

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

**Consolidated Financial Statements**

**June 30, 2012**

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

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

**Consolidated Financial Statements  
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**INDEPENDENT AUDITORS' REPORT ON REVIEW  
OF INTERIM FINANCIAL STATEMENTS**

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

*Introduction*

We have reviewed the accompanying consolidated balance sheet of Scotiabank Perú S.A.A. (a subsidiary of Bank of Nova Scotia – BNS, an entity established in Canada) and Subsidiaries as of June 30, 2012 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the six-month periods ended June 30, 2012 and 2011, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these consolidated interim financial statements in conformity with accounting standards established for financial entities in Peru by the Superintendencia de Banca, Seguros y Administradoras Privadas de Fondos de Pensiones – SBS (Superintendency of Banking, Insurance, and Private Pension Fund Administrators). Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

*Scope of Review*

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

*Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements do not present fairly, in all material respects, the financial position of Scotiabank Perú S.A.A. and Subsidiaries as at June 30, 2012, and of their consolidated results of their operations and their consolidated cash flows for the six-month periods ended June 30, 2012 and 2011, in conformity with accounting standards established for financial entities in Peru by the SBS, as discussed in notes 2 and 3 to the interim consolidated financial statements.

Lima, Peru

August 23, 2012

*Caipo & Asociados*

Countersigned by:

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

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

## Consolidated Balance Sheet

As of June 30, 2012 and December 31, 2011

(Stated in thousands of nuevos soles)

<u>Assets</u>	<u>06.30.2012</u> (Unaudited)	<u>12.31.2011</u> (Audited)	<u>Liabilities and shareholders' equity</u>	<u>06.30.2012</u> (Unaudited)	<u>12.31.2011</u> (Audited)
Cash and due from banks (note 5):			Deposits and obligations (note 12):		
Cash	788,172	719,889	Demand deposits	6,967,629	6,772,507
Deposits with Banco Central de Reserva del Perú	4,699,571	5,856,563	Savings deposits	4,255,227	4,461,212
Deposits with local and foreign banks	435,885	503,139	Time deposits	8,935,128	9,402,416
Clearing	151,389	212,121	Other obligations	738,064	787,076
Accrued interest and due from banks	41,171	16,518		-----	-----
	-----	-----		20,896,048	21,423,211
	6,116,188	7,308,230			
Interbank funds	287,426	123,220	Interbank funds	33,508	189,204
Investments at fair value through profit or loss and available-for-sale (note 6)	2,470,897	1,659,254	Borrowings and financial obligations (note 13)	5,309,592	4,024,030
Loan portfolio, net (note 7)	21,866,933	20,869,482	Securities, bonds and obligations issued (note 14)	1,601,381	1,470,937
Accounts receivable, net (note 8)	481,050	488,318	Provisions and other liabilities (note 15)	985,547	981,101
Investments in associates	108,561	97,358		-----	-----
Goodwill (note 9)	278,818	278,818	Total liabilities	28,826,076	28,088,483
Property, furniture, and equipment, net (note 10)	502,456	513,141		-----	-----
Other assets, net (note 11)	918,669	793,394	Shareholders' equity (note 16):		
	-----	-----	Capital stock	2,457,421	2,299,303
Total assets	33,030,998	32,131,215	Additional paid-in capital	368,553	368,553
	=====	=====	Legal reserve	479,029	400,180
			Unrealized earnings	37,413	42,421
			Retained earnings	862,506	932,275
				-----	-----
			Total shareholders' equity	4,204,922	4,042,732
			Contingencies (note 17)		
				-----	-----
			Total liabilities and shareholders' equity	33,030,998	32,131,215
				=====	=====
Contingent and memoranda accounts (note 18):			Contingent and memoranda accounts (note 18):		
Contingent accounts	32,961,359	25,225,312	Contingent accounts	32,961,359	25,225,312
Memoranda accounts	177,637,151	158,741,305	Memoranda accounts	177,637,151	158,741,305
	-----	-----		-----	-----
	210,598,510	183,966,617		210,598,510	183,966,617
	=====	=====		=====	=====

See the accompanying notes to the consolidated financial statements.

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

## Consolidated Income Statement

For the six-month periods ended June 30, 2012 and 2011

(Stated in thousands of nuevos soles)

	<u>2012</u> (Unaudited)	<u>2011</u> (Unaudited)
Finance income (note 19)	1,595,379	1,357,817
Finance expenses (note 20)	( 316,240)	( 274,005)
	-----	-----
Gross finance income	1,279,139	1,083,812
	-----	-----
Provision for doubtful loans, net of recoveries (note 7)	( 321,204)	( 236,870)
	-----	-----
Net finance income	957,935	846,942
Income from finance services, net (note 21)	307,851	292,140
	-----	-----
Operating margin	1,265,786	1,139,082
Administrative expenses (note 22)	( 631,219)	( 571,078)
	-----	-----
Net operating margin	634,567	568,004
	-----	-----
Provision for doubtful and other accounts receivable realizable, repossessed assets, and other assets	( 43,330)	( 52,253)
Depreciation of property, furniture, and equipment	( 32,513)	( 29,477)
Amortization of intangible assets	( 4,679)	( 3,934)
	-----	-----
	( 80,522)	( 85,664)
	-----	-----
Operating results	554,045	482,340
Other income, net (note 23)	38,300	43,970
	-----	-----
Net income before income tax	592,345	526,310
Deferred income tax (note 25)	25,165	37,462
Current income tax (note 24)	( 213,764)	( 195,286)
	-----	-----
Net profit	403,746	368,486
	=====	=====
Earning per share (in nuevos soles) (note 27)	1.662	1.517
	=====	=====
Weighted average of common shares issued (in thousands of shares) (note 27)	242,941	242,941
	=====	=====

See the accompanying notes to the consolidated financial statements.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES  
 Consolidated Statement of Changes in Shareholders' Equity  
 For the six-month periods ended June 30, 2012 and 2011

(Stated in thousands of nuevos soles)

	Capital stock <u>(note 16.b)</u>	Additional paid-in capital <u>(note 16.b)</u>	Legal reserve <u>(note 16.c)</u>	Unrealized earnings	Retained earnings <u>(note 16.d)</u>	Total shareholders' equity
Balances as of December 31, 2010 (Audited)	1,569,109	368,553	332,160	16,968	1,168,559	3,455,349
Application to legal reserve	-	-	68,020	-	( 68,020)	-
Dividend distribution	-	-	-	-	( 204,059)	( 204,059)
Capitalization of retained earnings	480,198	-	-	-	( 480,198)	-
Unrealized losses on available-for-sale investments and other	-	-	-	( 12,788)	-	( 12,788)
Reversal of deferred employees' profit sharing	-	-	-	-	( 14,048)	( 14,048)
Net profit	-	-	-	-	368,486	368,486
	-----	-----	-----	-----	-----	-----
Balances as of June 30, 2011 (Unaudited)	2,049,307	368,553	400,180	4,180	770,720	3,592,940
	=====	=====	=====	=====	=====	=====
Balances as of December 31, 2011 (Audited)	2,299,303	368,553	400,180	42,421	932,275	4,042,732
Application to legal reserve	-	-	78,849	-	( 78,849)	-
Dividend distribution	-	-	-	-	( 236,548)	( 236,548)
Capitalization of retained earnings	158,118	-	-	-	( 158,118)	-
Unrealized losses on available-for-sale investments and other	-	-	-	( 5,008)	-	( 5,008)
Net profit	-	-	-	-	403,746	403,746
	-----	-----	-----	-----	-----	-----
Balances as of June 30, 2012 (Unaudited)	2,457,421	368,553	479,029	37,413	862,506	4,204,922
	=====	=====	=====	=====	=====	=====

See the accompanying notes to the consolidated financial statements.

