

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Interim Financial Statements

September 30, 2013

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



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(TRANSLATION OF A REPORT ORIGINALLY ISSUED IN SPANISH)

INDEPENDENT AUDITORS' REPORT ON REVIEW OF CONSOLIDATED INTERIM
FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying September 30, 2013 consolidated interim financial statements of Scotiabank Perú S.A.A. (a subsidiary of The Bank of Nova Scotia – BNS, an entity established in Canada) and Subsidiaries, which comprises:

- The consolidated statement of financial position as at September 30, 2013;
- The consolidated income statement for the nine-month period ended September 30, 2013;
- The consolidated statement of comprehensive income for the nine-month period ended September 30, 2013;
- The consolidated statement of changes in shareholders' equity for the nine-month period ended September 30, 2013; and
- The consolidated statement of cash flows for the nine-month period ended September 30, 2013; and
- Notes to the consolidated interim financial statements comprising a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with accounting standards established by Superintendencia de Banca, Seguros y Administradoras Privadas de Fondos de Pensiones - SBS (Superintendence of Banks, Insurance and Pension Funds) for financial institutions in Peru. Our responsibility is to express a conclusion on these consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review 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 International Standards on Auditing, 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

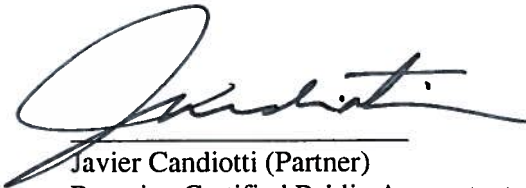
Based on our review, nothing has come to our attention that causes us to believe that the accompanying September 30, 2013 consolidated interim financial statements do not present fairly, in all material respects, the financial position, financial performance and cash flows of Scotiabank Perú S.A.A. and Subsidiaries in accordance with accounting standards established by the SBS for financial institutions in Peru.

Lima, Peru

November 29, 2013

Caipo's Asociados

Countersigned by:



Javier Candiotti (Partner)
Peruvian Certified Public Accountant
Registration 11177

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Interim Financial Statements September 30, 2013

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SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Statement of Financial Position

As of September 30, 2013 and December 31, 2012

(stated in thousands of nuevos soles)

	Note	09.30.2013 (Unaudited)	12.31.2012 (Audited)		Note	09.30.2013 (Unaudited)	12.31.2012 (Audited)
Assets				Liabilities and shareholders' equity			
Cash and due from banks:	6			Deposits and Obligations:	14		
Cash		791,508	845,183	Demand deposits		9,223,280	7,794,845
Deposits with Banco Central de Reserva del Perú		10,083,737	6,139,068	Savings deposits		4,728,701	4,475,356
Deposits with local and foreign banks		510,993	328,307	Time deposits		13,797,744	7,889,690
Clearing		118,521	175,019	Other obligations		819,264	577,564
Accrued interest and due from banks		117,015	52,277			-----	-----
		-----	-----			28,568,989	20,737,455
		11,621,774	7,539,854	Interbank funds		-	25,025
Interbank funds		350,534	184,119	Borrowings and financial obligations	15	5,279,512	5,011,365
Investments at fair value through profit or loss and available-for-sale	7	2,254,004	1,371,943	Securities, bonds and obligations issued	16	2,580,585	2,716,693
Loan portfolio, net	8	25,887,737	22,675,973	Derivative instruments held-for-trading	9	210,374	117,224
Derivative instruments held-for-trading	9	167,399	127,838	Provisions and other liabilities	17	956,147	809,336
Accounts receivable, net	10	356,321	384,810	Total liabilities		-----	-----
Investment in associates		111,268	110,752			37,595,607	29,417,098
Goodwill	11	278,818	278,818	Shareholders' equity:	18		
Property, furniture, and equipment, net	12	491,300	503,570	Capital stock		2,852,822	2,852,818
Other assets, net	13	925,028	866,900	Additional paid-in capital		368,565	368,553
		-----	-----	Legal reserve		561,285	479,029
Total assets		42,444,183	34,044,577	Unrealized earnings		20,086	42,291
		=====	=====	Retained earnings		1,045,818	884,788
Contingent and memoranda accounts:	20			Total shareholders' equity		-----	-----
Contingent accounts		36,438,671	30,386,538			4,848,576	4,627,479
Memoranda accounts		203,543,656	186,209,672	Total liabilities and shareholders' equity		-----	-----
		-----	-----			42,444,183	34,044,577
		239,982,327	216,596,210	Contingent and memoranda accounts:	20		
		=====	=====	Contingent accounts		36,438,671	30,386,538
				Memoranda accounts		203,543,656	186,209,672
						-----	-----
						239,982,327	216,596,210
						=====	=====

The accompanying notes are an integral part of these consolidated interim financial statements.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Income Statement

For the nine-month periods ended September 30, 2013 and 2012

(stated in thousands of nuevos soles)

	<u>Note</u>	<u>2013</u> (Unaudited)	<u>2012</u> (Unaudited)
Interest income	21	2,323,996	2,194,781
Interest expenses	22	(462,696)	(416,968)
		-----	-----
Gross finance income		1,861,300	1,777,813
		-----	-----
Provision for doubtful loans, net of recoveries	8	(585,795)	(523,452)
		-----	-----
Net finance income		1,275,505	1,254,361
Income from finance services, net	23	420,701	386,142
		-----	-----
Net finance income on income and expenses from finance services		1,696,206	1,640,503
Results from financial operations	24	233,857	177,266
		-----	-----
Operating margin		1,930,063	1,817,769
Administrative expenses	25	(1,000,757)	(915,746)
Depreciation of property, furniture and equipment		(46,389)	(48,925)
Amortization of intangible assets		(8,177)	(7,076)
		-----	-----
Net operating margin		874,740	846,022
Provision for doubtful and other accounts receivable, realizable, and repossessed assets, and other assets		(12,286)	(1,362)
		-----	-----
Operating results		862,454	844,660
Other income, net		95,747	27,839
		-----	-----
Net profit before income tax		958,201	872,499
Deferred income tax	27	5,000	24,048
Income tax	26	(298,627)	(294,152)
		-----	-----
Net profit		664,574	602,395
		=====	=====

The accompanying notes are an integral part of these consolidated interim financial statements.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Statement of Comprehensive Income

For the nine-month periods ended September 30, 2013 and 2012

(stated in thousands of nuevos soles)

	<u>2013</u> (Unaudited)	<u>2012</u> (Unaudited)
Net Profit	664,574	602,395
Other Comprehensive Income:		
Net loss on available-for-sale investments	(56,881)	(910)
Participation in other comprehensive income from subsidiaries and associates	5,270	(10,661)
Income tax effect from participation in other comprehensive income from subsidiaries and associates	29,406	2,999
Total comprehensive income for the period, net of income tax	----- 642,369 =====	----- 593,823 =====

The accompanying notes are an integral part of these consolidated interim financial statements.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Statement of Changes in Shareholders' Equity

For the nine- month periods ended September 30, 2013 and 2012

(stated in thousands of nuevos soles)

	Number of shares (note 18b)	Capital stock (note 18b)	Additional paid-in capital (note 18b)	Legal reserve (note 18c)	Unrealized earnings	Retained earnings (note 18d)	Total shareholders' equity
Balances as of December 31, 2011 (Audited)	227,128,755	2,299,303	368,553	400,180	42,421	932,275	4,042,732
Net profit	-	-	-	-	-	602,395	602,395
Other comprehensive income:							
Unrealized loss on available-for-sale investments net	-	-	-	-	(8,572)	-	(8,572)
Total comprehensive income	-	-	-	-	(8,572)	602,395	593,823
Application to legal reserve	-	-	-	78,849	-	(78,849)	-
Dividend distribution	-	-	-	-	-	(236,548)	(236,548)
Capitalization of retained earnings	55,351,508	553,515	-	-	-	(553,515)	-
Balances as of September 30, 2012 (Unaudited)	282,480,263	2,852,818	368,553	479,029	33,849	665,758	4,400,007
Balances as of December 31, 2012 (Audited)	282,480,263	2,852,818	368,553	479,029	42,291	884,788	4,627,479
Net profit	-	-	-	-	-	664,574	664,574
Other comprehensive income:							
Unrealized losses on available-for-sale investments, net	-	-	-	-	(22,205)	-	(22,205)
Total comprehensive income	-	-	-	-	(22,205)	664,574	642,369
Application to legal reserve	-	-	-	82,256	-	(82,256)	-
Dividends distribution	-	-	-	-	-	(399,356)	(399,356)
Other adjustments	-	4	12	-	-	(21,932)	(21,916)
Balances as of September 30, 2013 (Unaudited)	282,480,263	2,852,822	368,565	561,285	20,086	1,045,818	4,848,576

The accompanying notes are an integral part of these consolidated interim financial statements.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Statement of Cash Flows

For the nine-month periods ended September 30, 2013 and 2012

(stated in thousands of nuevos soles)

	<u>2013</u>	<u>2012</u>
	(Unaudited)	(Unaudited)
Cash flows from operating activities:		
Net profit	664,574	602,395
Adjustments to reconcile net profit to net cash from operating activities		
Provision for doubtful loans, net of recoveries	585,795	493,089
Impairment of investment	21	916
Provision (recovery) for realizable and repossessed assets	1,317	(2,254)
Provision for accounts receivable, net of recoveries	3,835	1,890
Provision for contingencies and indirect loans, net of recoveries	2,860	7,079
Depreciation and amortization	54,565	56,001
Provision for fringe benefits	29,930	29,068
Provision for current and deferred income tax	293,627	270,104
Other recovery and provision	(344,787)	103,209
Gain on sale of property, furniture, and equipment	(53,711)	(5,978)
Gain on sale of realizable and repossessed assets	(2,296)	(5,833)
Gain on sale of subsidiary shares	(33,172)	-
Net changes in assets and liabilities:		
Net increase in loan portfolio	(3,806,265)	(1,854,264)
Net increase (decrease) in investments	(910,432)	199,527
Net increase (decrease) in interest, commissions, and other accounts receivable	(9,628)	27,664
Net decrease in other assets	88,873	120,733
Net increase in non subordinated financial liabilities	7,843,128	1,255,108
Net (decrease) increase in accounts payable	(242,772)	94,620
Net increase (decrease) in other liabilities	110,728	(270,214)
Payment of income tax	(102,353)	(285,002)
Cash and cash equivalents from operating activities	4,123,737	837,858
Cash flows from investing activities:		
Acquisition of property, furniture, and equipment	(79,898)	(58,802)
Acquisition of other non-financial assets	(9,001)	(4,837)
Proceeds from sale of subsidiary shares	69,814	-
Proceeds from sale of property, furniture, and equipment	89,454	8,267
Proceeds from sale of other non-financial assets	-	7,113
Dividends received	9,369	5,046
Cash and cash equivalents used in investing activities	79,738	(43,213)
Cash and cash equivalents used in financing activities		
Net decrease in subordinated liabilities	-	(32,583)
Proceeds from sale of treasury shares	16	
Dividends payable	(399,355)	(236,548)
Cash and cash equivalents used in financing activities	(399,339)	(269,131)
Net increase in cash and cash equivalents	3,804,136	525,514
Effect of variations in exchange rates and cash equivalents	444,199	(103,209)
Cash and cash equivalents at beginning of the period	7,723,973	7,434,263
Cash and cash equivalents at the end of the period	11,972,308	7,856,568

The accompanying notes are an integral part of these consolidated interim financial statements.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

As of September 30, 2013 (unaudited), December 31, 2012 (audited) and
September 30, 2012 (unaudited)

(1) Operations

Scotiabank Perú S.A.A. (hereinafter the Bank) is a subsidiary of The Bank of Nova Scotia - BNS (a financial entity from Canada), which holds directly and indirectly 97.75% of the Bank's capital stock as of September 30, 2013 and December 31, 2012. The Bank of Nova Scotia directly owned 2.32% of the Bank's shares, and indirectly through NW Holdings Ltd. and Scotia Perú Holdings S.A. owned 55.32% and 40.11%, respectively.

