

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

**Consolidated Financial Statements**

**As of December 31, 2011 and 2010**

**(Including Independent Auditors' Report)**

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

(TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH)

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

**Consolidated Financial Statements  
December 31, 2011 and 2010**

| <b>Contents</b>   | <b>Page</b> |
|---|-------------|
| <b>Independent Auditors' Report</b>                       |             |
| <b>Consolidated Financial Statements</b>                  |             |
| Consolidated Balance Sheet                                | 1           |
| Consolidated Income Statement                             | 2           |
| Consolidated Statement of Changes in Shareholders' Equity | 3           |
| Consolidated Statement of Cash Flows                      | 4           |
| Notes to the Consolidated Financial Statements            | 5 - 52      |



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(TRANSLATION OF A REPORT ORIGINALLY ISSUED IN SPANISH)

### INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Scotiabank Perú S.A.A. (a subsidiary of The Bank of Nova Scotia – BNS, an entity established in Canada) and Subsidiaries which comprise the consolidated balance sheets as of December 31, 2011 and 2010, and the consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting standards established by Superintendencia de Banca, Seguros y Administradoras Privadas de Fondos de Pensiones - SBS (Superintendency of Banking, Insurance, and Private Pension Fund Administrators) for financial institutions in Peru. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Peru. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

(TRANSLATION OF A REPORT ORIGINALLY ISSUED IN SPANISH)

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*Opinion*

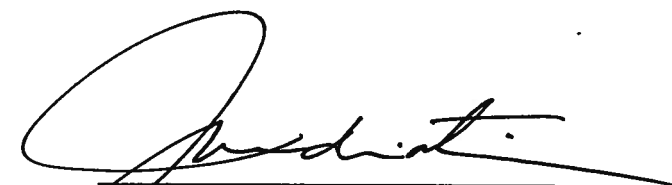
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Scotiabank Perú S.A.A. and Subsidiaries as of December 31, 2011 and 2010, and the consolidated results of their operations and their consolidated cash flows for the years then ended, in accordance with accounting standards established by the SBS for financial institutions in Peru.

Lima, Peru

February 27, 2012

*Cajero & Asociados*

Countersigned by:

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

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

## Consolidated Balance Sheet

As of December 31, 2011 and 2010

(stated in thousands of nuevos soles)

| <u>Assets</u>  | <u>2011</u> | <u>2010</u> | <u>Liabilities and shareholders' equity</u>        | <u>2011</u> | <u>2010</u> |
|--|-------------|-------------|--|-------------|-------------|
| Cash and due from banks (note 5):  |             |             | Deposits and obligations (note 12):                |             |             |
| Cash   | 719,889     | 604,948     | Demand deposits                                    | 6,772,507   | 5,652,617   |
| Deposits with Banco Central de Reserva del Perú                                  | 5,856,563   | 6,987,711   | Savings deposits                                   | 4,461,212   | 3,942,311   |
| Deposits with local and foreign banks  | 503,139     | 376,991     | Time deposits                                      | 9,402,416   | 9,063,650   |
| Clearing   | 212,121     | 120,934     | Other obligations                                  | 787,076     | 760,968     |
| Accrued interest and due from banks  | 16,518      | 19,858      |  | -----       | -----       |
|  | -----       | -----       |  | 21,423,211  | 19,419,546  |
|  | 7,308,230   | 8,110,442   |  |             |             |
| Interbank funds  | 123,220     | 192,580     | Interbank funds                                    | 189,204     | 36,005      |
| Investments at fair value through profit or loss and available-for-sale (note 6) | 1,659,254   | 1,708,204   | Borrowings and financial obligations (note 13)     | 4,024,030   | 3,782,680   |
| Loan portfolio, net (note 7)   | 20,869,482  | 17,148,245  | Securities, bonds and obligations issued (note 14) | 1,470,937   | 1,317,058   |
| Accounts receivable, net (note 8)  | 488,318     | 356,569     | Provisions and other liabilities (note 15)         | 981,101     | 1,031,567   |
| Investments in associates  | 97,358      | 86,914      |  | -----       | -----       |
| Goodwill (note 9)  | 278,818     | 278,818     | Total liabilities                                  | 28,088,483  | 25,586,856  |
| Property, furniture, and equipment, net (note 10)                                | 513,141     | 496,544     |  | -----       | -----       |
| Other assets, net (note 11)  | 793,394     | 663,889     | Shareholders' equity (note 16):                    |             |             |
|  | -----       | -----       | Capital stock                                      | 2,299,303   | 1,569,109   |
| Total assets   | 32,131,215  | 29,042,205  | Additional capital                                 | 368,553     | 368,553     |
|  | =====       | =====       | Legal reserve                                      | 400,180     | 332,160     |
|  |             |             | Unrealized earnings                                | 42,421      | 16,968      |
|  |             |             | Retained earnings                                  | 932,275     | 1,168,559   |
|  |             |             |  | -----       | -----       |
|  |             |             | Total shareholders' equity                         | 4,042,732   | 3,455,349   |
|  |             |             | Contingencies and commitments (note 17)            |             |             |
|  |             |             |  | -----       | -----       |
|  |             |             | Total liabilities and shareholders' equity         | 32,131,215  | 29,042,205  |
|  |             |             |  | =====       | =====       |
| Contingent and memoranda accounts (note 18):                                     |             |             | Contingent and memoranda accounts (note 18):       |             |             |
| Contingent accounts  | 25,225,312  | 29,055,319  | Contingent accounts                                | 25,225,312  | 29,055,319  |
| Memoranda accounts   | 158,741,305 | 180,405,018 | Memoranda accounts                                 | 158,741,305 | 180,405,018 |
|  | -----       | -----       |  | -----       | -----       |
|  | 183,966,617 | 209,460,337 |  | 183,966,617 | 209,460,337 |
|  | =====       | =====       |  | =====       | =====       |

