

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Financial Statements

September 30, 2010

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

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INDEPENDENT AUDITORS' REPORT ON REVIEW
OF INTERIM FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying consolidated balance sheet of Scotiabank Perú S.A.A. (a subsidiary of The Bank of Nova Scotia from Canada) and Subsidiaries as of September 30, 2010, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the nine-month periods ended September 30, 2010 and 2009, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these consolidated interim financial statements in conformity with accounting standards established for financial entities in Peru by the Superintendencia de Banca, Seguros y Administradoras Privadas de Fondos de Pensiones – SBS (Superintendency of Banking, Insurance, and Private Pension Fund Administrators). Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

Scope of Review

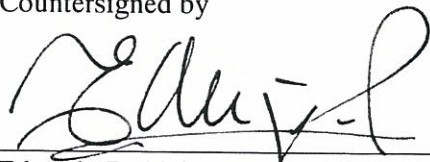
We conducted our review in accordance with auditing standards generally accepted in Peru on review engagements of interim financial information performed by the independent auditor of the entity. A review of interim financial statements consists of making inquiries, primarily of persons responsible for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

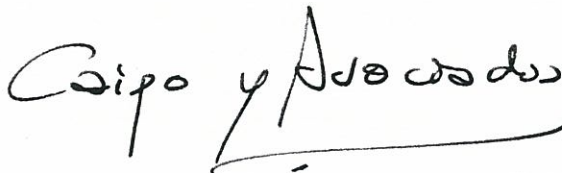
Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements do not present fairly, in all material respects, the financial position of Scotiabank Perú S.A.A. and Subsidiaries as of September 30, 2010, and the consolidated results of their operations and their consolidated cash flows for the nine-month periods ended September 30, 2010 and 2009, in conformity with accounting standards established for financial entities in Peru by the SBS, as discussed in notes 2 and 3 to the interim consolidated financial statements.

November 25, 2010

Countersigned by


Eduardo P. Alejos
Peruvian Certified Public Accountant
Registration 29180



SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Balance Sheet

As of September 30, 2010 and December 31, 2009

(Stated in thousands of nuevos soles)

<u>Assets</u>	<u>09.30.2010</u> (Unaudited)	<u>12.31.2009</u> (Audited)	<u>Liabilities and shareholders' Equity</u>	<u>09.30.2010</u> (Unaudited)	<u>12.31.2009</u> (Audited)
Cash and due from banks (note 5):			Deposits and obligations (note 12):		
Cash	484,271	520,593	Demand deposits	5,105,628	4,973,339
Deposits with Banco Central de Reserva del Perú	4,444,760	2,806,084	Savings deposits	3,549,820	3,383,981
Deposits with local and foreign banks	263,418	338,976	Time deposits	8,408,993	8,980,125
Clearing	54,251	181,854	Other obligations	753,139	737,675
Accrued interest and due from banks	14,175	9,700		-----	-----
	5,260,875	3,857,207		17,817,580	18,075,120
Interbank funds	121,235	143,205	Interbank funds	25,000	20,001
Investments at fair value with changes in results and available-for-sale (note 6)	3,731,992	3,637,054	Borrowings and financial obligations (note 13)	4,075,587	1,656,929
Loan portfolio, net (note 7)	16,450,112	14,565,637	Securities, bonds and obligations issued (note 14)	1,342,010	696,602
Accounts receivable, net (note 8)	381,522	491,383	Provisions and other liabilities (note 15)	1,199,152	881,430
Investments in associates	75,417	72,196		-----	-----
Goodwill (note 9)	278,818	278,818	Total liabilities	24,459,329	21,330,082
Property, furniture, and equipment, net (note 10)	518,849	520,531		-----	-----
Other assets, net (note 11)	926,713	724,623	Shareholders' equity (note 16):		
			Capital stock	1,569,109	1,427,511
			Additional capital	368,553	212,371
			Capital in progress	-	297,780
			Legal reserve	332,160	268,455
			Unrealized earnings	18,110	19,435
			Retained earnings	998,272	735,020
				-----	-----
			Total shareholders' equity	3,286,204	2,960,572
			Contingencies and commitments (note 17)	-	-
				-----	-----
Total assets	27,745,533	24,290,654	Total liabilities and shareholders' equity	27,745,533	24,290,654
	=====	=====		=====	=====
Contingent and memoranda accounts (note 18):			Contingent and memoranda accounts (note 18):		
Contingent accounts	25,794,814	13,620,930	Contingent accounts	25,794,814	13,620,930
Memoranda accounts	162,696,944	179,728,097	Memoranda accounts	162,696,944	179,728,097
	188,491,758	193,349,027		-----	-----
	=====	=====		188,491,758	193,349,027
				=====	=====

See the accompanying notes to the consolidated financial statements.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Income Statement

For the nine-month periods ended September 30, 2010 and 2009

(Stated in thousands of nuevos soles)

	2010 (Unaudited)	2009 (Unaudited)
Financial income (note 19)	1,700,040	1,847,515
Financial expenses (note 20)	(332,630)	(483,599)
Gross financial income	1,367,410	1,363,916
Provision for doubtful loans (note 7)	(502,929)	(633,600)
Recovery of provision for doubtful loans (note 7)	185,031	189,092
	(317,898)	(444,508)
Net financial income	1,049,512	919,408
Income from financial services, net (note 21)	346,997	374,171
Operating margin	1,396,509	1,293,579
Administrative expenses (note 22)	(726,492)	(741,233)
Net operating margin	670,017	552,346
Provisions for doubtful and other accounts receivable, liquid and repossessed assets, and other	(61,240)	(40,732)
Depreciation of property, furniture, and equipment	(44,675)	(40,545)
Amortization of intangibles	(5,254)	(5,887)
	(111,169)	(87,164)
Operating results	558,848	465,182
Other income, net (note 23)	190,696	154,283
Profit before employees' profit sharing and income tax	749,544	619,465
Deferred employees' profit sharing (note 25)	(1,931)	(17,757)
Employees' profit sharing (note 26)	(33,388)	(8,744)
Deferred income tax (note 25)	(11,005)	(102,628)
Income tax (note 24)	(185,147)	(50,481)
Net profit	518,073	439,855
Basic and diluted earnings per share (in nuevos soles) (note 27)	3.570	8.806
Weighted average of common shares issued (in thousands of shares)	145,136	49,951

See the accompanying notes to the consolidated financial statements.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Statement of Changes in Shareholders' Equity

For the nine-month periods ended September 30, 2010 and 2009

(Stated in thousands of nuevos soles)

	Capital stock <u>(note 16.b)</u>	Additional capital <u>(note 16.b)</u>	Capital in progress <u>(note 16.b)</u>	Legal reserve <u>(note 16.c)</u>	Unrealized earnings <u>earnings</u>	Retained earnings <u>(note 16.d)</u>	Total shareholders' equity <u>equity</u>
Balances as of December 31, 2008 (Audited)	533,554	212,539	318,177	268,455	-	1,147,527	2,480,252
Dividends declared in cash	-	-	-	-	-	(179,594)	(179,594)
Shares subscription	-	-	3,491	-	-	-	3,491
Capital increase	734	2,757	(3,491)	-	-	-	-
Capital decrease	(96)	-	-	-	-	-	(96)
Unrealized income on available-for-sale investments, net of income tax	-	-	-	-	31,355	-	31,355
Other	-	-	-	-	-	4	4
Net profit	-	-	-	-	-	439,855	439,855
	-----	-----	-----	-----	-----	-----	-----
Balances as of September 30, 2009 (Unaudited)	534,192	215,296	318,177	268,455	31,355	1,407,792	2,775,267
	=====	=====	=====	=====	=====	=====	=====
Balances as of December 31, 2009 (Audited)	1,427,511	212,371	297,780	268,455	19,435	735,020	2,960,572
Dividends declared in cash	-	-	-	-	-	(191,116)	(191,116)
Refund of capital contribution	-	-	(178,036)	-	-	-	(178,036)
Capital contribution	-	-	178,036	-	-	-	178,036
Capital increase	141,598	156,182	(297,780)	-	-	-	-
Application to legal reserve	-	-	-	63,705	-	(63,705)	-
Unrealized losses on available-for-sale investments, net of income tax	-	-	-	-	(1,325)	-	(1,325)
Net profit	-	-	-	-	-	518,073	518,073
	-----	-----	-----	-----	-----	-----	-----
Balances as of September 30, 2010 (Unaudited)	1,569,109	368,553	-	332,160	18,110	998,272	3,286,204
	=====	=====	=====	=====	=====	=====	=====

See the accompanying notes to consolidated financial statements.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Statement of Cash Flows

For the nine-month periods ended September 30, 2010 and 2009

(Stated in thousands of nuevos soles)

	<u>2010</u> (Unaudited)	<u>2009</u> (Unaudited)
Cash flows from operating activities		
Net profit	518,073	439,855
Adjustments to reconcile net profit to net cash provided by operating activities:		
Provision for doubtful loans	502,929	633,600
Provision for (reversal of) impairment of investments and other assets	(299)	810
Provision for accounts receivable	44,337	29,599
Provision for contingencies	17,202	10,324
Depreciation and amortization	49,929	46,432
Recovery of provision for liquid and repossessed assets	(12,661)	(6,666)
Recovery of provision for accounts receivable	(79,697)	(63,334)
Provision for impairment and depreciation of repossessed assets	5,574	8,880
Recovery of provision for loan portfolio	(185,031)	(189,092)
Provision for severance indemnities	23,894	23,104
Gain on sale of property, furniture, and equipment	187	312
Gains on sale of liquid and repossessed assets	(5,699)	(3,328)
Net variations in assets and liabilities:		
Decrease in interest, commissions, and other accounts receivable	199,334	248,705
Decrease in interest, commissions, and other accounts payable	(32,531)	(228,350)
Increase in other assets	(220,076)	(296)
Increase in other liabilities	91,367	126,383
	-----	-----
Cash and net cash equivalents provided by operating activities	916,832	1,076,938
	-----	-----
Cash flows from investing activities		
Acquisition of property, furniture, and equipment	(44,396)	(19,530)
Acquisition of other non-financial assets	(3,475)	(5,689)
Income from sale of property, furniture, and equipment	5,269	3,532
Income from sale of other non-financial assets	39,315	16,615
	-----	-----
Cash and net cash equivalents applied to investing activities	(3,287)	(5,072)
	-----	-----
Cash flows from financing activities		
(Increase) decrease in loan portfolio	(2,212,977)	358,554
Increase in investments	(99,185)	(471,362)
Decrease in deposits and obligations	(275,670)	(772,590)
Increase (decrease) in borrowings, financial obligations and interbank funds	2,423,657	(1,450,074)
Increase in securities, bonds and obligations issued	645,408	60,346
Payment of dividends	(191,116)	(179,594)
Cash contribution	178,036	3,491
	-----	-----
Cash and net cash equivalents provided by (applied to) financing activities	468,153	(2,451,229)
	-----	-----
Net increase in cash and cash equivalents	1,381,698	(1,379,363)
Cash and cash equivalents at beginning of the period	4,000,412	5,424,016
	-----	-----
Cash and cash equivalents at end of the period	5,382,110	4,044,653
	=====	=====

See the accompanying notes to the consolidated financial statements.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2010 (unaudited), December 31, 2009 (audited)
and September 30, 2009 (unaudited)

(1) Operations

Scotiabank Perú S.A.A. (herein the “Bank”) is a subsidiary of The Bank of Nova Scotia-BNS (a financial entity from Canada), which holds directly and indirectly 97.71% of the Bank’s capital stock as of September 30, 2010. As of September 30, 2010, the Bank of Nova Scotia directly owned 2.32% of the Bank’s shares, and indirectly through NW Holdings Ltd. and Scotia Perú Holdings S.A. owned 55.32% and 40.07% respectively.