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

## Consolidated Statement of Cash Flows

For the six-month periods ended June 30, 2012 and 2011

(stated in thousands of nuevos soles)

	<u>2012</u>	<u>2011</u>
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Net profit	403,746	368,486
Adjustments to reconcile net profit to net cash from operating activities:		
Provision for doubtful loans, net of recoveries	321,204	236,870
Impairment of investments and other assets	916	-
Provision for contingencies and indirect loans	33,201	34,312
Depreciation and amortization	37,192	33,411
Net recovery for realizable and repossessed assets	( 1,771)	( 607)
Net recovery of provision for accounts receivable	( 1,292)	( 11,150)
Provision for severance indemnities	19,496	17,766
Provision for income tax	188,599	157,824
(Gain) loss on sale of property, furniture, and equipment	( 5,053)	3,000
(Gain) loss on sale of realizable and repossessed assets	( 5,833)	1,887
Net changes in assets and liabilities:		
Net decrease (increase) in interest, commissions, and other accounts receivable	8,560	( 19,083)
Net decrease in interest, commissions, and other accounts payable	( 33,318)	( 46)
Net increase in other assets	( 130,108)	( 261,980)
Net decrease in other liabilities	( 199,956)	( 1,848)
	-----	-----
Net cash and cash equivalents from operating activities	635,583	558,842
	-----	-----
Cash flows from investing activities		
Acquisition of property, furniture, and equipment	( 27,591)	( 31,078)
Acquisition of other non-financial assets	( 2,697)	( 2,955)
Proceeds from the sale of property, furniture, and equipment	7,233	169
Proceeds from the sale of other non-financial assets	22,825	6,722
	-----	-----
Net cash and cash equivalents applied to investing activities	( 230)	( 27,142)
	-----	-----
Cash flows from financing activities		
Net increase in loan portfolio	( 1,321,458)	( 2,189,168)
Net increase in investments	( 834,699)	( 217,896)
Net (decrease) increase in deposits and obligations	( 527,461)	1,663,114
Net increase in borrowings, financial obligations and interbank funds	1,129,865	344,408
Net increase in securities, bonds and obligations issued	127,112	45,290
Payment of dividends	( 236,548)	( 204,059)
	-----	-----
Net cash and cash equivalents applied to financing activities	( 1,663,189)	( 558,311)
	-----	-----
Net decrease in cash and cash equivalents	( 1,027,836)	( 26,611)
Cash and cash equivalents at beginning of the period	7,431,450	8,303,022
	-----	-----
Cash and cash equivalents at end of the period	6,403,614	8,276,411
	=====	=====

See the accompanying notes to the consolidated financial statements.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of June 30, 2012 (unaudited), December 31, 2011 (audited)  
and June 30, 2011 (unaudited)

(1) Operations

Scotiabank Perú S.A.A. (hereinafter the Bank) is a subsidiary of Bank of Nova Scotia - BNS (a financial entity from Canada), which holds directly and indirectly 97.73% of the Bank's capital stock as of June 30, 2012. The Bank of Nova Scotia directly owned 2.32% of the Bank's shares, and indirectly through NW Holdings Ltd. and Scotia Perú Holdings S.A. owned 55.32% and 40.09%, 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 June 30, 2012, the Bank performed its activities through a national network of 183 branches, and one branch abroad (181 branches, and one branch abroad 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 June 30, 2012 and December 31, 2011, indicating the Bank's shareholding percentage, as well as relevant information in this regard:



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

## Notes to the Consolidated Financial Statements

As of June 30, 2012:

Entity	Activity	Percentage of shareholding	In thousands of S/.		
			Assets	Liabilities	Shareholders' equity
Scotiabank Perú S.A.A.	Banking	-	30,417,244	26,212,322	4,204,922
CrediScotia Financiera S.A.	Finance	100.00	3,774,638	3,284,956	489,682
Scotia Sociedad Agente de Bolsa S.A.	Stock market broker	100.00	145,265	64,736	80,529
Servicios, Cobranzas e Inversiones S.A.C.	Collection services	100.00	136,154	59,251	76,903
Depósitos S.A.	Warehousing	100.00	65,779	26,628	39,151
Scotia Fondos Sociedad Administradora de Fondos S.A.	Administration of mutual funds	100.00	25,941	4,058	21,883
Scotia Sociedad Titulizadora S.A.	Securitization	100.00	3,166	111	3,055
SBP DPR Finance Company	Special purpose entity	-	936,059	936,059	-

As of December 31, 2011:

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

Approval of Consolidated Financial Statements

The consolidated financial statements as of June 30, 2012 were approved by the Bank's management, held on August 10, 2012. 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 on March 28, 2012 by the corresponding General Shareholders' meeting within the terms established by law.

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

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

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

### Notes to the Consolidated Financial Statements

(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. The presentation currency does not differ from the functional currency.

(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.

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

(3) Accounting Principles and Practices

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

(a) 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.

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

### Notes to the Consolidated Financial Statements

The financial statements of the subsidiaries and special purpose entity have been included for consolidation purposes and represent 14.33% and 13.65%, respectively, of the total Bank's assets before eliminations as of June 30, 2012 and December 31, 2011. As of those dates, there is no non-controlling interest resulting from the consolidation process.

(b) Financial Instruments

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

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

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

(c) Derivative Instruments

The accounting treatment for derivative instruments that financial entities shall follow is established in SBS Resolution 1349-2008, which is consistent with IAS 39 *Financial Instruments: Recognition and Measurement* and establishes the accounting criteria for held-for-trading, hedging, and embedded derivatives operations, as detailed below:

(i) Held-for-Trading

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

(ii) Hedging

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

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

### Notes to the Consolidated Financial Statements

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

In the event the SBS considers the documentation to be unsatisfactory or finds weaknesses in the methodologies used, it can be immediately requested 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 June 30, 2012 and December 31, 2011, Scotiabank Perú S.A.A. and Subsidiaries did not have embedded derivatives.

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

(d) Investments

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

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

### Notes to the Consolidated Financial Statements

(i) Investments at Fair Value through Profit or Loss

Debt securities and equity shares are classified as Investments at Fair Value through Profit or Loss if they have been acquired principally for the purpose of selling in a near future, or they form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. These financial assets are recognized on trade date, when Scotiabank Perú S.A.A. and Subsidiaries enter into contractual arrangements with counterparties to purchase securities, and they are normally derecognized when sold. Measurement is initially made at fair value, without including transaction cost, which is recognized in the consolidated income statement. Subsequently, fair values are re-measured, and all gains and losses from changes therein are recognized in the consolidated income statement.

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

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

(ii) Available-for-Sale Investments

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

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

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

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

### Notes to the Consolidated Financial Statements

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

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

(iii) Investments in Associates

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

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

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

(e) Loans, Classification and Provision for Doubtful Loans

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

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

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

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

## Notes to the Consolidated Financial Statements

Loan Portfolio Classification

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

Credit Risk Rating Categories

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

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

Provisions for Doubtful Loans

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

Description	CCF (%)
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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

Procyclical Component

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

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

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



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

### Notes to the Consolidated Financial Statements

Annex I of SBS Resolution 11356-2008. The application of the procyclical component was activated from December 2008 to August 2009, deactivated from September 2009 to August 2010 and re-activated from September 2010.

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

Provisions for direct loans are presented deducting balances from the corresponding asset, and provisions for indirect loans are presented as liabilities. In the opinion of management, provisions booked by the Bank and CrediScotia Financiera S.A. are sufficient to cover losses of the loan portfolio at the consolidated reporting date.

(f) Securities Trading Transactions Carried Out by Customers

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

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

Reporting operations, loans of consumable property, and over-the-counter transactions conducted by Scotia Sociedad Agente de Bolsa S.A. through third parties acting as buyers and/or sellers and whose operations are waiting for settlement (collection or payment) are recorded in memoranda accounts.

(g) Property, Furniture, and Equipment

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

Maintenance and repair expenses are recorded in the consolidated income statement in the period they are incurred.

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

(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 as financial leases are recorded at the lower of its cost or market value. Likewise, realizable assets also include repossessed assets.

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

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

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

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

### Notes to the Consolidated Financial Statements

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

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

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

(i) Impairment of Assets

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

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

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

(j) Income Tax

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

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(k) Intangible Assets

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

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

(l) Goodwill

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

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

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

(m) Securities, Bonds, and Obligations Issued

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

Interest is recognized in the consolidated income statement when accrued.