See the accompanying notes to the consolidated financial statements.

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

## Consolidated Income Statement

For the years ended December 31, 2011 and 2010

(stated in thousands of nuevos soles)

|  | <u>2011</u>  | <u>2010</u>  |
|--|--------------|--------------|
| Finance income (note 19)   | 2,811,216    | 2,300,422    |
| Finance expenses (note 20)   | ( 533,480)   | ( 440,349)   |
|  | -----        | -----        |
| Gross finance income   | 2,277,736    | 1,860,073    |
|  | -----        | -----        |
| Provision for doubtful loans, net of recoveries (note 7)   | ( 540,571)   | ( 423,289)   |
|  | -----        | -----        |
| Net finance income   | 1,737,165    | 1,436,784    |
| Income from finance services, net (note 21)  | 589,932      | 449,729      |
|  | -----        | -----        |
| Operating margin   | 2,327,097    | 1,886,513    |
| Administrative expenses (note 22)  | ( 1,177,973) | ( 1,020,659) |
|  | -----        | -----        |
| Net operating margin   | 1,149,124    | 865,854      |
|  | -----        | -----        |
| Provision for doubtful and other accounts receivable<br>realizable, and repossessed assets, and other assets | ( 72,809)    | ( 139,837)   |
| Depreciation of property, furniture, and equipment   | ( 60,164)    | ( 58,627)    |
| Amortization of intangible assets  | ( 8,527)     | ( 6,975)     |
|  | -----        | -----        |
|  | ( 141,500)   | ( 205,439)   |
|  | -----        | -----        |
| Operating results  | 1,007,624    | 660,415      |
| Other income, net (note 23)  | 97,774       | 315,049      |
|  | -----        | -----        |
| Net income before income tax   | 1,105,398    | 975,464      |
| Deferred income tax (note 25)  | 75,545       | 22,808       |
| Income tax (note 24)   | ( 392,448)   | ( 309,912)   |
|  | -----        | -----        |
| Net profit   | 788,495      | 688,360      |
|  | =====        | =====        |
| Earning per share (in nuevos soles) (note 27)  | 3.472        | 3.523        |
|  | =====        | =====        |
| Weighted average of common shares<br>issued (in thousands of shares) (note 27)                               | 227,129      | 195,418      |
|  | =====        | =====        |

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 years ended December 31, 2011 and 2010

(stated in thousands of nuevos soles)

