

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2012 and 2011

(with the Independent Auditors' Report)

**(TRANSLATION OF FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN SPANISH)**



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(TRANSLATION OF A REPORT ORIGINALLY ISSUED IN SPANISH)

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Scotiabank Perú S.A.A. (a subsidiary of The Bank of Nova Scotia – BNS, an entity established in Canada) and Subsidiaries, which comprise the consolidated balance sheet as of December 31, 2012 and 2011, and the consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting standards established by Superintendencia de Banca, Seguros y Administradoras Privadas de Fondos de Pensiones - SBS (Banking, Insurance and Pension Plan Agency) for financial institutions in Peru, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing approved for its application in Peru by the Dean's Council of the Peruvian Professional Associations of Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's and Subsidiaries' preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and Subsidiaries' internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

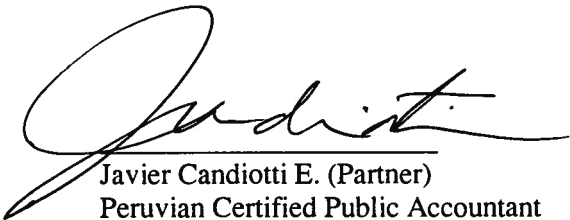
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Scotiabank Perú S.A.A. and Subsidiaries as of December 31, 2012 and 2011, and the consolidated results of their operations and their consolidated cash flows for the years then ended in conformity with accounting standards established by the SBS for financial institutions in Peru.

Lima, Peru

February 21, 2013

Capo & Asociados

Countersigned by:



Javier Candiotti E. (Partner)
Peruvian Certified Public Accountant
Registration 11177

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Financial Statements December 31, 2012 and 2011

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(TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH)

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SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Balance Sheet

As of December 31, 2012 and 2011

(Stated in thousands of nuevos soles)

	Note	<u>2012</u>	<u>2011</u>		Note	<u>2012</u>	<u>2011</u>
Assets				Liabilities and shareholders' equity			
Cash and due from banks:	5			Demand deposits		7,794,709	6,772,507
Cash		845,183	719,889	Savings deposits		4,475,356	4,461,212
Deposits with Banco Central de Reserva del Perú		6,136,242	5,856,563	Time deposits		7,831,054	9,402,416
Deposits with local and foreign banks		328,234	501,528	Other obligations		712,192	781,406
Clearing		175,019	212,121			-----	-----
Accrued interest and due from banks		55,191	16,518			20,813,311	21,417,541
		-----	-----			-----	-----
Interbank funds		184,119	123,220	Interbank funds		25,025	189,204
Investments at fair value through profit or loss and available-for-sale	6	1,371,943	1,659,254	Borrowings and financial obligations	13	5,011,365	4,024,030
Loan portfolio, net	7	22,675,973	20,869,482	Securities, bonds and obligations issued	14	2,716,693	1,470,937
Accounts receivable, net	8	512,648	485,341	Provisions and other liabilities	15	911,395	982,183
Investment in associates		110,752	97,358			-----	-----
Goodwill	9	278,818	278,818	Total liabilities		29,477,789	28,083,895
Property, furniture, and equipment, net	10	503,570	513,141			-----	-----
Other assets, net	11	927,576	793,394	Shareholders' equity:	16		
		-----	-----	Capital stock		2,852,818	2,299,303
Total assets		34,105,268	32,126,627	Additional paid-in capital		368,553	368,553
		=====	=====	Legal reserve		479,029	400,180
Contingent and memoranda accounts:	18			Unrealized earnings		42,291	42,421
Contingent accounts		30,386,538	25,225,312	Retained earnings		884,788	932,275
Memoranda accounts		186,209,672	159,142,646			-----	-----
		-----	-----	Total shareholders' equity		4,627,479	4,042,732
		216,596,210	184,367,958	Contingencies and commitments	17		
		=====	=====			-----	-----
				Total liabilities and shareholders' equity		34,105,268	32,126,627
						=====	=====
				Contingent and memoranda accounts:	18		
				Contingent accounts		30,386,538	25,225,312
				Memoranda accounts		186,209,672	159,142,646
						-----	-----
						216,596,210	184,367,958
						=====	=====

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Income Statement

For the years ended December 31, 2012 and 2011

(Stated in thousands of nuevos soles)

	<u>Note</u>	<u>2012</u>	<u>2011</u>
Finance income	19	3,243,294	2,811,216
Finance expenses	20	(628,380)	(533,480)
Gross finance income		----- 2,614,914	----- 2,277,736
Provision for doubtful loans, net of recoveries	7	(701,710)	(540,571)
Net finance income		----- 1,913,204	----- 1,737,165
Income from finance services, net	21	665,662	589,932
Operating margin		----- 2,578,866	----- 2,327,097
Administrative expenses	22	(1,328,357)	(1,177,973)
Net operating margin		----- 1,250,509	----- 1,149,124
Provision for doubtful and other accounts receivable, realizable, and repossessed assets, and other assets		(60,449)	(72,809)
Depreciation of property, furniture and equipment		(64,394)	(60,164)
Amortization of intangible assets		(9,378)	(8,527)
		----- (134,221)	----- (141,500)
Operating results		----- 1,116,288	----- 1,007,624
Other income, net	23	68,767	97,774
Net income before income tax		----- 1,185,055	----- 1,105,398
Deferred income tax	25	50,155	75,545
Income tax	24	(413,785)	(392,448)
Net profit		----- 821,425	----- 788,495
		=====	=====

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Statement of Changes in Shareholders' Equity

For the years ended December 31, 2012 and 2011

(Stated in thousands of nuevos soles)

	Capital stock <u>(note 16b)</u>	Additional paid-in capital <u>(note 16b)</u>	Legal reserve <u>(note 16c)</u>	Unrealized earnings <u>(note 16d)</u>	Retained earnings <u>(note 16d)</u>	Total shareholders' equity <u>(note 16d)</u>
Balances as of December 31, 2010	1,569,109	368,553	332,160	16,968	1,168,559	3,455,349
Application to legal reserve	-	-	68,020	-	(68,020)	-
Dividend distribution	-	-	-	-	(204,059)	(204,059)
Capitalization of retained earnings	730,198	-	-	-	(730,198)	-
Treasury shares	(4)	-	-	-	-	(4)
Unrealized gains on available-for-sale investments and other	-	-	-	25,453	(8,164)	17,289
Reversal of deferred employees' profit sharing	-	-	-	-	(14,338)	(14,338)
Net profit	-	-	-	-	788,495	788,495
Balances as of December 31, 2011	2,299,303	368,553	400,180	42,421	932,275	4,042,732
Application to legal reserve	-	-	78,849	-	(78,849)	-
Dividend distribution	-	-	-	-	(236,548)	(236,548)
Capitalization of retained earnings	553,515	-	-	-	(553,515)	-
Unrealized losses on available-for-sale investments and other	-	-	-	(130)	-	(130)
Net profit	-	-	-	-	821,425	821,425
Balances as of December 31, 2012	2,852,818	368,553	479,029	42,291	884,788	4,627,479

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Statement of Cash Flows

For the years ended December 31, 2012 and 2011

(stated in thousands of nuevos soles)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Net profit	821,425	788,495
Adjustments to reconcile net profit to net cash from operating activities		
Provision for doubtful loans, net of recoveries	701,710	540,571
Impairment of investment	916	-
Recovery of provision for realizable and repossessed assets	(5,511)	(1,102)
Recovery of provision for accounts receivable	(568)	(55,809)
Provision for contingencies and indirect loans	9,909	28,379
Depreciation and amortization	73,772	68,691
Provision for fringe benefits	38,660	35,468
Provision for current and deferred income tax	363,630	316,903
Loss on sale of property, furniture, and equipment	6,706	3,648
(Gain) loss on sale of realizable and repossessed assets	(10,199)	13,100
Net changes in assets and liabilities:		
Increase in interest, commissions, and other accounts receivable	(28,530)	(86,015)
Increase (decrease) in interest, commissions, and other accounts payable	48,888	(20,845)
Increase in other assets	(107,905)	(131,466)
Decrease in other liabilities	(521,330)	(418,571)
Cash and cash equivalents from operating activities	1,378,161	1,081,447
Cash flows from investing activities:		
Acquisition of property, furniture, and equipment	(65,916)	(80,764)
Acquisition of other non-financial assets	(9,891)	(11,253)
Proceeds from sale of property, furniture, and equipment	3,598	356
Proceeds from sale of other non-financial assets	22,681	25,588
Cash and cash equivalents used in investing activities	(49,528)	(66,073)
Cash flows from financing activities:		
Net increase in loan portfolio	(2,512,184)	(4,296,461)
Net decrease in investments	260,112	71,321
Net (decrease) increase in deposits and obligations	(604,632)	2,003,732
Net increase in borrowings, financial obligations and interbank funds	823,155	394,550
Net increase in securities, bonds and obligations issued	1,235,613	150,141
Dividend paid	(236,548)	(204,059)
Cash and cash equivalents used in financing activities	(1,034,484)	(1,880,776)
Net increase (decrease) in cash and cash equivalents	294,149	(865,402)
Cash and cash equivalents at beginning of the year	7,429,839	8,295,241
Cash and cash equivalents at end of the year	<u>7,723,988</u>	<u>7,429,839</u>

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2012 and 2011

(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 December 31, 2012 (97.71% as of December 31, 2011). The Bank of Nova Scotia directly owned 2.32% of the Bank's shares as of December 31, 2012 and 2011, and indirectly through NW Holdings Ltd. and Scotia Perú Holdings S.A. owned 55.32% and 40.11%, of shares as of December 31, 2012 (55.32% and 40.07% as of December 31, 2011) respectively.