The Bank is a public corporation established on February 2, 1943 and is authorized to operate as a banking entity by Superintendencia de Banca, Seguros y Administradoras Privadas de Fondos de Pensiones (Superintendence of Banks, Insurance, and Pension Funds, hereinafter the SBS). The Bank's operations are governed by the SBS through the Ley General del Sistema Financiero y del Sistema de Seguros y Orgánica, Law 26702 (hereinafter the Banking Law). This law establishes the requirements, rights, obligations, guarantees, restrictions, and other operating conditions that Peruvian banking and insurance legal entities are governed.

The Bank's registered office address is Av. Dionisio Derteano N° 102, San Isidro, Lima, Peru. As of September 30, 2013, the Bank performed its activities through a national network of 195 branches, and one branch abroad (192 branches and one branch abroad as of December 31, 2012).

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

As indicated on note 2; on September 27, 2013, Depósitos S.A. (former subsidiary of the Bank), engaged in warehousing services, was sold, hence is no longer part of the Group.

In addition, a Trust (Patrimonio en Fideicomiso sobre Inmuebles Depsa 2013-01-Leg. 861, Title XI, hereinafter "the Trust") was incorporated on August 8, 2013. It is a special purpose entity and integral part of the Group from that date.

Below are the main balances of the Bank and Subsidiaries as of September 30, 2013 and December 31, 2012, indicating shareholding percentages, and other relevant information:

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

As of September 30, 2013:

Entity	Activity	Percentage of shareholding	In thousands of S/.		
			Assets	Liabilities	Shareholders' equity
Scotiabank Perú S.A.A.	Banking	-	39,891,009	35,023,081	4,867,928
CrediScotia Financiera S.A.	Finance	100.00	3,545,886	3,023,034	522,852
Servicios, Cobranzas e Inversiones S.A.C.	Collection services	100.00	160,960	65,910	95,050
Scotia Sociedad Agente de Bolsa S.A.	Stock market broker	100.00	88,602	10,027	78,575
Scotia Fondos Sociedad Administradora de Fondos S.A.	Administration of mutual funds	100.00	33,102	6,179	26,923
Patrimonio en Fideicomiso sobre bienes Inmuebles – Depsa	Special purpose entity	-	19,435	6,863	12,572
Scotia Sociedad Titulizadora S.A.	Securitization	100.00	3,274	121	3,153
SBP DPR Finance Company	Special purpose entity	-	777,014	777,014	-

As of December 31, 2012:

Entity	Activity	Percentage of shareholding	In thousands of S/.		
			Assets	Liabilities	Shareholders' equity
Scotiabank Perú S.A.A.	Banking	-	31,271,202	26,642,588	4,628,614
CrediScotia Financiera S.A.	Finance	100.00	3,865,245	3,309,509	555,736
Servicios, Cobranzas e Inversiones S.A.C.	Collection services	100.00	116,739	22,721	94,018
Scotia Sociedad Agente de Bolsa S.A.	Stock market broker	100.00	83,562	5,065	78,497
Depósitos S.A.	Warehousing	100.00	67,340	23,392	43,948
Scotia Fondos Sociedad Administradora de Fondos S.A.	Administration of mutual funds	100.00	29,074	2,127	26,947
Scotia Sociedad Titulizadora S.A.	Securitization	100.00	3,215	41	3,174
SBP DPR Finance Company	Special purpose entity	-	830,676	830,676	-

Approval of The Consolidated Interim Financial Statements

The consolidated interim financial statements as of September 30, 2013 were approved by the Bank's management on November 14, 2013. These consolidated interim financial statements have been prepared based on the individual financial statements of companies that are part of Scotiabank Perú S.A.A. and Subsidiaries and they will be submitted for approval to the corresponding Board of Directors in accordance with law. The December 31, 2012 consolidated financial statements were approved by the corresponding Board of Directors and General Shareholders in accordance with established law.

(2) Sale of Subsidiary

On September 27, 2013, the Bank sold to a third party its entire capital participation of its subsidiary Depósitos S.A., which was represented by 2,776,857 common shares. As a result of the sale, the Bank received in cash a total of US\$ 25,222 thousands. This transaction generated a gain on sale of S/. 33,172 thousands before tax.

Prior to the sale, Depósitos S.A. constituted a trust on August 8, 2013 (note 1), and, transferred, as originator, six real estate properties with a net book value of S/. 20,926 thousands to the Trust; in exchange, Depósitos S.A. received two certificates. These certificates were sold to the Bank in cash for a total of S/. 202,266 thousands. Therefore, the Bank is the sole beneficiary and will receive the benefits generated by the Trust. During September 2013, the Trust sold one of the properties to a third party for S/. 89,269 thousands, generating an income of S/. 80,895 thousands, recorded as Other income, net; and a net income after tax of S/. 53,795 thousands; consequently, one of the certificates was canceled. The remaining properties will be held at cost in the Trust books until to be sold and they are the underlying assets of the certificate, which is registered at book value of S/. 12,553 thousands as of September 30, 2013.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

(3) Basis for the Preparation of Consolidated Financial Statements

(a) Statement of Compliance

The accompanying consolidated interim financial statements have been prepared in nuevos soles from the accounting records of Scotiabank Perú S.A.A. and Subsidiaries and are presented in accordance with current legal regulation and accounting principles authorized by the SBS and, in the absence of such applicable SBS standards, the International Financial Reporting Standards (IFRS), made official in Peru by the Peruvian Accounting Board (CNC) are applied. Such standards comprise the Standards and Interpretations issued or adopted by the International Accounting Standards Board (IASB), which include the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), and the Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), or the previous Standing Interpretations Committee (SIC), adopted by the IASB and made official by the Peruvian Accounting Board (CNC) for their application in Peru.

The Resolution 051-2012-EF/30 issued by the CNC on August 29, 2012, made official the 2012 version of IFRS (IAS, IFRS, IFRIC and SIC). In Peru, the CNC authorized as of December 31, 2012, current IASs 1 to 41, IFRSs 1 to 13, SICs 7 to 32 (except for superseded SICs), and all the pronouncements from 1 to 20 issued by the current Interpretations Committee (IFRIC).

(b) Basis of Measurement

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

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

(c) Presentation Currency

The consolidated interim financial statements are presented in nuevos soles (S/.) according to SBS standards. Financial information is presented in nuevos soles (S/.) and has been rounded to the nearest thousands (S/. 000), except as otherwise indicated.

(d) Critical Accounting Estimates and Criteria

The preparation of the consolidated interim financial statements in conformity with accounting principles requires management to use certain critical accounting estimates and criteria. Estimates and criteria are evaluated continuously according to experience and include reasonable future assumptions for each circumstance. Since these are estimates, final results might differ; however, according to the Bank's management opinion, the estimates and assumptions applied do not have significant risk of causing a material adjustment to the balances of assets and liabilities in the following year.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

The significant estimates related to the 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, intangible assets, impairment of goodwill, provision for realizable assets, received as payment and repossessed assets, estimate of the deferred income tax recovery, provision for income tax, and the fair value of derivative instruments, which accounting criteria is described in note 4.

(4) Accounting Principles and Practices

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

(a) Policies for Consolidation

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

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

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

The financial statements of the Subsidiaries and special purpose entities have been included for consolidation purposes and represent 10.40% and 13.79%, of the Bank's total assets before intra-company eliminations as of September 30, 2013 and December 31, 2012, respectively. As of those dates, there is no non-controlling interest resulting from the consolidation process.

(b) Financial Instruments

A financial instrument is any contract that generates a financial asset in one entity and a financial liability, or equity instrument in another.

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

The financial assets and liabilities presented in the consolidated statement of financial position correspond to balances of 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 SBS provides authorizations per type of derivative instrument contract and underlying asset, and may comprise more than one type of contract and underlying asset. Authorization schemes, valuation guidelines and accounting principles for derivative instruments that financial entities shall apply are established in SBS Resolution 1349-2008 and its amendments. Such accounting criteria for held-for-trading, hedging and embedded derivative operations are consistent with IAS 39 *Financial Instruments. Recognition and Measurement* as detailed below:

(i) Held-for-Trading

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

(ii) Hedging

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

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

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

(iii) Embedded Derivatives

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

As of September 30, 2013 and December 31, 2012, Scotiabank Perú S.A.A. and Subsidiaries did not have embedded derivatives.

In addition to their recording in the statement of financial position, 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

From January 1, 2013, Scotiabank Perú S.A.A. and Subsidiarias apply the recording and valuation criteria of investments established in SBS Resolution 7033-2012, which replaced SBS Resolution 10639-2008 “*Regulations for Classification and Valuation of Investments of Financial System Companies*”. These resolutions are in line with the classification and valuation criteria established in IAS 39 “*Financial Instruments: Recognition and Measurement*”, except for investments in associates; which are not within the scope of IAS 39, as detailed below:

(i) Investments at Fair Value through Profit or Loss

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

Measurement is initially made at fair value, without including transaction cost, which is recognized in the consolidated income statement. Subsequently, fair values are re-measured, and all gains and losses from changes therein are recognized in the consolidated income statement.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

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

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

(ii) Available-for-Sale Investments

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

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

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

Gains or losses from foreign exchange differences related to equity shares shall be recognized in equity in the "unrealized earnings" account while those related to debt instruments shall be recognized in the income statement.

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

(iii) Investments in Associates

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

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

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

The SBS establishes a standard methodology for the identification of impairment of financial instruments classified as available-for-sale, which includes two filters: the first contains two conditions: i) a significant decline in fair value below fifty percent of the cost or, ii) a decrease greater than twenty percent in a period that comprising the last twelve months. In case there is met one of these two conditions of the first filter, should evaluate whether this condition is justified on at least two of the qualitative aspects applicable to the issuer, as established this resolution.

(e) Loans, Classification and Provision for Doubtful Loans

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

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

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

Loan Portfolio Classification

In conformity with SBS Resolution 11356-2008, and its amendments, the Bank and CrediScotia Financiera S.A. classify their loan portfolio in two groups: Wholesale Banking (corporate, large companies and medium companies) and Retail Banking (small business, micro business, revolving consumer, non-revolving consumer and mortgage loans). These classifications are made considering the nature of the client (corporate, government or individual), the purpose of credit, and business size measured by revenues and indebtedness, among other indicators.

Credit Risk Rating Categories

The categories of credit risk rating established by the SBS are as follows: Standard, Potential Problem, Substandard, Doubtful, and Loss, which are assigned according to credit history of the debtor as established in SBS Resolution 11356-2008 and amendments.

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

Provisions for Doubtful Loans

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

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

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

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The requirements of the provisions for doubtful loans are determined based on the risk rating of the debtor, and type of collateral, if any.

The Bank and CrediScotia Financiera S.A. apply the following percentages to determine provisions for the loan portfolio:

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

(*) Include revolving and non- revolving consumer loans.

Procyclical Component

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

<u>Type of credit</u>	<u>Procyclical component %</u>
Corporate loans	0.40
Large company loans	0.45
Medium company loans	0.30
Small-business loans	0.50
Micro business loans	0.50
Revolving consumer loans	1.50
Non- revolving consumer loans	1.00
Mortgage loans	0.40

For corporate, large company and mortgage loans that have preferred readily realizable collateral, the procyclical component rate is 0.3%. For all other types of credits with preferred readily realizable collateral, the procyclical component rate is 0% for the portion covered by such collateral.

For consumer loans that are repaid through automatic payroll deduction agreements, the procyclical component rate is 0.25%.

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

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

Provisions for direct loans are presented deducting balances from the corresponding asset (note 8), and provisions for indirect loans are presented as liabilities (note 17).

(f) Securities Trading Transactions carried out by Third Parties

Scotia Sociedad Agente de Bolsa S.A. (hereinafter SAB) conducts securities trading transactions on behalf of its clients.

Transfer of funds made by clients for purchase/sale transactions in the stock exchange market and over-the-counter market are recorded in the consolidated statement of financial position items only if they fulfill the definitions of assets (accounts receivable) and liabilities (accounts payable); otherwise, such balances are presented in memoranda accounts. An account receivable or payable is only recognized when they have not yet been settled at their maturity or if SAB, due to any operating cause, does not have the funds transferred by client. However, since it is a solvent entity, funds are covered by SAB in an amount equivalent to the acquisition of securities acquired through a loan that is regularized almost immediately.

Since SAB only manages funds of clients in trust and because it is not able to use such resources since there is the commitment to return them to clients, these resources are not owned by the entity and shall be recorded in memoranda accounts.