(n) Provisions and Contingencies

(i) Provisions

Provisions are recognized when Scotiabank Perú S.A.A. and Subsidiaries have a present obligation, either legal or assumed, from past events, and when it is probable that an outflow of resources will be required to settle the obligation, and it is possible to reliably estimate its amount. Provisions are reviewed and adjusted in each period to reflect the best estimate as of the reporting date.

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

### Notes to the Consolidated Financial Statements

When the effect of the time value of money is material, provisions are discounted using an interest rate reflecting the current market rate for time value of money and specific risks of liabilities.

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

(ii) Contingencies

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

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

(o) Income and Expense Recognition

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

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

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

Brokerage service fees for buying and selling securities on the stock market are recorded in the "finance services income" account when these transactions have been performed. These transactions are settled within three days after execution.

Revenues from sales of securities and its cost are recognized when the seller has transferred all the risks and rewards of ownership to the buyer and are recorded in the account "other income, net" on the consolidated income statement.

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

### Notes to the Consolidated Financial Statements

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

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

(p) Capital Stock

Common shares are classified as equity.

(q) Employees' Profit Sharing

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

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

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

(r) Earning per Share

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

Diluted earning per share corresponds to the basic earning per share, adjusted for the dilutive effects of shares coming from the conversion of bonds or convertible shares, among others. As of June 30, 2012 and December 31, 2011, the Bank does not have financial instruments with dilutive effects; therefore, basic and diluted earning per shares are the same.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(s) Consolidated Statement of Cash Flows

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

(t) Trust Funds

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

(u) Foreign Currency Transactions and Balances

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

(v) New International Accounting Pronouncements

i) Pronouncements of the Peruvian Accounting Board – CNC.

The CNC through Resolution 048-2011-EF/30 issued on January 6, 2012, approved the application from the day following of their issuance or later, according to the effective date specified in each specific standard of the year 2011, IFRSs 1 to 13, IASs 1 to 41, pronouncements from 7 to 32 (except for superseded pronouncements) issued by the interpretations committee (SIC) and all the interpretations from 1 to 19 of the current Interpretations Committee (IFRIC); as well as the modifications as of October 2011 of the IAS, IFRS and IFRIC issued internationally.

ii) New standards and interpretations not yet adopted by the CNC.

A number of new standards and amendments to standards and interpretations that are effective internationally have not yet been approved by the CNC as of June 30, 2012:

- IFRS 10 *Consolidated Financial Statements*, effective on or after January 1, 2013.
- IFRS 11 *Joint Arrangements*, effective on or after January 1, 2013.
- IFRS 12 *Disclosure of Interests in Other Entities*, effective on or after January 1, 2013.

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

### Notes to the Consolidated Financial Statements

- IFRS 13 *Fair Value Measurement*, effective on or after January 1, 2013.

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

- IFRS 9 *Financial Instruments: Classification and Measurement*, effective on or after January 1, 2015.
- IAS 19 *Employee Benefits*, effective on or after January 1, 2013.
- IAS 27 *Consolidated and Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*, effective on or after January 1, 2013.
- IAS 1 *Presentation of Financial Statements – presentation of other comprehensive income items*, effective on or after July 1, 2012.
- IAS 24 (revised), *Related party disclosure*, effective on or after January 1, 2011.
- IFRS 7 *Financial Instruments: disclosures– requirement to present additional disclosures for the derecognition of financial assets*, effective on or after July 1, 2011.
- IAS 12 *Income Tax: recovery of underlying assets*, effective on or after January 1, 2012.

#### iii) SBS pronouncements.

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

#### (4) Balances in Foreign Currency

Consolidated balance sheet includes balances of transactions in foreign currency, mainly in U.S. dollars (US\$), which are recorded in nuevos soles (S/.) at the exchange rate established by the SBS. As of June 30, 2012 and December 31, 2011, these rates were US\$1 = S/. 2.671 and S/. 2.696, respectively.

Foreign currency transactions in the country and international trade transactions referred to the concepts authorized by Banco Central de Reserva del Perú, are channeled through an interbank foreign exchange market. As of June 30, 2012, the buy and sell exchange rates used were US\$ 1 = S/. 2.670 and US\$ 1= S/. 2.671, respectively (US\$ 1= S/. 2.695 buy rate and US\$ 1= S/. 2.697 sell rate as of December 31, 2011).



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

## Notes to the Consolidated Financial Statements

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

	06.30.2012			12.31.2011		
	U.S. Dollars	Euros	Other currencies	U.S. Dollars	Euros	Other currencies
<b>Assets:</b>						
Cash and due from banks	1,686,562	18,893	631	1,740,477	13,957	2,547
Investments at fair value through profit or loss and available-for-sale investments	191,336	-	-	42,689	39,285	-
Loan portfolio, net	4,218,962	-	-	3,986,438	-	-
Accounts receivable, net	18,317	-	-	20,733	-	-
Other assets	51,318	16,424	-	39,458	2,852	-
	6,166,495	35,317	631	5,829,795	56,094	2,547
<b>Liabilities:</b>						
Deposits and obligations	3,666,817	46,520	29	3,944,858	55,734	22
Borrowings and financial obligations	1,938,367	-	-	1,452,873	-	-
Securities, bonds and obligations issued	10,179	-	-	70,170	-	-
Other liabilities	239,365	14,931	-	282,935	18	2,001
	5,854,728	61,451	29	5,750,836	55,752	2,023
Net assets (liabilities) position on balance sheet	311,767	( 26,134)	602	78,959	342	524
Transactions with derivative instruments	( 293,058)	26,085	-	129,743	-	-

As of June 30, 2012 and 2011, Scotiabank Perú S.A.A. and Subsidiaries recorded under finance income, gains on foreign exchange difference of various operations amounting to S/. 84,357 thousand and S/. 89,649 thousand respectively, see note 19.

As of June 30, 2012, Scotiabank Perú S.A.A. and Subsidiaries have contingent operations in foreign currency amounting to US\$ 8,599,746 thousand, equivalent to S/. 22,969,918 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

	In thousands of S/.	
	06.30.2012	12.31.2011
Cash (a)	788,172	719,889
Banco Central de Reserva del Perú (a)	4,699,571	5,856,563
Deposits with local banks (b)	29,562	44,155
Deposits with foreign banks (b)	406,323	458,984
Clearing	151,389	212,121
Restricted Funds (c)	38,832	14,403
Accrued return on cash and due from banks	2,046	1,819
Other cash and due from banks	293	296
	6,116,188	7,308,230

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

### Notes to the Consolidated Financial Statements

- (a) As of June 30, 2012, funds held in cash and deposits with Banco Central de Reserva del Perú (BCRP) include US\$ 1,283,396 thousand and S/. 1,121,090 thousand (US\$ 1,159,010 thousand and S/. 1,091,220 thousand as of December 31, 2011) of legal cash reserve the Bank and CrediScotia Financiera S.A. must set aside to cover deposits from third parties, according to limits established by current legislation. These funds are held both at Banco Central de Reserva del Perú (BCRP) and kept in the Bank and CrediScotia Financiera S.A. vaults.

Cash reserves held at BCRP do not accrue interest, except for amounts in local and foreign currency exceeding the minimum legal cash reserve. As of June 30, 2012, the excess of legal cash reserve in local and foreign currency accrued interest at annual rates of 2.45% and 0.14%, 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\$ 850 thousand (US\$ 1,559 thousand for year 2011). Interest accrued for the excess in local currency in 2012 amounts to S/. 8,141 thousand (S/. 7,456 thousand for year 2011).

As of June 30, 2012, deposits with BCRP include “overnight” operations of US\$ 225,000 thousand; such operations accrued interest at an annual nominal rate of 0.19% (US\$ 395,000 thousand at annual nominal rates of 0.06%, as of December 31, 2011).

- (b) Deposits at local and foreign banks correspond, mainly, to balances in nuevos soles and in U.S. dollars, and small amounts in other currencies, with free withdrawal option and accrue interest at market rates. As of June 30, 2012, deposits in foreign banks, included deposits held at The Bank of Nova Scotia for US\$ 9,259 thousand and Canadian dollars for US\$ 6 thousand (US\$ 677 thousand and Canadian dollars for US\$ 2,019 thousand as of December 31, 2011).