|  | Capital<br>stock<br>(note 16.b) | Additional<br>capital<br>(note 16.b) | Capital in<br>progress<br>(note 16.b) | Legal<br>reserve<br>(note 16.c) | Unrealized<br>earnings | Retained<br>earnings<br>(note 16.d) | Total<br>shareholders'<br>equity |
|--|---------------------------------|--------------------------------------|---------------------------------------|---------------------------------|------------------------|-------------------------------------|----------------------------------|
| Balances as of December 31, 2009   | 1,427,511                       | 212,371                              | 297,780                               | 268,455                         | 19,435                 | 735,020                             | 2,960,572                        |
| Application to legal reserve   | -                               | -                                    | -                                     | 63,705                          | -                      | ( 63,705)                           | -                                |
| Dividend distribution  | -                               | -                                    | -                                     | -                               | -                      | ( 191,116)                          | ( 191,116)                       |
| Capital increase   | 141,598                         | 156,182                              | ( 297,780)                            | -                               | -                      | -                                   | -                                |
| Capital cash contribution  | -                               | -                                    | 178,036                               | -                               | -                      | -                                   | 178,036                          |
| Refund of capital contribution to shareholders   | -                               | -                                    | ( 178,036)                            | -                               | -                      | -                                   | ( 178,036)                       |
| Unrealized losses on available-for-sale investments and other                          | -                               | -                                    | -                                     | -                               | ( 2,467)               | -                                   | ( 2,467)                         |
| Net profit   | -                               | -                                    | -                                     | -                               | -                      | 688,360                             | 688,360                          |
| Balances as of December 31, 2010   | 1,569,109                       | 368,553                              | -                                     | 332,160                         | 16,968                 | 1,168,559                           | 3,455,349                        |
| Application to legal reserve   | -                               | -                                    | -                                     | 68,020                          | -                      | ( 68,020)                           | -                                |
| Dividend distribution  | -                               | -                                    | -                                     | -                               | -                      | ( 204,059)                          | ( 204,059)                       |
| Capitalization of retained earnings  | 730,198                         | -                                    | -                                     | -                               | -                      | ( 730,198)                          | -                                |
| Treasury shares  | ( 4)                            | -                                    | -                                     | -                               | -                      | -                                   | ( 4)                             |
| Unrealized gains on available-for-sale investments and other                           | -                               | -                                    | -                                     | -                               | 25,453                 | ( 8,164)                            | 17,289                           |
| Application of reduction of the deferred employees' profit sharing from previous years | -                               | -                                    | -                                     | -                               | -                      | ( 14,338)                           | ( 14,338)                        |
| Net profit   | -                               | -                                    | -                                     | -                               | -                      | 788,495                             | 788,495                          |
| Balances as of December 31, 2011   | 2,299,303                       | 368,553                              | -                                     | 400,180                         | 42,421                 | 932,275                             | 4,042,732                        |

See the accompanying notes to the consolidated financial statements.

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

## Consolidated Statement of Cash Flows

For the years ended December 31, 2011 and 2010

(stated in thousands of nuevos soles)

|   | <u>2011</u>  | <u>2010</u>  |
|---|--------------|--------------|
| Cash flows from operating activities  |              |              |
| Net profit  | 788,495      | 688,360      |
| Adjustments to reconcile net profit to net cash from operating activities:      |              |              |
| Provision for doubtful loans, net of recoveries                                 | 540,571      | 423,289      |
| Impairment of investments and other assets                                      | -            | 4,370        |
| Provision for contingencies and indirect loans                                  | 28,379       | 38,516       |
| Depreciation and amortization   | 68,691       | 65,602       |
| Recovery of provision for realizable and repossessed assets                     | ( 1,102)     | ( 8,405)     |
| Recovery of provision for accounts receivable                                   | ( 55,809)    | ( 34,699)    |
| Provision for fringe benefits   | 35,468       | 31,995       |
| Loss (gain) on the sale of property, furniture, and equipment                   | 3,648        | ( 14,414)    |
| Loss (gain) on sale of realizable and repossessed assets                        | 13,100       | ( 7,471)     |
| Net changes in assets and liabilities:  |              |              |
| Net (increase) decrease in interest, commissions, and other accounts receivable | ( 82,300)    | 150,842      |
| Net (decrease) increase in interest, commissions, and other accounts payable    | ( 30,730)    | 33,722       |
| Net increase in other assets  | ( 131,466)   | ( 49,370)    |
| Net decrease in other liabilities   | ( 101,668)   | ( 24,909)    |
|   | -----        | -----        |
| Cash and cash equivalents from operating activities                             | 1,075,277    | 1,297,428    |
|   | -----        | -----        |
| Cash flows from investing activities  |              |              |
| Acquisition of property, furniture, and equipment                               | ( 80,764)    | ( 60,861)    |
| Acquisition of other non-financial assets                                       | ( 11,253)    | ( 5,824)     |
| Proceeds from the sale of property, furniture, and equipment                    | 356          | 35,908       |
| Proceeds from the sale of other non-financial assets                            | 25,588       | 49,600       |
|   | -----        | -----        |
| Cash and cash equivalents (applied to) from investing activities                | ( 66,073)    | 18,823       |
|   | -----        | -----        |
| Cash flows from financing activities  |              |              |
| Net increase in loan portfolio  | ( 4,296,461) | ( 3,017,071) |
| Net decrease in investments   | 71,321       | 1,910,142    |
| Net increase in deposits and obligations  | 2,003,732    | 1,344,157    |
| Net increase in borrowings, financial obligations and interbank funds           | 394,550      | 2,141,755    |
| Net increase in securities, bonds and obligations issued                        | 150,141      | 620,456      |
| Dividend paid   | ( 204,059)   | ( 191,116)   |
| Capital cash contribution   | -            | 178,036      |
|   | -----        | -----        |
| Cash and cash equivalents (applied to) from financing activities                | ( 1,880,776) | 2,986,359    |
|   | -----        | -----        |
| Net (decrease) increase in cash and cash equivalents                            | ( 871,572)   | 4,302,610    |
| Cash and cash equivalents at beginning of the year                              | 8,303,022    | 4,000,412    |
|   | -----        | -----        |
| Cash and cash equivalents at end of the year                                    | 7,431,450    | 8,303,022    |
|   | =====        | =====        |