Unsettled transactions by the Lima Stock Exchange are recorded in memoranda accounts, until respective collection or payment.

(g) Property, Furniture, and Equipment

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

Maintenance and repair expenses are recorded in the consolidated income statement in the period they are incurred. Work-in-progress and in-transit goods are recorded at acquisition cost. These goods are not depreciated until relevant assets are finished and/or received, and are in operative condition.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

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

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

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

Useful life and depreciation method are periodically reviewed by management according to the forecasted economic benefits to be provided by the components of property, furniture, and equipment.

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

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

Realizable assets, received as payment, and repossessed assets (note 13) are regulated by SBS Resolution 1535-2005. This caption mainly includes property, plant, and equipment received as payment for doubtful loans, and is initially recorded at the lower of value determined by the court, arbitrator, recovery value, estimated market value or the value of unpaid debt amount.

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

- Repossessed assets, received as payment and repossessed assets are initially recorded at cost and at the same time, a provision equivalent to 20% of the cost. If net realizable value, according to a valuation report, is impaired by more than 20%; then the required initial provision shall be an amount equivalent to the amount effectively impaired.
- For plant and equipment, the Bank records a monthly provision equivalent to 1/18 of the cost in books, less the aforementioned initial provision. Regarding goods that have not been sold or leased within a one-year term and that do not have the extension established in the Banking Law, the provision shall be completed up to 100% of the value upon repossession or recovery less the impairment provision, at the close of the corresponding year.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

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

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

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

(i) Impairment of Assets

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

The recoverable amount of an asset is the higher between its net selling price and its value in use. Net selling price is the expected amount at which an asset will be sold in a free market. Recoverable amounts are estimated for each asset or, if it is not possible, for the cash-generating unit.

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

(j) Income Tax

Current income tax is determined based on the taxable income and recorded according to tax legislation applicable to the Bank and each company that are part of Scotiabank Perú S.A.A. and Subsidiaries independently (note 26).

Deferred income tax is recorded using the liability method based on temporary differences derived from tax accounting of assets and liabilities, and their balances in the financial statements of each company that is part of Scotiabank Perú S.A.A. and Subsidiaries. Deferred income tax is determined based on tax rates and legislation expected to be applied by Scotiabank Perú S.A.A. and Subsidiaries when the deferred tax asset is realized or the deferred tax liability is settled (note 27).

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

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(k) Intangible Assets

Intangible assets are mainly related to the acquisition and development cost of computing software shown in the “Other assets” item and are amortized using the straight-line method over 3 to 10 years. Likewise, they include depreciable costs coming from commercial activities of Crediscotia Financiera S.A. and are amortized during the effectiveness of the contract.

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

(l) Goodwill

Goodwill is the difference between the acquisition cost (amount paid) versus identifiable fair values of its subsidiary (note 11). 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 arisen or the value cannot be reliably estimated, this adjustment is not included in the acquisition cost. If, subsequently, such adjustment becomes likely and can be reliably estimated, the additional amount will be treated as an adjustment to the acquisition cost.

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

(m) Securities, Bonds, and Obligations Issued

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

Interest is recognized in the consolidated income statement when accrued.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

(n) Provisions and Contingencies

(i) Provisions

Provisions are recognized when Scotiabank Perú S.A.A. and Subsidiaries have a present obligation, either legal or assumed, from past events, and when it is probable that an outflow of resources will be required to settle the obligation, and it is possible to reliably estimate its amount. Provisions are reviewed and adjusted in each period to reflect the best 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, for its acronyms in Spanish) is calculated according to current legislation, on the total employees' indemnities and should be paid through deposits in authorized financial entities as chosen by them. Calculation is made for the amount that should have to be paid as of the reporting date and it is included in the "Provision for severance indemnities" account. It is presented in the consolidated balance sheet under "Other liabilities".

(ii) Contingencies

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

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

(o) Income and Expense Recognition

Interest income and expenses are recognized in profit or loss in the corresponding fiscal year on an accrual basis, depending on the term of the generating transactions and the interest rate agreed with clients. Up to December 31, 2012 commissions by indirect loans were recognized as income when earned; from January 1, 2013, by means of the SBS Resolution 7036-2012, these commissions are recognized as income when accrued during the term of the indirect loan has been granted. Also, this resolution establishes that financial institutions shall adopt this change prospectively starting in 2013.

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

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

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Brokerage service fees for buying and selling securities on the stock market are recorded in the "finance services income" account when these transactions have been performed through generation and acceptance of operation policies by clients.

Revenues from sales of securities and its cost are recognized when the seller has transferred all the risks and rewards of ownership to the buyer and it is probable that economic benefits associated to the transaction will flow to the entity; they are recorded in the account "other income, net" on the consolidated income statement.

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

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

(p) Capital Stock

Common shares are classified as equity. Preferred shares, if any, are recorded as other debt instruments; the difference between the redeemable amount of preferred shares and their par value being recorded in the capital account. Dividends on preferred shares are recorded as liabilities and recognized in the consolidated income statement of the period. As of September 30, 2013 and December 31, 2012, the Bank did not hold preferred shares outstanding.

(q) Employees' Profit Sharing

The SBS with Official Letter 4049-2011, dated January 21, 2011, established a change in treatment of employees' profit sharing indicating that this should be recorded according to IAS 19 *Employee Benefits*. Consequently, this profit sharing should be recognized as personnel expense and liability related with benefits to employees and shall not recognize deferred assets or liability as a result of temporary differences between financial and tax bases.

(r) Consolidated Statement of Cash Flows

For presentation purposes of this consolidated financial statement, the balances of cash and due from banks and interbank funds of assets as of September 30, 2013 and 2012 were considered as cash and cash equivalents.

(s) Reclassifications

Certain financial statement items of 2012 have been reclassified to make them comparable with this period.

These reclassifications were determined according to SBS Resolution No. 7036-2012, effective from the year 2013. This resolution establishes changes in the presentation of the consolidated statement of financial position and consolidated income statement; therefore for comparative presentation as of December 31, 2012 and by the period from January 1 to September 30, have made the following reclassifications:

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

Consolidated Statements of Financial Position:

	In thousands of S/.		
	<u>12.31.2012 (1)</u>	<u>Reclassifications</u>	<u>12.31.2012 (2)</u>
Assets			
Cash and due from banks	7,539,869	(15)	7,539,854
Interbank funds	184,119	-	184,119
Investments at fair value through profit or loss	-	91,454	91,454
Available-for-sale investments	1,371,943	(91,454)	1,280,489
Loan portfolio, net	22,675,973	-	22,675,973
Derivative instruments held-for-trading	-	127,838	127,838
Account receivables	512,648	(127,838)	384,810
Investments in associates	110,752	-	110,752
Goodwill	278,818	-	278,818
Property, furniture and equipment, net	503,570	-	503,570
Other assets	927,576	(60,676)	866,900
Total	<u>34,105,268</u>	<u>(60,691)</u>	<u>34,044,577</u>
Liabilities			
Deposits and obligations	20,813,311	(75,856)	20,737,455
Interbank funds	25,025	-	25,025
Borrowings and financial obligations	5,011,365	-	5,011,365
Securities, bonds and obligations issued	2,716,693	-	2,716,693
Derivative instruments held-for-trading	-	117,224	117,224
Provisions and Other liabilities	911,395	(102,059)	809,336
Total	<u>29,477,789</u>	<u>(60,691)</u>	<u>29,417,098</u>

(1) Consolidated financial position as of December 31, 2012 without reclassifications.

(2) Consolidated financial position as of December 31, 2012 including reclassifications.

Consolidated Income Statements:

	In thousands of S/.		
	<u>09.30.2012 (3)</u>	<u>Reclassifications</u>	<u>09.30.2012 (4)</u>
Interest income	2,407,744	(212,963)	2,194,781
Interest expenses	(474,085)	57,117	(416,968)
Provision for doubtful loans, net of recoveries	(493,089)	(30,363)	(523,452)
Income from finance services, net	477,739	(91,597)	386,142
Results from financial operations	-	177,266	177,266
Administrative expenses	(980,974)	65,228	(915,746)
Depreciation and amortization	-	(56,001)	(56,001)
Provision for doubtful and other account receivable realizable and repossessed assets and other assets	(110,551)	109,189	(1,362)
Other income, net	45,715	(13,461)	32,254
Income tax	(270,104)	(4,415)	(274,519)
Net Profit	<u>602,395</u>	<u>-</u>	<u>602,395</u>

(3) Consolidated income statement as of September 30, 2012 without reclassifications.

(4) Consolidated income statement as of September 30, 2012 including reclassifications.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

Reclassified balances as of December 31, 2012 and for the nine-month period ended on September 30, 2012 reflect the best estimates in these consolidated interim financial statements for comparative purpose.

(t) Trust Funds

Assets and income from trust operations are not included in the consolidated interim financial statements since they do not belong neither to the Bank nor Scotia Sociedad Titulizadora S.A. They are recorded in memoranda account for control purposes (note 20). The Bank and Scotia Sociedad Titulizadora S.A. act as trustees. Commissions related to these activities are included in the Income from Finance Services caption (nota 23).

(u) Foreign Currency Transactions and Balances

Foreign currency transactions are those transactions carried out in a currency different from the nuevo sol. Foreign currency transactions are translated into nuevo sol using exchange rates reported by the SBS at the dates of the transactions (note 5). Gains or losses on exchange differences resulting from the payment of such transactions and from the translation of monetary assets and liabilities stated in foreign currency at exchange rates reported at the closing of the period are recognized in the consolidated income statement.

(v) New International Accounting Pronouncements

i) Pronouncements of the Peruvian Accounting Board (CNC for its acronyms in Spanish)

The following relevant standards to financial entities have been released for application in the periods beginning on or after these consolidated interim financial statements presentation date.

- IFRS 9 *Financial Instruments* modifies the treatment and classification of financial assets established in IAS 39 *Financial Instruments: Recognition and Measurement*. Effective for annual periods beginning on or after January 1, 2015.
- IFRS 13 *Fair Value Measurement*. Effective for half-year reporters with annual periods beginning on or after 1 January 2013.

Certain standards have also been updated:

- IAS 19 - *Employee Benefits*. Effective for half-year reporters with annual periods beginning on or after 1 January 2013.
- IAS 27 - *Consolidated and Separate Financial Statements* superseded by IFRS 10, IFRS 12 and IAS 27. Effective for annual periods beginning on or after 1 January 2013.
- IAS 28 - *Investments in Associates, superseded by IAS 28 (2011) and IFRS 12*. Effective for annual periods beginning on or after 1 January 2013.
- IAS 32 - *Offsetting financial assets and financial liabilities*.

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- IFRS 10 *Consolidated Financial Statements*. Effective for half-year reporters with annual periods beginning on or after 1 January 2013.
- IFRS 11 *Joint Arrangements*. Effective for half-year reporters with annual periods beginning on or after 1 January 2013.
- IFRS 12 *Disclosure of Interests in Other Entities*. Effective for half-year reporters with annual periods beginning on or after 1 January 2013.
- IFRS - Annual Improvements to IFRSs 2009-2011 Cycle (IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34). The amendments are effective for annual periods beginning on or after January 1st, 2013. Earlier application is permitted.

As indicated in note 2a, the standards and interpretations detailed above will only be applicable, in absence of SBS regulations applicable to situations not included in the Accounting Manual. Bank's management has not determined the effect on the preparation of its financial statements in case such standards were adopted by the SBS.

ii) SBS pronouncements

- On September 19, 2012, the SBS issued Resolution 7036-2012 modifying the Accounting Manual on certain aspects for financial entities. The main changes are:
 - The SBS establishes the new criteria for revenue recognizing related to commissions on income indirect loans, which applies to contracts starting in 2013.
 - For property, furniture and equipment this resolution establishes that only allowed the cost model and the premises under contracts longer than one year must comply with IAS 16 "Property, plant and equipment".
 - In the quarterly financial statements of 2013 (March, June and September) the SBS will not require comparative presentation, however the financial entities should must disclose a complete set out of accounting standards and a description of the change in accounting standard in its notes to financial statements.
 - For annual financial statements for the year ending 2013, notes should include previous year comparative data, to a practicable extent. Also, one of the notes should disclose the effect of the implementation of new accounting standards established by SBS; applicable for comparative purposes on balances as of December 31, 2012.

