A.A. and Subsidiaries.

- (c) The total or partial distribution of dividends, or other types of profit distribution, is subject to a 4.1% income tax withholding, except for the distribution of profits made in favor of domiciled entities.
- (d) As from 2001, for income and value added tax purposes, transfer pricing for transactions carried out with economically-related parties, and with companies domiciled in territories with low or null taxation, shall be supported with documentation and information about the valuation methods used, and the criteria considered, for pricing. Scotiabank Perú S.A.A. and Subsidiaries' management consider that for income and value added tax purposes, pricing regarding transactions such as those aforementioned has been made in accordance with tax legislation; consequently, no significant liabilities will arise as of September 30, 2012.
- (e) In 2005, a tax named Temporary Tax on Net Assets (ITAN, for its Spanish acronym) was established. Taxable base is composed of the net asset value adjusted as of the closing of the period before the payment was made, deducting the depreciations, amortizations, legal cash reserve, and specific provisions for credit risk. Since 2009, the tax rate applicable to the amount of assets exceeding S/. 1,000 thousand is 0.4 %. It may be paid in cash or in nine consecutive monthly installments. The amount actually paid may be used as partial payments of income tax for taxable periods June to December of the fiscal period for which the tax was paid until maturity of each of the partial payments and against the payment for regularization of income tax of the corresponding taxable period.

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

The Bank requested the compensation of the ITAN 2005 and 2006 against previous years tax credits (balances in favor). These requests were resolved in favor of the Bank by the Tax Court. However, the SUNAT on a misinterpretation of the rules only partially offset the ITAN, applying only part of the Bank's tax credits and without considering the legal procedures and precedents applicable to the case, which strongly support the Bank's position.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

The mentioned SUNAT compensation resulted in a coercive collection of the uncompensated debt, and the Bank decided to make a payment under protest of S/. 135,459 thousand; an amount which according to the Bank's management and its advisors will be returned by the tax authority, plus interest, when we receive the Tax Court's favorable findings regarding the applied compensation methodology.

- (f) Tax on Financial Transactions (ITF) since 2011 was 0.005%. This tax is applied on each deposit and withdrawal made to and from a banking account, unless the account is tax-exempt.
- (g) According to Legislative Decree 972, starting from January 1, 2010, the tax exemption on capital gains and interest from securities issued by legal entities incorporated or established in the country was eliminated. Capital interest and gains coming from bonds issued by the Peruvian Government, as well as capital interest and gains coming from BCRP Certificates, except for those originated by legal cash reserve deposits are income tax-exempt.
- (h) The reconciliation of the tax rate and the effective tax rate is as follows:

	09.30.2012		09.30.2011	
	S/. 000	%	S/. 000	%
Net income before income tax	872,499	100.00	790,840	100.00
Income tax (theoretical)	261,750	30.00	237,252	30.00
Tax effect on deductions:				
Permanent differences	8,354		(2,909)	
Current and deferred income tax, at effective rate	270,104	30.96	234,343	29.63

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

(25) Deferred Income Tax

Deferred income tax has been calculated applying the balance sheet method, and is attributed to the following items:

	In thousands of S/.			Balance as of 09.30.12
	Balance as of 12.31.11	(Debit) credit to equity	(Debit) credit to results	
Assets:				
Generic provision for loans	108,142	-	15,283	123,425
Transferred loan portfolio	19,283	-	(2,749)	16,534
Provision for vacations	12,720	-	(263)	12,457
Provision for inventories and repossessed assets	9,318	-	(294)	9,024
Provision for account receivable	4,242	-	2,705	6,947
Provision for credit card rewards	2,819	-	(90)	2,729
Provision for debit card rewards	674	-	(21)	653
Fixed assets	324	-	122	446
Intangibles	341	-	-	341
Other	6,937	-	4,755	11,692
	-----	-----	-----	-----
	164,800	-	19,448	184,248
	-----	-----	-----	-----
Liabilities:				
Valuation of investments in associates	(4,745)	3,269	4,396	2,920
Other	(293)	-	204	(89)
	-----	-----	-----	-----
	(5,038)	3,269	4,600	2,831
	-----	-----	-----	-----
Total deferred income tax asset, net	159,762	3,269	24,048	187,079
	=====	=====	=====	=====

(26) Employees' Profit Sharing

According to Legislative Decree 677, banks' employees are entitled to a profit-sharing plan computed at 5% of the net income, similarly to employees of the companies of Scotiabank Perú S.A.A. and Subsidiaries. This profit sharing is treated as deductible expenses for income tax calculation purposes. As of September 30, 2012 and 2011, a consolidated legal employees' profit sharing of S/. 51,250 thousand and S/. 50,018 thousands respectively have been determined and are presented in administrative expenses item in the income statement.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

(27) Earnings per Share

As of September 30, 2012 and 2011, the calculation of weighted average of basic and diluted earnings per share is as follows:

	<u>Ordinary shares</u> (in thousands)	<u>Average basic shares</u> (in thousands)	<u>Effective days until year-end</u>	<u>Weighted average of common shares</u> (in thousands)
2012 -				
Balances as of January 1, 2012	227,129	282,480	273	282,480
Capitalization of retained earnings of period 2010	15,812	-	-	-
Capitalization of retained earnings of period 2011	39,539	-	-	-
	-----	-----		-----
Balances as of September 30, 2012	282,480	282,480		282,480
	=====	=====		=====
2011 -				
Balances as of January 1, 2011	154,109	242,941	273	242,941
Capitalization of retained earnings of period 2009	48,020	-	-	-
Capitalization of retained earnings of period 2010	40,812	-	-	-
	-----	-----		-----
Balances as of September 30, 2011	242,941	242,941		242,941
	=====	=====		=====

As of September 30, 2012 and 2011, earnings per share calculated based on the average number of shares amounted to S/. 2.133 and S/. 2.291, respectively.

(28) Financial Risk Management

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

Market Risk

This is comprised of the risk of loss of value of the portfolios of 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 assume 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 Risk Management plays an important role at Scotiabank Perú S.A.A. and Subsidiaries, applying the best practices of the market and the Scotiabank Group with regard to risk management.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

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

Trading activities are managed according to the following approved limits: maximum exposure limits for currency, maximum exposure limits for type of investment and term, VaR Limits (Value at Risk), “delta risk” limits, tolerance limits of expected maximum loss (“stop loss” and “Management Action Trigger” or MAT), among others.

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

The Asset and Liability Committee (ALCO) supervises 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 Scotiabank Perú S.A.A. and Subsidiaries assets and liabilities to interest rate risk, and reviews and establishes hedging policies in order to maximize profits and protect shareholders' equity.

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

- Approve policies and structures for the management of interest risk, as well as modifications made to them.
- Define the level of tolerance and the level of exposure to risk that Scotiabank Perú S.A.A. and Subsidiaries are able to assume in its business development.
- Decide the necessary steps for the implementation of required corrective actions, in the case of the deviations in levels of tolerance to risk and the level of assumed exposures.
- Approve the exposures involving significant variations in the risk profile of the Bank or the equity managed under the responsibility of Scotiabank Perú S.A.A. and Subsidiaries.

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

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 Scotiabank Perú S.A.A. and Subsidiaries' liquidity profile.

The main guidelines followed 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.

Interest Rate Risk

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

Interest rate risk exposure to each currency is controlled through:

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

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

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

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

Risk in Investments Portfolio

Scotiabank Perú S.A.A. and Subsidiaries have both investment and trading portfolios, which are managed by the treasury and trading management, respectively.

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

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

Credit Risk

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

In order to mitigate credit risk, consideration is also given to the Bank's and Conglomerate compliance with legal limits established by the SBS, BNS and internal operational policies, as well as portfolio analysis, according to aspects such as: levels of credit concentration, economic sector risk, overdue portfolio, products and rating in such case seeking to avoid credit concentrations in order to diversify credit and liquidity risk. Likewise, a review and follow-up 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.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

(29) Fair Value

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

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

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

A significant portion of Scotiabank Perú S.A.A. and Subsidiaries assets and liabilities correspond to short-term financial instruments maturing in terms shorter than one year. The fair values of these financial instruments are equivalent to their corresponding carrying amount 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 through profit or loss are recorded at their estimated market value, which is the same as the carrying amount.
- (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.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

- (e) Investments in associates are valued according to the equity method; such valuation is similar to the fair value of these instruments considering that they are not trading securities.
 - (f) The market value of deposits and obligations corresponds to their respective carrying amount mainly because interest rates are similar to those of other liabilities.
 - (g) Debts to banks and correspondent banks accrue interest at fixed and floating rates and have maturities of short and long term. The fair value of these financial instruments have been calculated based on discounted future cash flows, using the current interest rate for liabilities with similar characteristics in Scotiabank Perú S.A.A. and Subsidiaries. Consequently, the estimated market value does not differ significantly from carrying amount.
 - (h) Securities, bonds and obligations issued accrue interest at fixed rates. The fair value of these financial instruments have been calculated based on discounted future cash flows, using the current interest rate for liabilities with similar characteristics in Scotiabank and Subsidiaries. Consequently, the estimated market value does not differ significantly from carrying amount.
 - (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 carrying amount 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 market values.
- (30) Trust Fund Activities
Scotiabank Perú S.A.A. and Scotia Sociedad Titulizadora S.A. 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 Scotia Sociedad Titulizadora S.A. 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, 2012, the allocated value of assets in trusts and trust fees amounted to S/. 1,771,775 thousand (S/. 1,401,134 thousand as of December 31, 2011).
- (31) Subsequent Event
At the Bank's Board of Directors' meeting, held on April 30, 2012 and pursuant to the delegation conferred by the General Shareholders' meeting held on March 29, 2012, the Board agreed to issue subordinated debt up to an amount of US\$ 400,000 thousand; as of to date, the issuance process is in progress. By means of Resolution 8093-2012 dated October 22, 2012, the SBS approved the issuance mentioned above.