See the accompanying notes to the consolidated financial statements.



SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2011 and 2010

(1) Operations

Scotiabank Perú S.A.A. (hereinafter the Bank) is a subsidiary of The Bank of Nova Scotia - BNS (a financial entity from Canada), which holds directly and indirectly 97.71% of the Bank's capital stock as of December 31, 2011 and 2010. The Bank of Nova Scotia directly owned 2.32% of the Bank's shares, and indirectly through NW Holdings Ltd. and Scotia Perú Holdings S.A. owned 55.32% and 40.07%, respectively.

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

The Bank's registered office address is Av. Dionisio Derteano N° 102, San Isidro, Lima, Peru. As of December 31, 2011, the Bank performed its activities through a national network of 181 branches, and one branch abroad (as of December 31, 2010, it had 169 Peruvian branches and one branch abroad).

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

Below are the main balances of the Bank and other companies mentioned in the previous paragraph as of December 31, 2011 and 2010, indicating the Bank's shareholding percentage, as well as relevant information in this regard:

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

## Notes to the Consolidated Financial Statements

As of December 31, 2011:

| Entity  | Activity                          | Percentage<br>of shareholding | In thousands of S/. |             |                         |
|---|-----------------------------------|-------------------------------|---------------------|-------------|-------------------------|
|   |                                   |                               | Assets              | Liabilities | Shareholders'<br>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<br>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<br>de Fondos S.A. | Administration of<br>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<br>entity         | -                             | 810,097             | 810,097     | -                       |

As of December 31, 2010:

| Entity  | Activity                          | Percentage<br>of shareholding | In thousands of S/. |             |                         |
|---|-----------------------------------|-------------------------------|---------------------|-------------|-------------------------|
|   |                                   |                               | Assets              | Liabilities | Shareholders'<br>equity |
| Scotiabank Perú S.A.A.                                  | Banking                           | -                             | 27,302,105          | 23,854,920  | 3,447,185               |
| CrediScotia Financiera S.A.                             | Finance                           | 100.00                        | 2,618,968           | 2,270,815   | 348,153                 |
| Servicios, Cobranzas e Inversiones S.A.C.               | Collection<br>services            | 100.00                        | 170,970             | 30,953      | 140,017                 |
| Scotia Sociedad Agente de Bolsa S.A.                    | Stock market broker               | 100.00                        | 148,811             | 85,398      | 63,413                  |
| Depósitos S.A.  | Warehousing                       | 100.00                        | 59,182              | 19,194      | 39,988                  |
| Scotia Fondos Sociedad Administradora<br>de Fondos S.A. | Administration of<br>mutual funds | 100.00                        | 28,215              | 3,594       | 24,621                  |
| Scotia Sociedad Titulizadora S.A.                       | Securitization                    | 100.00                        | 3,350               | 32          | 3,318                   |
| SBP DPR Finance Company                                 | Special purpose<br>entity         | -                             | 843,994             | 843,994     | -                       |

Approval of Consolidated Financial Statements

The consolidated financial statements as of December 31, 2011 were approved by the Bank's management, held on February 29, 2012. These consolidated financial statements have been prepared based on the separate financial statements of companies that are part of Scotiabank Perú S.A.A. and Subsidiaries and they will be presented for approval to the corresponding Board of Directors and General Shareholders' Meeting within the terms established by law. The separate financial statements that are part of the consolidated financial statements as of December 31, 2010 were approved 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 devices 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).

In Peru, the CNC authorized as of December 31, 2011, current IASs 1 to 41, IFRSs 1 to 8, SICs 7 to 32 (except for superseded SICs), and all the pronouncements from 1 to 19 issued by the current Interpretations Committee (IFRIC), as well as the modifications until May 2010 of IFRSs 1, 3 and 7, IASs 1 and 34, and IFRIC 13.

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/.) under SBS standards. Financial information is presented in nuevos soles (S/.) and has been rounded to the nearest thousand (S/. 000), except as otherwise indicated.