As of the date of this report, Bank's management is evaluating the effects in the preparation of its financial statements arising from the changes indicated in this resolution.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

- In the SBS Resolution 914-2010, the SBS extended the application of IFRS 7 *Financial Instruments: Disclosures* and IFRS 8 *Operating Segments*. This postponement is effective until the SBS releases the corresponding regulation as part of the process to harmonize its accounting regulations to IFRS. Bank's management has not determined the effect on the preparation of its financial statements in case such standards were adopted by the SBS.
- The SBS has also considered postponing the loan impairment evaluation requirement, under IFRS, until completing the standards project related to financial instruments.

(5) Balances in Foreign Currency

Consolidated statement of financial position includes balances of transactions in foreign currency, mainly in U.S. dollars (US\$), which are recorded in nuevos soles (S/.) at the exchange rate established by the SBS. As of September 30, 2013 and December 31, 2012, these rates were US\$ 1 = S/. 2.782 and S/. 2.550, respectively.

Foreign currency transactions in the country and international trade transactions referred to the concepts authorized by Banco Central de Reserva del Perú-BCRP (Peruvian Central Bank), are channeled through an interbank foreign exchange market. As of September 30, 2013, the buy and sell exchange rates used were US\$ 1 = S/. 2.781 and S/. 2.782 (US\$ 1 = S/. 2.549 buy rate and US\$ 1 = S/. 2.551 sell rate as of December 31, 2012).

Foreign currency balances stated in thousands of U.S. dollars and other currencies as of September 30, 2013 and December 31, 2012, are summarized as follows:

	09.30.2013			12.31.2012		
	U.S Dollars	Euros	Other currencies	U.S Dollars	Euros	Other currencies
Assets:						
Cash and due from banks	3,278,312	43,650	310	1,357,106	37,178	737
Investments at fair value through profit or loss and available-for-sale investments	304,634	-	-	10,764	-	-
Loan portfolio, net	4,677,990	-	-	4,519,043	-	-
Accounts receivable, net	18,477	-	-	26,892	-	-
Other assets	63,844	-	32	73,848	7,932	-
	8,343,257	43,650	342	5,987,653	45,110	737
Liabilities						
Deposits and obligations	5,671,848	40,073	31	3,494,315	53,451	19
Borrowings and financial obligations	1,841,257	-	-	1,932,548	-	-
Securities, bonds and obligations issued	415,529	-	-	411,029	-	-
Other liabilities	119,376	19,538	146	229,082	11,254	19
	8,048,010	59,611	177	6,066,974	64,705	38
Net assets (liabilities) position on balance sheet	295,247	(15,961)	165	(79,321)	(19,595)	699
Derivative instruments	(302,557)	17,401	-	3,482	19,830	-

As of September 30, 2013 and 2012, Scotiabank Perú S.A.A. and Subsidiaries recorded under the Results from Financial Operations caption, gains on exchange difference from various operations amounting to S/. 142,992 thousands and S/. 102,189 thousands respectively (note 24).

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

As of September 30, 2013, Scotiabank Perú S.A.A. and Subsidiaries have contingent operations in foreign currency amounting to US\$ 9,356,522 thousands equivalent to S/. 26,029,842 thousands (US\$ 8,022,529 thousands equivalent to S/. 20,457,447 thousands as of December 31, 2012), and are included in memoranda accounts.

(6) Cash and Due from Banks

It comprises the following:

	<u>In thousands of S/.</u>	
	<u>09.30.2013</u>	<u>12.31.2012</u>
Cash (a)	791,508	845,183
Banco Central de Reserva del Perú (a)	10,083,737	6,139,068
Deposits with local banks (b)	15,998	50,528
Deposits with foreign banks (b)	494,995	277,779
Clearing	118,521	175,019
Restricted funds (c)	116,409	52,100
Other cash and due from banks	606	177
	-----	-----
	<u>11,621,774</u>	<u>7,539,854</u>
	=====	=====

- (a) As of September 30, 2013, funds held in cash and deposits with Banco Central de Reserva del Perú (BCRP, for its acronyms in Spanish) include US\$ 1,563,912 thousands and S/. 981,668 thousands (US\$ 1,238,508 thousands and S/. 1,682,368 thousands as of December 31, 2012) of legal cash reserve the Bank and CrediScotia Financiera S.A.. These funds should be set aside to cover deposits and obligations from third parties, according to limits established by current legislation. These funds are held both at BCRP and kept in their vaults of such financial entities.

Cash reserves held at BCRP do not accrue interest, except for amounts in local and foreign currency exceeding the minimum legal cash reserve. As of September 30, 2013, the excess of legal cash reserve in local and foreign currency accrued interest at an annual rates of 1.50% and 0.05%, respectively (1.75% in local currency and 0.11% in foreign currency as of December 31, 2012). Interest accrued from the excess in foreign currency in 2013 amounts to US\$ 626 thousands (US\$ 1,566 thousands for year 2012). Interest accrued for the excess in local currency in 2013 amounts to S/. 14,989 thousands (S/. 18,350 thousands in year 2012).

As of September 30, 2013, deposits with BCRP include “overnight” operations of US\$ 1,518,000 thousands and S/. 24,000 thousands; such operations accrued interest at an annual nominal rate of 0.14% and 3.45% (S/. 25,000 thousands as of December 31, 2012 at an annual nominal rate of 3.45%).

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

- (b) Deposits in local and foreign banks mainly correspond, 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, 2013, deposits in foreign banks, included deposits held at The Bank of Nova Scotia for US\$ 3 thousands and Canadian dollars for \$ 73 thousands (US\$ 4 thousands and Canadian dollars for \$ 420 thousands as of December 31, 2012).

As of September 30, 2013, sixty-three percent of the deposits with foreign banks of Scotiabank Perú S.A.A. and Subsidiaries were concentrated in two financial institutions (seventy-two percent in two financial institutions as of December 31, 2012).

- (c) As of September 30, 2013, restricted funds for US\$ 41,125 thousands and S/. 2,000 thousands (US\$ 19,853 thousands and S/. 1,474 thousands as of December 31, 2012), are mainly related to guarantee funds and restricted funds due to lawsuits against the Bank and CrediScotia Financiera S.A.

As of September 30, 2013 and 2012, the interest revenue from cash and due from banks amounted to S/. 68,419 thousands and S/. 46,005 thousands, respectively, and it is included in the Interest Income caption in the consolidated interim income statement (note 21).

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

It comprises the following:

	<u>In thousands of S/.</u>	
	<u>09.30.2013</u>	<u>12.31.2012</u>
Investments at fair value through profit or loss		
BCRP certificates of deposit indexed (a)	837,117	-
BCRP certificates of deposit (b)	117,181	-
Peruvian Treasury Bonds (c)	27,320	76,889
Mutual funds (d)	9,350	14,565
U.S. Treasury Bonds	8,288	-
	-----	-----
	999,256	91,454
Available-for-sale investments:		
BCRP certificates of deposit (b)	953,851	919,644
Peruvian Treasury Bonds (c)	290,143	325,207
Unlisted shares	7,705	7,454
Mutual funds (d)	1,728	27,155
Listed shares	1,321	1,029
	-----	-----
Total investment at fair value through profit or loss and available-for-sale	2,254,004	1,371,943
	=====	=====

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

- (a) BCRP re-adjusted certificates of deposits are freely negotiable securities denominated in foreign currency, which are acquired through BCRP public and traded in the Peruvian secondary market. These certificates are subject to re-adjustment depending on the variation of the average exchange rate between issuance date and expiration date and they mature in October and November 2013.
- (b) BCRP certificates of deposit are securities freely negotiable in local currency; they are acquired through BCRP public bids and traded in the Peruvian secondary market. As of September 30, 2013, these certificates accrue interest based on the BCRP reference rate which ranged from 3.83% to 4.33% annually (between 3.95% and 4.20% as of December 31, 2012), and have maturities between November 2013 and August 2014 (between March 2013 and April 2014, as of December 31, 2012).

The Bank did not have certificates of deposits issued by BCRP with restricted availability, as of September 30, 2013 and December 31, 2012.

- (c) The Peruvian Treasury Bonds correspond to sovereign bonds issued in local currency by the Peruvian Ministry of Economy and Finance and represent internal public debt instruments of the Republic of Peru. As of September 30, 2013, these bonds accrue interest at annual rates ranging from 4.12% to 6.31% (from 3.05% to 4.95% annually as of December 31, 2012), with maturities between May 2015 and August 2031 (between May 2015 and August 2037 as of December 31, 2012).
- (d) As of September 30, 2013, mutual funds included S/. 10,024 thousands and US\$ 379 thousands corresponding to investments in mutual funds managed by a related entity (S/. 15,241 thousands and US\$ 10,384 thousands as of December 31, 2012).

As of September 30, 2013 and 2012, the accrued interest on investments amounted to S/. 35,831 thousands and S/. 54,530 thousands, respectively, and it is included in the Interest Income caption in the consolidated interim income statement (note 21).

Investments at fair value through profit or loss and available-for-sale investments as of September 30, 2013 and December 31, 2012, have the following maturities:

	<u>In thousands of S/.</u>	
	<u>09.30.2013</u>	<u>12.31.2012</u>
Up to 3 months	1,130,956	146,456
3 to 12 months	824,216	796,701
Over 12 months	298,832	428,786
	-----	-----
	2,254,004	1,371,943
	=====	=====

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

(8) Loan Portfolio, net

It comprises the following:

	In thousands of S/.			
	09.30.2013	%	12.31.2012	%
Direct loans:				
Current loans	26,049,478	97	22,847,230	97
Refinanced loans	159,126	-	189,098	1
Restructured loans	4,155	-	42,941	-
Past due loans	456,371	2	387,609	2
Loans in litigation	182,296	1	161,137	-
	-----	----	-----	----
	26,851,426	100	23,628,015	100
	=====	==	=====	==
Add (deduct):				
Accrued interest on loans	213,317		202,413	
Non-accrued interest	(30,251)		(75,359)	
Provision for doubtful loans	(1,146,755)		(1,079,096)	
	-----		-----	
	25,887,737		22,675,973	
	=====		=====	
Indirect loans (note 20)	5,727,701		4,487,523	
	=====		=====	

As of September 30, 2013 and December 31, 2012, fifty-one percent of the direct and indirect loan portfolio of the Bank and CrediScotia Financiera S.A. were concentrated in 1,377 and 2,764 clients, respectively.

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

The Bank and CrediScotia Financiera S.A. freely establish the interest rates of loan portfolio based on the supply and demand and type of loan. The annual average effective rates of main products at September 30, 2013 and December 31, 2012 fluctuated as follows:

	Percentages (%)			
	09.30.2013		12.31.2012	
	Local currency	Foreign currency	Local currency	Foreign currency
Overdrafts (*)	55.00 - 85.00	30.00 - 55.00	55.00 - 85.00	30.00 - 55.00
Discounts and commercial loans	4.90 - 45.55	3.70 - 28.97	5.37 - 43.10	3.62 - 28.27
Consumer loans	14.13 - 48.31	8.90 - 20.03	14.31 - 47.10	9.42 - 20.53

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

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As of September 30, 2013 and December 31, 2012 according to current SBS regulations, the loan portfolio of Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. risk-based ratings are as follows:

Risk ratings	09.30.2013				12.31.2012			
	Number of debtors	In thousands of S/.			Number of debtors	In thousands of S/.		
		Direct	Contingent	Total		Direct	Contingent	Total
Standard	859,660	25,016,760	5,700,511	30,717,271	888,320	21,870,421	4,456,468	26,326,889
Potential problem	48,410	703,109	16,992	720,101	57,022	708,939	25,542	734,481
Substandard	28,688	294,903	6,020	300,923	32,832	254,205	2,112	256,317
Doubtful	49,901	380,887	2,432	383,319	57,128	326,058	717	326,775
Loss	33,641	455,767	1,746	457,513	35,632	468,392	2,684	471,076
	1,020,300	26,851,426	5,727,701	32,579,127	1,070,934	23,628,015	4,487,523	28,115,538

As of September 30, 2013 and December 31, 2012, direct loans were distributed by sectors as follows:

	In thousands of S/.			
	09.30.2013	%	12.31.2012	%
Mortgage and consumer loans	9,018,063	34	8,031,654	34
Trade	3,616,659	13	2,995,426	13
Manufacturing	2,954,796	11	2,692,599	11
Real estate business and lease service	2,391,587	9	2,053,881	9
Mining	1,408,579	5	678,102	3
Transportation	1,186,623	4	976,369	4
Electricity, gas, and water	1,028,053	4	758,360	3
Financial intermediation	693,682	3	781,489	3
Education, services, and other	746,974	3	627,503	3
Agriculture and livestock	529,854	2	410,533	2
Fishing	348,819	1	361,033	2
Construction	283,801	1	323,963	1
Hotel and restaurants	269,875	1	254,285	1
Public administration and defense	30,829	-	25,802	-
Other (mainly non-profit, healthcare and automotive)	2,343,232	9	2,657,016	11
	26,851,426	100	23,628,015	100

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

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

	In thousands of S/.		
	Specific	Generic	Total
Balances as of December 31, 2011	507,256	398,423	905,679
Additions charged to income statement	710,384	195,988	906,372
Recovery of provisions	(215,704)	(167,426)	(383,130)
Transfers and other	9,548	1,534	11,082
Write-offs and condonations	(431,514)	-	(431,514)
Foreign exchange difference	(7,556)	(5,611)	(13,167)
Balances as of September 30, 2012	572,414	422,908	995,322
Balances as of December 31, 2012	643,617	435,479	1,079,096
Additions charged to income statement	845,550	197,915	1,043,465
Recovery of provisions	(261,508)	(185,461)	(446,969)
Transfers and other	7,774	(325)	7,449
Write-offs and forgiveness	(569,104)	-	(569,104)
Foreign exchange difference	18,469	14,349	32,818
Balances as of September 30, 2013	684,798	461,957	1,146,755

Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. record the regulatory provisions for doubtful loans according to the policy described in note 4e. Additionally, Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. record voluntary provisions for doubtful loans which are included under the generic provision for loans portfolio. As of September 30, 2013 and December 31, 2012, voluntary provisions for doubtful loans amount to S/.55,094 thousands and S/. 68,251 thousands, respectively.

As of September 30, 2013, the provision for foreign exchange credit risk and the procyclical provision amount to S/. 1,214 thousands and S/. 136,273 thousands (S/. 1,081 thousands and S/. 123,274 thousands, respectively as of December 31, 2012).

As of September 30, 2013 and December 31, 2012, direct loan portfolio had the following maturities:

	In thousands of S/.					
	09.30.2013			12.31.2012		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Up to 1 month	1,453,816	1,560,548	3,014,364	1,059,513	1,345,543	2,405,056
1 to 3 months	2,079,839	2,074,755	4,154,594	1,676,752	1,681,606	3,358,358
3 to 6 months	1,976,123	1,652,989	3,629,112	1,881,570	1,520,569	3,402,139
6 to 12 months	2,288,071	1,600,034	3,888,105	2,281,845	1,299,101	3,580,946
Over 12 months	5,442,718	6,297,183	11,739,901	4,967,697	5,567,486	10,535,183
Overdue and loan in litigation	402,908	235,759	638,667	352,357	196,389	548,746
Less, accrued interest	(139,202)	(74,115)	(213,317)	(141,754)	(60,659)	(202,413)
	13,504,273	13,347,153	26,851,426	12,077,980	11,550,035	23,628,015

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

(9) Derivative Held-for-Trading

The Bank holds agreements of foreign currency forwards, cross currency swaps (CCS) and interest rate swaps (IRS). As of September 30, 2013 and December 31, 2012, the fair value of these trading financial instruments has generated accounts receivable and payable as described below:

	In thousands of S/.			
	09.30.2013		12.31.2012	
	Accounts receivable	Accounts payable	Accounts receivable	Accounts payable
Forwards	156,508	176,449	109,155	101,805
Interest rate swaps (IRS)	10,437	12,617	14,247	15,216
Cross currency swaps (CCS)	454	21,308	4,436	203
	-----	-----	-----	-----
	167,399	210,374	127,838	117,224
	=====	=====	=====	=====

As of September 30, 2013 and 2012, these derivative instruments generated net profits of S/. 24,254 thousands and S/. 21,151 thousands, respectively (note 24).

(10) Accounts Receivable, net

It comprises the following:

	In thousands of S/.	
	09.30.2013	12.31.2012
Tax claims (a)	228,483	225,666
Accounts receivable from the sale of investments	38,370	38,637
Accounts receivable for collection and warehousing services	17,367	47,048
Payments on behalf of third parties, net	13,667	5,604
Commissions receivable	13,465	17,936
Advances to personnel	9,125	5,320
Accounts receivable from brokerage customers	406	495
Accounts receivable from guarantee trusts, net (b)	-	196
Other accounts receivable, net (c)	35,438	43,908
	-----	-----
	356,321	384,810
	=====	=====

- (a) Scotiabank Perú S.A.A. and Subsidiaries tax proceedings as of September 30, 2013 and December 31, 2012, correspond to the compensation of the credit balance against Temporary Tax on Net Assets (ITAN, for its acronyms in Spanish) for years 2006 and 2005 (note 26g).

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

Likewise, it also includes the process related to the reply on an assessment related to the 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. It is only pending the issuance of final resolutions.

- (b) The SBS, by means of Resolution 1796-2003, authorized the Bank to transfer to a guarantee trust a loan portfolio, provisions and guarantees related to this portfolio. This guarantee trust was to support a financing operation with Banco de Crédito del Perú for US\$ 10,000 thousands. On December 29, 2012, the term of the trust agreement was renewed until March 27, 2013 which could be extended upon agreement of both parties. This agreement allows the Bank to replace or remove assets from the trust, in compliance with the terms of the contract. The Bank not requested any disbursement during the term of this agreement. On February 28, 2013 the guarantee trust returned loans portfolio to the Bank by S/. 5,254 thousands. As of December 31, 2012 the guarantee trust transferred loans portfolio to the Bank in the net amount of S/. 3,727 thousands.

As of September 30, 2013 the guarantee trust has no balance: due to both parties agreed that on February 28, 2013 was closed the guarantee trust. As of December 31, 2012 the net balance of the guarantee trust was S/. 196 thousands, which included a provision for doubtful loans was S/. 5,329 thousands. The provision for doubtful loans of the guarantee trust has calculated according to the criteria established in note 4e.

- (c) As of September 30, 2013 the balance of other accounts receivable, net of the related provision for doubtful accounts, is mainly composed of: i) accounts receivable from property rental for S/. 1,170 thousands (S/. 1,185 thousands as of December 31, 2012); and ii) various accounts receivable for S/. 34,268 thousands (S/. 42,723 thousands as of December 31, 2012).

(11) Goodwill

In 2008, the Bank acquired 100% of the capital stock of Banco del Trabajo S.A., currently CrediScotia Financiera S.A., and recognized goodwill as of September 30, 2013 and December 31, 2012 of S/. 278,818 thousands which includes a purchase price adjustment (earn-out) of S/. 83,290 thousands, calculated in accordance with the purchase agreement.

According to SBS standards, such goodwill has been assessed by the Bank's management, concluding that there is no impairment as of September 30, 2013 and December 31, 2012.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

(12) Property, Furniture, and Equipment, net

It comprises the following:

	In thousands of S/.				Balance as of 09.30.13
	Balance as of 12.31.12	Additions	Disposals	Reclass. and adjust.	
Cost:					
Land	153,598	-	-	(12,431)	141,167
Property and premises	729,846	15,979	-	(30,591)	715,234
Furniture, fixture, and computing equipment (TI)	373,507	24,060	(10,093)	(22,838)	364,636
Vehicles	5,635	121	(429)	(949)	4,378
Units in transit and replacing units	1,295	26,470	-	(2,064)	25,701
Work-in-progress	9,663	13,267	-	(14,188)	8,742
	1,273,544	79,897	(10,522)	(83,061)	1,259,858
Accumulated depreciation:					
Property and premises	499,573	21,088	-	(22,063)	498,598
Furniture, fixture, and computing equipment (TI)	266,544	24,786	(9,828)	(14,774)	266,728
Vehicles	3,857	515	(425)	(715)	3,232
	769,974	46,389	(10,253)	(37,552)	768,558
	503,570				491,300

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

(13) Other Assets, net

It comprises the following:

	In thousands of S/.	
	09.30.2013	12.31.2012
Tax credits (VAT) and other (a)	360,046	333,424
Deferred income tax (note 27)	245,190	212,346
Prepaid expenses (b)	105,085	106,799
Transactions in process (c)	77,924	67,595
Payments on account of income tax, net	77,337	91,310
Intangible assets, net of amortizations of S/. 205,307 thousands (S/. 198,561 thousands in 2012)	23,821	22,435
Repossessed and realizable assets, net of accumulated depreciation and provision for impairment for S/. 125,059 thousands (S/. 124,063 thousands in 2012)	23,010	21,140
Inventories	4,648	3,760
Other	7,967	8,091
	925,028	866,900

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

- (a) As of September 30, 2013 and December 31, 2012, tax credit corresponds to the value added tax (VAT), from acquisition of assets that have been transferred under finance leases, which have not yet been applied to taxable operations.
- (b) As of September 30, 2013, prepaid expenses include mainly: (i) deferred loan origination costs, mainly fees paid to external sales S/. 55,636 thousands (S/. 55,119 thousands as of December 31, 2012); (ii) prepaid rent of S/. 7,461 thousands (S/. 6,451 thousands as of December 31, 2012); (iii) prepaid commissions of borrowing for S/. 21,936 thousands (S/. 20,673 thousands as of December 31, 2012); (iv) commissions of structuring and administration services for S/. 2,880 thousands (S/. 7,455 thousands as of December 31, 2012); (v) advertising and marketing services for S/. 3,936 thousands (S/. 6,807 thousands as of December 31, 2012).
- (c) Transactions in process are those carried out during the last days of the month and are reclassified in the following month to their definitive respective accounts in the consolidated balance sheet. These transactions do not affect the results of Scotiabank Perú S.A.A. and Subsidiaries. As of September 30, 2013, they comprise S/. 57,549 thousands related to treasury transactions and S/. 12,703 thousands for invoices in transit for services received (as of December 31, 2012, S/. 56,921 thousands and S/. 2,315 thousands, respectively).

(14) Deposits and Obligations

It comprises the following:

	In thousands of S/.			
	<u>09.30.2013</u>	<u>%</u>	<u>12.31.2012</u>	<u>%</u>
Corporate clients	16,312,693	57	10,163,074	49
Individuals	8,085,722	28	7,251,201	35
Non-profit organizations	2,755,250	10	2,063,634	10
Other	1,415,324	5	1,259,546	6
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	28,568,989	100	20,737,455	100
	=====	===	=====	===

Deposits and other obligations in U.S. dollars represent 56% and 43% of the total deposits as of September 30, 2013 and December 31, 2012, respectively. Deposits included accounts pledged in favor of Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. for credit operations for S/. 476,856 thousands and US\$ 204,871 thousands as of September 30, 2013 and S/. 355,364 thousands and US\$ 173,919 thousands as of December 31, 2012.

Likewise, as of September 30, 2013 and December 31, 2012, from the total of deposits and obligations from individuals and non-profit legal entities, the amounts of S/. 6,068,011 thousands and S/. 5,610,658 thousands, respectively, are covered by the Peruvian Deposit Insurance Fund (FSD, for its acronyms in Spanish), according to current legal regulations.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

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

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

The maximum amount covered for each individual deposit as of September 30, 2013, amounted to S/. 93 thousands (S/. 91 thousands as of December 31, 2012).