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

- (c) As of June 30, 2012, restricted funds for US\$ 13,967 thousand and S/. 1,525 thousand (US\$ 4,588 thousand and S/. 2,035 thousand as of December 31, 2011), mainly relate to guarantee funds and restricted funds due to lawsuits against the Bank and CrediScotia Financiera S.A.

As of June 30, 2012 and 2011, interest revenue from cash and due from banks amounted to S/. 32,841 thousand and S/. 21,262 thousand respectively and it is included as finance income item in the consolidated income statement (see 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:

	<u>In thousands of S/.</u>	
	<u>06.30.2012</u>	<u>12.31.2011</u>
Investments at fair value through profit or loss:		
BCRP certificates of deposit indexed (a)	509,261	-
Peruvian Treasury Bonds (b)	13,331	85,846
Available-for-sale investments:		
BCRP certificates of deposit (c)	1,862,513	545,770
Peruvian Treasury Bonds (b)	63,134	835,038
Mutual funds (d)	14,130	179,714
Unlisted shares	7,531	11,739
Listed shares	997	1,145
Other	-	2
	-----	-----
Total investment at fair value through profit or loss and available-for-sale investments	<u>2,470,897</u>	<u>1,659,254</u>

- (a) BCRP re-adjusted certificates of deposits are freely negotiable securities, which are acquired through BCRP public auctions and traded in the Peruvian secondary market. These certificates are subject to a re-adjustment depending on the variation of the average exchange rate between issuance date and expiration date, and mature in July 2012.
- (b) The Peruvian Treasury Bonds correspond to sovereign bonds issued in local currency by the Peruvian Ministry of Economy and Finance and represent internal public debt instruments of the Republic of Perú. As of June 30, 2012, these bonds accrue interest at annual rates ranging from 4.32% to 5.96% (from 4.16% to 6.48% annually as of December 31, 2011), with maturities between August 2017 and 2037 (between September 2013 and August 2037 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 June 30, 2012, these certificates accrue interest based on the BCRP reference rate which ranged from 4.10% to 4.25% annually (from 4.15% to 4.24% as of December 31, 2011) and have maturities between July 2012 and May 2013 (between January and December 2012, as of December 31, 2011).

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

- (d) As of June 30, 2012, the participants in mutual funds included S/. 13,174 thousand and US\$ 358 thousand corresponding to investments in mutual funds managed mainly by a subsidiary (held S/. 69,512 thousand and US\$ 40,876 thousand as of December 31, 2011).

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

## Notes to the Consolidated Financial Statements

As of June 30, 2012 and 2011, the accrued interest on investments amounted to S/. 40,362 thousand and S/. 45,834 thousand, respectively, and is included in the finance income item in the consolidated income statement.

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

	In thousands of S/.	
	06.30.2012	12.31.2011
Up to 3 months	1,113,966	473,724
3 to 12 months	1,285,262	337,603
Over 12 months	71,669	847,927
	-----	-----
	2,470,897	1,659,254
	=====	=====

(7) Loan Portfolio, net

It comprises the following:

	In thousands of S/.			
	06.30.2012	%	12.31.2011	%
Direct loans:				
Current loans	22,396,692	97	21,410,972	97
Refinanced loans	185,348	1	198,713	1
Restructured loans	43,301	-	72,844	-
Past due loans	327,902	2	286,650	2
Lawsuits loans	135,844	-	104,274	-
	-----	----	-----	----
	23,089,087	100	22,073,453	100
	====		====	
Plus (less):				
Accrued interest on loans	191,345		190,176	
Non-accrued interest	( 432,148)		( 488,468)	
Provision for doubtful loans	( 981,351)		( 905,679)	
	-----		-----	
	21,866,933		20,869,482	
	=====		=====	
Indirect loans (note 18)	4,398,523		3,948,281	
	=====		=====	

As of June 30, 2012 and December 31, 2011, fifty-one percent of the direct and indirect loan portfolio of the Bank and CrediScotia Financiera S.A. were concentrated in 1,615 and 1,245 clients, respectively.

The loan portfolio (direct and indirect) of the Bank and CrediScotia Financiera S.A. are 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

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

	%			
	06.30.2012		12.31.2011	
	Local currency	Foreign currency	Local currency	Foreign currency
Overdrafts (*)	55.00 - 85.00	30.00 - 55.00	55.00 - 85.00	30.00 - 55.00
Discounts and commercial loans	5.45 - 43.00	3.49 - 28.06	3.05 - 41.39	1.56 - 29.88
Consumer loans	14.42 - 47.80	8.97 - 20.65	14.71 - 67.49	7.29 - 30.81

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

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

Risk rating	N° of debtors	06.30.2012			N° of debtors	12.31.2011		
		In thousands of S/.				In thousands of S/.		
		Direct	Contingent	Total		Direct	Contingent	Total
Standard	887,398	21,430,323	4,361,713	25,792,036	899,057	20,691,588	3,926,265	24,617,853
Potential problem	58,860	700,179	28,113	728,292	48,501	515,510	12,573	528,083
Substandard	34,327	242,482	3,043	245,525	30,657	199,387	3,366	202,753
Doubtful	56,693	300,439	1,748	302,187	54,637	281,057	1,880	282,937
Loss	25,094	415,664	3,906	419,570	22,497	385,911	4,197	390,108
	-----	-----	-----	-----	-----	-----	-----	-----
	1,062,372	23,089,087	4,398,523	27,487,610	1,055,349	22,073,453	3,948,281	26,021,734
	=====	=====	=====	=====	=====	=====	=====	=====

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

	In thousands of S/.			
	06.30.2012	%	12.31.2011	%
Mortgage and consumer loans	7,592,938	33	6,939,328	31
Trade	2,983,169	13	2,779,470	13
Manufacturing	2,661,071	11	2,742,342	12
Real estate business and lease service	2,019,718	9	1,886,416	9
Transportation	979,740	4	923,083	4
Electricity, gas, and water	948,930	4	916,804	4
Financial intermediation	742,282	3	775,411	4
Mining	642,797	3	997,006	5
Education, services, and other	523,366	3	502,406	2
Fishing	460,817	2	420,839	2
Agriculture and livestock	380,386	2	368,882	2
Construction	328,162	1	312,934	1
Hotel and restaurants	271,357	1	238,505	1
Public administration and defense	5,760	-	7,678	-
Other (mainly non-profit, healthcare and automotive)	2,548,594	11	2,262,349	10
	-----	-----	-----	-----
	23,089,087	100	22,073,453	100
	=====	=====	=====	=====



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

## Notes to the Consolidated Financial Statements

(8) Accounts Receivable, net

It comprises the following:

	<u>In thousands of S/.</u>	
	<u>06.30.2012</u>	<u>12.31.2011</u>
Tax claims (a)	225,666	268,667
Accounts receivable for differential of derivative financial instruments - forwards (b)	76,389	55,996
Accounts receivable for collection and warehousing services	50,058	49,358
Accounts receivable from sale of investments	47,191	41,950
Commissions receivable	18,012	17,172
Payments on behalf of third parties, net	8,916	4,772
Advances to personnel	6,620	2,146
Accounts receivable from brokerage customers	2,666	2,712
Accounts receivable from guarantee trusts, net	2,197	-
Other accounts receivable, net (c)	43,335	45,545
	-----	-----
	481,050	488,318
	=====	=====

(a) Scotiabank Perú S.A.A. and Subsidiaries tax proceedings as of June 30, 2012 and December 31, 2011, correspond to the compensation of the credit balance against ITAN (Temporary Tax on net Assets) for years 2006 and 2005 (see note 24e).

(b) As of June 30, 2012, Scotiabank Perú S.A.A. holds sale and purchase forward operations for a total notional value of US\$ 2,647,553 thousand and US\$ 2,380,580 thousand; respectively, with maturities until May 2017 (as of December, 31, 2011, held forward operations for US\$ 1,348,492 thousand and US\$ 1,218,749 thousand, respectively, with maturities until April 2013). Forward transactions as of June 30, 2012 and 2011, generated net gains of S/. 3,192 thousand and S/. 106 thousand respectively, see note 19.