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

The Bank's registered office address is Av. Dionisio Derteano N° 102, San Isidro, Lima, Peru. As of December 31, 2012, the Bank performed its activities through a national network of 191 branches, and one branch abroad (181 branches, and one branch abroad as of December 31, 2011).

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

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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	124,741	30,723	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	-

As of December 31, 2011:

Entity	Activity	Percentage of shareholding	In thousands of S/.		
			Assets	Liabilities	Shareholders' equity
Scotiabank Perú S.A.A.	Banking	-	29,585,936	25,543,206	4,042,730
CrediScotia Financiera S.A.	Finance	100.00	3,946,436	3,047,004	449,432
Servicios, Cobranzas e Inversiones S.A.C.	Collection services	100.00	125,716	20,213	105,503
Scotia Sociedad Agente de Bolsa S.A.	Stock market broker	100.00	75,906	7,563	68,343
Depósitos S.A.	Warehousing	100.00	59,089	17,316	41,773
Scotia Fondos Sociedad Administradora de Fondos S.A.	Administration of mutual funds	100.00	29,982	1,990	27,992
Scotia Sociedad Titulizadora S.A.	Securitization	100.00	3,441	187	3,254
SBP DPR Finance Company	Special purpose entity	-	810,097	810,097	-

Approval of Consolidated Financial Statements

The consolidated financial statements as of December 31, 2012 were approved by the Bank's management on February 28, 2013. These consolidated financial statements have been prepared based on the individual financial statements of companies that are part of Scotiabank Perú S.A.A. and Subsidiaries and that will be presented for approval of the corresponding Board of Directors and General Shareholders' meeting within the terms established by law. The individual financial statements that are part of the consolidated financial statements as of December 31, 2011 were approved by the corresponding General Shareholders' meeting within the terms established by law.

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

The accompanying consolidated 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.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

By means of Resolution 051-2012-EF/30 issued on August 29, 2012, the CNC 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 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 financial statements are presented in nuevos soles (S/.) according to SBS standards. Financial information is presented in nuevos soles (S/.) and has been rounded to the nearest thousand (S/. 000), except as otherwise indicated.

(d) Critical Accounting Estimates and Criteria

The preparation of the consolidated financial statements in conformity with accounting principles requires management to use certain critical accounting estimates and criteria. Estimates and criteria are evaluated continuously according to experience and include reasonable future assumptions 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.

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 3.

(3) Accounting Principles and Practices

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(a) Policies for Consolidation

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

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

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

The financial statements of the Subsidiaries and special purpose entity have been included for consolidation purposes and represent 13.79% and 13.46%, of the Bank's total assets before intra-company eliminations as of December 31, 2012 and 2011, 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.

The financial assets and liabilities presented in the consolidated balance sheet 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. 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:

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(i) Held-for-Trading

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

(ii) Hedging

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

The effectiveness of a hedge shall be measured reliably on a prospective basis at the moment the derivative instrument is designated 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 derivative.

(iii) Embedded Derivatives

Certain derivatives embedded in other financial instruments (main or host contract) are treated as separate derivatives when they meet simultaneously the following conditions: i) the economic characteristics and inherent risks are not closely related to the economic characteristics and risks of the host contract; ii) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and iii) the hybrid instrument is not a trading investment for financial intermediation, according to the Regulation of Investments, or other financial instrument measured at fair value recognized in the 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 December 31, 2012 and 2011, Scotiabank Perú S.A.A. and Subsidiaries did not have embedded derivatives.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(d) Investments

Scotiabank Perú S.A.A. and Subsidiarias apply the recording and valuation criteria of investments established in SBS Resolution 10639-2008 *Regulations for Classification and Valuation of Investments of Financial System Companies* which is in line with the classification and valuation criteria stated in IAS 39 *Financial Instruments: Recognition and Measurement*, except for investments in associates; which are not within the scope of IAS 39, as detailed below:

(i) Investments at Fair Value through Profit or Loss

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

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

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

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.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

(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.

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Notes to the Consolidated Financial Statements

(e) Loans, Classification and Provision for Doubtful Loans

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

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

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

Loan Portfolio Classification

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 thousand.

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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

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

The Bank and CrediScotia Financiera S.A. 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.

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Notes to the Consolidated Financial Statements

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 0.30%. 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 supported by payroll discount agreements, the procyclical component rate is 0.25%.

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

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

Provisions for direct loans are presented deducting balances from the corresponding asset (note 7), and provisions for indirect loans are presented as liabilities (note 15).

- (f) Securities Trading Transactions carried out by Third Parties
Scotia Sociedad Agente de Bolsa S.A. (hereinafter SAB) conducts securities trading transactions carried out 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 balance sheet items only if they fulfill with 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

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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 clients, 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 Lima Stock Exchange are recorded in memoranda accounts, until corresponding 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.

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.

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Realizable assets, received as payment, and repossessed assets (note 11) are regulated by SBS Resolution 1535-2005. This caption mainly includes property, plant, and equipment received as payment for doubtful loans, and 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.
- 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.

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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 24).

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

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

(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 9). 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.

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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.

(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 acronym 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.

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(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. Commissions for banking services are recognized as income when earned.

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

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 December 31, 2012 and 2011, the Bank did not hold preferred shares outstanding.

(q) Employees' Profit Sharing

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

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

Starting in January 1, 2011, employees' profit sharing shall be recognized as personnel expense and liability corresponding to services of the employee, therefore, temporary differences between financial and tax bases shall not be recognized as from that date. The balance accumulated as of December 31, 2010 amounting to S/. 14,338 thousand for deferred employees' profit sharing was applied to retained earnings.

(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 December 31, 2012 and 2011 were considered as cash and cash equivalents.

(s) Reclassifications

Certain financial statement items of 2011 have been reclassified to make them comparable to those in this period. The modification in the comparative information does not imply changes in decisions taken based on it.

(t) Trust Funds

Assets and income from trust operations, there is a commitment to return the assets to clients and the Bank and Scotia Sociedad Titulizadora S.A. act as trustee, are not included in the consolidated financial statements since they do not belong neither to the Bank nor Scotia Sociedad Titulizadora S.A., and are recorded in memoranda accounts for control purposes (note 18). Commissions on those activities are included in income from finance services (note 21).

(u) Foreign Currency Transactions and Balances

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

(v) New International Accounting Pronouncements

i) Pronouncement of the Peruvian Accounting Board (CNC)

The following relevant standards to financial entities have been published for application to periods beginning after these consolidated financial statement presentation date.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

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- 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 10 *Consolidated Financial Statements* establishes the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more entities. IFRS 10 supersedes the consolidation requirements of SIC 12 *Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements*. Effective for periods beginning on or after January 1, 2013.
- IFRS 11 *Joint Arrangements*, this standard addresses the inconsistencies in the reports of joint business, when requiring application of a single method for reporting the interest in jointly controlled entities, focusing in its rights and obligations instead of its juridical form. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC 13 *Jointly Controlled Entities – Non-Monetary Contributions by Ventures*. Effective for periods beginning on or after January 1, 2013.
- IFRS 12 *Disclosure of Interests in Other Entities*, such standard establishes the disclosure requirements for all type of interests in other entities, including the jointly controlled entities, associates, special-purposes entities and other forms of off-balance sheet investment. Effective for annual periods beginning on or after January 1, 2013.
- IFRS 13 *Fair Value Measurement* establishes the new fair value measurement requirements, improves the coherence of the international standards, and reduces complexity, providing a definition of a fair value and a source for its measurement, as well as the disclosure requirements for its use through IFRSs. Effective for annual periods beginning on or after January 1, 2013.
- IAS 19 *Post-Employment Benefits*, it will improve the conditions for recognition and disclosure of a defined benefit plan. Effective for annual periods beginning on or after January 1, 2013.
- As a result of the new standards: IFRSs 10, 11, 12 and 13, the IASB also amended IAS 27 *Financial Statements and Investment in Associates* and IAS 28 *Joint Ventures*. Effective for annual periods beginning on or after January 1, 2013.