(d) Critical Accounting Estimates and Criteria

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

The significant estimates related to the accompanying consolidated financial statements correspond to provision for doubtful loans, valuation of investments, estimation of useful life and the recoverable amount of property, furniture, and equipment, goodwill, intangible assets, provision for realizable assets, received as payment and repossessed assets, and the valuation of derivative financial 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 the 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

Financial statements of the subsidiaries and special purpose entity have been included for consolidation purposes and represent 13.65% and 12.40%, respectively, of the total Bank's assets before eliminations as of December 31, 2011 and 2010. As of those dates, there is not minority 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. The financial instruments shall be offset when Scotiabank Perú S.A.A. and Subsidiaries have the legally enforceable right and management has the intention to settle them on a net basis or to realize the asset, and settle the liability simultaneously.

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

(c) Derivative Instruments

The 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* which establishes accounting criteria for held-for-trading, hedging, and embedded derivative 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 fall 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 against the 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 with effect in the income statement.

As of December 31, 2011 and 2010, 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 applies 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* as detailed below:

(i) Investments at Fair Value through Profit or Loss

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

(ii) Available-for-Sale Investments

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

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.

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 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.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(iii) Investments in Associates

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

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

Investment instruments held by companies can be reclassified. 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 Debtor Evaluation and Classification Unit is responsible for conducting, the evaluation and rating of the loan portfolio on a permanent basis. Each debtor receives a credit risk rating according to the guidelines established by the SBS Resolution 11356-2008 and its amendments.

Loan Portfolio Classification

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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:

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

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



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

## Notes to the Consolidated Financial Statements

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 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.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 Principals

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

Charges in favor of the Lima Stock Exchange and CONASEV (Peruvian Securities and Exchange Commission) for these securities trading transactions are recorded in 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 awaiting 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 charged to income 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 determined based on the straight-line method using the following estimated useful lives:

|                                      | <u>Years</u> |
|--------------------------------------|--------------|
| Property                             | 20           |
| 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. Book value of an asset is written off immediately at its recoverable amount when carrying amount of the asset exceeds its value in use.

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

Realizable assets, received as payment, and repossessed assets (note 11) are regulated by SBS Resolution 1535-2005. This caption mainly includes property, plant, and equipment received as payment for doubtful loans, and 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 current legislation, the treatment to record provisions for this type of assets is as follows:

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

(i) Impairment of Assets

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

The recoverable amount of an asset is the higher between its net selling price and its value in use. Net selling price is the expected amount at which an asset will be sold in a free market. 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 by Scotiabank Perú S.A.A. and Subsidiaries, Scotiabank Perú S.A.A. and Subsidiaries when the deferred tax asset is realized or the deferred tax liability is settled (note 25).

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

(k) Intangible Assets

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(l) Goodwill

Goodwill is the difference between the acquisition cost (amount paid) versus identifiable fair values of its subsidiary (note 9). Business acquisitions are recorded using the purchase accounting method. This means, recognizing identifiable assets of the acquired company at fair value. Any excess between the acquisition cost and the fair value of the identifiable net assets is recognized as goodwill.

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

Goodwill is not amortized and is only reduced in cases of impairment, which is reviewed annually, or more frequently, when there are events or circumstantial changes indicating that 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 results when accrued.

(n) Provisions and Contingencies

(i) Provisions

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The provision for severance payment (CTS) is calculated according to current legislation, on the total employees' indemnities and should be paid through deposits in authorized financial entities as chosen by them. 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 fringe benefits" account. It is presented in the 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 interim financial statements, and they are only disclosed when an inflow of economic benefits is probable.

(o) Income and Expense Recognition

Interest income and expenses are recognized in profit or loss corresponding fiscal year on an accrual basis, depending on the effectiveness 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 collectibility of the principal of a loan, the Bank and CrediScotia Financiera S.A. suspend the recognition of interest in the 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 collectibility of the principal has dissipated, it reestablishes the accounting of the interest on an accrual basis.

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

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

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

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(p) Capital Stock

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

(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/. 14,338 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 December 31, 2011 and 2010, the Bank does not have financial instruments with dilutive effects; therefore, basic and diluted earning per shares are the same.

(s) Consolidated Statement of Cash Flows

For presentation purposes of this consolidated financial statement, the balances of cash and due from banks and interbank funds of assets as of December 31, 2011 and 2010, were considered as cash and cash equivalents.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(t) Reclassifications

Certain entries of the 2010 consolidated financial statements have been reclassified to make them comparable to those in this period. Until 2010, employees' profit sharing expense (amounting to S/.51,061 thousand in 2010) were presented in the income statement after net income before tax. Effective 2011, these expenses are part of personnel expenses (see note 3.q).