(c) As of June 30, 2012, the balance of other accounts receivable, net of the related provision for doubtful accounts, is mainly composed of: i) accounts receivable from property rental for S/. 1,869 thousand (S/. 1,708 thousand as of December 31, 2011); and ii) various accounts receivable for S/. 41,466 thousand (S/. 43,837 thousand as of December 31, 2011).

(9) Goodwill

In 2008, the Bank acquired 100% of the capital stock of Banco del Trabajo S.A., currently CrediScotia Financiera S.A., and recognized goodwill as of June 30, 2012 and December 31, 2011 of S/. 278,818 thousand which includes a purchase price adjustment (earn-out) of S/. 83,290 thousand, calculated in accordance with the purchase agreement.

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

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

## Notes to the Consolidated Financial Statements

(10) Property, Furniture, and Equipment, net

It comprises the following:

	In thousands of S/.				Balance as of 06.30.12
	Balance as of 12.31.11	Additions	Disposals	Reclass. & Adjust.	
Cost:					
Land	153,994	-	( 989)	-	153,005
Property and premises	710,461	930	( 5,041)	8,572	714,922
Furniture, fixture, and IT	349,183	13,179	( 3,560)	1,451	360,253
Vehicles	5,110	-	( 34)	-	5,076
Units in transit and replacing units	6,367	605	-	( 4,182)	2,790
Work-in-progress	9,306	12,877	-	( 9,431)	12,752
	-----	-----	-----	-----	-----
	1,234,421	27,591	( 9,624)	( 3,590)	1,248,798
	=====	=====	=====	=====	=====
Accumulated depreciation:					
Property and premises	471,812	15,678	( 3,994)	-	483,496
Furniture, fixture, and IT	246,291	16,459	( 3,424)	1	259,327
Vehicles	3,177	376	( 34)	-	3,519
	-----	-----	-----	-----	-----
	721,280	32,513	( 7,452)	1	746,342
	-----	=====	=====	=====	-----
	513,141				502,456
	=====				=====

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

(11) Other Assets, net

It comprises the following:

	In thousands of S/.	
	06.30.2012	12.31.2011
Tax credits and other (a)	367,495	367,973
Deferred income tax (note 25)	185,451	164,800
Transactions in process (b)	180,524	78,662
Prepaid expenses (c)	98,829	118,220
Income tax prepayments, net	29,715	-
Repossessed and realizable assets, net of accumulated depreciation and provision for impairment for S/. 127,818 thousand (S/. 129,743 thousand in 2011)	24,238	28,135
Intangible assets, net of amortizations of S/. 195,877 thousand (S/. 191,726 thousand in 2011)	17,950	16,376
Inventories	2,761	6,995
Other	11,706	12,233
	-----	-----
	918,669	793,394
	=====	=====



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

## Notes to the Consolidated Financial Statements

- (a) As of June 30, 2012 and December 31, 2011, tax credit mainly includes the value added tax (VAT) from acquisition of assets that have been transferred under finance leases, which have not yet been applied to taxable operations.
- (b) Transactions in process are those carried out during the last days of the month and are reclassified in the following month to their definitive respective accounts in the consolidated balance sheet; these transactions do not affect the results of Scotiabank Perú S.A.A. and Subsidiaries. As of June 30, 2012, they comprise S/. 159,997 thousand related to treasury transactions, S/. 7,565 thousand for invoices in transit for services received and S/. 6 thousand for Unibanca unsettled transactions (as of December 31, 2011 for S/. 61,920 thousand, S/. 1,373 thousand and S/. 3,852 thousand, respectively).
- (c) As June 30, 2012, prepaid expenses include mainly: (i) deferred loan origination costs, fees paid to external sales of S/. 50,991 thousand (S/. 49,876 thousand as of December 31, 2011); (ii) prepaid rent of S/. 6,703 thousand (S/. 6,499 thousand as of December 31, 2011); (iii) prepaid commissions of received borrowings for S/. 13,336 thousand (S/. 11,931 thousand as of December 31, 2011); (iv) advertising and marketing services for S/. 5,547 thousand (S/. 7,341 thousand as of December 31, 2011); and, (v) commissions on financing of S/. 11,222 thousand (S/. 13,091 thousand as of December 31, 2011).

(12) Deposits and Obligations

It comprises the following:

	In thousands of S/.			
	<u>06.30.2012</u>	<u>%</u>	<u>12.31.2011</u>	<u>%</u>
Individuals	6,910,363	33	6,954,267	32
Corporate clients	10,856,887	52	11,213,141	53
Non-profit organizations	1,967,716	9	2,129,085	10
Other	1,161,082	6	1,126,718	5
	-----	----	-----	----
	20,896,048	100	21,423,211	100
	=====	====	=====	====

Deposits and other obligations in U.S. dollars represent 47% and 50% of the total deposits as of June 30, 2012 and December 31, 2011, respectively. Deposits included accounts pledged in favor of Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. for credit operations for S/. 312,488 thousand and US\$ 178,413 thousand as of June 30, 2012 and S/. 301,583 thousand and US\$ 191,905 thousand as of December 31, 2011.

Likewise, as of June 30, 2012 and December 31, 2011, from the total of deposits and obligations from individuals and non-profit legal entities, the amounts of S/. 5,484,692 thousand and S/. 5,493,735 thousand, respectively, are covered by the Peruvian Deposit Insurance Fund (FSD, for its Spanish acronym), according to current legal regulations.

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

## Notes to the Consolidated Financial Statements

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

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

The maximum amount covered for each individual as of June 30, 2012 and December 31, 2011 amounted to S/. 92 thousand.

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

	%			
	06.30.2012		12.31.2011	
	Local currency	Foreign currency	Local currency	Foreign currency
Savings deposits	0.81 - 1.52	0.37 - 0.73	0.96 - 2.70	0.45 - 1.71
Term deposits	3.28 - 6.43	0.85 - 2.30	1.28 - 5.81	0.73 - 3.08
Bank certificates	-	0.26 - 0.74	-	0.18 - 1.04
Severance indemnities (CTS) deposits	2.55 - 6.00	1.84 - 4.00	1.50 - 6.00	1.42 - 4.00

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

	In thousands of S/.					
	06.30.2012			12.31.2011		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Up to 1 month	1,558,002	2,298,150	3,856,152	2,029,422	2,214,016	4,243,438
1 to 3 months	1,179,920	527,628	1,707,548	1,066,844	1,300,964	2,367,808
3 to 6 months	675,390	357,633	1,033,023	503,051	370,236	873,287
6 to 12 months	854,243	516,297	1,370,540	602,510	592,888	1,195,398
Over 12 months	513,414	454,451	967,865	339,600	382,885	722,485
	4,780,969	4,154,159	8,935,128	4,541,427	4,860,989	9,402,416

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

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

## Notes to the Consolidated Financial Statements

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

<u>Issuance</u>	<u>Annual interest</u>	<u>Maturity</u>	<u>Outstanding balance in thousands of S/.</u>	
			<u>06.30.2012</u>	<u>12.31.2011</u>
2nd Program CDN	4.50% - 4.84%	2012	-	150,000
3rd Program CDN	4.41% - 5.50%	2012-2013	297,740	107,740
			-----	-----
			297,740	257,740
			=====	=====

(13) Borrowings and Financial Obligations

It comprises the following:

	<u>In thousands of S/.</u>	
	<u>06.30.2012</u>	<u>12.31.2011</u>
COFIDE credits lines (a)		
Mivivienda	279,199	254,012
Working capital and other	388,000	432,000
Ordinary loans from abroad (b):		
Related banks	2,377,331	1,377,124
Other banks	2,247,195	1,938,419
	-----	-----
	5,291,725	4,001,555
Interest payable	17,867	22,475
	-----	-----
	5,309,592	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 June 30, 2012, this line includes borrowings with COFIDE include funds obtained in local currency to be used for working capital in the short term, which accrue interest at rates between 6.10% and 6.75% (between 6.60% and 8.05% as of December 31, 2011).