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

The head office of the Bank is located at Av. Dionisio Derteano 102, San Isidro, Lima, Peru. As of September 30, 2010, the Bank performed its activities with a national network of 167 branches, and one branch abroad (as of December 31, 2009, it had 163 Peruvian branches and one branch abroad).

The accompanying consolidated financial statements include those corresponding to Scotiabank Perú S.A.A. and its subsidiaries, as defined below, (referred to herein as “Scotiabank Perú S.A.A. and Subsidiaries”), which include: CrediScotia Financiera S.A., engaged in intermediation operations for the small-business and consumer sectors; Servicios, Cobranzas e Inversiones S.A.C., engaged in collections and domicile verification, among other activities; Depósitos S.A., engaged in warehousing services; Scotia Sociedad Agente de Bolsa S.A., engaged in intermediation activities in the Peruvian securities market; Scotia Fondos Sociedad Administradora de Fondos S.A., engaged in mutual funds management; Scotia Sociedad Titulizadora S.A., engaged in the management of trusts and Promoción de Proyectos Inmobiliarios y Comerciales S.A. engaged in the purchase and sale of goods in general, among other activities. As at September 30, 2010 and December 31, 2009 Promoción de Proyectos Inmobiliarios y Comerciales S.A. is presented as an inactive company.

Below are the main balances of the Bank and Subsidiaries presented as of September 30, 2010 and December 31, 2009 indicating the Bank’s shareholding percentage in the Subsidiaries as of that date, as well as other relevant information in this regard:

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2010:

Entity	Activity	Percentage of shareholding	In thousands of S/.		
			Assets	Liabilities	Shareholders' equity
Scotiabank Perú S.A.A.	Banking	-	26,179,301	22,893,097	3,286,204
CrediScotia Financiera S.A.	Financial	100.00	2,393,588	2,064,930	328,658
Servicios, Cobranzas e Inversiones S.A.C.	Collection services	100.00	139,887	24,668	115,219
Scotia Sociedad Agente de Bolsa S.A.	Stock market broker	100.00	115,871	68,421	47,450
Depósitos S.A.	Warehousing	100.00	59,443	13,533	45,910
Scotia Fondos Sociedad Administradora de Fondos S.A.	Administration of mutual funds	100.00	28,245	6,881	21,364
Scotia Sociedad Titulizadora S.A.	Securitization	100.00	3,300	99	3,201

As of December 31, 2009:

Entity	Activity	Percentage of shareholding	In thousands of S/.		
			Assets	Liabilities	Shareholders' equity
Scotiabank Perú S.A.A.	Banking	-	22,911,511	19,950,939	2,960,572
CrediScotia Financiera S.A.	Financial	100.00	2,018,431	1,755,492	262,939
Servicios, Cobranzas e Inversiones S.A.C.	Collection services	100.00	164,669	42,784	121,885
Scotia Sociedad Agente de Bolsa S.A.	Stock market broker	100.00	112,644	64,820	47,824
Depósitos S.A.	Warehousing	100.00	57,209	15,540	41,669
Scotia Fondos Sociedad Administradora de Fondos S.A.	Administration of mutual funds	100.00	23,635	3,053	20,582
Scotia Sociedad Titulizadora S.A.	Securitization	100.00	3,752	116	3,636

The consolidated financial statements as of September 30, 2010 were approved by management on November 9, 2010. These consolidated financial statements have been prepared based on the individual financial statements of each company comprising Scotiabank Perú S.A.A. and Subsidiaries. The individual financial statements comprising the consolidated financial statements as of December 31, 2009 were approved by the corresponding general shareholders' meeting made within legal terms.

(2) Basis for the Preparation of Financial Statements

The accompanying consolidated financial statements are prepared based on the accounting book balances of Scotiabank Perú S.A.A. and Subsidiaries, and are presented in accordance with the standards issued by the SBS and, in the absence of applicable SBS standards, in accordance with the International Financial Reporting Standards (IFRS), made official in Peru, which include the International Accounting Standards (IAS) and pronouncements of the Standing Interpretations Committee (SIC). The standards made official in Peru are those approved by the Consejo Normativo de Contabilidad – CNC (Peruvian Accounting Board). The standards currently in force and authorized by the CNC, as of September 30, 2010 are IASs 1 to 41, IFRSs 1 to 8, Interpretations 7 to 32 of SIC and all the Interpretations 1 to 14 of the current International Financial Reporting Interpretations Committee (IFRIC).

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(a) Basis of Measurement

The consolidated financial statements have been prepared in conformity with the historical cost principle, except for the following:

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

(b) Presentation Currency

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

(c) Critical Accounting Estimates and Criteria

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

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

(3) Accounting Principles and Practices

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

(a) Consolidation

The consolidated financial statements include the financial statements of the companies described in note 1 and the special purpose entity described in note 14(a), after the elimination of significant balances and transactions among the consolidated companies, and profits and losses resulting from those transactions. All of the subsidiaries and the special purpose entity have been consolidated since their incorporation or acquisition date.

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

The financial statements of the subsidiaries included in the consolidation represent 12.02% and 9.42% of total assets before intra-company eliminations as of September 30, 2010 and December 31, 2009; respectively. As of those dates, the Bank did not have any minority interest arising from the consolidation process.

(b) Financial Instruments

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

Financial instruments are classified as assets, liabilities, or equity according to the substance of the contract. The interest, dividends, gains and losses generated by a financial instrument, whether classified as an asset or liability, are recorded as income or expense in the consolidated income statement. The financial instruments shall be offset when Scotiabank Perú S.A.A. and Subsidiaries have the legally enforceable right, and management has the intention to settle on a net basis, or to realize the asset, and settle the liability simultaneously.

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

(c) Derivative Instruments

The accounting treatment for derivative instruments that financial entities shall apply is established in SBS Resolution 1737-2006 "Regulation for Trading and Accounting of Derivative Products in Financial System Enterprises", dated December 28, 2006; and its amendment SBS Resolution 1349-2008, dated May 8, 2008, supersedes certain articles of SBS Resolution 1737-2006 and incorporates two chapters related to authorization for contracting of derivative instruments and the global limit on derivative products.

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

(i) Held-for-Trading

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(ii) Hedging

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

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

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

(iii) Embedded Derivatives

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

As of September 30, 2010 and December 31, 2009, Scotiabank Perú S.A.A. and Subsidiaries did not have embedded derivatives.

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

(d) Investments

The recording and valuation of investments are made according to SBS Resolution 10639-2008 "Regulations for Classification and Valuation of Investments of Financial System Companies". Through this resolution, the SBS has amended and clarified investment classification, valuation and provisioning and modified the Accounting Manual for Financial System Companies in order to harmonize the recording criteria with international accounting practices, primarily with the classification and valuating

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

criteria of IAS 39 Financial Instruments: Recognition and Measurement. These changes were applied prospectively.

Scotiabank Perú S.A.A. and Subsidiaries applies the criteria established in SBS Resolution 10639-2008 for the classification and valuation of investments, as follows:

(i) Investments at Fair Value with Changes in Results

Debt securities and equity shares are classified as Investments at Fair Value with Changes in Results if they have been acquired principally for the purpose of selling in the near future, or they form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. These financial assets are recognised on trade date, when the Scotiabank Perú S.A.A. and Subsidiaries enter into contractual arrangements with counterparties to purchase securities, and are normally derecognised when sold. Measurement is initially at fair value, with transaction costs taken to the income statement. Subsequently, their fair values are remeasured, and all gains and losses from changes therein are recognised in the income statement.

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

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

(ii) Available-for-Sale Investments

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

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

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

(iii) Investments in Associates

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

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

- (a) Investment Instruments at Fair Value with Changes in Results cannot be reclassified except (i) for unquoted equity shares that lack reliable fair value estimations or (ii) when given in guarantee or transferred through a repurchase agreement as previously noted in section d (i).

(e) Loans, Classification and Provision for Doubtful Loans

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

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

The Portfolio Risk Management’s Debtor Classification Unit is in charge of conducting, on a permanent basis, the evaluation and rating of the loan portfolio, assigning to each debtor the corresponding risk rating according to the guidelines established by the SBS. The Bank and CrediScotia Financiera S.A. applied SBS Resolution 808-2003 and its amendments until June 2010 and SBS Resolution 11356-2008 and its amendments starting in July 2010.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Type of loans

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

Rating categories

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

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

Provisions for doubtful loans

According to current SBS regulations, the Bank and CrediScotia Financiera S.A. determines generic and specific provisions for doubtful loans. The generic provision is recorded in a preventive manner for standard risk direct loans and equivalent exposure of indirect loans, and additionally the procyclical component when the SBS orders its application. The specific provision is recorded for direct loans and equivalent exposure of indirect loans for which a specific risk, higher than standard, has been identified (note 7).