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Certain standards have also been improved, among them we can mention:

- IAS 1 - *Presentation of items of other comprehensive income items*
- IAS 32 - *Offsetting financial assets and financial liabilities*
- IFRS - Annual Improvements to IFRSs 2009-2011 Cycle (IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34)

As indicated in note 2a, the standards and interpretations detailed above will only be applicable, in absence of the applicable SBS regulations for situations not covered in the Accounting Manual. 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

- By means of 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 issue corresponding regulation as part of the process to harmonize its accounting regulations to IFRS. Management has not determined the effect on the preparation of its financial statements in case such standards were adopted by the SBS.
- On September 19, 2012, the SBS issued Resolution 7036-2012 modifying the Accounting Manual on certain aspects, effective for information as from September 2012, and as from January 2013, in other cases. Likewise, by means of Official Letter 45311-2012-SBS dated November 30, 2012, the SBS established a term of adaptation until May 31, 2013 concerning specific changes in the Accounting Manual in conformity with Annexes 1 and 2 of Resolution 7036-2012.

As of the date of this report, Management is evaluating the effects on the preparation of its financial statements arising from the resolution application.

- By means of Resolution 7033-2012, the SBS approved the new Regulation for Classification and Valuation of Investment of Financial System Entities, considering it convenient to harmonize the accounting regulations to IFRS. Effective as from January 2013.
- Likewise, the SBS has considered postponing the loan impairment evaluation requirement, under IFRS, until completing the standards project related to financial instruments.

(4) Balances in Foreign Currency

Consolidated balance sheet includes balances of transactions in foreign currency, mainly in U.S. dollars (US\$), which are recorded in nuevos soles (S/.) at the exchange rate established by the SBS. As of December 31, 2012 and 2011, these rates were US\$1 = S/. 2.550 and S/. 2.696, respectively.

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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 December 31, 2012, the buy and sell exchange rates used were US\$ 1 = S/. 2.549 and US\$ 1 = S/. 2.551, respectively (US\$ 1 = S/. 2.695 buy rate and US\$ 1 = S/. 2.697 sell rate as of December 31, 2011).

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

	2012			2011		
	U.S. Dollars	Euros	Other currencies	U.S. Dollars	Euros	Other currencies
Assets:						
Cash and due from banks	1,357,106	37,178	737	1,739,879	13,957	2,547
Investments at fair value through profit or loss and available-for-sale investments	10,764	-	-	42,689	39,285	-
Loan portfolio, net	4,519,043	-	-	3,986,438	-	-
Accounts receivable, net	26,892	-	-	20,720	-	-
Other assets	73,848	7,932	-	39,458	2,852	-
	5,987,653	45,110	737	5,829,184	56,094	2,547
Liabilities:						
Deposits and obligations	3,494,315	53,451	19	3,944,858	55,734	22
Borrowings and financial obligations	1,932,548	-	-	1,452,873	-	-
Securities, bonds and obligations issued	411,029	-	-	70,170	-	-
Other liabilities	229,082	11,254	19	282,324	18	2,001
	6,066,974	64,705	38	5,750,225	55,752	2,023
Net (liabilities) assets position on balance sheet	(79,321)	(19,595)	699	78,959	342	524
Transactions with derivative instruments	3,482	19,830	-	(129,743)	-	-

In 2012, Scotiabank Perú S.A.A. and Subsidiaries recorded under finance income, gains on foreign exchange difference of various operations amounting to S/. 157,089 thousand (gains of S/. 164,214 thousand in 2011) (note 19).

As of December 31, 2012, Scotiabank Perú S.A.A. and Subsidiaries have contingent operations in foreign currency amounting to US\$ 8,022,529 thousand equivalent to S/. 20,457,447 thousand (US\$ 6,023,998 thousand equivalent to S/. 16,240,699 thousand as of December 31, 2011).

(5) Cash and Due from Banks

It comprises the following:

	In thousands of S/.	
	2012	2011
Cash (a)	845,183	719,889
Banco Central de Reserva del Perú (a)	6,136,242	5,856,563
Deposits with local banks (b)	50,440	42,544
Deposits with foreign banks (b)	277,794	458,984
Clearing	175,019	212,121
Restricted funds (c)	52,100	14,403
Accrued interest on cash and due from banks	2,947	1,819
Other cash and due from banks	144	296
	7,539,869	7,306,619

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- (a) As of December 31, 2012, funds held in cash and deposits with Banco Central de Reserva del Perú (BCRP, for its acronym in Spanish) include US\$ 1,238,508 thousand and S/. 1,682,368 thousand (US\$ 1,159,010 thousand and S/. 1,091,220 thousand as of December 31, 2011) of legal cash reserve the Bank and CrediScotia Financiera S.A. must set aside to cover deposits 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 December 31, 2012, the excess of legal cash reserve in local and foreign currency accrued interest at an annual rates of 1.75% and 0.11%, respectively (2.45% in local currency and 0.17% in foreign currency as of December 31, 2011). Interest accrued from the excess in foreign currency in 2012 amounts to US\$ 1,566 thousand (US\$ 1,559 thousand for year 2011). Interest accrued for the excess in local currency in 2012 amounts to S/. 18,350 thousand (S/. 7,456 thousand in year 2011).

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

- (b) Deposits in local and foreign banks correspond, mainly, to balances in nuevos soles and in U.S. dollars, and small amounts in other currencies, with free withdrawal option and accrue interest at market rates. As of December 31, 2012, deposits in foreign banks, included deposits held at The Bank of Nova Scotia for US\$ 4 thousand and Canadian dollars for US\$ 420 thousand (US\$ 677 thousand and Canadian dollars for US\$ 2,019 thousand as of December 31, 2011).

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

- (c) As of December 31, 2012, restricted funds for US\$ 19,853 thousand and S/. 1,474 thousand (US\$ 4,588 thousand and S/. 2,035 thousand as of December 31, 2011), are mainly related to guarantee funds and restricted funds due to lawsuits against the Bank and CrediScotia Financiera S.A.

During 2012 and 2011, interest revenue from cash and due from banks amounted to S/. 68,632 thousand and S/. 39,130 thousand, respectively, and it is included as finance income item in the consolidated income statement (note 19).

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

It comprises the following:

	<u>In thousands of S/.</u>	
	<u>2012</u>	<u>2011</u>
Investments at fair value through profit or loss		
Peruvian Treasury Bonds (a)	76,889	85,846
Mutual funds (b)	14,565	12,273
	-----	-----
	91,454	98,119
Available-for-sale investments:		
BCRP certificates of deposit (c)	919,644	545,770
Peruvian Treasury Bonds (a)	325,207	835,038
Mutual funds (b)	27,155	167,441
Unlisted shares	7,454	11,739
Listed shares	1,029	1,145
Other	-	2
	-----	-----
Total investment at fair value through profit or loss and available-for-sale	1,371,943	1,659,254
	=====	=====

- (a) The Peruvian Treasury Bonds correspond to sovereign bonds issued in local currency by the Peruvian Ministry of Economy and Finance and represent internal public debt instruments of the Republic of Peru. As of December 31, 2012, these bonds accrue interest at annual rates ranging from 3.05% to 4.95% (from 4.16% to 6.48% annually as of December 31, 2011), with maturities between May 2015 and August 2037 (between September 2013 and August 2037 as of December 31, 2011).
- (b) As of December 31, 2012, mutual funds included S/. 15,241 thousand and US\$ 10,384 thousand corresponding to investments in mutual funds managed by a related entity (S/. 69,512 thousand and US\$ 40,876 thousand as of December 31, 2011).
- (c) 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 December 31, 2012, these certificates accrue interest based on the BCRP reference rate which ranged from 3.95% to 4.20% annually (between 4.15% and 4.24% as of December 31, 2011), and have maturities between March 2013 and April 2014 (between January and December 2012, as of December 31, 2011).