(b) As of June 30, 2012, ordinary loans correspond to debts with related foreign financial entities: Scotiabank Ltd. Bahamas for US\$ 603,165 thousand and The Bank of Nova Scotia for US\$ 286,888 thousand (as of December 31, 2011 for US\$ 503,165 thousand and US\$ 7,638 thousand, respectively).

As of June 30, 2012, this line includes borrowings of Bank agreed with various foreign financial institutions for US\$ 647,356 thousand and S/. 50,684 thousand (US\$ 593,998 thousand as of December 31, 2011), accrued interest at annual average rates that range from 2.02% to 7.50% foreign currency and 8.08% in local currency (from 1.91% to 7.50% in foreign currency as of December 31, 2011).

Likewise, as of June 30, 2012, the Bank maintains borrowings agreed with foreign financial institutions for US\$ 175,000 thousand maturing between June and September 2017. From this amount, US\$ 62,500 thousand accrue interest as at fixed rate of 3.88%; while US\$ 112,500 thousand accrue interest at a variable rate of 3-

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

## Notes to the Consolidated Financial Statements

month LIBOR plus a spread between 2.57% and 2.67%. These transactions contain standard clauses of compliance with financial ratios and other administrative matters. In opinion of the management those clauses do not affect the Bank's operations and are being met.

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

	In thousands of S/.	
	06.30.2012	12.31.2011
Up to 1 month	1,045,203	237,514
1 to 3 months	496,940	467,379
3 to 6 months	376,228	380,893
6 to 12 months	1,401,678	361,040
Over 12 months	1,989,543	2,577,204
	-----	-----
	5,309,592	4,024,030
	=====	=====

(14) Securities, Bonds and Obligations Issued

It comprises the following:

Issuance	Annual interest	Maturity	Outstanding balance in thousands of S/.	
			06.30.2012	12.31.2011
Negotiable notes (a)				
Series A	5.25%	2017	133,550	134,800
Series B	3m LIBOR + 2.75%	2017	333,875	337,000
			-----	-----
			467,425	471,800
			-----	-----
Redeemable subordinated bonds (b)				
1st Issuance	9.75% - 9.10%	2012 & 2013	26,710	188,563
Corporate bonds (c)				
1st Issuance A	5.69%	2012	-	30,000
1st Issuance B	5.78%	2012	-	26,660
1st Issuance A	6.34%	2013	100,000	100,000
1st Issuance A	5.72%	2017	100,000	-
1st Issuance B	5.19%	2017	50,000	-
1st Issuance C	5.16%	2017	50,000	-
2nd Issuance A	7.72%	2014	60,000	60,000
2nd Issuance B	6.28%	2014	50,000	50,000
2nd Issuance C	5.53%	2015	50,000	-
3rd Issuance A	6.81%	2013	150,000	150,000
3rd Issuance A	6.78%	2018	75,920	75,920
3rd Issuance B	5.56%	2019	100,000	-
5th Issuance A	6.44%	2014	40,900	40,900
5th Issuance B	6.59%	2014	25,150	25,150
5th Issuance C	6.31%	2014	49,290	49,290
6th Issuance A	4.66%	2012	30,140	30,140
7th Issuance A	7.19%	2017	60,000	60,000
8th Issuance A	7.31%	2017	100,000	100,000
			-----	-----
			1,091,400	798,060
			-----	-----
			1,585,535	1,458,423
			-----	-----
Interest payable and obligations			15,846	12,514
			-----	-----
			1,601,381	1,470,937
			=====	=====

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (a) In January 2010, SBP DPR Finance Company (special purpose entity established in Grand Cayman and consolidated by Scotiabank Group) made a securitization agreement of Diversified Payment Rights (DPR), in which SBP DPR Finance Company acquired the rights and future flows from remittances received from correspondent banks up to the deadline specified in the contract. SBP DPR Finance Company issued two series of long-term notes, Series “A” for US\$ 50,000 thousand and Series B for US\$ 125,000 thousand, both series with maturities in 2017. The Series “A” accrue interest at a fixed rate of 5.25% and Series “B” accrue interest at the three-month LIBOR rate plus 2.75%. The notes are guaranteed by remittances received through SWIFT messages and are transferred to SBP DPR Finance Company. These contracts and transactions contain standard clauses of compliance with financial ratios and other administrative matters. In the opinion of the management those clauses do not affect the Bank’s operations and are being met.
- (b) During 2000, the Bank issued, through public auction, subordinated bond for US\$ 70,000 thousand denominated Banco Wiese Sudameris Subordinated Bonds – First Issuance with SBS authorization – Resolution 366-2000. The issuance of these bonds concluded in 2011 and was executed in seven series (identified with letters A, B, C, D, E, F and G) of 1,000 bonds per series at a par value of US\$10 thousand maturing in 2012 and 2013. The proceeds were exclusively destined to finance loan operations.
- (c) From 2007 to date, the Bank and CrediScotia Financiera S.A. have issued corporate bonds for S/. 931,400 and S/. 160,000 thousand, respectively within terms ranging from 1 to 7 years. Proceeds were exclusively destined to credit operations financing.

As of June 30, 2012 and 2011, the interest expense from issued securities of the Bank, CrediScotia Financiera S.A. and SBP DPR Finance Company amounted to S/. 48,331 thousand and S/. 40,105 thousand, respectively and it is included as finance expenses item in the consolidated financial statements.

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

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

	<u>In thousands of S/.</u>	
	<u>06.30.2012</u>	<u>12.31.2011</u>
Up to 3 months	14,113	30,446
3 to 6 months	31,394	188,472
6 to 12 months	342,548	30,600
Over 12 months	1,213,326	1,221,419
	-----	-----
	1,601,381	1,470,937
	=====	=====

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(15) Provisions and Other Liabilities

It comprises the following:

	<u>In thousands of S/.</u>	
	<u>06.30.2012</u>	<u>12.31.2011</u>
Transactions in process (a)	186,109	102,539
Other accounts payable (b)	148,111	131,843
Provisions for litigations and legal claims (c)	118,267	119,757
Accounts payable for differential of derivative financial instruments - forwards (note 8b)	70,663	51,904
Generic provision (d)	65,213	63,702
Provision for indirect loans	56,768	52,562
Put option (e)	54,166	53,106
Dividends, vacations, profit sharing and remunerations payable	54,046	104,692
Accounts receivable from principals	28,241	49,970
Dividends payable to principals	18,969	19,068
Deferred income on portfolio sale and other	14,849	12,096
Income tax provision	3,417	98,130
Deferred income tax (note 25)	261	5,038
Other provisions (f)	166,467	116,694
	-----	-----
	985,547	981,101
	=====	=====

(a) Transactions in process are mainly those carried out during the last days of the month and are reclassified in the following month to their definitive respective consolidated balance sheet accounts. These operations do not affect the results of Scotiabank Perú S.A.A. and Subsidiaries. As of June 30, 2012, liability transactions in process mainly include S/. 111,529 thousand related to Treasury transactions, S/. 12,683 thousand related to credit card operations, S/. 10,909 thousand related to the clearing process at the electronic clearinghouse, and S/. 4,756 thousand related to debit purchase transactions (as of December 31, 2011, the amounts of S/. 53,076 thousand, S/. 15,710 thousand, S/. 1,380 thousand, and S/. 4,123 thousand, respectively).

(b) As at June 30, 2012, this account was composed mainly of accounts payable to: i) suppliers for S/. 89,180 thousand; ii) tax agencies for S/. 6,848 thousand; iii) purchase of investments for S/. 22,312 thousand; iv) insurance companies for services agreed-upon by customers for S/. 7,798 thousand; and v) merchants for purchases with credit cards issued for S/. 10,205 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).

(c) As of June 30, 2012 and December 31, 2011, Scotiabank Perú S.A.A. and Subsidiaries have various legal actions underway, which are related to civil and labor claims, among others. These legal actions resulted from activities and operations performed during the normal course of Scotiabank Perú S.A.A. and Subsidiaries' operations, it is not anticipated they will have any significant impact on operations or results.