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

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

<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%

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

<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				
- Commercial loans	0.70%	0.70%	0.70%	0.70%
- Small Business loans	1%	1%	1%	1%
- Consumer loans	1%	1%	1%	1%
- Mortgage loans	0.70%	0.70%	0.70%	0.70%
Potential problem	5%	2.5%	1.25%	1%
Substandard	25%	12.5%	6.25%	1%
Doubtful	60%	30%	15%	1%
Loss	100%	60%	30%	1%

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

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Procyclical component

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

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

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

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

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

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

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

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

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Provisions for direct loans are calculated by deducting the balance from the corresponding asset (note 7), and provisions for indirect loans are presented as liabilities (note 15). Provisions kept by the Bank, in the opinion of management, are sufficient to cover losses in the loan portfolio as of the reporting date.

(f) Securities Trading Transactions on Behalf of Customers

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

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

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

(g) Property, Furniture, and Equipment

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

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

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

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

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

Up to December 31, 2009, the estimated useful live of property was 33 years. That estimated useful live has been reviewed by the Bank's management and changed to 20 years, effective on January 1, 2010. The change in useful live of property has been applied prospectively.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

- Liquid assets, received as payment and repossessed assets are initially recorded at book value (cost), recognizing, at the same time, a provision equivalent to 20% of the cost. If the net realizable value, shown in the valuation report, demonstrates that the asset is impaired by a percentage higher than 20%, then the required initial provision shall be recorded at an amount equivalent to the amount effectively impaired.
- For the plant and equipment, the Bank records a monthly provision equivalent to 1/18 of the cost, less the aforementioned initial provision, commencing the first month of repossession or recovery. Regarding goods that have not been sold or leased within a one-year term and that do not have the extension established in the Banking Law, the provision shall be completed up to 100% of the value upon repossession or recovery less the impairment provision, at the close of the corresponding year.
- A provision shall be recorded for real estate that has not been sold or leased within one year from its recovery or repossession. This provision shall be a uniform monthly provision over a term of three and a half years until there is a 100% provision of the net book value obtained in the eighteenth or twelfth month, depending on if there is or is not an extension approved by the SBS, respectively.

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

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

(i) Impairment of Assets

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

(j) Income Tax and Employees' Profit Sharing

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

Deferred income tax is recorded using the liability method based on temporary differences derived from tax accounting of assets and liabilities, and their balances in the financial statements of each company composing Scotiabank Perú S.A.A. and Subsidiaries. Deferred income tax is determined based on tax rates and legislation expected to be applied to each company composing Scotiabank Perú S.A.A. and Subsidiaries when the deferred tax asset is realized or the deferred tax liability is settled (note 25).

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

Employees' profit sharing comprises both current and deferred employees' profit sharing, they are determined using the same criteria used to determine the current and deferred income tax, respectively. They are recorded according to legislation applicable to Scotiabank Perú S.A.A. and Subsidiaries (notes 25 and 26).

(k) Intangible Assets

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

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

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(l) Goodwill

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

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

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

(m) Securities, Bonds, and Obligations Issued

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

Interest is recognized as expenses when accrued.

(n) Provisions and Contingencies

(i) Provisions

Provisions are recognized when Scotiabank Perú S.A.A. and Subsidiaries have a present obligation, either legal or assumed, as a result of past events, and when it is probable that an outflow of resources will be required to settle the obligation, and it is possible to reliably estimate its amount. Provisions are reviewed and adjusted in each period to reflect the best estimates as of the reporting date. When the effect of the time value of money is material, provisions are discounted using an interest rate reflecting the current market rate for time value of money and specific risks of liabilities.

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

(ii) Contingencies

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

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

(o) Income and Expense Recognition

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

When management considers that there are reasonable doubts about the collectibility of the principal of a loan, Scotiabank Perú S.A.A. and Subsidiaries suspend the recognition of interest in the income statement. The interest in suspense is recorded in memoranda accounts and recognized as earned when collected. When management considers that the financial situation of the debtor has improved and that the doubt about the collectibility of the principal has dissipated, it reestablishes the accounting of the interest on an accrual basis.

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

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

(p) Capital Stock

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

(q) Earning per Share

Basic and diluted earnings per share result from dividing the net profit attributable to the common shareholders by the weighted average number of issued shares in the period, having deducted the treasury shares as of the date of the financial statements. Diluted earning per share corresponds to the basic earnings per share, adjusted for the dilutive effects of shares coming from the conversion of bonds or convertible shares, among others. As of September 30, 2010 and December 31, 2009, Scotiabank Perú S.A.A. and Subsidiaries did not have financial instruments with dilutive effects, therefore basic and diluted earning per share are the same.

(r) Consolidated Statement of Cash Flows

For the purposes of these consolidated financial statements, the balances of "Cash and due from banks" and "Interbank funds", of the assets, as of September 30, 2010 and 2009 were considered as cash and cash equivalents.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

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(s) Trust Funds

Assets from trust operations where there is an engagement to return these assets to the clients and the Bank and Scotia Sociedad Titulizadora S.A. act as trustee are not included in the consolidated financial statements since they do not belong to the Bank but are recorded in memoranda accounts for their corresponding control.

(t) Repurchase Agreements

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

(u) Foreign Currency Transactions and Balances

Foreign currency transactions are those transactions carried out in a currency that is different from the Nuevo sol. Foreign currency transactions are translated into nuevo sol using exchange rates reported at the dates of the transactions (note 4). Gains or losses on exchange differences resulting from the payment and receipt of such transactions and from the translation of monetary assets and liabilities stated in foreign currency at exchange rates reported at the closing of the period are recognized in the consolidated income statement.

(v) New International Accounting Pronouncements

Certain standards and interpretations have been issued and are effective beginning on or after 1 January 2008. In Perú, these standards are awaiting approval by the Consejo Normativo de Contabilidad (CNC):

- IFRS 9 “Financial Instruments”: Related to classification and measurement of financial assets, is mandatory from January 2013, earlier adoption is permitted. This NIIF does not replace IAS 39.
- IFRIC 15 “Agreements for the Construction of Real Estate”: is effective from January 2009.
- IFRIC 16 “Hedges of a Net Investment in a Foreign Operation”: is mandatory from October 2008.
- IFRIC 17 “Distribution to Non-Cash Assets to Owners”: is effective from July 2009.
- IFRIC 18 “Transfers of Assets from Customers”: is mandatory from July 2009.
- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”: is effective from July 2010.
- Amendments to certain accounting standards and interpretations issued earlier became effective from periods beginning on or after January 1, 2009.

The Scotiabank Perú S.A.A. and Subsidiaries’ management have not determined the potential impact of these standards in its consolidated financial statements, whose official approval in Peru is still pending by the CNC.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

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

(4) Balances in Foreign Currency

The consolidated balance sheets include balances of transactions in foreign currency, mainly in U.S. dollars (US\$), which are recorded in nuevos soles (S/.) at the exchange rate established by the SBS. As of September 30, 2010 and December 31, 2009, these rates were US\$1 = S/.2.787 and S/.2.890, respectively.

Foreign currency transactions in the country and international trade transactions referred to the concepts authorized by Banco Central de Reserva del Perú - BCRP (Central Bank), are channelled through an interbank foreign exchange market. As of September 30, 2010 and December 31, 2009, the buy and sell exchange rates used were US\$1= S/.2.787 and US\$1= S/.2.788, respectively (US\$1= S/.2.888 buy rate, and US\$1= S/.2.891 sell rate as of December 31, 2009).

Foreign currency balances stated in thousands of U.S. dollars as of September 30, 2010 and December 31, 2009, are summarized as follows:

	09.30.2010			12.31.2009		
	U.S. Dollars	Euros	Other currencies	U.S. Dollars	Euros	Other currencies
Assets:						
Cash and due from banks	1,717,238	11,495	183	1,122,899	15,622	212
Trading and available-for-sale investments	34,139	19,119	-	46,980	57,963	-
Loan portfolio, net	3,246,608	-	-	2,829,385	-	-
Account receivable	28,876	1,148	125	32,218	432	-
Other assets	83,745	8,455	10,532	33,819	32	1,658
	5,110,606	40,217	10,840	4,065,301	74,049	1,870
Liabilities:						
Deposits and obligations	3,510,931	72,171	89	3,564,868	70,585	107
Borrowings and financial obligations	1,215,447	-	-	492,772	-	-
Securities, bonds, and obligations issued	383,732	-	-	83,133	-	-
Other liabilities	259,173	1,639	10,548	177,410	4,310	1,901
	5,369,283	73,810	10,637	4,318,183	74,895	2,008
Net (liability) asset position on consolidated balance sheet	(258,677)	(33,593)	203	(252,882)	(846)	(138)
Transactions with derivative instruments	233,195	34,085	-	269,904	-	-

As of September 30, 2010, Scotiabank Perú S.A.A. and Subsidiaries recorded under financial income, the gains on exchange differences of various operations amounting to S/. 137,588 thousand, (gains of S/. 178,546 thousand as of September 30, 2009), see note 19.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2010, Scotiabank Perú S.A.A. and Subsidiaries had contingent operations in foreign currency amounting to US\$5,726,766 thousand, equivalent to S/.15,960,496 thousand (US\$2,599,545 thousand equivalent to S/. 7,512,685 thousand as of December 31, 2009).

(5) Cash and Due From Banks

As of September 30, 2010, cash and due from banks include US\$ 750,433 thousand and S/.433,172 thousand (US\$976,420 thousand and S/.391,443 thousand as of December 31, 2009) destined to cover the legal cash reserves that the Bank and CrediScotia Financiera S.A. must set aside to cover deposits from third parties according to limits established by current legislation. These funds are held both at Banco Central de Reserva del Perú (BCRP) and kept in the Bank and CrediScotia Financiera S.A. vault.

Deposits in local and foreign banks correspond, mainly, to balances in nuevos soles and in U.S. dollars, and small amounts in other currencies, with free withdrawal option and accrue interest at market rates. As of September 30, 2010, deposits in foreign banks, included deposits held at The Bank of Nova Scotia by US\$ 8,631 thousand (US\$8,899 thousand and Canadian dollars by \$12 thousand as of December 31, 2009).

As of September 30, 2010, revenue from interest on cash and due from banks amounted to S/.4,150 thousand (S/.7,948 as of September 30, 2009,) and is included as financial income item in the consolidated income statement (see note 19).