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

As of December 31, 2012 and 2011, the accrued interest on investments amounted to S/. 72,708 thousand and S/. 68,494 thousand, respectively, and it is included as finance income item in the consolidated income statement (note 19).

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	<u>In thousands of S/.</u>	
	<u>2012</u>	<u>2011</u>
Up to 3 months	146,456	473,724
3 to 12 months	796,701	337,603
Over 12 months	428,786	847,927
	-----	-----
	<u>1,371,943</u>	<u>1,659,254</u>
	=====	=====

(7) Loan Portfolio, net

It comprises the following:

	<u>In thousands of S/.</u>			
	<u>2012</u>	<u>%</u>	<u>2011</u>	<u>%</u>
Direct loans:				
Current loans	23,194,001	97	21,410,972	97
Refinanced loans	190,153	1	198,713	1
Restructured loans	42,941	-	72,844	-
Past due loans	388,489	2	286,650	2
Loans in litigation	161,137	-	104,274	-
	-----	----	-----	----
	<u>23,976,721</u>	100	<u>22,073,453</u>	100
	====		====	
Plus (less):				
Accrued interest on loans	202,413		190,176	
Non-accrued interest	(424,065)		(488,468)	
Provision for doubtful loans	(1,079,096)		(905,679)	
	-----		-----	
	<u>22,675,973</u>		<u>20,869,482</u>	
	=====		=====	
Indirect loans (note 18)	4,487,523		3,948,281	
	=====		=====	

As of December 31, 2012 and 2011, fifty-one percent of the direct and indirect loan portfolio of the Bank and CrediScotia Financiera S.A. were concentrated in 2,764 and 1,245 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.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Annual interest rates are regulated by the market and may be set at Scotiabank Perú S.A.A. and CrediScotia Financiera S.A.'s discretion. As of December 31, the annual average effective rates of main products fluctuated as follows:

	%			
	2012		2011	
	Local currency	Foreign currency	Local currency	Foreign currency
Overdrafts (*)	55.00 - 85.00	30.00 - 55.00	55.00 - 85.00	30.00 - 55.00
Discounts and commercial loans	5.37 - 43.10	3.62 - 28.27	5.41 - 41.35	3.00 - 29.42
Consumer loans	14.31 - 47.10	9.42 - 20.53	14.65 - 50.72	7.67 - 22.11

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

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

Risk rating	2012				2011			
	Number of debtors	In thousands of S/.			Number of debtors	In thousands of S/.		
		Direct	Contingent	Total		Direct	Contingent	Total
Standard	888,320	22,219,127	4,456,468	26,675,595	899,057	20,691,588	3,926,265	24,617,853
Potential problem	57,022	708,939	25,542	734,481	48,501	515,510	12,573	528,083
Substandard	32,832	254,205	2,112	256,317	30,657	199,387	3,366	202,753
Doubtful	57,128	326,058	717	326,775	54,637	281,057	1,880	282,937
Loss	35,632	468,392	2,684	471,076	22,497	385,911	4,197	390,108
	1,070,934	23,976,721	4,487,523	28,464,244	1,055,349	22,073,453	3,948,281	26,021,734

As of December 31, direct loans were distributed by sectors as follows:

	In thousands of S/.			
	2012	%	2011	%
Mortgage and consumer loans	8,031,654	33	6,939,328	31
Trade	3,031,332	13	2,779,470	13
Manufacturing	2,738,942	11	2,742,342	12
Real estate business and lease service	2,132,133	9	1,886,416	9
Transportation	1,027,954	5	923,083	4
Electricity, gas, and water	826,648	3	916,804	4
Financial intermediation	781,502	3	775,411	4
Mining	690,694	3	997,006	5
Education, services, and other	627,503	3	502,406	2
Agriculture and livestock	415,207	2	368,882	2
Fishing	372,335	2	420,839	2
Construction	330,165	1	312,934	1
Hotel and restaurants	273,064	1	238,505	1
Public administration and defense	25,810	-	7,678	-
Other (mainly non-profit, healthcare and automotive)	2,671,778	11	2,262,349	10
	23,976,721	100	22,073,453	100

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	In thousands of S/.		
	Specific	Generic	Total
Balances as of December 31, 2010	448,332	325,169	773,501
Additions charged to income statement	670,089	206,541	876,630
Recovery of provisions	(213,853)	(104,682)	(318,535)
Transfers and other	24,391	(22,548)	1,843
Write-offs and forgiveness	(414,088)	-	(414,088)
Foreign exchange difference	(7,610)	(6,062)	(13,672)
	-----	-----	-----
Balances as of December 31, 2011	507,261	398,418	905,679
Additions charged to income statement	918,770	229,578	1,148,348
Recovery of provisions	(229,607)	(185,470)	(415,077)
Transfers and other	13,888	1,467	15,355
Write-offs and forgiveness	(555,221)	-	(555,221)
Foreign exchange difference	(11,474)	(8,514)	(19,988)
	-----	-----	-----
Balances as of December 31, 2012	643,617	435,479	1,079,096
	=====	=====	=====

Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. record the regulatory provisions for doubtful loans according to the policy described in note 3e. 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 December 31, 2012 and 2011, voluntary provisions for doubtful loans amount to S/. 68,251 thousand and S/. 57,599 thousand, respectively.

As of December 31, 2012, the provision for foreign exchange credit risk and the procyclical provision amount to S/. 1,081 thousand and S/. 123,274 thousand (S/. 1,165 thousand and S/. 113,598 thousand, respectively as of December 31, 2011).

In 2012 and 2011, the Bank recovered provisions for contingent loans for S/. 31,561 thousand and S/. 17,524 thousand, respectively.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	In thousands of S/.					
	2012			2011		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Up to 1 month	1,059,513	1,345,543	2,405,056	1,004,608	1,292,617	2,297,225
1 to 3 months	1,676,752	1,681,606	3,358,358	1,799,566	1,861,033	3,660,599
3 to 6 months	1,881,570	1,520,569	3,402,139	2,236,794	1,225,443	3,462,237
6 to 12 months	2,281,845	1,299,101	3,580,946	2,039,608	1,220,801	3,260,409
Over 12 months	5,041,715	5,841,294	10,883,009	3,883,331	5,308,904	9,192,235
Overdue and loan in litigation	352,357	197,269	549,626	216,009	174,915	390,924
Less, accrued interest	(141,754)	(60,659)	(202,413)	(136,647)	(53,529)	(190,176)
	12,151,998	11,824,723	23,976,721	11,043,269	11,030,184	22,073,453

(8) Accounts Receivable, net

It comprises the following:

	In thousands of S/.	
	2012	2011
Tax claims (a)	225,666	268,667
Accounts receivable for differential of derivative financial instruments (b)	127,838	55,996
Accounts receivable for collection and warehousing services	47,048	49,358
Accounts receivable from the sale of investments	38,637	41,950
Commissions receivable	17,936	16,627
Payments on behalf of third parties, net	5,604	4,772
Advances to personnel	5,320	2,146
Accounts receivable from brokerage customers	495	280
Accounts receivable from guarantee trusts, net (c)	196	-
Other accounts receivable, net (d)	43,908	45,545
	512,648	485,341

- (a) Scotiabank Perú S.A.A. and Subsidiaries tax proceedings as of December 31, 2012 and 2011, correspond to the compensation of the credit balance against ITAN (temporary tax on net assets) for years 2006 and 2005 (note 24g).

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 only remains the issuance of final resolutions.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (b) The Bank holds agreements of foreign currency forwards, cross currency swaps (CCS) and interest rate swaps (IRS). As of December 31, 2012 and 2011, the fair value of these trading financial instruments has generated accounts receivable and payable as described below:

	In thousands of S/.			
	2012		2011	
	<u>Accounts receivable</u>	<u>Accounts payable</u>	<u>Accounts receivable</u>	<u>Accounts payable</u>
Forwards	109,155	101,805	46,395	42,342
Interest rate swaps (IRS)	14,247	15,216	-	-
Cross currency swaps (CCS)	4,436	203	9,601	9,562
	-----	-----	-----	-----
	127,838	117,224	55,996	51,904
	=====	=====	=====	=====

As of December 31, 2012 and 2011, these derivatives generated net profit of S/. 30,602 thousand and S/. 19,347 thousand, respectively (note 19).

- (c) The SBS, by means of Resolution 1796-2003, authorized the Bank to transfer to a guarantee trust a loan portfolio, provisions and guarantees related to this portfolio. This guarantee trust was to support a financing operation with Banco de Crédito del Perú for US\$ 10,000 thousand. 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. As of December 31, 2012, the Bank had not yet requested any disbursement of this facility. Likewise, during 2012 and 2011, the Trust transferred the loans portfolio to the Bank in the net amount of S/. 3,727 thousand and S/. 17,244 thousand, respectively.