The Bank and CrediScotia Financiera S.A. freely establish deposits interest rates based on supply and demand, and the type of deposits. Effective annual rates for main products at September 30, 2013 and December 31, 2012, fluctuated as follows:

	Percentages (%)			
	09.30.2013		12.31.2012	
	Local currency	Foreign currency	Local currency	Foreign currency
Savings deposits	0.69 - 1.73	0.31 - 0.77	0.71 - 1.64	0.32 - 0.71
Term deposits	3.18 - 6.06	1.10 - 2.78	3.45 - 6.35	0.88 - 2.37
Bank certificates	-	0.27 - 0.75	-	0.27 - 0.75
Severance indemnities deposits (CTS)	2.97 - 6.00	1.87 - 4.00	2.84 - 6.00	1.87 - 4.00

As of September 30, 2013 and December 31, 2012, the scheduled maturity dates of the term deposits were as follows:

	In thousands of S/.					
	09.30.2013			12.31.2012		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Up to 1 month	2,010,477	3,603,601	5,614,078	1,920,882	1,350,806	3,271,688
1 to 3 months	1,003,530	1,664,357	2,667,887	1,072,580	378,907	1,451,487
3 to 6 months	1,197,976	795,909	1,993,885	736,303	340,686	1,076,989
6 to 12 months	972,039	1,304,978	2,277,017	573,445	336,196	909,641
Over 12 months	659,160	508,837	1,167,997	607,563	513,686	1,121,249
	5,843,182	7,877,682	13,720,864	4,910,773	2,920,281	7,831,054
Interest payable and obligations	65,433	11,447	76,880	51,398	7,238	58,636
	5,908,615	7,889,129	13,797,744	4,962,171	2,927,519	7,889,690

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

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At the Board of Directors' meeting of CrediScotia Financiera S.A., held on March 31, 2011, the Third Program of short-term Negotiable Certificates of Deposits was approved for an amount up to S/. 300,000 thousands or equivalent amount in U.S. dollars.

At the Board of Directors' meeting, held on May 31, 2012, the Fourth Program of short-term Negotiable Certificates of Deposits (CDN, for its acronym in Spanish), was approved for an amount up to S/. 500,000 thousands or equivalent amount in U.S. dollars. The Program was registered in the Public Registry of Stock Market effective December 31, 2012.

As of September 30, 2013 and December 31, 2012, CrediScotia Financiera S.A. has issued short-term Negotiable Certificates of Deposits as detailed below:

<u>Issuance</u>	<u>Rate</u>	<u>Maturity</u>	<u>In thousands of S/.</u>	
			<u>09.30.2013</u>	<u>12.31.2012</u>
3rd CDN Program	4.41% - 4.97%	2014	-	190,000
4th CDN Program 1-C	3.81%	2014	88,230	-
4th CDN Program 1-A	3.97%	2014	60,560	-
4th CDN Program 1-B	3.81%	2014	60,000	-
			-----	-----
			208,790	190,000
			=====	=====

(15) Borrowings and Financial Obligations

It comprises the following:

	<u>In thousands of S/.</u>	
	<u>09.30.2013</u>	<u>12.31.2012</u>
COFIDE credits lines (a):		
Fondo Mivivienda	345,114	287,881
Working capital and other	265,000	265,000
Ordinary loans from abroad (b):		
Related banks	2,434,250	1,950,750
Other banks	2,220,383	2,486,105
	-----	-----
	5,264,747	4,989,736
Interest payable	14,765	21,629
	-----	-----
	5,279,512	5,011,365
	=====	=====

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

Likewise, as of September 30, 2013 borrowings with COFIDE include funds obtained in local currency to be used for working capital in the short term, which accrue interest at a rate of 5.40% (6.15% as of December 31, 2012).

Borrowings from COFIDE are subject to specific agreements on the use of the funds received, the financial conditions that shall be maintained and other administrative matters. In Management's opinion, as of September 30, 2013 and December 31, 2012, the aforementioned conditions have been complied.

- (b) As of September 30, 2013, ordinary loans correspond to debts with related foreign financial entities: Scotiabank Ltd. Bahamas for US\$ 865,000 thousands and Bank of Nova Scotia for US\$ 10,000 thousands (as of December 31, 2012 with Scotiabank Ltd. Bahamas for US\$ 765,000 thousands).

As of September 30, 2013, this line includes borrowings agreed with foreign and local financial institutions for US\$ 635,125 thousands and S/. 36,166 thousands, respectively (US\$ 781,350 thousands and S/. 63,350 thousands as of December 31, 2012), which accrue interest at annual average rates ranging from 0.41% to 3.19% in foreign currency and from 2.95% to 3.80% in local currency (0.46% to 7.50% in foreign currency and 3.85% in local currency as of December 31, 2012).

Also, as of September 30, 2013, the Bank negotiated borrowings with foreign financial institutions for approximately US\$ 150,000 thousands (US\$ 168,750 thousands as of December 31, 2012) with maturity between June and September 2017. From this amount, US\$ 50,000 thousands (US\$ 59,375 thousands as of December 31, 2012) accrue interest at a fixed rate of 3.88%, while US\$ 100,000 thousands (US\$ 109,375 thousands as of December 31, 2012) accrue interest at a variable rate of 3-month LIBOR plus a spread between 2.35% and 2.50% (2.41% and 2.56% as of December 31, 2012).

These transactions contain standard covenants related to financial ratios and other administrative matters. In the opinion of the management, such covenants do not affect the Bank's operations and are in compliance.

As of September 30, 2013 and December 31, 2012, the scheduled maturity dates of borrowings from banks and other financial institutions were as follows:

	<u>In thousands of S/.</u>	
	<u>09.30.2013</u>	<u>12.31.2012</u>
Up to 1 month	743,665	404,294
1 to 3 months	943,079	1,164,990
3 to 6 months	521,414	478,203
6 to 12 months	171,945	1,232,598
Over 12 months	2,899,409	1,731,280
	-----	-----
	5,279,512	5,011,365
	=====	=====

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

(16) Securities, Bonds and Obligations Issued

It comprises the following:

<u>Issuance</u>	<u>Annual interest</u>	<u>Maturity</u>	<u>In thousands of S/.</u>	
			<u>09.30.2013</u>	<u>12.31.2012</u>
<u>Negotiable notes (a)</u>				
Series A	5.25%	2017	102,495	114,079
Series B	3m LIBOR + 2.75%	2017	256,237	285,197
			-----	-----
			358,732	399,276
<u>Redeemable subordinated bonds</u>				
1st issuance single series (b)	4.50%	2027	1,112,800	1,020,000
1st issuance (c)	9.10%	2013	27,820	25,500
1st issuance A-First Program (d)	7.41%	2027	130,000	130,000
			-----	-----
			1,270,620	1,175,500
<u>Corporate bonds (e)</u>				
1st Issuance A - First Program	6.34%	2013	-	100,000
2nd Issuance A - First Program	7.72%	2014	60,000	60,000
2nd Issuance B - First Program	6.28%	2014	50,000	50,000
2nd Issuance C - First Program	5.53%	2015	50,000	50,000
3rd Issuance A - First Program	6.81%	2013	-	150,000
4th Issuance A - First Program	4.72%	2017	50,000	-
5th Issuance A - First Program	6.44%	2014	40,900	40,900
5th Issuance B - First Program	6.59%	2014	25,150	25,150
5th Issuance C - First Program	6.31%	2014	49,290	49,290
7th Issuance A - First Program	7.19%	2017	60,000	60,000
8th Issuance A - First Program	7.31%	2017	100,000	100,000
1st Issuance A - Second Program	5.72%	2017	100,000	100,000
2nd Issuance B - Second Program	5.19%	2017	50,000	50,000
2nd Issuance C - Second Program	5.16%	2017	50,000	50,000
3rd Issuance A - Second Program	6.78%	2018	75,920	75,920
3rd Issuance B - Second Program	5.56%	2019	100,000	100,000
5th Issuance A - Second Program	5.09%	2017	58,000	58,000
			-----	-----
			919,260	1,119,260
			-----	-----
			2,548,612	2,694,036
			-----	-----
			31,973	22,657
			-----	-----
			2,580,585	2,716,693
			=====	=====

(a) In January 2010, SBP DPR Finance Company (special purpose entity established in Grand Cayman and consolidated by Scotiabank Group) made a securitization agreement of Diversified Payment Rights (DPR, for its acronyms in English), in which SBP DPR Finance Company acquired the rights and future flows from remittances received from correspondent banks up to the deadline specified in the contract. SBP DPR Finance Company issued two series of long-term notes, Series "A" for US\$ 50,000 thousands and Series B for US\$ 125,000 thousands, 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%. As of September 30, 2013 the series "A" amounted to US\$ 36,842 thousands (US\$ 44,737 thousands as of December 31, 2012), the series "B" amounted to US\$ 92,105 thousands (US\$ 111,842 thousands as of December 31, 2012). The notes are guaranteed by remittances received through SWIFT messages and are transferred to SBP DPR Finance Company. These contracts and transactions contain standard clauses of compliance with financial ratios and other administrative matters. In the opinion of the management, those clauses do not affect the Bank's operations and are being met.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

- (b) In December 2012, the Bank issued subordinated bond for US\$ 400,000 thousands which under SBS Resolution 8093-2012, qualify as tier 2 capital. These bonds mature on December 2027 and accrue interest at annual fixed rate of 4.500% during the first ten years; from the eleventh year, they will accrue interest at a variable rate of 3-month LIBOR rate plus a spread of 3.856% to be paid each six months. From the eleventh year, all these bonds can be redeemed without penalties. This issuance was performed in the international market and contains certain standard clauses of compliance with financial ratios and other operating matters, which in the opinion of the management they do not affect the Bank's operations and are being met.
- (c) During 2000, the Bank issued, through public auction, subordinated bonds for US\$ 70,000 thousands 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 thousands maturing in June 2012 (A, B, C, D, E and F series) and in October 2013 (G serie). The proceeds were exclusively destined to finance credit operations.
- (d) In July 31, 2012, CrediScotia Financiera S.A. issued, through public auction, subordinated bonds for S/. 130,000 thousands denominated Subordinated Bonds – First Issuance with SBS authorization – Resolution 4873 – 2012; such series comprise 13,000 bonds at a par value of S/.10 thousands each, with maturity in July 2027 and a put option from the tenth years if the terms and conditions of such issuance are met. The proceeds were exclusively destined to finance credit operations.
- (e) As of September 30, 2013, Scotiabank Perú S.A.A and CrediScotia Financiera S.A. have issued Corporate Bonds for S/. 709,260 thousands and S/. 210,000 thousands, respectively (as of December 31, 2012 S/. 959,260 thousands and S/. 160,000 thousands, respectively) within terms ranging approximately from 1 to 6 years. Proceeds were exclusively used to credit operations.

As of September 30, 2013 and 2012, interest expenses on issued securities, bonds and obligations of Scotiabank Perú S.A.A. and Subsidiaries amount to S/. 105,879 thousands and S/. 72,151 thousands, respectively (note 22).

Subordinated bonds issued by the Bank do not have specific collateral. This subordinated bonds are computable for regulatory capital at tier 2.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

As of September 30, 2013 and December 31, 2012, the maturities of issued securities were as follows:

	<u>In thousands of S/.</u>	
	<u>09.30.2013</u>	<u>12.31.2012</u>
Up to 1 month	53,445	23,488
3 to 6 months	25,625	273,488
6 to 12 months	177,297	72,476
Over 12 months	2,292,243	2,324,584
	-----	-----
	2,548,610	2,694,036
	=====	=====

(17) Provisions and Other Liabilities

It comprises the following:

	<u>In thousands of S/.</u>	
	<u>09.30.2013</u>	<u>12.31.2012</u>
Other accounts payable (a)	231,633	162,242
Transactions in process (b)	163,724	102,267
Provisions for litigations and legal claims (c)	103,837	102,147
Generic provision (d)	78,402	72,576
Provision for indirect loans	63,124	57,296
Put option (e)	60,496	53,162
Vacations, profit sharing and remunerations payable	53,136	109,024
Accounts payable to principals	-	17,193
Deferred income on portfolio sale and other	38,257	14,356
Dividends payable to principals	-	17,532
Income tax provision	8,179	11,484
Deferred income tax	649	-
Other provisions (f)	154,710	90,057
	-----	-----
	956,147	809,336
	=====	=====

- (a) As at September 30, 2013, this account was composed mainly of accounts payable to: (i) suppliers for S/. 162,023 thousands; ii) tax agencies for S/. 6,085 thousands; (iii) purchase of investments for S/. 34,333 thousands; iv) insurance companies for services agreed-upon by customers for S/. 10,873 thousands; and v) merchants for purchases with credit cards issued for S/. 11,219 thousands (S/. 76,600 thousands, S/. 15,524 thousands, S/. 13,308 thousands, S/. 11,866 thousands, and S/. 20,937 thousands; respectively as of December 31, 2012).