(u) 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 to neither the Bank nor Scotia Sociedad Titulizadora S.A., and are recorded in memoranda accounts for corresponding control (note 18). Commissions on those activities are included in income from finance services (note 21).

(v) 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.

(w) New International Accounting Pronouncements

i) Pronouncements of the Peruvian Accounting Board -CNC

The CNC, through Resolution 048-2011-EF/30 published on January 6, 2012, approved the application of the 2011 version of the IFRS issued by the International Accounting Standards Board (IASB). The CNC authorized current IASs 1 to 41, IFRSs 1 to 13, 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 approved by the CNC

New standards and amendments to standards and interpretations that are effective internationally have not yet been approved by the CNC as of December 31, 2011:

- IFRS 10 *Consolidated Financial Statements*. Effective date: January 1, 2013.
- IFRS 11 *Joint Arrangements*. Effective date: January 1, 2013.



SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- IFRS 12 *Disclosure of Interests in Other Entities*. Effective date: January 1, 2013.
- IFRS 13 *Fair Value Measurement*. Effective date: January 1, 2013.

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

- IFRS 9 *Financial Instruments: Classification and Measurement*. Effective date: January 01, 2015.
- IAS 19 *Employee Benefits*. Effective date: January 1, 2013.
- IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*. Effective date: January 1, 2013.
- IAS 1 *Presentation of Financial Statements – presentation of other comprehensive income items*. Effective date: July 1, 2012.
- IAS 24 (revised), *Related party disclosure*. Effective date: January 1, 2011.
- IFRS 7 *Financial Instruments: disclosures– requirement to present additional disclosures for the derecognition of financial assets*. Effective date: July 1, 2011.
- IAS 12 *Deferred Income Tax: recovery of underlying assets*. Effective date: 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 January 2012. As of the date of this report, the Bank is evaluating the effects on the preparation of its financial statements that may arise from the application of IFRS until the SBS issues the corresponding regulation within the framework of the IFRS harmonization process.
- By means of SBS Resolution 914-2010, the SBS extended the application of IFRS 7 *Financial Instruments: Disclosures* and IFRS 8 *Operating Segments*. This postponement is effective until the SBS issues corresponding regulation as part of the process to harmonize its accounting regulations to IFRS.

As indicated in note 2.a, the standards and interpretations detailed above will only be applicable to Scotiabank Perú S.A.A. and Subsidiaries, in absence of applicable SBS regulations (covered in the regulatory Accounting Manual). Management has not determined the effect on the preparation of its consolidated financial statements in case such standards were adopted by the SBS.

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

## Notes to the Consolidated Financial Statements

(4) Balances in Foreign Currency

Consolidated balance sheet includes balances of transactions in foreign currency, mainly in U.S. dollars (US\$), which are recorded in nuevos soles (S/.) at the exchange rate established by the SBS. As of December 31, 2011 and 2010, these rates were US\$1 = S/. 2.696 and S/. 2.809, 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 December 31, 2011, the buy and sell exchange rates used were US\$ 1 = S/. 2.695 and US\$ 1= S/. 2.697, respectively (US\$ 1= S/. 2.808 buy rate and US\$ 1= S/. 2.809 sell rate as of December 31, 2010).

Foreign currency balances stated in thousands of U.S. dollars and other currencies as of December 31, 2011 and 2010, are summarized as follows:

|  | 2011            |        |                     | 2010            |           |                     |
|--|-----------------|--------|---------------------|-----------------|-----------|---------------------|
|  | U.S.<br>Dollars | Euros  | Other<br>currencies | U.S.<br>Dollars | Euros     | Other<br>currencies |
| <b>Assets:</b>   |                 |        |                     |                 |           |                     |
| Cash and due from banks  | 1,740,477       | 13,957 | 2,547               | 1,298,226       | 17,471    | 117                 |
| Investments at fair value through profit or loss<br>and available-for-sale investments | 42,689          | 39,285 | -                   | 32,138          | 30,740    | -                   |
| Loan portfolio, net  | 3,986,438       | -      | -                   | 3,351,313       | -         | -                   |
| Accounts receivable, net   | 20,733          | -      | -                   | 33,489          | 116       | 129                 |
| Other assets   | 39,458          | 2,852  | -                   | 100,512         | 3,056     | -                   |
|  | 5,829,795       | 56,094 | 2,547               | 4,815,678       | 51,383    | 246                 |
| <b>Liabilities:</b>  |                 |        |                     |                 |           |                     |
| Deposits and obligations   | 3,944,858       | 55,734 | 22                  | 3,504,742       | 70,427    | 28                  |
| Borrowings and financial obligations   | 1,452,873       | -      | -                   | 1,392,216       | -         | -                   |
| Securities, bonds and obligations issued   | 70,170          | -      | -                   | 73,054          | -         | -                   |
| Other liabilities  | 282,935         | 18     | 2,001               | 272,071         | 4,987     | -                   |
|  | 5,750,836       | 55,752 | 2,023               | 5,242,083       | 75,414    | 28                  |
| Net asset (liability) position on balance sheet  | 78,959          | 342    | 524                 | ( 426,405)      | ( 24,031) | 218                 |
| <b>Transactions</b>  |                 |        |                     |                 |           |                     |
| with derivative instruments  | 129,743         | -      | -                   | 435,783         | 22,579    | -                   |