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

As of December 31, 2012, the net balance of the accounts receivable - Trust amounts to S/. 196 thousand (as of December 31, 2011, provision was fully recorded) and accumulated provisions as of that date amount to S/. 5,329 thousand (S/. 118,252 thousand as of December 31, 2011).

- (d) As of December 31, 2012, the balance of other accounts receivable, net of the related provision for doubtful accounts, is mainly composed of: i) accounts receivable from property rental for S/. 1,185 thousand (S/. 1,708 thousand as of December 31, 2011); and ii) various accounts receivable for S/. 42,723 thousand (S/. 43,837 thousand as of December 31, 2011).

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(9) Goodwill

In 2008, the Bank acquired 100% of the capital stock of Banco del Trabajo S.A., currently CrediScotia Financiera S.A., and recognized goodwill as of December 31, 2012 and 2011 of S/. 278,818 thousand which includes a purchase price adjustment (earn-out) of S/. 83,290 thousand, calculated in accordance with the purchase agreement.

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

(10) Property, Furniture, and Equipment, net

It comprises the following:

	In thousands of S/.				Balance as of 12.31.12
	Balance as of 12.31.11	Additions	Disposals	Reclass. & adjust.	
Cost:					
Land	153,994	596	(992)	-	153,598
Property and premises	710,461	3,962	(5,106)	20,529	729,846
Furniture, fixture, and computing equipment (TI)	349,183	32,377	(12,387)	4,334	373,507
Vehicles	5,110	657	(132)	-	5,635
Units in transit and replacing units	6,367	2,318	-	(7,390)	1,295
Work-in-progress	9,306	26,006	-	(25,649)	9,663
	1,234,421	65,916	(18,617)	(8,176)	1,273,544
Accumulated depreciation:					
Property and premises	471,812	31,752	(4,060)	69	499,573
Furniture, fixture, and computing equipment (TI)	246,291	31,928	(11,790)	115	266,544
Vehicles	3,177	714	(34)	-	3,857
	721,280	64,394	(15,884)	184	769,974
	513,141				503,570

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(11) Other Assets, net

It comprises the following:

	<u>In thousands of S/.</u>	
	<u>2012</u>	<u>2011</u>
Tax credits (VAT) and other (a)	394,069	367,973
Deferred income tax (note 25)	212,346	164,800
Prepaid expenses (b)	106,830	118,220
Income tax prepayments, net	91,310	-
Transactions in process (c)	67,595	78,662
Repossessed and realizable assets, net of accumulated depreciation and provision for impairment for S/. 124,063 thousand (S/. 129,743 thousand in 2011)	21,140	28,135
Intangible assets, net of amortizations of S/. 198,561 thousand (S/. 191,726 thousand in 2011)	19,197	16,376
Inventories	3,760	6,995
Other	11,329	12,233
	-----	-----
	927,576	793,394
	=====	=====

- (a) As of December 31, 2012 and 2011, tax credit mainly includes the value added tax (VAT) for S/. 388,320 thousand and S/. 350,331 thousand, respectively, from acquisition of assets that have been transferred under finance leases, which have not yet been applied to taxable operations.
- (b) As of December 31, 2012, prepaid expenses include mainly: (i) deferred loan origination costs, mainly fees paid to external sales S/. 55,119 thousand (S/. 49,876 thousand in 2011); (ii) prepaid rent of S/. 6,451 thousand (S/. 6,499 thousand in 2011); (iii) prepaid commissions of received borrowings for S/. 20,673 thousand (S/. 11,931 thousand in 2011); (iv) advertising and marketing services for S/. 6,806 thousand (S/. 7,341 thousand in 2011); and, (v) commissions on financing of S/. 7,455 thousand (S/. 13,019 thousand as of December 31, 2011).
- (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 December 31, 2012, they comprise S/. 56,921 thousand related to treasury transactions, S/. 2,315 thousand for invoices in transit for services received and S/. 4,966 thousand for unsettled transactions with credit card processors (as of December 31, 2011, S/. 61,920 thousand, S/. 1,373 thousand, and S/. 3,852 thousand, respectively).

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(12) Deposits and Obligations

It comprises the following:

	In thousands of S/.			
	2012	%	2011	%
Individuals	10,163,074	49	6,954,267	32
Corporate clients	7,251,201	35	11,286,062	53
Non-profit organizations	2,063,634	10	2,129,085	10
Other	1,335,402	6	1,048,127	5
	-----	----	-----	----
	20,813,311	100	21,417,541	100
	=====	=====	=====	=====

Deposits and other obligations in U.S. dollars represent 43% and 50% of the total deposits as of December 31, 2012 and 2011, respectively. Deposits included accounts pledged in favor of Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. for credit operations for S/. 355,364 thousand and US\$ 173,919 thousand as of December 31, 2012 and S/. 301,583 thousand, and US\$191,905 thousand as of December 31, 2011.

Likewise, as of December 31, 2012 and 2011, from the total of deposits and obligations from individuals and non-profit legal entities, the amounts of S/. 5,610,658 thousand and S/. 5,493,735 thousand, respectively, are covered by the Peruvian Deposit Insurance Fund (FSD, for its acronym in Spanish), according to current legal regulations.

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

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

The maximum amount covered for each individual as of December 31, 2012, amounted to S/. 91 thousand (S/. 92 thousand as of December 31, 2011).

The Bank and CrediScotia Financiera S.A. freely establish deposits interest rates based on supply and demand, and the type of deposits. As of December 31, the effective annual rates for main products fluctuated as follows:

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	%			
	2012		2011	
	Local currency	Foreign currency	Local currency	Foreign currency
Savings deposits	0.71 - 1.64	0.32 - 0.71	0.94 - 1.73	0.44 - 0.97
Term deposits	3.45 - 6.35	0.88 - 2.37	2.62 - 5.85	0.71 - 2.68
Bank certificates	-	0.27 - 0.75	-	0.27 - 0.73
Severance indemnities deposits (CTS)	2.84 - 6.00	1.87 - 4.00	2.10 - 6.00	1.73 - 4.00

As of December 31, the scheduled maturity dates of the term deposits were as follows:

	In thousands of S/.					
	2012			2011		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Up to 1 month	1,920,882	1,350,806	3,271,688	1,979,683	2,214,016	4,193,699
1 to 3 months	1,072,580	378,907	1,451,487	1,120,587	1,300,964	2,421,551
3 to 6 months	736,303	340,686	1,076,989	499,047	370,236	869,283
6 to 12 months	573,445	336,196	909,641	602,510	592,888	1,195,398
Over 12 months	607,563	513,686	1,121,249	339,600	382,885	722,485
	----- 4,910,773	----- 2,920,281	----- 7,831,054	----- 4,541,427	----- 4,860,989	----- 9,402,416
	=====	=====	=====	=====	=====	=====

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

At the Board of Directors' meeting of CrediScotia Financiera S.A., held on October 28, 2008, the Second Program of short-term Negotiable Certificates of Deposits was approved for an amount up to S/. 200,000 thousand or equivalent amount in U.S. dollars.

At the Board of Directors' meeting of CrediScotia Financiera S.A., held on March 30, 2011, the Third Program of short-term Negotiable Certificates of Deposits was approved for an amount up to S/. 300,000 thousand 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 thousand or equivalent amount in U.S. dollars.

The Program was registered in the Public Registry of Stock Market effective December 31, 2012.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

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As of December 31, 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>2012</u>	<u>2011</u>
2nd CDN Program	4.50% - 4.84%	2012	-	150,000
3rd CDN Program	4.41% - 5.50%	2013	190,000	107,740
			-----	-----
			190,000	257,740
			=====	=====

(13) Borrowings and Financial Obligations

It comprises the following:

	<u>In thousands of S/.</u>	
	<u>2012</u>	<u>2011</u>
COFIDE credits lines (a):		
Mivivienda	287,881	254,012
Working capital and other	265,000	432,000
Ordinary loans from abroad (b):		
Related banks	1,950,750	1,377,124
Other banks	2,486,105	1,938,419
	-----	-----
	4,989,736	4,001,555
Interest payable	21,629	22,475
	-----	-----
	5,011,365	4,024,030
	=====	=====

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

Likewise, as of December 31, 2012, 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 6.15% (between 6.60% and 8.05% as of December 31, 2011).