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

### Notes to the Consolidated Financial Statements

- (d) As of June 30, 2012, the generic provision account corresponds to:
- i) reversals or recoveries of provisions recorded since 2002 charged to equity accounts, which, according to SBS Official Letter 23797-2003, shall be reallocated to deficits of provisions in other asset accounts of the Bank for S/. 41,110 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/. 24,103 thousand (S/. 23,108 thousand as of December 31, 2011).
- (e) As of June 30, 2012 and December 31, 2011, the Bank has signed a put option contract on its own common shares held in a trust, entitling the trustee the right to sell to the Bank all of these shares at a price calculated based on this contract. This option is effective from September 15, 2006 through December 31, 2015.
- (f) As of June 30, 2012, the balance of other provisions mainly include:
- i) provisions for personnel expenses for S/. 103,371 thousand (S/. 31,615 thousand as of December 31, 2011),
  - ii) deposit insurance fund premiums for S/. 6,158 thousand (S/. 6,001 thousand as of December 31, 2011),
  - iii) the balance of the adjustment to the acquisition cost (earn out) of the shares of CrediScotia Financiera S.A. for S/. 28,579 thousand (S/. 55,169 thousand as of December 31, 2011) and
  - iv) the balance of the provisions for cross border for S/. 3,662 thousand (S/. 3,608 thousand as of December 31, 2011).

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

#### (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 June 30, 2012 amounts to S/. 2,686,712 thousand and S/. 394,159 thousand, respectively (S/. 2,455,924 thousand and S/. 346,099 thousand, respectively as of December 31, 2011). This figure is used to calculate certain legal limits and restrictions according to the Peruvian Banking Law applicable to the financial institutions' operations in Perú.

As of June 30, 2012, credit risk weighted assets and contingent credits determined by Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. according to the legislation applicable to financial institutions amounted to S/. 21,984,601 thousand and S/. 3,303,208 thousand (S/. 21,230,475 thousand and S/. 3,213,061 thousand as of December 31, 2011).

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

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

### Notes to the Consolidated Financial Statements

As of June 30, 2012, the regulatory capital of Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. represents 11.66% and 11.57% respectively of the total aforementioned risk weighted assets and contingent credits (10.94% and 10.77% respectively as of December 31, 2011).

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

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

#### (b) Capital Stock

As of June 30, 2012 and December 31, 2011, the Bank's capital stock comprised 227,128,755 common shares. All shares have voting rights and a par value of S/. 10.00 each. As of June 30, 2012 and December 31, 2011, the quoted value of common shares of the Bank was S/. 38.00 and S/. 36.50 per share, respectively. As of June 30, 2012 and December 31, 2011, the monetary inflation adjustment of 2001 through 2004 amounting to S/. 28,019 thousand is pending of capitalization.

At the Bank's Board of Directors' meeting, held on February 29, 2012 and pursuant to the delegation conferred by the General Shareholders' meeting held on March 31, 2011, the Board approved a capital stock increase amounting to S/. 158,118 thousand from the capitalization of retained earnings corresponding to fiscal period 2010 through the issuance of 15,812 thousand common shares, with a par value of S/. 10.00 each.

At General Shareholders' meeting, held on March 31, 2011, an agreement was reached to increase capital stock by S/. 480,198 thousand for the capitalization of retained earnings from previous years through the issuance of 48,019,798 new shares, with a par value of S/. 10.00.



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

## Notes to the Consolidated Financial Statements

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

<u>Percentage of shareholding</u>	<u>06.30.2012</u>		<u>12.31.2011</u>	
	<u>Number of shareholders</u>	<u>%</u>	<u>Number of shareholders</u>	<u>%</u>
0.01 to 1	2,138	2.27	2,279	2.29
1.01 to 50	2	42.41	2	42.39
50.01 to 100	1	55.32	1	55.32
	-----	-----	-----	-----
	2,141	100.00	2,282	100.00
	=====	=====	=====	=====

As of June 30, 2012, the Banking Law requires that the capital stock of the Bank shall reach the minimum amount of S/. 25,073 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).

(c) Legal Reserve

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

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

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

(d) Retained Earnings

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

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

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

### Notes to the Consolidated Financial Statements

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 agreed, 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.

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

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

#### (18) Contingent and Memoranda Accounts

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

Many of the indirect loans are expected to expire without any 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

## Notes to the Consolidated Financial Statements

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

	<u>In thousands of S/.</u>	
	<u>06.30.2012</u>	<u>12.31.2011</u>
Indirect loans:		
Guarantees and stand-by letters of credit	3,757,816	3,421,005
Issued letters of credit	580,888	479,787
Due from bank acceptances	59,819	47,489
	-----	-----
	4,398,523	3,948,281
Unused credit lines	15,452,328	14,467,629
Financial derivative contracts	13,109,968	6,808,862
Other	540	540
	-----	-----
	32,961,359	25,225,312
Memoranda accounts:		
Guarantees received	48,279,457	44,316,206
Securities in collection	12,754,855	12,126,698
Securities held in custody	6,450,586	6,932,796
Suspended interest on loans	4,025,368	2,664,017
Goods transferred in trust	3,904,789	3,906,930
Written-off loans	3,407,870	3,404,937
Own securities in custody	2,540,391	3,657,501
Trust and debt trust commissions	2,338,747	2,028,553
Securities granted as warranties	740,053	766,951
Notified letters of credit	591,790	426,926
Control of returned checks	21,735,630	20,238,257
Loans and other control	23,000,856	21,316,765
Other memoranda accounts	47,866,759	36,954,768
	-----	-----
	177,637,151	158,741,305
	-----	-----
	210,598,510	183,966,617
	=====	=====

Guarantees received from credit operations are recorded at the value of the guarantee agreed as of the date of the loan contract. This balance does not necessarily represent the market value of guarantees received by the Bank and CrediScotia Financiera S.A. As of June 30, 2012, loan balances covered by guarantees amount to S/. 10,331,440 thousand (S/. 9,414,316 thousand as of December 31, 2011).

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

## Notes to the Consolidated Financial Statements

(19) Finance Income

It comprises the following:

	<u>In thousands of S/.</u>	
	<u>06.30.2012</u>	<u>06.30.2011</u>
Interest and commissions on loan portfolio	1,386,311	1,173,686
Gain on exchange difference from operations	84,357	89,649
Interest from trading and available for sale investments	40,362	45,834
Interest on cash and due from banks	32,841	21,262
Gains in associates	6,419	4,529
Gains on derivative instruments, net	3,192	106
Interest and commissions on interbank funds	3,171	2,635
Other finance income	38,726	20,116
	-----	-----
	1,595,379	1,357,817
	=====	=====

(20) Finance Expenses

It comprises the following:

	<u>In thousands of S/.</u>	
	<u>06.30.2012</u>	<u>06.30.2011</u>
Interest on obligations	152,982	114,871
Interest on borrowings from banks and financial institutions	52,739	45,966
Interest on issued securities	48,331	36,652
Deposit insurance fund premiums	12,327	11,553
Commissions on financial obligations	9,326	7,054
Interest on deposits of financial entities	6,868	4,169
Loss on valuation of investments	5,089	10,905
Interest and commissions on interbank funds	2,605	2,019
Other finance expenses	25,973	40,816
	-----	-----
	316,240	274,005
	=====	=====

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

## Notes to the Consolidated Financial Statements

(21) Income from Finance Services, net

It comprises the following:

	<u>In thousands of S/.</u>	
	<u>06.30.2012</u>	<u>06.30.2011</u>
Income:		
Income from services and maintenance fees of credit / debit cards	86,145	78,604
Income from deposit transactions, services and transfer fees	73,512	75,450
Other fees and commissions from banking services	51,119	44,731
Income from commissions from collections services	39,743	23,638
Income from purchased portfolio recoveries	26,360	32,969
Income from warehousing	25,290	41,268
Income from teleprocessing services	15,953	12,572
Income from remunerations of mutual funds and administration fees	12,813	13,932
Income from structuring and administration services	2,718	5,020
Income from brokerage services	6,798	6,480
Income from leased property	1,453	1,372
Other various income	28,262	23,044
	-----	-----
	370,166	359,080
	-----	-----
Expenses:		
Credit / debit cards expenses	( 22,545)	( 21,796)
Warehousing expenses	( 16,163)	( 13,070)
Insurance services expenses	( 842)	( 5,805)
Other expenses	( 22,765)	( 26,269)
	-----	-----
	( 62,315)	( 66,940)
	-----	-----
Total income from finance services, net	307,851	292,140
	=====	=====