In 2011, Scotiabank Perú S.A.A. and Subsidiaries recorded under finance income, gains on foreign exchange difference of various operations amounting to S/. 164,214 thousand (gains of S/. 174,026 thousand in the year 2010); see note 19.

As of December 31, 2011, Scotiabank Perú S.A.A. and Subsidiaries have contingent operations in foreign currency amounting to US\$ 6,023,998 thousand, equivalent to S/. 16,240,699 thousand (US\$ 5,976,267 thousand equivalent to S/. 16,787,334 thousand as of December 31, 2010).

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

## Notes to the Consolidated Financial Statements

(5) Cash and Due from Banks

It comprises

|   | <u>In thousands of S/.</u> |             |
|---|----------------------------|-------------|
|   | <u>2011</u>                | <u>2010</u> |
| Cash (a)                                      | 719,889                    | 604,948     |
| Banco Central de Reserva del Perú (a)         | 5,856,563                  | 6,987,711   |
| Deposits with local banks (b)                 | 44,155                     | 69,332      |
| Deposits with foreign banks (b)               | 458,984                    | 307,659     |
| Clearing                                      | 212,121                    | 120,934     |
| Restricted Funds (c)                          | 14,403                     | 17,110      |
| Accrued return on cash and due from banks (d) | 1,819                      | 2,567       |
| Other cash and due from banks                 | 296                        | 181         |
|   | -----                      | -----       |
|   | 7,308,230                  | 8,110,442   |
|   | =====                      | =====       |

(a) As of December 31, 2011, funds held in cash and deposits with Banco Central de Reserva del Perú (BCRP) include US\$ 1,159,010 thousand and S/. 1,091,220 thousand (US\$ 776,042 thousand and S/. 659,440 thousand as of December 31, 2010) 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 December 31, 2011, the excess of legal cash reserve in local and foreign currency accrued interest at annual rates of 2.45% and 0.17%, respectively (1.20% in local currency and 0.16% in foreign currency as of December 31, 2010). Interest accrued from the excess in foreign currency in 2011 amounts to US\$ 1,559 thousand (US\$ 1,552 thousand for year 2010). Interest accrued for the excess in local currency in 2011 amounts to S/. 7,456 thousand (in 2010, this excess became interest-bearing from October, accruing interest for S/. 425 thousand for the period October to December 2010 period).

As of December 31, 2011, deposits with BCRP include "overnight" operations of US\$ 395,000 thousand; such operations accrued interest at an annual nominal rate of 0.06% (US\$ 406,000 thousand and S/. 652,700 thousand at annual nominal rates of 0.19% and between 2.20% and 3.00% respectively, as of December 31, 2010).

(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 December 31, 2011, deposits in foreign banks, included deposits held at The Bank of Nova Scotia for US\$ 677 thousand and Canadian dollars for \$ 2,019 thousand (US\$ 6,093 thousand and Canadian dollars for \$ 49 thousand as of December 31, 2010).

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

## Notes to the Consolidated Financial Statements

As of December 31, 2011 and 2010, Scotiabank Perú S.A.A. and Subsidiaries have no significant deposits with any commercial banks.

(c) As of December 31, 2011, restricted funds for US\$ 4,588 thousand and S/. 2,035 thousand (US\$ 5,476 thousand and S/. 1,727 thousand as of December 31, 2010), mainly relate to guarantee funds and restricted funds due to lawsuits against the Bank and CrediScotia Financiera S.A.

(d) During 2011, interest revenue from cash and due from banks amounted to S/. 39,130 thousand (S/. 23,690 thousand during year 2010) and it is included as finance income item in the consolidated income statement (see note 19).