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 December 31, 2012, the aforementioned conditions have been complied.

- (b) As of December 31, 2012, ordinary loans correspond to debts with related foreign financial entities: Scotiabank Ltd. Bahamas for US\$ 765,000 thousand (as of December 31, 2011 with Scotiabank Ltd. Bahamas and The Bank of Nova Scotia for US\$ 503,165 thousand and US\$ 7,638 thousand; respectively).

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2012, this line includes borrowings agreed with various foreign financial institutions for US\$ 781,350 thousand and S/. 63,350 thousand (US\$ 593,998 thousand as of December 31, 2011), which accrue interest at annual average rates ranging from 1.01% to 7.50% in foreign currency and 8.08% in local currency) (1.91% to 7.50% in foreign currency as of December 31, 2011).

Also, as of December 31, 2012, the Bank negotiated borrowings with foreign financial institutions for approximately US\$ 168,750 thousand (US\$ 125,000 thousand as of December 31, 2011) with maturity in September 2017. From this amount, US\$ 59,375 thousand (US\$ 62,500 thousand as of December 31, 2011) accrue interest at a fixed rate of 3.88%, while US\$ 109,375 thousand (US\$ 62,500 thousand as of December 31, 2011) accrue interest at a variable rate of 3-month LIBOR plus a spread between 2.41% and 2.56% (2.65% as of December 31, 2011).

These transactions contain standard clauses of compliance with financial ratios and other administrative matters. In the opinion of the management, those clauses do not affect the Bank's operations and are being met.

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

	<u>In thousands of S/.</u>	
	<u>2012</u>	<u>2011</u>
Up to 1 month	404,294	237,514
1 to 3 months	1,164,990	467,379
3 to 6 months	478,203	380,893
6 to 12 months	1,232,598	361,040
Over 12 months	1,731,280	2,577,204
	-----	-----
	5,011,365	4,024,030
	=====	=====

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(14) Securities, Bonds and Obligations Issued

It comprises the following:

<u>Issuance</u>	<u>Annual interest</u>	<u>Maturity</u>	<u>Outstanding balance in thousands of S/.</u>	
			<u>2012</u>	<u>2011</u>
Negotiable notes (a)				
Series A	5.25%	2017	114,079	134,800
Series B	3m LIBOR + 2.75%	2017	285,197	337,000
			-----	-----
			399,276	471,800
			-----	-----
Redeemable subordinated bonds				
1st issuance single series (b)	4.50%	2027	1,020,000	-
1st issuance (c)	9.10%	2013	25,500	188,563
1st issuance A-First Program (d)	8.25%	2011	130,000	-
			-----	-----
			1,175,500	188,563
			-----	-----
Corporate bonds (e)				
1st Issuance A – First Program	5.69%	2012	-	30,000
1st Issuance A - First Program	6.34%	2013	100,000	100,000
1st Issuance B - First Program	5.78%	2012	-	26,660
2nd Issuance A - First Program	7.72%	2014	60,000	60,000
2nd Issuance B - First Program	6.28%	2014	50,000	50,000
2nd Issuance C - First Program	5.53%	2015	50,000	-
3rd Issuance A - First Program	6.81%	2013	150,000	150,000
5th Issuance A - First Program	6.44%	2014	40,900	40,900
5th Issuance B - First Program	6.59%	2014	25,150	25,150
5th Issuance C - First Program	6.31%	2014	49,290	49,290
6th Issuance A - First Program	4.66%	2012	-	30,140
7th Issuance A - First Program	7.19%	2017	60,000	60,000
8th Issuance A - First Program	7.31%	2017	100,000	100,000
1st Issuance A – Second Program	5.72%	2017	100,000	-
2nd Issuance B - Second Program	5.19%	2017	50,000	-
2nd Issuance C - Second Program	5.16%	2017	50,000	-
3rd Issuance A - Second Program	6.78%	2018	75,920	75,920
3rd Issuance B - Second Program	5.56%	2019	100,000	-
5th Issuance A - Second Program	5.09%	2017	58,000	-
			-----	-----
			1,119,260	798,060
			-----	-----
			2,694,036	1,458,423
			-----	-----
			22,657	12,514
			-----	-----
			2,716,693	1,470,937
			=====	=====

(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 acronym in Spanish), in which SBP DPR Finance Company acquired the rights and future flows from remittances received from correspondent banks up to the deadline specified in the contract. SBP DPR Finance Company issued two series of long-term notes, Series “A” for US\$ 50,000 thousand and Series B for US\$ 125,000 thousand, both series with maturities in 2017. The Series “A” accrue interest at a fixed rate of 5.25% and Series “B” accrue interest at the three-month LIBOR rate plus 2.75%. The notes are

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guaranteed by remittances received through SWIFT messages and are transferred to SBP DPR Finance Company. These contracts and transactions contain standard clauses of compliance with financial ratios and other administrative matters. In the opinion of the management, those clauses do not affect the Bank's operations and are being met.

- (b) In December 2012, the Bank issued subordinated bond for US\$ 400,000 thousand 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 thousand denominated Banco Wiese Sudameris Subordinated Bonds – First Issuance with SBS authorization – Resolution 366-2000. The issuance of these bonds concluded in 2001 and was executed in seven series (identified with letters A, B, C, D, E, F and G) of 1,000 bonds per series at a par value of US\$10 thousand maturing in 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 thousand denominated Subordinated Bonds – First Issuance with SBS authorization – Resolution 4873 – 2012; such series comprise 13,000 bonds at a par value of S/.10 thousand 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) From 2007 to date, Scotiabank Perú S.A.A and CrediScotia Financiera S.A. have issued Corporate Bonds for S/. 959,260 thousand and S/. 160,000 thousand, respectively within terms ranging from 1 to 7 years. Proceeds were exclusively used to credit operations.

As of December 31, 2012 and 2011, interest expenses on issued securities, bonds and obligations of Scotiabank Perú S.A.A. and Subsidiaries amount to S/. 99,064 thousand and S/. 82,695 thousand, respectively.

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

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As of December 31, the maturities of issued securities were as follows:

	<u>In thousands of S/.</u>	
	<u>2012</u>	<u>2011</u>
Up to 3 month	23,488	17,932
3 to 6 months	273,488	188,472
6 to 12 months	72,476	30,600
Over 12 months	2,324,584	1,221,419
	-----	-----
	2,694,036	1,458,423
	=====	=====

(15) Provisions and Other Liabilities

It comprises the following:

	<u>In thousands of S/.</u>	
	<u>2012</u>	<u>2011</u>
Other accounts payable (a)	144,377	131,843
Accounts payable for differential of derivative instruments (note 8b)	117,224	51,904
Dividends, vacations, profit sharing and remunerations payable	109,024	104,692
Transactions in process (b)	102,267	102,539
Provisions for litigations and legal claims (c)	102,147	119,757
Generic provision (d)	72,576	63,702
Provision for indirect loans	57,311	52,562
Put option (e)	53,162	53,106
Accounts payable to principals	17,193	45,382
Dividends payable to principals	17,532	19,068
Deferred income on portfolio sale and other	14,356	12,096
Income tax provision	14,169	98,130
Deferred income tax (note 25)	-	5,038
Other provisions (f)	90,057	122,364
	-----	-----
	911,395	982,183
	=====	=====

- (a) As at December 31, 2012, this account was composed mainly of accounts payable to: (i) suppliers for S/. 76,600 thousand; ii) tax agencies for S/. 15,524 thousand; (iii) purchase of investments for S/. 13,308 thousand; iv) insurance companies for services agreed-upon by customers for S/. 11,866 thousand; and v) merchants for purchases with credit cards issued for S/. 20,937 thousand (S/. 82,248 thousand, S/. 7,820 thousand, S/. 12,729 thousand, S/. 7,400 thousand, and S/. 12,014 thousand; respectively as of December 31, 2011).