The funds of legal cash reserve held at BCRP do not accrue interest except for the enforceable amount in foreign currency that exceeds the minimum legal cash reserve. In September 2010, the daily average in excess for foreign currency amounted to US\$757,253 thousand (daily average US\$884,196 thousand in December 2009), and accrued interest in U.S. dollars at an annual rate of 0.1542% (annual rate of 0.1396% in December 31, 2009). According to the cash reserve provisions regulations issued by BCRP, legal cash reserve funds in local currency generate interest on the additional legal cash reserve exceeding the minimum legal reserve in nuevos soles. As of September 30, 2010, and December 31, 2009, there was no excess over legal reserve for the General Regime.

As of September 30, 2010, cash and due from banks included restricted funds of US\$4,324 thousand and S/.1,217 thousand (US\$2,720 thousand and S/.1,350 thousand as of December 31, 2009) and are mainly related to guarantee funds and restricted funds due to lawsuits against the Bank and CrediScotia Financiera S.A.

As of September 30, 2010, cash and due from banks did include “overnight” operations agreed with BCRP of US\$ 871,700 thousand, such operations accrued interest at an annual nominal rate of 0.1709%. As of December 31, 2009, included US\$28,200 thousand equivalent to S/.81,498 thousand, such operations accrued interest at an annual nominal rate of 0.1335%.

As of September 30, 2010, and December 31, 2009, Scotiabank Perú S.A.A. and Subsidiaries have no significant deposits with any commercial bank.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

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- (6) Investments at Fair Value with Changes in Results and Available-for-Sale
Is comprised of the following:

	In thousands of S/.	
	09.30.2010	12.31.2009
Investments at fair value with changes in results:		
Peruvian Treasury Bonds (b)	62,536	86,034
	-----	-----
	62,536	86,034
	-----	-----
Available-for-sale investments:		
BCRP certificates of deposit (a)	3,050,534	2,826,398
Peruvian Treasury Bonds (b)	527,028	597,392
Mutual funds units (c)	72,593	74,386
Unlisted shares	12,333	10,679
Listed shares	1,125	877
Corporate bonds	7	7
Trading certificates of deposits	-	7,156
Investments in securitizations:		
Equity 2 (d)	-	2,275
	-----	-----
	3,663,620	3,519,170
	-----	-----
Total investments at fair value with changes in results and available-for-sale	3,726,156	3,605,204
Plus:		
Accrued return on investments	5,836	31,850
	-----	-----
Total investments at fair value with changes in results and available-for-sale	3,731,992	3,637,054
	=====	=====

- (a) BCRP certificates of deposit are bearer securities freely negotiable in local currency; they are acquired through public bids of BCRP and marketed in the Peruvian secondary market. As of September 30, 2010, annual interest rate in local currency ranged from 2.1498% to 3.3913% (from 1.20% to 7.02% as of December 31, 2009) and had maturities between October and December 2010 (between January 2010 and July 2010, as of December 31, 2009).

Likewise, as of September 30, 2010, and December 31, 2009, the Scotiabank Perú and Subsidiaries have no certificates of deposit issued by BCRP with restricted availability.

- (b) The Peruvian Treasury Bonds correspond to sovereign bonds issued in local currency by the Peruvian Ministry of Economy and Finance and represent internal public debt instruments of the Republic of Perú. As of September 30, 2010, these bonds accrued interest at annual rates ranging from 4.37% to 6.45% (from 4.30% to 6.17% annually as of December 31, 2009), with maturities between May 2015 and August 2037 (between March 2010 and August 2026 as of December 31, 2009).

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(c) As of September 30, 2010, mutual fund units included S/.11,816 thousand and US\$ 21,801 thousand corresponding to investments in mutual funds mainly managed by a subsidiary (US\$25,743 thousand as of December 31, 2009).

(d) Equity 2:

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

As of September 30, 2010 and September 30, 2009, the accrued interest on investment at fair value with changes in results investments amounted to S/.57,200 thousand and S/.39,536 thousand, respectively, and are included in the Financial Income item in the consolidated income statement.

Management estimates the market value of investment at fair value with changes in results and available-for-sale investments based on quoted market prices at the Lima Stock Exchange or, when those are not available, by discounting the expected cash flows at an interest rate reflecting the risk of the security. In the opinion of the Scotiabank Perú S.A.A. and Subsidiaries' management the market value of securities and the provisions, recorded to have them at their estimated market value, are enough to cover any eventual losses as of September 30, 2010 and December 31, 2009.

Investment at fair value with changes in results and available-for-sale investments, as of September 30, 2010 and December 31, 2009, present the following maturities:

	In thousands of S/.	
	<u>09.30.2010</u>	<u>12.31.2009</u>
Up to 3 months	3,066,195	1,785,647
From 3 months to 1 year	60,058	1,160,488
Over 1 year	605,739	690,919
	-----	-----
	3,731,992	3,637,054
	=====	=====

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(7) Loan Portfolio, net

Is comprised of the following:

	In thousands of S/.			
	<u>09.30.2010</u>	<u>%</u>	<u>12.31.2009</u>	<u>%</u>
Directs loans:				
Current loans	16,972,224	96	14,941,438	96
Refinanced loans	219,793	1	230,263	1
Restructured loans	105,758	1	127,079	1
Past due loans	256,927	2	286,947	2
Lawsuits loans	65,337	-	43,777	-
	-----	----	-----	----
	17,620,039	100	15,629,504	100
	=====	=====	=====	=====
Plus (less):				
Accrued interest on current loans	127,979		144,791	
Non-accrued interest	(530,440)		(406,096)	
Provision for doubtful loans	(767,466)		(802,562)	
	-----		-----	
	16,450,112		14,565,637	
	=====		=====	
Indirect loans (note 18)	3,102,356		2,439,911	
	=====		=====	

As of September 30, 2010, and December 31, 2009, fifty-one percent of the direct and indirect loan portfolio of the Bank and CrediScotia Financiera S.A. were concentrated in 593 and 481 clients, respectively.

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

Annual interest rates are regulated by the market and may be fixed freely by Scotiabank Perú S.A.A. and Subsidiaries. As of September 30, 2010 and December 31, 2009, the annual average effective rates for the main products were the following:

	%			
	<u>09.30.2010</u>		<u>12.31.2009</u>	
	<u>Local</u>	<u>Foreign</u>	<u>Local</u>	<u>Foreign</u>
	<u>currency</u>	<u>currency</u>	<u>currency</u>	<u>currency</u>
Discounts and commercial loans	2.31– 41.20	2.12 – 29.10	4.71 – 46.40	4.23 – 28.50
Consumer loans	13.08 – 50.16	6.94 – 25.30	16.17 – 59.20	8.27 – 46.10

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2010, and December 31, 2009, according to current SBS regulations, the loan portfolio was rated by risk as follows:

Risk Rating	09.30.2010				12.31.2009			
	N° of debtors	In thousands of S/.			N° de debtors	In thousands of S/.		
		Direct	Indirect	Total		Direct	Indirect	Total
Standard	771,852	16,351,239	3,076,674	19,427,913	788,182	14,284,289	2,415,096	16,699,385
Potential problem	56,499	422,561	14,827	437,388	67,687	458,482	16,278	474,760
Substandard	32,141	241,062	2,969	244,031	38,118	226,789	1,288	228,077
Doubtful	52,775	288,764	983	289,747	66,659	372,445	1,715	374,160
Loss	23,972	316,413	6,903	323,316	32,019	287,499	5,534	293,033
	-----	-----	-----	-----	-----	-----	-----	-----
	937,239	17,620,039	3,102,356	20,722,395	992,665	15,629,504	2,439,911	18,069,415
	=====	=====	=====	=====	=====	=====	=====	=====

As of September 30, 2010, and December 31, 2009, direct loans were distributed among the following sectors:

	In thousands of S/.			
	09.30.2010	%	12.31.2009	%
Mortgage and consumer loans	4,963,316	28	4,810,623	29
Manufacturing	2,597,854	15	2,142,275	14
Real estate business and lease service	2,398,389	14	683,559	4
Trade	2,045,952	12	1,676,551	11
Mining	848,915	5	819,031	5
Electricity, gas, and water	773,100	4	751,590	5
Transportation	735,029	4	692,139	4
Financial intermediation	552,529	3	523,063	3
Education, services, and other	373,369	2	274,012	2
Fishing	325,087	2	244,716	2
Agriculture and livestock	215,411	1	193,402	1
Construction	210,401	1	204,725	1
Hotel and restaurants	128,935	1	115,426	1
Public administration and defence	8,439	-	22,114	-
Other (mainly non-profit, healthcare and automotive)	1,443,313	8	2,476,278	18
	-----	----	-----	----
	17,620,039	100	15,629,504	100
	=====	=====	=====	=====

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	In thousands of S/.		
	<u>Specific</u>	<u>Generic</u>	<u>Total</u>
Balance as of December 31, 2008	496,014	239,076	735,090
Additions charged to income statement	581,462	52,138	633,600
Recovery of provisions	(140,327)	(48,765)	(189,092)
Transfers and other	58,075	(21,715)	36,360
Write-offs and forgiveness	(429,819)	-	(429,819)
Exchange difference	(19,340)	(9,827)	(29,167)
Balance as of September 30, 2009	546,065	210,907	756,972
Balance as of December 31, 2009	512,752	289,810	802,562
Additions charged to income statement	443,956	58,973	502,929
Recovery of provisions	(144,597)	(35,263)	(179,860)
Transfers and other	29,291	(6,850)	22,441
Write-offs and forgiveness	(368,897)	-	(368,897)
Exchange difference	(7,740)	(3,969)	(11,709)
Balance as of September 30, 2010	464,765	302,701	767,466

As of September 30, 2010, the provision for doubtful loans includes provision for refinanced loans and exchange credit risk by S/.963 thousand (S/.1,493 thousand as of December 31, 2009).

Scotiabank Perú S.A.A. and Subsidiaries record the provision for doubtful loans according to the policy described in note 3e. In the opinion of Scotiabank Perú S.A.A. and Subsidiaries' management, as of September 30, 2010, and December 31, 2009 the provision for doubtful loans is sufficient to cover losses in the loan portfolio as of the balance sheet date.