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

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- (b) Transactions in process are mainly those carried out during the last days of the month and are reclassified in the following month to their definitive respective consolidated balance sheet accounts. These operations do not affect the results of Scotiabank Perú S.A.A. and Subsidiaries. As of September 30, 2013, liability transactions in process mainly include S/. 59,801 thousands related to Treasury transactions, S/. 7,717 thousands related to credit card operations, S/. 9,984 thousands related to the clearing process at the electronic clearinghouse, and S/. 8,025 thousands related to debit purchase transactions (as of December 31, 2012, S/. 54,819 thousands, S/. 3,004 thousands, S/. 570 thousands, S/. 5,412 thousands, respectively).
- (c) As of September 30, 2013 and December 31, 2012, Scotiabank Perú S.A.A. and Subsidiaries have various legal actions underway, which are related to civil and labor claims, among others. These legal actions resulted from activities and operations performed during the normal course of Scotiabank Perú S.A.A. and Subsidiaries' operations, it is not anticipated they will have no significant impact on operations or results.
- (d) As of September 30, 2013, the generic provision account corresponds to: i) reversals or recoveries of provisions recorded since 2002 charged to equity accounts, which, according to SBS Official Letter 23797-2003, shall be reallocated to deficits of provisions in other asset accounts of the Bank for S/. 42,496 thousands (S/. 40,065 thousands as of December 31, 2012); and ii) generic provision made with charge to income statement of the period for S/. 35,906 thousands (S/. 32,511 thousands as of December 31, 2012).
- (e) As of September 30, 2013 and December 31, 2012, the Bank has entered into a put option contract on its own common shares held in a trust, entitling the trustee the right to sell to the Bank all of these shares at a price calculated based on this contract. This option is effective from September 15, 2006 through December 31, 2015 and its carrying amount does not differ significantly from its estimated market value.
- (f) As of September 30, 2013, the balance of other provisions mainly include: i) provisions for personnel expenses for S/. 125,463 thousands (S/. 35,573 thousands as of December 31, 2012), ii) deposit insurance fund premiums for S/. 6,793 thousands (S/. 6,142 thousands as of December 31, 2012), and iii) credit and debit cards for S/. 12,608 thousands (S/. 11,531 thousands as of December 31, 2012).

The adjustment to the acquisition cost mentioned in the paragraph above, was determined in conformity with the purchase agreement; which allowed the possibility to adjust the acquisition cost upon achievement of certain results indicated in the purchase agreement. The payment of the contingent amount shall was made based on the criteria set out in that agreement, to that effect, in the years 2011, 2012 and 2013, the Bank made the payments of US\$ 10,000 thousands in each year, whereby the Bank fulfilled with the established in that agreement.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

(18) Shareholders' Equity

(a) General

The regulatory capital of Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. are determined in accordance with the Banking Law and as of September 30, 2013, amounts to S/. 4,288,245 thousands and S/. 533,387 thousands, respectively (S/. 4,019,790 thousands and S/. 524,913 thousands, respectively as of December 31, 2012). This figure is used to calculate certain legal limits and restrictions according to the Peruvian Banking Law applicable to the financial institutions' operations in Peru.

As of September 30, 2013, credit risk weighted assets and contingent credits determined by Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. according to the legislation applicable to financial institutions amounted to S/. 29,736,416 thousands and S/. 2,956,972 thousands, respectively, (S/. 23,899,141 thousands and S/. 3,381,243 thousands, respectively, as of December 31, 2012).

As at September 30, 2013, the Banking Law established as a global limit that the regulatory capital shall be equal to or greater than 10% of the total risk weighted assets and contingent credits, which corresponds to the sum of: the amount of regulatory capital requirements for market risk multiplied by 10, plus the amount of the regulatory capital requirements for operational risk multiplied by 10, plus the risk weighted credit related assets and contingencies. As of September 30, 2013, the regulatory capital of Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. represents 13.55% and 16.90% respectively, of the total aforementioned risk weighted assets and contingent credits (15.74% and 14.94% respectively as of December 31, 2012).

Likewise, by means of Resolution 2115-2009, the SBS approved the rules for the regulatory capital requirement for operational risk, effective July 1, 2009. On this respect, as of September 31, 2013 and December 31, 2012, Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. have applied the alternative standard method for the calculation of the regulatory capital requirement for operational risk.

Finally, by means of SBS Resolution 8425-2011 and amendments, the SBS approved the methodology for the calculation of additional regulatory capital requirement, which establishes that this requirement shall be equal to the sum of the regulatory capital requirements, calculated for each of the following components: i) economic cycle, ii) concentration risk, iii) market risk concentration, iv) interest rate risk in the banking books, and v) other risks. This additional requirement came into force progressively as from July 2012 and as of September 30, 2013, it amounted to S/. 506,406 thousands and S/. 75,017 thousands, for Scotiabank Perú S.A.A. and CrediScotia Financiera S.A., respectively (S/. 292,194 thousands and S/. 60,383 as of December 31, 2012 respectively).

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

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(b) Capital Stock

As of September 30, 2013 and December 31, 2012, the Bank's capital stock comprised 282,480,263 common shares. All shares have voting rights and a par value of S/. 10.00 each. As of September 30, 2013 and December 31, 2012, the quoted value of common shares of the Bank was S/. 34.45 and S/. 36.60 per share, respectively. As of September 30, 2013 and December 31, 2012, the monetary inflation adjustment of 2001 through 2004 amounting to S/. 28,019 thousands is pending of capitalization.

Pursuant to the delegation conferred by the General Shareholders' meeting during 2012, the board approved the increase of capital stock for S/. 158,118 thousands in February, S/. 315,397 thousands in July and S/. 80,000 thousands in September, respectively. As of December 31, 2012, issuance of part of the shares corresponding to capitalization of year 2011 retained earnings is in process.

As a result of the capitalization, the capital stock will increase to S/. 2,824,803 thousands and will be represented by 282,480 thousands common shares with a par value of S/. 10 each.

Shares participation on the Bank's capital stock as of September 30, 2013 and December 31, 2012, is as follows:

Percentage of Shareholders	09.30.2013		12.31.2012	
	Number of shareholders	%	Number of shareholders	%
0.01 to 1	1,897	2.25	2,039	2.25
1.01 to 50	2	42.43	2	42.43
50.01 to 100	1	55.32	1	55.32
	1,900	100.00	2,042	100.00

As of September 30, 2013, the Banking Law requires that the capital stock of the Bank shall reach the minimum amount of S/. 24,907 thousands (S/. 24,950 thousands as of December 31, 2012), which is a constant value and shall be updated annually at the closing of each period, based on the wholesale price index (WPI), as published by the Instituto Nacional de Estadística e Informática (National Institute of Statistics).

(c) Legal Reserve

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

At the Bank's Annual General Shareholders' meeting, held on March 26, 2013, it was decided to apply to legal reserve an amount of S/. 82,256 thousands, corresponding to 10% of net profit for the year 2012. At the Bank's General Shareholders' meeting, held on March 28, 2012, it was decided to apply to legal reserve an amount of S/. 78,849 thousands, corresponding to 10% of net profit for the year 2011.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

(d) Retained Earnings

At the Bank's Annual General Shareholders' meeting, held on March 26, 2013, the distribution of the 2012 net profit for a total of S/. 822,561 thousands was approved, as follows:

- (i) Cash dividends payment for S/. 329,024 thousands.
- (ii) Allocate 10% of net profit, amounting to S/. 82,256 thousands to increase the legal reserve.
- (iii) Remaining balance of S/. 411,281 thousands; will be held in the retained earnings account.

Also, in the same Annual General Shareholder's meeting, the payment of cash dividends amounting to S/. 70,332 thousands was approved, which corresponds to the remaining balance of the net profit 2011.

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

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

(19) Contingencies

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

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

Additionally, Scotiabank Perú S.A.A. and Subsidiaries have several pending court claims related to their ongoing activities. In opinion of the Bank's management and their internal legal advisors, these claims will not result in additional liabilities to those recorded by the Bank and its Subsidiaries; therefore, management considers that no additional provision is required for these contingencies (note 17c).

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

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(20) Contingent and Memoranda Accounts

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

Many of the indirect loans are expected to expire without any withdraw required by the Bank and CrediScotia Financiera S.A. The total committed amounts do not necessarily represent future cash outflows. Also, documentary credits, like export and import letters of credit and guarantees and stand-by letters of credit are conditional commitments issued by the Bank and CrediScotia Financiera S.A. to guarantee a customer obligation before a third party.

As of September 30, 2013 and December 31, 2012, the contingent and memoranda accounts comprise the following:

	<u>In thousands of S/.</u>	
	<u>09.30.2013</u>	<u>12.31.2012</u>
Indirect loans (note 7):		
Guarantees and stand-by letters of credit	5,027,723	3,888,379
Issued letters of credit	621,770	532,412
Due from bank acceptances	78,208	66,732
	-----	-----
	5,727,701	4,487,523
Unused credit lines	19,201,542	14,648,417
Financial derivative instruments	11,508,886	11,250,059
Other	542	539
	-----	-----
	36,438,671	30,386,538
Memoranda accounts:		
Guarantee received	58,349,170	50,240,478
Loans and other control	29,463,300	24,113,997
Control of returned checks	22,993,610	21,870,790
Securities in collection	15,307,317	12,974,010
Written-off loans	8,861,765	3,450,933
Securities held in custody	6,814,673	6,820,480
Own securities in custody	3,117,733	3,082,350
Trust and debt trust commissions	1,849,915	2,669,887
Suspended interest on loans	1,843,189	5,966,669
Notified letters of credit	1,230,302	714,299
Securities granted as warranties	660,378	603,078
Goods transferred in trust	397,967	3,794,898
Other memoranda accounts	52,654,337	49,907,803
	-----	-----
	203,543,656	186,209,672
	-----	-----
	<u>239,982,327</u>	<u>216,596,210</u>

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Guarantees received from credit operations are recorded at the value of the guarantee agreed as of the date of the loan contract. This balance does not necessarily represent the market value of guarantees received by the Bank and CrediScotia Financiera S.A. As of September 30, 2013, loan balance covered by guarantees amounts to S/. 13,227,343 thousands (S/. 11,010,641 thousands as of December 31, 2012).

(21) Interest Income

It comprises the following:

	<u>In thousands of S/.</u>	
	<u>09.30.2013</u>	<u>09.30.2012</u>
Interest on loan portfolio	2,212,435	2,085,612
Interest on cash and due from banks (note 6)	68,419	46,005
Interest on investments (note 7)	35,831	54,530
Interest on interbank funds	5,023	4,903
Other finance income	2,288	3,731
	-----	-----
	2,323,996	2,194,781
	=====	=====

(22) Interest Expenses

It comprises the following:

	<u>In thousands of S/.</u>	
	<u>09.30.2013</u>	<u>09.30.2012</u>
Interest on obligations	251,023	238,520
Interest on issued securities (note 15)	105,879	72,151
Interest on borrowings from banks and financial entities	78,866	79,332
Commissions from borrowings and financial obligations	21,619	14,352
Interest on deposits of financial entities	4,252	9,598
Interest on interbank funds	1,057	3,015
	-----	-----
	462,696	416,968
	=====	=====

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(23) Income from Finance Services, net

It comprises the following:

	<u>In thousands of S/.</u>	
	<u>09.30.2013</u>	<u>09.30.2012</u>
Income:		
Income from purchased portfolio recoveries	105,403	54,067
Income from deposit transactions, services and transfer fees	101,096	111,129
Income from commissions from collections services	85,056	60,488
Other fees and commissions from banking services	70,563	78,453
Income from warehousing	42,155	37,747
Income from brokerage services	35,909	32,936
Income from teleprocessing services	33,295	24,052
Income from remunerations of mutual funds and administration fees	27,212	20,354
Income from structuring and administration services	8,616	6,682
Other various income	155,167	177,510
	-----	-----
	664,472	603,418
	-----	-----
Expenses:		
Credit / debit cards expenses	(35,086)	(34,102)
Warehousing expenses	(36,255)	(23,598)
Expenses stock market brokerage services	(28,192)	(22,499)
Premiums to fund deposit insurance	(19,582)	(18,538)
Insurance services expenses	(1,762)	(1,456)
Other expenses	(122,894)	(117,083)
	-----	-----
	(243,771)	(217,276)
	-----	-----
Total income from finance services, net	420,701	386,142
	=====	=====

(24) Results from Financial Operations

It comprises the following:

	<u>In thousands of S/.</u>	
	<u>09.30.2013</u>	<u>09.30.2012</u>
Gain on exchange difference from operations	142,993	102,189
Derivative instruments held-for-trading (note 9)	24,254	21,151
Gains in associates	11,173	8,005
Available-for-sale investments	1,776	1,799
Investments at fair value through profit or loss	(7,474)	2,130
Proceeds on sale of subsidiary shares (note 2)	33,172	-
Other	27,963	41,992
	-----	-----
	233,857	177,266
	=====	=====

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In 2013, Investments at fair value through profit or loss generated gains of S/. 10,679 thousands and losses of S/. 18,153 thousands (gains of S/. 10,603 thousands and losses of S/. 8,473 thousands, in 2012).