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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 December 31, 2012, liability transactions in process mainly include S/. 54,819 thousand related to Treasury transactions, S/. 3,004 thousand related to credit card operations, S/. 570 thousand related to the clearing process at the electronic clearinghouse, and S/. 5,412 thousand related to debit purchase transactions, and S/. 6,435 thousand related to client's deposits in-transit (as of December 31, 2011, S/. 53,076 thousand, S/. 15,710 thousand, S/. 1,380 thousand and S/. 4,123 thousand, respectively).
- (c) As of December 31, 2012 and 2011, Scotiabank Perú S.A.A. and Subsidiaries have various legal actions underway, which are related to civil and labor claims, among others. These legal actions resulted from activities and operations performed during the normal course of Scotiabank Perú S.A.A. and Subsidiaries' operations, it is not anticipated they will have no significant impact on operations or results.
- (d) As of December 31, 2012, the generic provision account corresponds to: i) reversals or recoveries of provisions recorded since 2002 charged to equity accounts, which, according to SBS Official Letter 23797-2003, shall be reallocated to deficits of provisions in other asset accounts of the Bank for S/. 40,065 thousand (S/. 40,594 thousand as of December 31, 2011); and ii) generic provision made with charge to income statement of the period for S/. 32,511 thousand (S/. 23,108 thousand as of December 31, 2011).
- (e) As of December 31, 2012 and 2011, the Bank has signed a put option contract on its own common shares held in a trust, entitling the trustee the right to sell to the Bank all of these shares at a price calculated based on this contract. This option is effective from September 15, 2006 through December 31, 2015 and its carrying amount does not differ significantly from its estimated market value.
- (f) As of December 31, 2012, the balance of other provisions mainly include: i) provisions for personnel expenses for S/. 35,573 thousand (S/. 31,615 thousand as of December 31, 2011), ii) deposit insurance fund premiums for S/. 6,142 thousand (S/. 6,001 thousand as of December 31, 2011), iii) the balance of the adjustment to the acquisition cost (earn out) of the shares of CrediScotia Financiera S.A. for S/. 28,579 thousand (S/. 55,169 thousand as of December 31, 2010), and iv) the balance of the provisions for country risk for S/. 526 thousand (S/. 3,608 thousand as of December 31, 2011); and v) credit and debit cards for S/. 11,531 thousand (S/. 12,191 thousand as of December 31, 2011).

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 be made based on the criteria set out in that agreement, to that effect, in March 2011 and April 2012, the Bank made the first and second payment amounting to US\$ 10,000 thousand each.

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(16) Shareholders' Equity

(a) General

The regulatory capital of Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. are determined in accordance with the Banking Law and as of December 31, 2012 amounts to S/. 4,019,790 thousand and S/. 524,913, respectively (S/. 2,455,924 thousand and S/. 346,099 thousand, respectively as of December 31, 2011). This figure is used to calculate certain legal limits and restrictions according to the Peruvian Banking Law applicable to the financial institutions' operations in Peru.

As of December 31, 2012, credit risk weighted assets and contingent credits determined by Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. according to the legislation applicable to financial institutions amounted to S/. 23,899,141 thousand and S/. 3,381,243 thousand (S/. 21,230,475 thousand and S/. 3,213,061 thousand as of December 31, 2011).

As at December 31, 2012 and 2011, 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 December 31, 2012, the regulatory capital of Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. represents 15.74% and 14.94% respectively, of the total aforementioned risk weighted assets and contingent credits (10.94% and 10.77% respectively as of December 31, 2011).

Likewise, by means of 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 December 31, 2012 and 2011, 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 December 31, 2012, it amounted to S/. 292,194 thousand and S/. 60,383 thousand, for Scotiabank Perú S.A.A. and CrediScotia Financiera S.A., respectively.

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(b) Capital Stock

As of December 31, 2012, the Bank's capital stock comprised 282,480,263 common shares (227,128,755 common shares as of December 31, 2011). All shares have voting rights and a par value of S/. 10.00 each. As of December 31, 2012 and 2011, the quoted value of common shares of the Bank was S/. 36.60 and S/. 36.50 per share, respectively. As of December 31, 2012 and 2011, the monetary inflation adjustment of 2001 through 2004 amounting to S/. 28,019 thousand is pending of capitalization.

Pursuant to the delegation conferred by the General Shareholders' meeting during 2012, the board approved the increase of capital stock for S/. 395,397 thousand and S/. 158,118 thousand, 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 thousand and will be represented by 282,480 thousand common shares with a par value of S/. 10 each.

During 2011, the board approved to increase capital stock by S/. 730,198 thousand resulting from the capitalization of retained earnings from previous periods through the issuance of 73,020 thousand common shares, with a par value of S/. 10.00 each. Consequently, capital stock increased to S/. 2,271,287 thousand represented by 227,129 thousand common shares with a par value of S/. 10.00 each.

Shares participation on the Bank's capital stock as of December 31, is as follows:

<u>Percentage of shareholding</u>	<u>2012</u>		<u>2011</u>	
	<u>Number of shareholders</u>	<u>%</u>	<u>Number of shareholders</u>	<u>%</u>
0.01 to 1	2,039	2.25	2,279	2.29
1.01 to 50	2	42.43	2	42.39
50.01 to 100	1	55.32	1	55.32
	-----	-----	-----	-----
	2,042	100.00	2,282	100.00
	=====	=====	=====	=====

As of December 31, 2012, the Banking Law requires that the capital stock of the Bank shall reach the minimum amount of S/. 24,950 thousand (S/. 24,853 thousand as of December 31, 2011), which is a constant value and shall be updated annually at the closing of each period, based on the wholesale price index (WPI), as published by the Instituto Nacional de Estadística e Informática (National Institute of Statistics).

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(c) Legal Reserve

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

At the Bank's Annual Obligatory General Shareholders' meeting, held on March 28, 2012, it was decided to apply to legal reserve an amount of S/. 78,849 thousand, corresponding to 10% of net profit for the year 2011. At the Bank's General Shareholders' meeting, held on March 31, 2011, it was decided to apply to legal reserve an amount of S/. 68,020 thousand, corresponding to 10% of net profit for the year 2010.

(d) Retained Earnings

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

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

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

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

(17) Contingencies

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

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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 the opinion of 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 necessary for these contingencies (note 15c).

(18) Contingent and Memoranda Accounts

In the normal course of business, the Bank and CrediScotia Financiera S.A. perform 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.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

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As of December 31, the contingent and memoranda accounts comprise the following:

	<u>In thousands of S/.</u>	
	<u>2012</u>	<u>2011</u>
Indirect loans:		
Guarantees and stand-by letters of credit	3,888,379	3,421,005
Issued letters of credit	532,412	479,787
Due from bank acceptances	66,732	47,489
	-----	-----
	4,487,523	3,948,281
Unused credit lines	14,648,417	14,467,629
Financial derivative instruments	11,250,059	6,808,862
Other	539	540
	-----	-----
	30,386,538	25,225,312
	-----	-----
Memoranda accounts:		
Guarantee received	50,240,478	44,316,206
Loans and other control	24,113,997	21,316,765
Control of returned checks	21,870,790	20,238,257
Securities in collection	12,974,010	12,126,698
Securities held in custody	6,820,480	6,932,796
Suspended interest on loans	5,966,669	2,664,017
Goods transferred in trust	3,794,898	3,906,930
Written-off loans	3,450,933	3,404,937
Own securities in custody	3,082,350	3,657,501
Trust and debt trust commissions	2,669,887	2,425,306
Notified letters of credit	714,299	426,926
Securities granted as warranties	603,078	766,951
Other memoranda accounts	49,907,803	36,959,356
	-----	-----
	186,209,672	159,142,646
	-----	-----
	216,596,210	184,367,958
	=====	=====

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 December 31, 2012, loan balances covered by guarantees amount to S/. 11,010,641 thousand (S/. 9,414,316 thousand as of December 31, 2011).

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As of December 31, 2012, the Superintendencia del Mercado de Valores (SMV, for its acronym in Spanish) required the implementation of IFRS for the financial statements of SAB, Scotia Fondos Sociedad Administradora de Fondos S.A. and Scotia Sociedad Titulizadora S.A. The major impact affected the presentation of assets, liabilities and memoranda accounts of the balance sheet of SAB and Scotia Sociedad Titulizadora S.A., thus certain balances of the consolidated financial statements as of December 31, 2011 were adjusted as follows:

	<u>In thousands of S/.</u>	
	<u>Other memoranda accounts</u>	<u>Trust and trust fees</u>
Non-reclassified balances	36,954,768	2,028,553
Operative brokerage customer's accounts (a)	1,611	-
Accounts receivable from brokerage customers (a)	2,977	-
Net assets of securitized trusts (b)	-	396,753
	<u>-----</u>	<u>-----</u>
	36,959,356	2,425,306
	<u>=====</u>	<u>=====</u>

- (a) These accounts were reclassified from the asset accounts to memoranda accounts because they correspond to transfers of funds carried out by brokerage customers of SAB for purchase and sale operations traded in the stock exchange market and over-the-counter market. This entity manages the funds of clients in trust and it is not able to use such resources since there is a commitment to return them to clients; consequently, these resources are not entity's assets and shall be recorded in memoranda accounts.
- (b) Similarly, Scotia Sociedad Titulizadora S.A. manages third party funds as trustee, cannot use these resources, and there is a commitment to return them to the trustier; consequently, they are not entity's assets and shall be recorded in memoranda accounts.