As of September 30, 2010 and December 31, 2009, direct loan portfolio had the following maturities:

	In thousands of S/.					
	09.30.2010			12.31.2009		
	<u>Local currency</u>	<u>Foreign currency</u>	<u>Total</u>	<u>Local currency</u>	<u>Foreign currency</u>	<u>Total</u>
Up to 1 month	1,579,999	1,353,535	2,933,534	1,162,631	1,203,347	2,365,978
More than 1 to 3 months	978,734	2,154,818	3,133,552	772,047	1,891,453	2,663,500
More than 3 to 6 months	1,088,219	946,996	2,035,215	945,483	850,968	1,796,451
More than 6 to 12 months	1,574,938	808,946	2,383,884	1,354,706	776,337	2,131,043
Over 12 months	3,023,775	3,915,794	6,939,569	2,893,375	3,593,224	6,486,599
Overdue and lawsuit	169,442	152,822	322,264	186,396	144,328	330,724
Less, accrued interest on current loans	(88,498)	(39,481)	(127,979)	(111,694)	(33,097)	(144,791)
	8,326,609	9,293,430	17,620,039	7,202,944	8,426,560	15,629,504

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (8) Accounts Receivable, net
Is comprised of the following:

	In thousands of S/.	
	09.30.2010	12.31.2009
Tax claims (a)	133,208	133,208
Accounts receivable for differential of derivative financial instruments - forwards (b)	52,588	43,885
Accounts receivable from collections and warehousing services	49,610	57,114
Commissions receivable	15,407	14,853
Accounts receivable from guarantee trusts, net (c)	9,419	15,103
Accounts receivable from principals	4,496	5,859
Payments on behalf of the thirds parties, net	4,221	5,286
Advances to personnel	3,192	1,763
Rescinded finance lease agreements, net	-	7,588
Other accounts receivable, net (d)	109,381	206,724
	-----	-----
	381,522	491,383
	=====	=====

(a) Tax claims

The Scotiabank Perú S.A.A. and Subsidiaries tax proceedings as of September 30, 2010 and December 31, 2009, correspond to the compensation of the credit balance against ITAN (Temporary Tax on net Assets) for years 2006 and 2005, see note 24c.

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

(b) Accounts receivable and payable for differential of derivative financial instruments - forwards

As of September 30, 2010, Scotiabank Perú S.A.A. and Subsidiaries hold sale and purchase "forward" transactions for a face value of US\$1,315,936 thousand and US\$1,583,216 thousand; respectively with maturities until April 2013 (as of December, 31, 2009, held forward transactions for US\$636,348 thousand and US\$906,252 thousand, respectively, with maturities until April 2013). Forward transactions in September 30, 2010, generated a net loss of S/.24,176 thousand (a net gain of S/. 20,580 thousand in September 30, 2009), see notes 19 and 20.

(c) Account receivable from guarantee trust

SBS Resolution 1796-2003, dated December 23, 2003, authorized the Bank, as Trustor, to sign on December 29, 2003, a Guarantee Trust Agreement. By means of this agreement, the Bank transferred a loan portfolio, provisions and guarantees corresponding to this portfolio. This trust guarantee was to support a financing operation with Banco de Credito del Perú for US\$10,000 thousand. This was initially a 4-year term agreement that could be extended upon agreement of both parties. Finally, the validity term of the trust agreement was established until December 29, 2010.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

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According to such agreement, the Bank may replace or dispose of assets provided that the net value of transferred loans maintains an amount equal or lower than the financing balance granted by the Beneficiary for the substitution of assets, and higher than ten and lower than fifteen times, for the disposal of assets. These obligations and others included in the trust agreement may affect the financing amount committed by the Beneficiary; however, as of September 30, 2010, the Bank had not yet requested any disbursement under the facility. Likewise, as of September 30, 2010, the Bank had transferred loans from the guarantee trust for a net value of S/.43,311 thousand (S/.48,841 thousand as of December 31, 2009).

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

As of September 30, 2010 and December 31, 2009, the net balance of accounts receivable from trust amounted to S/.9,419 thousand and S/.15,103 thousand, respectively, and included accumulated provisions for S/.153,166 thousand and S/.212,067 thousand, respectively.

(d) Other accounts receivable, net

As of September 30, 2010 the balance of S/.109,381 thousand in other accounts receivable, net of corresponding provision for doubtful accounts, is composed of various accounts receivable. As of December 31, 2009, the balance of other accounts receivable, net of corresponding provision for doubtful accounts, is composed of: i) S/.157,608 thousand of accounts receivable from the sale of investments; ii) S/.8,612 thousand of accounts receivable from the sale of goods; and iii) S/.35,003 thousand of various accounts receivable.

(9) Goodwill

On July 15, 2008, the Bank acquired 100% of the capital stock of Banco del Trabajo S.A., currently CrediScotia Financiera S.A., and Recaudadora S.A., merged with Servicios, Cobranzas e Inversiones S.A.C. (both entities belonging to one shareholder). This transaction was recorded using the purchase accounting method.

The acquisition price of Banco del Trabajo S.A. and Recaudadora S.A. amounted to S/.297,780 thousand. For the acquisition of Banco del Trabajo S.A., the agreement has a price adjustment provision (earn out) depending whether said entity obtains, after the closing, the following results in a three-year period: US\$25,000 thousand the first year, US\$30,000 thousand the second year, and US\$35,000 thousand the third year. The contingent amount payable recorded by the Bank as an adjustment to the acquisition cost is S/.83,290 thousand, which was made in conformity with the agreement. The estimated market value of the carrying amounts of identifiable assets and liabilities of both entities at the acquisition date, the adjusted acquisition price and the goodwill are presented below:

	<u>In thousands of S/.</u>
Net assets acquired at fair value, net of fair value adjustments of S/. 10,943 thousand	103,596
Adjusted acquisition costs	382,414

Goodwill	278,818
	=====

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

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The generated goodwill is attributed to the high profitability of the business acquired and the significant synergies that are expected to be obtained after the acquisition of Banco del Trabajo S.A. and Recaudadora S.A.

(10) Property, Furniture, and Equipment, net
Is comprised of the following:

	In thousands of S/.				Balances as of 09.30.2010
	Balances as of 12.31.2009	Additions	Disposals	Reclassification / adjustments	
Cost:					
Land	215,359	-	(3,196)	(42,125)	170,038
Property and premises	713,436	1,386	(5,855)	(25,837)	683,130
Furniture, fixture, and computing equipment	292,348	14,346	(9,151)	1,687	299,230
Vehicles	5,193	665	-	-	5,858
Units in transit and replacing units	2,076	16,370	-	(2,218)	16,228
Work-in-progress	1,018	11,629	-	(1,168)	11,479
	-----	-----	-----	-----	-----
	1,229,430	44,396	(18,202)	(69,661)	1,185,963
	-----	=====	=====	=====	-----
Accumulated depreciation:					
Property and premises	388,109	24,015	(1,227)	(13,801)	397,096
Furniture, fixture, and computing equipment	213,616	20,124	(8,753)	40,792	265,779
Vehicles	3,703	536	-	-	4,239
	-----	-----	-----	-----	-----
	605,428	44,675	(9,980)	26,991	667,114
	-----	=====	=====	=====	-----
Provision for impairment of property	103,471	-	(2,766)	(100,705)	-
	-----	=====	=====	=====	-----
	520,531				518,849
	=====				=====

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

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(11) Other Assets, net

Is comprised of the following:

	In thousands of S/.	
	09.30.2010	12.31.2009
Tax credits and other (a)	361,639	337,903
Transactions in process (c)	239,792	38,930
Prepaid expenses and payments on account of income tax (b)	175,283	194,780
Deferred income tax and deferred employees' profit sharing (note 25)	91,092	78,922
Reposessed and liquid assets, net of accumulated depreciation and provision for impairment for S/.132,919 thousand (S/.136,583 thousand in 2009)	26,681	38,836
Inventories	12,252	12,537
Intangible assets, net of amortizations of S/.183,254 thousand (S/.260,188 thousand in 2009)	10,553	13,294
Other	9,421	9,421
	-----	-----
	926,713	724,623
	=====	=====

- (a) As of September 30, 2010 and December 31, 2009, tax credit mainly includes: (i) the value added tax (VAT) for S/.308,461 thousand and S/.331,627 thousand respectively, for the acquisition of assets that have been transferred under a finance lease, which has not been applied against operations subject to taxation; and (ii) for December 31, 2009 the ITAN that has not been applied to income tax for S/.5,564 thousand.
- (b) As of September 30, 2010 prepaid expenses included mainly payments on account of income tax for S/.91,537 thousand (S/.105,044 thousand as of December 31, 2009). The Scotiabank Perú S.A.A. and Subsidiaries' management and its legal advisors estimate that these amounts will be applied in future fiscal periods.
- (c) Transactions in process are those carried out during the last days of the month and are reclassified in the following month under their respective accounts in the balance sheet; these transactions do not affect the results of Scotiabank Perú S.A.A. and Subsidiaries. As of September 30, 2010, the amount of S/.224,019 thousand corresponded to Treasury and S/.2,569 thousand for unsettled Unibanca transactions (S/.27,243 thousand and S/.987 thousand as of December 31, 2009; respectively).

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

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(12) Deposits and Obligations

As of September 30, 2010 and December 31, 2009, deposits and other obligations came from:

	In thousands of S/.			
	09.30.2010	%	12.31.2009	%
Individuals	6,148,998	35	6,614,148	37
Corporate clients	8,664,546	49	8,115,513	45
Non-profit organizations	2,023,192	11	2,321,195	13
Other	980,844	5	1,024,264	5
	-----	----	-----	----
	17,817,580	100	18,075,120	100
	=====	====	=====	====

The Bank's deposits and other obligations in U.S. dollars represent 56% and 58% of the total deposits as of September 30, 2010 and December 31, 2009, respectively. The amount owed for deposits included accounts which have been pledged in favour of Scotiabank Perú S.A.A. and Subsidiaries for loan operations for S/.269,731 thousand and US\$195,574 thousand as of September 30, 2010 and for S/.222,972 thousand and US\$182,678 thousand as of December 31, 2009.

Likewise, as of September 30, 2010 and December 31, 2009, from the total of deposits and obligations of individuals and non-profit legal entities, the amounts of S/.4,826,114 thousand and S/.4,831,011 thousand respectively, are covered by the Peruvian deposit insurance fund, according to current legal regulations.

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

- (a) Registered deposits, under any modality, of individuals and private non-profit legal entities;
- (b) Accrued interest on the above-mentioned deposits, as from their respective opening dates or their last renewal; and
- (c) Demand deposits corresponding to legal entities.

The maximum amount covered for each individual as of September 30, 2010, amounted to S/.85 thousand (S/.82 thousand as of December 31, 2009).