(25) Administrative Expenses

It comprises the following:

	<u>In thousands of S/.</u>	
	<u>09.30.2013</u>	<u>09.30.2012</u>
Personnel and board of directors expenses	520,817	506,586
Expenses for services received from third parties	420,141	355,548
Taxes and contributions	59,799	53,612
	-----	-----
	1,000,757	915,746
	=====	=====

(26) Tax Matters

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

	<u>In thousands of S/.</u>	
	<u>09.30.2013</u>	<u>09.30.2012</u>
Scotiabank Perú S.A.A.	219,011	206,674
CrediScotia Financiera S.A.	31,152	45,615
Depósitos S.A.	24,321	3,359
Servicios, Cobranza e Inversiones S.A.	15,290	10,591
Scotia Fondos Sociedad Administradora de Fondos S.A.	3,660	2,286
Scotia Sociedad Agente de Bolsa S.A.	110	1,482
Scotia Sociedad Titulizadora S.A.	83	97

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

<u>Company</u>	<u>Tax returns subject to audit</u>	<u>Tax returns being audited</u>
Scotiabank Perú S.A.A.	2009 through 2012	2007 & 2008
CrediScotia Financiera S.A.	2010 through 2012	2008, 2009 & 2011
Scotia Sociedad Agente de Bolsa S.A.	2008, 2010 through 2012	-
Scotia Fondos Sociedad Administradora de Fondos S.A.	2008, 2009, 2011 & 2012	2010
Scotia Sociedad Titulizadora S.A.	2008 through 2012	-
Servicios, Cobranzas e Inversiones S.A.C.	2010 through 2012	-

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

- (c) The total or partial distribution of dividends, or other types of profit distribution, is subject to a 4.1% income tax withholding, except for the distribution of profits made in favor of domiciled entities.
- (d) As from 2001, for income tax purposes, transfer pricing for transactions carried out with economically-related parties, and with companies domiciled in territories with low or null taxation, shall be supported with documentation and information about the valuation methods used, and the criteria considered, for pricing. Scotiabank Perú S.A.A. and Subsidiaries' management consider that for income tax purposes, pricing regarding transactions such as those aforementioned have been made in accordance with tax legislation; consequently, no significant liabilities will arise as of September 30, 2013 and December 31, 2012.
- (e) Beginning 2010, capital gains are subject to income tax. In this regard, it has been established, among others, that the tax cost of securities whose disposition was tax-exempt until December 31, 2009 since they were traded at stock exchange, will be the higher between: (i) market value as of December 31, 2009, (ii) acquisition cost, or (iii) increase in the equity value, following the procedures described in Executive Order 011-2010-EF. This rule is applicable to legal entities when securities are negotiated through or outside centralized trading mechanisms in Peru.

Beginning January 1, 2010, only interest and capital gains from bonds issued by the Republic of Peru are income tax-exempt if: (i) under Executive Order 007-2002-EF, (ii) under the Market-Makers program or the replacing mechanism, or (iii) in the international market since 2002; as well as interest and capital gains from obligations from the Peruvian Central Reserve Bank (except for those from legal cash reserve requirements deposited by credit institutions); and those coming from the direct or indirect disposition of securities that are traded or underlying Exchange Traded Fund (ETF) that replicate indexes constructed having as reference national investment instruments, when such disposition is made for the creation, payment or management of an investment portfolio of ETFs. Interest and capital gains from corporate bonds issued before March 11, 2007 are also tax-exempt, under certain conditions.

- (f) In conformity with the Income Tax Law, as modified by Law 29663 and 29757, as from fiscal period 2011, income arising from indirect disposition of shares of Peruvian companies shall be subject to the aforementioned tax. An indirect share transfer occurs when the following assumptions are met:
 - i. 10% of more of shares of the off-shore company will be sold in any twelve-month period (assumption effective on February 16, 2011) and,

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

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- ii. Market value of the Peruvian company's shares shall represent 50% or more of the market value of the off-shore company, within any twelve-month period (assumption effective on July 22, 2011).
- (g) In 2005, a tax named Temporary Tax on Net Assets (ITAN, for its acronyms in Spanish) was established. Taxable base is composed of the net asset value adjusted as of the closing of the period before the payment was made, deducting the depreciations, amortizations, legal cash reserve, and specific provisions for credit risk. Since 2009, the tax rate applicable to the amount of assets exceeding S/. 1,000 thousands is 0.4%. It may be paid in cash or in nine consecutive monthly installments. The amount actually paid may be used as partial payments of income tax for taxable periods March to December of the fiscal period for which the tax was paid until maturity of each of the partial payments and against the payment for regularization of income tax of the corresponding taxable period.

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

The Bank requested the compensation of the ITAN 2005 and 2006 against previous years tax credits (balances in favor) (note 9). These requests were resolved in favor of the Bank by the Tax Court. However, the SUNAT on a misinterpretation of the rules only partially offset the ITAN, applying only part of the Bank's tax credits and without considering the legal procedures and precedents applicable to the case, which strongly support the Bank's position.

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

- (h) Effective April 2011 the Tax on Financial Transactions (ITF) is 0.005%. This tax is applied on each deposit and withdrawal made to and from a banking account, unless the account is tax-exempt.
- (i) The reconciliation of the tax rate and the effective tax rate is as follows:

	09.30.2013		09.30.2012	
	Thousands of S/.	%	Thousands of S/.	%
Profit before taxes	958,201	100.00	872,499	100.00
Income tax (theoretical)	287,460	30.00	261,750	30.00
Tax effect on additions and (deductions):				
Permanent differences	6,167	0.64	8,354	0.96
Current and deferred income tax, recorded as per effective rate	293,627	30.64	270,104	30.96

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(27) Deferred Income Tax

Deferred income tax has been calculated applying the balance sheet method (note 3j), and is attributed to the following items:

	Balances as of 12.31.11	(Debit) credit to equity	(Debit) credit to results	Balances as of 12.31.12	(Debit) credit to equity	(Debit) credit to results	Balances as of 09.30.13
Assets:							
Generic provision for loans	108,142	-	17,705	125,847	-	13,466	139,313
Transferred loan portfolio	19,283	-	(344)	18,939	-	-	18,939
Provision for vacations	12,720	-	282	13,002	-	398	13,400
Provision for indirect loans	-	-	9,781	9,781	-	3,507	13,288
Provision for inventories and repossessed assets	9,318	-	(236)	9,082	(18)	(56)	9,008
Doubtful loans provision	4,242	-	3,591	7,833	(887)	2,843	9,789
Fixed assets	324	-	5,650	5,974	30,133	4,362	40,469
Provision for credit card rewards	2,819	-	(122)	2,697	-	212	2,909
Provision for debit card rewards	674	-	(29)	645	-	51	696
Intangible assets	341	-	-	341	-	(1,004)	(663)
Exchange risk provision	-	-	-	-	-	-	-
Valuation of investments in associates	-	-	2,420	2,420	(2,137)	74	357
Other	6,937	-	8,848	15,785	822	(18,922)	(2,315)
	164,800	-	47,546	212,346	27,913	4,931	245,190
Liabilities:							
Valuation of investments in associates	(4,745)	2,429	2,316	-	(718)	69	(649)
Other	(293)	-	293	-	-	-	-
	(5,038)	2,429	2,609	-	(718)	69	(649)
Total deferred income tax asset, net	159,762	2,429	50,155	212,346	27,195	5,000	244,541

(28) Employees' Profit Sharing

According to Legislative Decree 677, the Bank's employees are entitled to a profit-sharing plan computed at 5% of the net income, similarly to employees of the companies of Scotiabank Perú S.A.A. and Subsidiaries. This profit sharing is treated as deductible expenses for income tax calculation purposes. As of September 30, 2013, a consolidated legal employees' profit sharing of S/. 51,879 thousands was determined (S/. 51,250 thousands as of September 30, 2012) and is presented in administrative expenses item in the consolidated income statement.

(29) Trust Fund Activities

Scotiabank Perú S.A.A. and Subsidiaries offer structuring and administration services of trust operations and trust fees, including the preparation of agreements related to these operations. Assets kept in a trust are not included in the consolidated financial statements. Scotiabank Perú S.A.A. and Subsidiaries are responsible for managing these trusts based on the limits established by applicable laws and respective agreements. As of September 30, 2013, the allocated value of assets in trusts and trust fees amounted to S/.946,200 thousands and S/.101,808 thousands, respectively, (S/.1,427,120 thousands and S/. 84,983 thousands, respectively, as of December 31, 2012).

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(30) Financial Risk Management

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

Market Risk

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

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

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

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

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

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

Liquidity Risks

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

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

The main guidelines followed to manage liquidity risk are:

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

Interest Rate Risk

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

Interest rate risk exposure to each currency is controlled through:

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

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Every month the market risk management presents to the risks control committee and the Board of Directors, the interest rate risk report detailing the exposure to such currency risk, as well as the results of measurement tools, use of limits and interest rate risk stress tests, among others issues related to market risk management in compliance with regulatory provisions of BNS and the Bank.

Exchange Rate Risk

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

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

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

Risk in Investments Portfolio

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

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

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

Credit Risk

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

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

(31) Fair Value

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

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

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

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

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

- (a) Cash due from banks and interbank funds represent cash and short-term deposits that are not considered to be a significant credit risk.
- (b) Investments at fair value through profit or loss are recorded at their estimated market value, which is the same as the carrying amount.
- (c) Available-for-sale investments are generally listed or have a market value through future discounted cash flows. Available-for-sale investments in securitizations do not have a market value, for this reason, their fair value is determined by the net cost value of their accumulated provision according to the SBS regulations, and corresponds to the value of recovery established by Scotiabank Perú S.A.A. and Subsidiaries' management.

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- (d) Market value of the portfolio of short-term loans are similar to carrying amounts, net of their corresponding provisions for doubtful accounts, due to their short-term character which is considered by management as the estimated recoverable amount as of the date of the consolidated financial statements. Additionally, portfolio of long-term loans accrues fixed interest rates which are similar to their market rates. Placements of Mivivienda mortgage loans are agreed-upon at a fixed interest rate.
- (e) Investments in associates are valued according to the equity method; such valuation is similar to the fair value of these instruments considering that they are not trading securities.
- (f) The market value of deposits and obligations corresponds to their respective carrying amount mainly because interest rates are similar to those of other liabilities.
- (g) Debts to banks and correspondent banks accrue interest at fixed and floating rates and have maturities of short and long term. The fair value of these financial instruments have been calculated based on discounted future cash flows, using the current interest rate for liabilities with similar characteristics in Scotiabank Perú S.A.A. and Subsidiaries. Consequently, the estimated market value does not differ significantly from carrying amount.
- (h) Securities, bonds and obligations issued accrue interest at fixed rates. The fair value of these financial instruments have been calculated based on discounted future cash flows, using the current interest rate for liabilities with similar characteristics in Scotiabank Perú S.A.A. and Subsidiaries. Consequently, the estimated market value does not differ significantly from carrying amount.
- (i) As described in note 20, Scotiabank Perú S.A.A. and Subsidiaries have granted guarantees, stand-by letters, import and export documentary credits, and has received guarantees in support of the credits granted. Based on the level of commissions currently collected for granting contingent loans, and considering the maturity, and the interest rates and current creditworthiness of the counterparts, Scotiabank Perú S.A.A. and Subsidiaries estimate that the difference between the carrying amount and the fair value is not significant.
- (j) Purchase and sale agreements in foreign currency at a future date are recorded in the books at their estimated market values; therefore, no differences with their respective fair values exist.