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(19) Finance Income

It comprises the following:

	<u>In thousands of S/.</u>	
	<u>2012</u>	<u>2011</u>
Interest and commissions on loan portfolio	2,829,301	2,459,434
Gain on exchange difference from operations	157,089	164,214
Income from investment valuation	72,708	68,494
Interest on cash and due from banks	68,632	39,130
Gain on derivative instruments	30,602	19,347
Gain in associates	11,585	11,634
Interest and commissions on interbank funds	6,501	5,362
Other finance income	66,876	43,601
	-----	-----
	3,243,294	2,811,216
	=====	=====

(20) Finance Expenses

It comprises the following:

	<u>In thousands of S/.</u>	
	<u>2012</u>	<u>2011</u>
Interest on obligations	318,894	252,330
Interest on borrowings from banks and financial entities	108,120	90,183
Interest on issued securities	99,064	82,695
Deposit insurance fund premiums	24,645	23,558
Commissions on financial obligations	19,414	14,882
Interest on deposits of financial entities	11,328	8,083
Interest and commissions on interbank funds	3,236	3,971
Other finance expenses	43,679	57,778
	-----	-----
	628,380	533,480
	=====	=====

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(21) Income from Finance Services, net

It comprises the following:

	<u>In thousands of S/.</u>	
	<u>2012</u>	<u>2011</u>
Income:		
Income from services and maintenance fees of credit/debit cards	171,364	163,054
Income from deposit transactions, services and transfer fees	148,508	148,505
Other fees and commissions from banking services	104,955	91,980
Income from purchased portfolio recoveries	94,219	70,360
Income from commissions from collections services	83,209	81,179
Income from warehousing	50,747	48,720
Income from remunerations of mutual funds and administration fees	29,047	25,836
Income from teleprocessing services	25,943	27,249
Income from brokerage services	14,237	10,564
Income from structuring and administration services	4,756	13,747
Income from leased property	2,977	2,879
Other various income	60,899	47,762
	-----	-----
	790,861	731,835
	-----	-----
Expenses:		
Other expenses	(46,652)	(57,549)
Credit / debit cards expenses	(45,552)	(44,278)
Warehousing expenses	(30,906)	(28,210)
Insurance services expenses	(2,089)	(11,866)
	-----	-----
	(125,199)	(141,903)
	-----	-----
Total income from finance services, net	665,662	589,932
	=====	=====

(22) Administrative Expenses

It comprises the following:

	<u>In thousands of S/.</u>	
	<u>2012</u>	<u>2011</u>
Personnel and board of directors expenses	730,232	666,423
Expenses for services received from third parties	523,309	444,162
Taxes and contributions	74,816	67,388
	-----	-----
	1,328,357	1,177,973
	=====	=====

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(23) Other Income, net

It comprises the following:

	<u>In thousands of S/.</u>	
	<u>2012</u>	<u>2011</u>
Income from recovery of accounts receivable and other	40,622	40,958
Income from repossessed assets	11,952	11,277
Other extraordinary expenses, net	(9,946)	(7,269)
Income from previous periods	26,139	53,079
Proceeds on sale of out of use goods	-	(271)
	-----	-----
	<u>68,767</u>	<u>97,774</u>
	=====	=====

(24) Tax Matters

(a) In accordance with current tax legislation, corporate income tax for the years 2012 and 2011 is calculated applying the statutory income tax rate of 30%. The income tax of each company composing Scotiabank Perú S.A.A. and Subsidiaries has been determined for fiscal years 2012 and 2011, as follows:

	<u>In thousands of S/.</u>	
	<u>2012</u>	<u>2011</u>
Scotiabank Perú S.A.A.	299,660	314,754
CrediScotia Financiera S.A.	86,293	61,805
Servicios, Cobranza e Inversiones S.A.	12,909	13,433
Depósitos S.A.	4,904	3,681
Scotia Fondos Sociedad		
Administradora de Fondos S.A.	3,491	3,193
Scotia Sociedad Agente de Bolsa S.A.	6,404	2,284
Scotia Sociedad Titulizadora S.A.	124	170

(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:

Company	<u>Tax returns subject to audit</u>	<u>Tax returns being audited</u>
Scotiabank Perú S.A.A.	2009 through 2012	2007 and 2008
CrediScotia Financiera S.A.	2010 through 2012	2008 and 2009
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	-
Depósitos S.A.	2010 through 2012	-
Servicios, Cobranzas e Inversiones S.A.C.	2009 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 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.

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- (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,
 - 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 acronym 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 thousand is 0.4%. It may be paid in cash or in nine consecutive monthly installments. The amount actually paid may be used as partial payments of income tax for taxable periods 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). 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 thousand; an amount which according to the Bank's management and its advisors will be returned by the tax authority, plus interest, when we receive the Tax Court's favorable findings regarding the applied compensation methodology.

- (h) Tax on Financial Transactions (ITF) since April 2011 was 0.005% (0.05% until March 2011). This tax is applied on each deposit and withdrawal made to and from a banking account, unless the account is tax-exempt.

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(i) The reconciliation of the tax rate and the effective tax rate is as follows:

	2012		2011	
	Thousands of S/.	%	Thousands of S/.	%
Profit before taxes	1,185,055	100.00	1,105,398	100.00
Income tax (theoretical)	355,517	30.00	331,619	30.00
Tax effect on additions and (deductions):				
Permanent differences	8,113	0.68	(14,716)	(1.33)
Current and deferred income tax, recorded as per effective rate	363,630	30.68	316,903	28.67

(25) 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 12.31.10	(Debit) credit to equity	(Debit) credit to results	Balances as of 12.31.11	(Debit) credit to equity	(Debit) credit to results	Balances as of 12.31.12
Assets:							
Generic provision for loans	75,270	-	32,872	108,142	-	17,705	125,847
Transferred loan portfolio	24,076	-	(4,793)	19,283	-	(344)	18,939
Provision for vacations	11,416	-	1,304	12,720	-	282	13,002
Doubtful loans provision	(16,166)	-	20,408	4,242	-	3,591	7,833
Time deposits interest	4,632	-	(4,632)	-	-	-	-
Intangible assets	3,015	-	(2,674)	341	-	-	341
Provision for credit card rewards	2,835	-	(16)	2,819	-	(122)	2,697
Fixed assets	883	-	(559)	324	-	5,650	5,974
Provision for debit card rewards	803	-	(129)	674	-	(29)	645
Provision for inventories and repossessed assets	940	-	8,378	9,318	-	(236)	9,082
Provision for contingencies	-	-	-	-	-	9,781	9,781
Valuation of investments in associates	-	-	-	-	-	2,420	2,420
Other	(17,783)	(580)	25,300	6,937	-	8,848	15,785
	89,921	(580)	75,459	164,800	-	47,546	212,346
Liabilities:							
Valuation of investments in associates	(9,227)	4,482	-	(4,745)	2,429	2,316	-
Other	(379)	-	86	(293)	-	293	-
	(9,606)	4,482	86	(5,038)	2,429	2,609	-
Total deferred income tax asset, net	80,315	3,902	75,545	159,762	2,429	50,155	212,346

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(26) 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. In 2012, a consolidated legal employees' profit sharing of S/. 69,208 thousand was determined (S/. 69,446 thousand in 2011) and is presented in administrative expenses item in the consolidated income statement.

(27) Trust Fund Activities

Scotiabank Perú S.A.A. and Subsidiaries offer structuring and administration services of trust operations and trust fees, and is in charge of the preparation of agreements related to these operations. Assets kept in trust are not included in the consolidated financial statements. Scotiabank Perú S.A.A. and Subsidiaries are responsible for the appropriate management of these trusts based on the limits established by applicable laws and the respective agreement. As of December 31, 2012, the allocated value of assets in trusts and trust fees amounted to S/. 1,512,103 thousand (S/. 1,401,134 thousand, as of December 31, 2011).

(28) Financial Risk Management

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

Market Risk

This is comprised of the risk of loss of value of 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.

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

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

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

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

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

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.

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The main guidelines followed to manage liquidity risk are:

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

Interest Rate Risk

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

Interest rate risk exposure to each currency is controlled through:

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

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

Exchange Rate Risk

This 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.

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Risk in Investments Portfolio

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

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

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

Credit Risk

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

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

(29) Fair Value

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

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

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

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

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- (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.