Scotiabank Perú S.A.A. and Subsidiaries freely establish deposits interest rates based on supply and demand, and according to the type of deposits. Current rates in effect as of September 30, 2010 and December 31, 2009 fluctuated as shown below for the following main products (annual effective rate):

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

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	% 09.30.2010		12.31.2009	
	Local currency	Foreign currency	Local currency	Foreign currency
Savings deposits	0.97 – 2.75	0.45 – 1.71	0.97 – 2.70	0.45 – 1.80
Time deposits	0.96 – 5.68	0.50 – 3.03	1.08 – 7.70	0.40 – 3.60
Bank certificates	-	0.46 - 1.38	-	0.40 – 1.70
Severance indemnities deposits	1.47 – 6.00	1.35 – 4.00	1.46 – 6.00	1.40 – 4.00

As of September 30, 2010 and December 31, 2009 the scheduled maturity dates of the time deposits were as follows:

	In thousands of S/.					
	09.30.2010			12.31.2009		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Up to 1 month	1,557,179	2,093,922	3,651,101	1,299,816	2,075,981	3,375,797
More than 1 to 3 months	732,376	1,046,956	1,779,332	541,941	825,426	1,367,367
More than 3 to 6 months	526,144	559,419	1,085,563	954,768	890,085	1,844,853
More than 6 to 12 months	378,180	1,040,794	1,418,974	465,743	1,256,610	1,722,353
Over 12 months	87,767	386,256	474,023	110,398	559,357	669,755
	3,281,646	5,127,347	8,408,993	3,372,666	5,607,459	8,980,125

Demand and savings deposits and other obligations have no contractual maturities.

(13) Borrowings and Financial Obligations

Is comprised of the following:

	In thousands of S/.	
	09.30.2010	12.31.2009
COFIDE credits lines (a):		
Mivivienda	192,282	184,863
Working capital and other	280,000	200,000
Ordinary loans from abroad (b):		
Related banks	592,733	39,890
Other banks	2,996,908	1,212,049
	4,061,923	1,636,802
Interest payable	13,664	20,127
	4,075,587	1,656,929

- (a) COFIDE - Corporación Financiera de Desarrollo S.A. (Finance Development Corporation) credit lines correspond to resources obtained for the granting of loans, mainly for the Fondo Mivivienda mortgage financing programs, which accrue at a fixed rate adjusted for the VAC index.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

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- (b) Ordinary loans correspond to debts with foreign banks, in which loans are held as of September 30, 2010, mainly with two related foreign financial entities: Scotiabank Ltd Bahamas for US\$203,165 thousand and The Bank of Nova Scotia for US\$9,513 thousand (as of December 31, 2009 for US\$3,165 thousand and US\$10,638 thousand, respectively).

As of September 30, 2010, the borrowings of Scotiabank Perú S.A.A. and Subsidiaries agreed with various foreign financial institutions accrued interest at average rates that range from 0.41% and 7.50% p.a. (1.53% and 7.50% p.a. as of December 31, 2009).

During 2010, the Scotiabank Perú S.A.A. negotiated borrowings with two foreign financial institutions for US\$125,000 thousand maturing in September 2017 structured through SBP DPR Finance Company, a special purpose entity established in Grand Cayman and consolidated by Scotiabank Perú S.A.A. and Subsidiaries. From this amount, US\$62,500 thousand accrue interest at a fixed rate of 3.88% while US\$62,500 thousand accrue interest at a variable rate of 3 – month LIBOR plus a spread of 2.10%. These borrowing are guaranteed by remittances received by the Bank through SWIFT messages and are transferred to SBP DPR Finance Company. These transactions contain standard clauses of compliance with financial ratios and other administrative matters. In the opinion of management those clauses do not affect Bank operations and are being met.

In June 2008, the Bank closed an agreement of a medium-term syndicated loan with resources from abroad, with the participation of 14 foreign banks. The loan amounted to US\$280,000 thousand at a LIBOR rate plus 1.25% annually, with a total term of 3 years payable as from the second year, in 3 equal semi-annual instalments finishing in June 2011. Through this agreement, the Bank committed to maintain, during the whole effectiveness period of the loan, the following financial ratios:

- i. Maintain a leverage ratio (risk weighted capital adequacy ratio) over 9.09%.
- ii. Maintain a non-performing due loan ratio lower than 4%.
- iii. Maintain a loan loss provision ratio over 90% from the total overdue portfolio.

As of September 30, 2010 and December 31, 2009, the scheduled maturity dates of the borrowings from banks and other financial institutions were as follows:

	In thousands of S/.	
	<u>09.30.2010</u>	<u>12.31.2009</u>
Up to 1 month	1,864,810	123,405
More than 1 to 3 months	902,362	3,589
More than 3 to 6 months	215,292	341,132
More than 6 to 12 months	489,165	505,693
More than 12 months to 5 years	603,958	683,110
	-----	-----
	4,075,587	1,656,929
	=====	=====

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

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(14) Securities, Bonds and Obligations Issued

Is comprised of the following:

Issuance	Annual interest	Maturity	Outstanding balances in thousands of S/.	
			09.30.2010	12.31.2009
Negotiable notes (a)				
Series A	5.25%	2017	139,350	-
Series B	LIBOR 3m + 2.75%	2017	348,375	-
			-----	-----
			487,725	-
			-----	-----
Redeemable subordinated bonds (b)				
1st issuance	9.75% - 9.10%	2012 y 2013	194,523	201,460
Leasing bonds (c)				
1st issuance A	5.75%	2010	27,870	28,900
Redeemable subordinated bonds				
2nd issuance E	8.25%	2011	8,361	8,670
Corporate bonds (d)				
1st issuance A	5.688%	2012	30,000	30,000
1st issuance B	5.781%	2012	26,660	26,660
1st issuance A	6.344%	2013	100,000	100,000
3rd issuance A	6.813%	2013	150,000	150,000
5th issuance A	6.437%	2014	40,900	40,900
5th issuance B	6.594%	2014	25,150	25,150
5th issuance C	6.313%	2014	49,290	49,290
6th issuance A	4.656%	2012	30,140	30,140
7th issuance A	7.187%	2017	60,000	-
8th issuance A	7.313%	2017	100,000	-
			-----	-----
			612,140	452,140
			-----	-----
			1,330,619	691,170
Interest payable (e)			11,391	5,432
			-----	-----
			1,342,010	696,602
			=====	=====

- (a) In January 2010, SBP DPR Finance Company (special purpose entity established in Grand Cayman and consolidated by Scotiabank Perú S.A.A. and Subsidiaries) made a securitization agreement of Diversified Payment Right (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.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

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SBP DPR Finance Company issued two series of long-term notes, Series “A” for US\$50,000 thousand and Series B for US\$125,000 thousand, both series with maturities in 2017. The Series “A” accrue interest at a fixed rate of 5.25% and Series “B” accrue interest at the three-month LIBOR rate plus 2.75%. The notes are guaranteed by remittances received by the Bank through SWIFT messages and are transferred to SBP DPR Finance Company. The issue of these notes has standard clauses on the compliance of financial ratios and other administrative matters, which, in Management’s opinion, do not affect the Bank’s operation and are being met.

- (b) During 2000, the Bank issued, through public auction, subordinated bonds for US\$70,000 thousand denominated Banco Wiese Sudameris Subordinated Bonds – First Issuance with SBS authorization – Resolution 366-2000. The issuance of these bonds concluded in 2001 and was executed in seven series (identified with letters A, B, C, D, E, F, and G) of 1,000 bonds per series at a par value of US\$10 thousand maturing in 2012 and 2013. The proceeds obtained were used to finance loan operations.
- (c) Former Banco Sudamericano authorized a global program on issuance of obligations up to an annual maximum outstanding amount of US\$100,000 thousand to be issued in local and foreign currency under the different modalities of debt, to be executed as from 2004. Thus, in 2005 the issuance of leasing bonds denominated Banco Sudamericano Leasing Bonds – Eleventh Issuance (11th Issuance) was approved up to an amount of US\$30,000 thousand, which were totally placed.
- (d) During the years 2007 to 2010, the Bank issued Corporate Bonds for S/.612,140 thousand within a term of 3 and 7 years. The proceeds were exclusively destined to the financing of loan operations.
- (e) As of September 30, 2010, interest payable on securities and obligations mainly included unpaid interest corresponding to securities issued by the Bank for S/.11,391 thousand (as of December 31, 2009, it includes, among others, cumulative dividends unpaid as of that date for preferred shares amounting to S/.5,432 thousand).

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

The redeemable subordinated bonds 2nd issuances come from the simple reorganization process between the Bank with Wiese Sudameris Leasing S.A. and Banco Sudamericano S.A.

As of September 30, 2010 and December 31, 2009, the maturity of securities issued, at par value, was as follows:

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	In thousands of S/.	
	09.30.2010	12.31.2009
Up to 1 month	38,035	4,220
More than 1 to 3 months	-	113
More than 3 to 6 months	-	111
More than 6 to 12 months	9,587	29,888
More than 12 months	1,294,388	662,270
	-----	-----
	1,342,010	696,602
	=====	=====

(15) Provisions and Other Liabilities

Is comprised of the following:

	In thousands of S/.	
	09.30.2010	12.31.2009
Transactions in process (a)	261,514	76,178
Various accounts payable (b)	217,007	164,820
Income tax provision (note 24)	179,584	140,872
Provisions for litigations and legal claims (c)	101,075	107,283
Vacations, profit sharing and remunerations payable	48,847	68,794
Accounts payable for differential of derivative financial instruments – “forwards” (note 8b)	48,387	47,591
Generic provision with charge to equity (d)	42,327	36,674
Accounts payable to customers	40,288	39,670
Dividends from securities held in custody payable to customers	17,832	16,538
Deferred income for portfolio sale and other	13,001	22,602
Deferred income tax and employees’ profit sharing (note 25)	8,512	7,804
Other provisions (e)	220,778	152,604
	-----	-----
	1,199,152	881,430
	=====	=====

- (a) Transactions in process are mainly those carried out during the last days of the month and are reclassified in the following month to their definitive respective accounts in the consolidated balance sheet. These operations do not affect the results of Scotiabank Perú S.A.A. and Subsidiaries. As of September 30, 2010, liability transactions in process included S/.223,957 thousand related to Treasury operations (S/.32,342 thousand as of December 31, 2009).
- (b) As of September 30, 2010 various accounts payable mainly includes S/.108,311 thousand of accounts payable to Scotiabank Perú S.A.A. and Subsidiaries suppliers (S/.73,916 thousand as of December 31, 2009).
- (c) As of September 30, 2010 and December 31, 2009, Scotiabank Perú S.A.A. and Subsidiaries have various legal actions, which are related to civil and labor claims, among others. These legal actions are related to activities that are performed in the normal course of the Scotiabank Perú S.A.A. and Subsidiaries’ operations and are not anticipated to have any significant impact on operations or their results.