(22) Administrative Expenses

It comprises the following:

	<u>In thousands of S/.</u>	
	<u>06.30.2012</u>	<u>06.30.2011</u>
Personnel and board of directors expenses	367,726	330,568
Expenses for services received from third parties	226,699	205,338
Taxes and contributions	36,794	35,172
	-----	-----
	631,219	571,078
	=====	=====

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

## Notes to the Consolidated Financial Statements

(23) Other Income, net

It comprises the following:

	<u>In thousands of S/.</u>	
	<u>06.30.2012</u>	<u>06.30.2011</u>
Income from recovery of accounts receivable and other	21,313	20,638
Income from previous periods	9,210	27,199
Income (expense) from repossessed assets, net	6,445	( 440)
Proceeds on sale of out of use goods	3,194	( 77)
Other extraordinary expenses, net	( 1,862)	( 3,350)
	-----	-----
	38,300	43,970
	=====	=====

(24) Tax Matters

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

	<u>In thousands of S/.</u>	
	<u>06.30.2012</u>	<u>06.30.2011</u>
Scotiabank Perú S.A.A.	138,182	126,146
CrediScotia Financiera S.A.	33,521	21,793
Scotia Sociedad Agente de Bolsa S.A.	5,175	1,558
Servicios, Cobranza e Inversiones S.A.	7,907	5,967
Depósitos S.A.	2,544	554
Scotia Fondos Sociedad Administradora de Fondos S.A.	1,206	1,728
Scotia Sociedad Titulizadora S.A.	64	78

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

<u>Company</u>	<u>Tax returns subject to audit</u>
Scotiabank Perú S.A.A.	2008 through 2011
CrediScotia Financiera S.A.	2007, 2008, 2010 and 2011
Scotia Sociedad Agente de Bolsa S.A.	2006 through 2011
Scotia Fondos Sociedad Administradora de Fondos S.A.	2007 through 2011
Scotia Sociedad Titulizadora S.A.	2008 through 2011
Depósitos S.A.	2007 through 2011
Servicios, Cobranzas e Inversiones S.A.C.	2007, 2008, 2010 and 2011

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

### Notes to the Consolidated Financial Statements

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

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

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

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

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.

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

## Notes to the Consolidated Financial Statements

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

(25) Deferred Income Tax

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

	In thousands of S/.			Balance as of 06.30.12
	Balance as of 12.31.11	(Debit) credit to equity	(Debit) credit to results	
<b>Assets:</b>				
Generic provision for loans	108,142	-	11,531	119,673
Transferred loan portfolio	19,283	-	( 1,145)	18,138
Provision for vacations	12,720	-	131	12,851
Provision for inventories and repossessed assets	9,318	-	( 190)	9,128
Provision for account receivable	4,242	-	2,704	6,946
Provision for credit card rewards	2,819	-	( 26)	2,793
Provision for debit card rewards	674	-	( 6)	668
Fixed assets	324	-	147	471
Intangibles	341	-	-	341
Other	6,937	-	7,505	14,442
	-----	-----	-----	-----
	164,800	-	20,651	185,451
	-----	-----	-----	-----
<b>Liabilities:</b>				
Valuation of investments in associates	( 4,745)	263	4,396	( 86)
Other	( 293)	-	118	( 175)
	-----	-----	-----	-----
	( 5,038)	263	4,514	( 261)
	-----	-----	-----	-----
Total deferred income tax asset, net	159,762	263	25,165	185,190
	=====	=====	=====	=====

(26) Employees' Profit Sharing

According to Legislative Decree 677, banks' employees are entitled to a profit-sharing plan computed at 5% of the net income, similarly to employees of the companies of Scotiabank Perú S.A.A. and Subsidiaries. This profit sharing is treated as deductible expenses for income tax calculation purposes. As of June 30, 2012 and 2011, a consolidated legal employees' profit sharing of S/. 36,530 thousand and S/. 33,720 thousands respectively have been determined and are presented in administrative expenses item in the income statement.



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

## Notes to the Consolidated Financial Statements

(27) Earning per Share

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

	<u>Ordinary shares</u> (in thousands)	<u>Average basic shares</u> (in thousands)	<u>Effective days until year-end</u>	<u>Weighted average of common shares</u> (in thousands)
2012 -				
Balances as of January 1, 2012	227,129	242,941	181	242,941
Capitalization of retained earnings of period 2010	15,812	-	-	-
	-----	-----		-----
Balances as of June 30, 2012	242,941	242,941		242,941
	=====	=====		=====
2011 -				
Balances as of January 1, 2011	154,109	242,941	181	242,941
Capitalization of retained earnings of period 2009	48,020	-	-	-
Capitalization of retained earnings of period 2010	15,812	-	-	-
	-----	-----		-----
Balances as of June 30, 2011	217,941	242,941		242,941
	=====	=====		=====

As of June 30, 2012 and 2011, earning per share calculated based on the average number of shares amounted to S/. 1.662 and S/. 1.517, respectively.

(28) Financial Risk Management

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

Market Risk

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

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

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

### Notes to the Consolidated Financial Statements

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

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

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

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

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.

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### Notes to the Consolidated Financial Statements

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

The main guidelines followed to manage liquidity risk are:

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

#### Interest Rate Risk

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

Interest rate risk exposure to each currency is controlled through:

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

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

#### Exchange Rate Risk

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

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.

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

### Notes to the Consolidated Financial Statements

#### 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.

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

### Notes to the Consolidated Financial Statements

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

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

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

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

### Notes to the Consolidated Financial Statements

- (i) As described in note 18, Scotiabank Perú S.A.A. and Subsidiaries have granted guarantees, stand-by letters, import and export documentary credits, and has received guarantees in support of the credits granted. Based on the level of commissions currently collected for granting contingent loans, and considering the maturity, and the interest rates and current creditworthiness of the counterparts, Scotiabank Perú S.A.A. and Subsidiaries estimate that the difference between the carrying amount and the fair value is not significant.
- (j) Purchase and sale agreements in foreign currency at a future date are recorded in the books at their market values.

#### (30) Trust Fund Activities

Scotiabank Perú S.A.A. and Scotia Sociedad Titulizadora S.A. offer structuring and administration services of trust operations and trust fees, and is in charge of the preparation of agreements related to these operations. Assets kept in trust are not included in the consolidated financial statements. Scotiabank Perú S.A.A. and Scotia Sociedad Titulizadora S.A. are responsible for the appropriate management of these trusts based on the limits established by applicable laws and the respective agreement. As of June 30, 2012, the allocated value of assets in trusts and trust fees amounted to S/. 1,586,095 thousand (S/. 1,401,135 thousand as of December 31, 2011).

#### (31) Subsequent Events

##### a) Retained earnings capitalization

At the Bank's Board of Director's meeting, held on July 30, 2012, and pursuant to the delegation conferred by the General Shareholders' meeting held on March 31, 2011, the Board approved a capital stock increase amounting to S/. 315,397 thousand from the capitalization of retained earnings as of December 31, 2011 through the issuance of 31,540 thousand common shares, with a par value of S/. 10.00 each.

##### b) Subordinated bonds issuance

(i) At the CrediScotia Financiera S.A.'s Board of Directors' meeting, held on April 30, 2012 and pursuant to the delegation conferred by the General Shareholders' meeting held on March 31, 2012, the Board agreed to issue the First Program of Subordinated Bonds in local currency up to an amount of S/.300,000 thousand. On July 31, 2012 the first issuance corresponding to the Series "A" bonds was made for S/.130,000 thousand with a maturity in 2027 and accrual interests at a fixed rate of 7.406%. These subordinated bonds have an issuer redemption option as from the tenth year, which requires the authorization of the SBS.

(ii) Also, at the Bank's Board of Directors' meeting, held on April 30, 2012 and pursuant to the delegation conferred by the General Shareholders' meeting held on March 29, 2012, the Board agreed to issue subordinated debt up to an amount of US\$ 400,000 thousand; as of to date, the issuance process is in progress.