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- (d) Generic provision account mainly corresponds to reversals or recoveries of provisions recorded since 2002 charged to equity accounts, which, according to SBS Official Letter 23797-2003, shall be reallocated to deficit of provisions in other asset accounts of the Bank. Likewise, as of September 30, 2010, generic provision included S/.15,114 thousand and US\$427 thousand (S/.10,686 thousand and US\$584 thousand as of December 31, 2009) established by the Bank's management and charged to the income statement of the period.
- (e) As of September 30, 2010 other provisions included: i) provision for profit sharing, bonuses and other staff costs for S/. 62,950 thousand (S/. 4,291 thousand as of December 31, 2009) and ii) provisions for indirect loans for S/. 20,498 thousand (S/. 899 thousand as of December 31, 2009). During 2009, based on the acquisition agreement of CrediScotia Financiera S.A., the Bank recorded the adjustment to the acquisition price of the aforementioned shares for S/. 83,290 thousand, see note 9.

(16) Shareholders' Equity

(a) General

As of September 30, 2010, the regulatory net worth of the financial conglomerate, determined pursuant to the SBS legal regulations as well as the requirements set out in SBS Resolution 446-2000, amounted to S/.2,660,009 thousand (S/.2,404,602 thousand as of December 31, 2009).

According to article 5 of SBS Resolution 446-2000, the regulatory net worth of the financial conglomerate shall not be lower than the sum of the individual equity requirements of each of the companies composing the consolidable groups of the conglomerate's financial system.

Likewise, as of September 30, 2010, the regulatory net worth of Scotiabank Perú S.A.A. and CrediScotia Financiera S.A., according to regulations amounted to approximately S/.2,060,091 thousand and S/.288,829 thousand, respectively (as of December 31, 2009 S/.1,883,445 thousand and S/.284,814 thousand; respectively). These figures are used to calculate certain legal limits and restrictions according to the Peruvian banking law applicable to the Bank's operations in Peru.

As of September 30, 2010, risk weighted assets and contingent credits determined by Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. according to legislation applicable to financial institutions amounted to approximately S/.15,896,286 thousand and S/.2,049,978 thousand, respectively (S/.14,780,472 thousand and S/.1,736,514 thousand, respectively as of December 31, 2009).

The global limit specified in the Banking Law, establish that the regulatory net worth should be equal to or greater than 9.8% of total risk weighted assets and contingent credits corresponding to the sum of amount of regulatory net worth requirements for market and operational risks multiplied by 10.5 and contingent assets and risk weighted credit. As of September 30, 2010, the global limit of Scotiabank Peru S.A.A. and CrediScotia Financiera S.A. determined by current legal rules amounts to 12.22% and 13.67%; respectively (11.91% and 15.83%, respectively as of December 31, 2009).

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(b) Capital Stock

As of September 30, 2010 and December 31, 2009, the Bank's capital stock comprised 154,108,966 and 139,949,195 common shares. All shares have voting rights and a par value of S/.10.00 each. As of September 30, 2010, the quoted value of common shares of the Bank was S/.60.00 per share (as of December 31, 2009, was S/.146.40 for common shares). As of September 30, 2010 and December 31, 2009, monetary inflation adjustment corresponding to 2001 through 2004 and amounting to S/.28,019 thousand was pending of capitalization.

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

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

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

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

At the Board of Directors' meeting held on January 28, 2009 and pursuant to the delegation conferred by the General Shareholders' meeting dated February 27, 2006, the capital increase related to the capitalization of subordinated loans was approved to allow minority shareholders to maintain their proportion in the capital stock according to articles 213 and 214 of the Company Act, having agreed to increase the capital stock up to the amount of S/.3,491 thousand through the issuance of 73,428 nominal common shares with voting rights of a face value of S/.10.00 to be covered through cash contributions through the preferred subscription procedures established in such meeting.

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The shareholding in the Bank's capital stock as of September 30, 2010 and December 31, 2009, is as follows:

<u>Percentage of shareholding</u>	<u>09.30.2010</u>		<u>12.31.2009</u>	
	<u>Number of shareholders</u>	<u>Total percentage of shareholding</u>	<u>Number of shareholders</u>	<u>Total percentage of shareholding</u>
0.01 to 1	2,724	2.29	2,751	2.32
1.01 to 50	2	42.39	2	42.38
50.01 to 100	1	55.32	1	55.30
	-----	-----	-----	-----
	2,727	100.00	2,754	100.00
	=====	=====	=====	=====

As of September 30, 2010, Banking Law requires that the capital stock of the Bank reaches the minimum amount of S/.23,037 thousand (S/.22,383 thousand as of December 31, 2009), at constant value. This amount shall be updated annually at the closing of each period, based on the wholesale price index (WPI), as published by the Instituto Nacional de Estadística e Informática (National Institute of Statistics).

(c) Legal Reserve

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

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

(d) Retained Earnings

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

- (i) Distribution of dividends of common shares was agreed for S/.191,116 thousand corresponding to a dividend of S/.1.36560953 per share.
- (ii) Allocate 10% of net income, amounting of S/.63,705 thousand to increase the legal reserve.
- (iii) Non-distributed balance, amounting to S/.382,232 thousand will be held in the equity account of Retained earnings.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

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

- (i) Payment of dividends in cash in favour of the holders of common shares, for an amount of S/.179,594 thousand, corresponding to dividend of US\$56.098 per share.
- (ii) Make a profit capitalization for S/.330,000 thousand previously authorized by SBS.
- (iii) Non-distributed balance, amounting to S/.89,054 thousand will be held in the equity account of Retained earnings.

(17) Contingencies and Commitments

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

In December 1999, the Bank received the 012-02-0000409 resolution from the Tax Authority, through which the authority made an observation on the use of a tax credit against value added tax, for S/.381,000 thousand, including accrued interest as of September 30, 2010, mainly in the case of former bank Banco Wiese Limitado. The authority considered that the tax credit obtained from the purchase and sale of gold between 1997 and 1998 was not correct. Tax Court has annulled the allegations of the Tax Authority at first instance, and has ordered the issuance of a new pronouncement. The Bank's management and its legal advisors estimate that no new material liabilities will arise as a result of that tax audit.

(b) Contingencies

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

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

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

(c) Commitments

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

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(18) Contingent and Memoranda Accounts

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

As of September 30, 2010 and December 31, 2009, the contingent and memoranda accounts comprised the following:

	In thousands of S/.	
	09.30.2010	12.31.2009
Indirect loans:		
Guarantees and standby letters of credit	2,587,460	1,923,625
Issued letters of credit	464,155	426,118
Due from bank acceptances	50,741	90,168
	-----	-----
	3,102,356	2,439,911
Unused credit lines	14,795,703	6,536,722
Financial derivative contracts	7,896,212	4,533,893
Other	543	110,404
	-----	-----
	25,794,814	13,620,930
Memoranda accounts:		
Securities held in custody	5,638,383	4,822,299
Suspended interest on loans	1,064,171	631,231
Goods transferred in trust	3,920,312	4,733,417
Guarantees received	36,709,172	36,291,370
Qualification of assets and contingent	-	39,668,638
Securities in collection	10,151,035	9,165,928
Own securities in custody	1,622,813	1,680,801
Written off loans	3,482,232	3,691,713
Advised letters of credit	274,627	272,529
Securities granted as warranties	507,438	427,581
Trust and debt trust commissions	2,548,734	4,211,402
Control accounts	73,964,225	53,658,309
Other memoranda accounts	22,813,802	20,472,879
	-----	-----
	162,696,944	179,728,097
	-----	-----
	188,491,758	193,349,027
	=====	=====

Due to the fact that many of the indirect loans are expected to expire without any disbursement being required from the Scotiabank Perú S.A.A. and Subsidiaries, the total committed amounts do not necessarily represent future cash requirements. Likewise, guarantees received are stated 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.

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Documentary credits, such as export and import letters of credit and guarantees and stand-by letters of credit are conditional commitments issued by the Bank and CrediScotia Financiera S.A. to guarantee the performance by a customer of an obligation to a third party.

As of September 30, 2010, loan balances covered by guarantees amount to S/8,020,447 thousand (S/6,597,529 thousand as of December 31, 2009).

In July 2010, according to SBS regulations, the asset and contingent asset balances and categories, used to calculate the credit risk capital requirement, were no longer reported in the memoranda accounts. Also, December 31, 2009 balances of unused credit lines do not include S/9,278,936 thousand of corporate credit lines, which have been recorded since July 2010.

(19) Financial Income

Is comprised of the following:

	In thousands of S/.	
	09.30.2010	09.30.2009
Interest and commissions on loan portfolio	1,461,109	1,521,542
Exchange difference from operations	137,588	178,546
Income from investment valuation	62,234	45,581
Interest on cash and due from banks	4,150	7,948
Gains on derivative instruments, net	-	20,580
Other financial income	34,959	73,318
	-----	-----
	1,700,040	1,847,515
	=====	=====

(20) Financial Expenses

Is comprised of the following:

	In thousands of S/.	
	09.30.2010	09.30.2009
Interest on obligations	140,606	294,926
Interest on securities, bonds and obligations issued	49,339	35,970
Interest on borrowings from banks and financial institutions	45,268	78,347
Loss on derivative instruments, net	24,176	-
Deposit insurance fund premiums	16,325	18,620
Loss on valuation of investments	-	34,647
Interest on deposits from financial entities	4,269	5,252
Other financial expenses	52,647	15,837
	-----	-----
	332,630	483,599
	=====	=====

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(21) Income from financial services, net

Is comprised of the following:

	<u>In thousand of S/.</u>	
	<u>09.30.2010</u>	<u>09.30.2009</u>
Income:		
Income from services and maintenance of credit / debit cards	111,059	119,884
Income from deposit transactions, services and transfer fees	108,812	104,694
Income from payment and collections services	46,895	38,618
Income from teleprocessing services	27,190	20,016
Income from warehousing	27,809	35,799
Income from remunerations of mutual fund and administration fees	21,420	12,317
Income from purchased portfolio recoveries	7,488	46,527
Income from structuring and administration services	6,493	9,293
Income from brokerage service	6,916	6,909
Income from leased property	1,639	5,549
Other fees and commissions from banking services	67,921	59,203
Other various income	15,818	18,490
	-----	-----
	449,460	477,299
	-----	-----
Expenses:		
Credit / debit cards expenses	(32,296)	(29,178)
Insurance services expenses	(7,001)	(5,365)
Other expenses	(46,220)	(47,961)
Warehousing expenses	(16,946)	(20,624)
	-----	-----
	(102,463)	(103,128)
	-----	-----
Total income from financial services, net	346,997	374,171
	=====	=====

(22) Administrative Expenses

Is comprised of the following:

	<u>In thousands of S/.</u>	
	<u>09.30.2010</u>	<u>09.30.2009</u>
Personnel and board of directors expenses	414,244	412,600
Expenses for services received from third parties	268,805	289,974
Taxes and contributions	43,443	38,659
	-----	-----
	726,492	741,233
	=====	=====

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(23) Other Income, net

Is comprised of the following:

	In thousands of S/.	
	09.30.2010	09.30.2009
Income from recovery of accounts receivable and other	93,817	91,684
Income from previous periods	78,992	60,757
Income from repossessed assets	17,388	16,051
Gain (loss) on sale of out of use goods	194	(13,894)
Other extraordinary income (expenses), net	305	(315)
	-----	-----
	190,696	154,283
	=====	=====

(24) Tax Matters

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

<u>Company</u>	<u>Tax returns subject to audit</u>
Scotiabank Perú S.A.A.	Tax returns for 2007 through 2009
Depósitos S.A.	Tax returns for 2005 through 2009
Scotia Sociedad Agente de Bolsa S.A.	Tax returns for 2005 through 2009
Scotia Fondos Sociedad Administradora de Fondos S.A.	Tax returns for 2005 through 2009
Scotia Sociedad Titulizadora S.A.	Tax returns for 2005 through 2009
Servicios, Cobranza e Inversiones S.A.C.	Tax returns for 2005 through 2009
CrediScotia Financiera S.A.	Tax returns for 2005 through 2009

Any major expenses exceeding the provisions made to cover tax obligations will be charged to the results of the periods in which those expenses are finally settled. In the opinion of Scotiabank Perú S.A.A. and Subsidiaries' management, as a result of this review no significant liabilities will arise affecting the consolidated financial statements as of September 30, 2010.

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

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

The Bank and each subsidiary have determined the following Income Tax amounts for the nine-month period ended September 30, 2010:

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<u>Income tax by entity</u>	<u>In thousands of S/.</u>	
	<u>09.30.2010</u>	<u>09.30.2009</u>
Scotiabank Perú S.A.A.	172,887	135,397
Depósitos S.A.	1,761	2,728
Scotia Sociedad Agente de Bolsa S.A.	1,526	1,523
Scotia Fondos Sociedad Administradora de Fondos S.A.	2,661	1,187
Scotia Sociedad Titulizadora S.A.	176	223
Servicios, Cobranza e Inversiones S.A.	8,018	11,405
CrediScotia Financiera S.A.	25,137	646

- (b) As from 2001, for income and value added tax purposes, transfer pricing for transactions carried out with economically-related parties, and with companies domiciled in territories with low or null taxation, shall be supported with documentation and information about the valuation methods used, and the criteria considered, for the pricing. The Scotiabank Perú S.A.A. and Subsidiaries' management consider that for income and value added tax purposes, pricing regarding transactions such as those aforementioned has been made in accordance with tax legislation; consequently, no significant liabilities will arise as of September 30, 2010.
- (c) As from 2005, a temporary tax on net assets has been established. Its taxable base is composed of the net asset value adjusted as of the ended period before the payment was made, deducting the depreciation, amortization, legal cash reserve, and specific provisions for credit risk. The tax rate applicable to the amount of assets that exceeds S/.1,000 thousand is 0.4%. It may be paid in cash or in nine consecutive monthly instalments. The amount actually paid may be used as a credit against advance payments of the income tax for taxable periods March to December of the fiscal period for which the tax was paid until maturity of each of the advance payments and against the payment for regularization of income tax of the corresponding taxable period.

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

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

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

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

(25) Deferred Income Tax and Employees' Profit Sharing

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

Temporary differences	Balance as of 12.31.2009	Adjustment to income tax	(Debit) Credit to results	Balance as of 09.30.2010
Tax loss carry-forward	22,021	-	(22,021)	-
Generic provision for doubtful loans	9,817	-	56,704	66,521
Provision for repossessed and liquid assets	1,439	-	(189)	1,250
Intangibles	3,560	-	237	3,797
Fixed assets	1,772	-	92	1,864
Vacations provision	11,609	-	(43)	11,566
Transferred loan portfolio	20,160	-	(1,697)	18,463
Provision for credit card rewards	2,867	-	332	3,199
Time deposits interest	1,747	-	-	1,747
Provision for debit card rewards	763	-	157	920
Property' revaluation surplus	-	(718)	(23,570)	(24,288)
Other	3,167	35	2,851	6,053
Net deferred income tax asset	78,922	(683)	12,853	91,092
Valuation of investments in associates	(7,263)	(791)	-	(8,054)
Finance lease transaction, net	(541)	-	83	(458)
Net deferred income tax liabilities	(7,804)	(791)	83	(8,512)
Income tax and employees' profit sharing assets, net (*)	71,118	(1,474)	12,936	82,580
(*) It comprises:				
Deferred employees' profit sharing	10,615	(220)	1,931	12,326
Deferred income tax	60,503	(1,254)	11,005	70,254
	71,118	(1,474)	12,936	82,580

Scotiabank Perú S.A.A. and Subsidiaries companies have either net deferred income tax asset or liability positions. This note consolidates the net deferred tax positions disclosed in the financial statements of the individual companies.

(26) Employees' Profit Sharing

According to Legislative Decree 677, the Bank's employees are entitled to a profit-sharing plan to be computed at 5% of the net income, similarly to employees of the companies of Scotiabank Perú S.A.A. and Subsidiaries. This profit sharing is treated as deductible expenses for income tax calculation purposes. As of September 30, 2010, the Bank established a consolidated legal employees' profit sharing for S/.33,388 thousand, which was recorded in the consolidated income statement (S/.8,744 thousand as of September 30,2009).

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(27) Basic and Diluted Earnings per Share

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

	<u>Shares issued</u>		
	<u>Shares issued (in thousands)</u>	<u>Effective days until period end</u>	<u>Weighted average of common shares (in thousands)</u>
Year 2010:			
Balance as of January 1, 2010	139,949	273	139,949
Subscription of new shares	14,160	100	5,187
	-----		-----
Balance as of September 30, 2010	154,109		145,136
	=====		=====
	<u>Shares issued</u>		
	<u>Shares issued (in thousands)</u>	<u>Effective days until period end</u>	<u>Weighted average of common shares (in thousands)</u>
Year 2009:			
Balance as of January 1, 2009	47,536	273	47,536
Subscription of new shares	3,081	214	2,415
	-----		-----
Balance as of September 30, 2009	50,617	(a)	49,951
	=====		=====

(a) It does not include 9,650 preferred shares.

Calculation of the basic and diluted earning per share as of September 30, 2010 and 2009 is presented as follows:

<u>Third Quarter</u>	<u>In thousands of S/. Profit (numerator)</u>	<u>In thousands Weighted average common shares (denominator)</u>	<u>In S/. Earning per share</u>
2010	518,073	145,136	3.570
2009	439,855	49,951	8.806

(28) Financial Risk Management

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

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Market Risk

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

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

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

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

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

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

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

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

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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.

Liquid Risks

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

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

The main guidelines followed are managing liquidity risk are:

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

Interest Rate Risk

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

Interest rate risk exposure to each currency is controlled through:

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

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

Exchange Rate Risk

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

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

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

Risk in Investments Portfolio

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

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

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

Credit Risk

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

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

(29) Fair Value

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

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

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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 the Bank's management has used its best judgment in estimating the fair values of these financial instruments, a fair value is not an indication of net realizable gain or liquidation value.

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

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

- (a) Cash due from banks and interbank funds represent cash and short-term deposits that are not considered to be a significant credit risk.
- (b) Trading investments for financial intermediation are recorded at their estimated market value, which is the same as the accounting value.
- (c) Available-for-sale investments are generally listed or have a market value through future discounted cash flows. Available-for-sale investments in securitizations do not have a market value, for this reason, their fair value is determined by the net cost value of their accumulated provision according to SBS regulations, and corresponds to the value of recovery established by the Scotiabank Perú S.A.A. and Subsidiaries' management.
- (d) Market value of the portfolio of short-term loans are similar to carrying amounts, net of their corresponding provisions for doubtful accounts, due to their short-term character which is considered by management as the estimated recoverable amount as of the date of the consolidated financial statements. Additionally, portfolio of long-term loans accrues fixed interest rates which are similar to their market rates. Placements of Mivivienda mortgage loans are agreed-upon at a fixed interest rate.
- (e) Investments in associates are valued according to the equity method; such valuation is similar to the fair value of these instruments considering that they are not trading securities.
- (f) The market value of deposits and obligations corresponds to their respective carrying amount mainly because interest rates are similar to those of other liabilities.
- (g) Debts to banks and correspondent banks accrue interest at preferred rates that are similar to those in the market; therefore, carrying amounts are similar to their corresponding market values.
- (h) Securities, bonds and obligations issued accrue interest at fixed and floating rates. Carrying amounts do not differ significantly from market values.

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- (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, the Bank estimates that the difference between the book value and the fair value is not significant.
 - (j) Purchase and sale agreements in foreign currency at a future date are recorded in the books at their estimated market values; therefore, no differences with their respective fair values exist.
- (30) Trust Fund Activities
- Scotiabank Perú S.A.A. and Subsidiaries offer structuring and administration services of trust operations and trust fees, and is in charge of the preparation of agreements related to these operations. Assets kept in trust are not included in the consolidated financial statements. Scotiabank Perú S.A.A. and Subsidiaries are responsible for the appropriate management of these trusts based on the limits established by applicable laws and the respective agreement. As of September 30, 2010, the allocated value of assets in trusts and trust fees amounted to S/.2,259,255 thousand (S/.3,287,917 thousand as of December 31, 2009).