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

It comprises:

|   | <u>In thousands of S/.</u> |             |
|---|----------------------------|-------------|
|   | <u>2011</u>                | <u>2010</u> |
| Investments at fair value through profit or loss:   |                            |             |
| Peruvian Treasury Bonds (a)   | 85,846                     | 43,215      |
| BCRP certificates of deposit (b)  | -                          | 49,921      |
|   | -----                      | -----       |
|   | 85,846                     | 93,136      |
|   | -----                      | -----       |
| Available-for-sale investments:   |                            |             |
| Peruvian Treasury Bonds (a)   | 835,038                    | 869,323     |
| BCRP certificates of deposit (b)  | 545,770                    | 663,538     |
| Mutual funds (c)  | 179,714                    | 73,097      |
| Unlisted shares   | 11,739                     | 7,963       |
| Listed shares   | 1,145                      | 1,140       |
| Other   | 2                          | 7           |
|   | -----                      | -----       |
| Total investment at fair value through profit or loss<br>and available-for-sale investments | 1,659,254                  | 1,708,204   |
|   | =====                      | =====       |

(a) The Peruvian Treasury Bonds correspond to sovereign bonds issued in local currency by the Peruvian Ministry of Economy and Finance and represent internal public debt instruments of the Republic of Peru. As of December 31, 2011, these bonds accrue interest at annual rates ranging from 4.16% to 6.48% (from 4.42% to 6.76% annually as of December 31, 2010), with maturities between September 2013 and August 2037 (between May 2015 and August 2037 as of December 31, 2010).

(b) BCRP certificates of deposit are securities freely negotiable in local currency; they are acquired through BCRP public bids and traded in the Peruvian secondary market. As of December 31, 2011, these certificates accrue interest based on the BCRP reference rate which ranged from 4.15% to 4.24% annually (as of December 31, 2010, accrued interest at fixed rates between 0.09% and 2.88% annually) and have maturities between January and December 2012 (between January and June 2011, as of December 31, 2010).

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

## Notes to the Consolidated Financial Statements

Likewise, as of December 31, 2011 and 2010, the Bank did not have certificates of deposit issued by BCRP with restricted availability.

- (c) As of December 31, 2011, the participants in mutual funds included S/. 69,512 thousand and US\$ 40,876 thousand corresponding to investments in mutual funds managed mainly by a subsidiary (held S/. 11,548 thousand and US\$ 21,911 thousand as of December 31, 2010).

As of December 31, 2011 and 2010, the accrued interest on investments amounted to S/. 68,494 thousand and S/. 70,825 thousand, respectively, and is included in the finance income item in the consolidated income statement.

Management estimates the market value of investment at fair value through profit or loss and available-for-sale investments based on quoted market prices at the Lima Stock Exchange or, when those are not available, by discounting the expected cash flows at an interest rate reflecting the risk of the security. In the opinion of the Management of Scotiabank Perú S.A.A. and Subsidiaries, the market value of securities and the provisions, recorded to have them at their estimated market value, are enough to cover any eventual losses as of December 31, 2011 and 2010.

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

|                    | <u>In thousands of S/.</u> |                  |
|--------------------|----------------------------|------------------|
|                    | <u>2011</u>                | <u>2010</u>      |
| Less than 3 month  | 473,724                    | 149,939          |
| 3 months to 1 year | 337,603                    | 634,887          |
| 12 months +        | 847,927                    | 923,378          |
|                    | <u>1,659,254</u>           | <u>1,708,204</u> |

- (7) Loan Portfolio, net  
It comprises the following:

|                                   | <u>In thousands of S/.</u> |            |                   |            |
|-----------------------------------|----------------------------|------------|-------------------|------------|
|                                   | <u>2011</u>                | <u>%</u>   | <u>2010</u>       | <u>%</u>   |
| Direct loans:                     |                            |            |                   |            |
| Current loans                     | 21,410,972                 | 97         | 17,689,305        | 97         |
| Refinanced loans                  | 198,713                    | 1          | 226,376           | 1          |
| Restructured loans                | 72,844                     | -          | 75,915            | -          |
| Past due loans                    | 286,650                    | 2          | 257,343           | 2          |
| Lawsuits loans                    | 104,274                    | -          | 71,348            | -          |
|                                   | <u>22,073,453</u>          | <u>100</u> | <u>18,320,287</u> | <u>100</u> |
| Plus (less):                      |                            |            |                   |            |
| Accrued interest on current loans | 190,176                    |            | 136,096           |            |
| Non-accrued interest              | ( 488,468)                 |            | ( 534,637)        |            |
| Provision for doubtful loans      | ( 905,679)                 |            | ( 773,501)        |            |
|                                   | <u>20,869,482</u>          |            | <u>17,148,245</u> |            |
| Indirect loans (note 18)          | <u>3,948,281</u>           |            | <u>3,432,761</u>  |            |



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

## Notes to the Consolidated Financial Statements

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

|  | In thousands of S/. |            |                   |            |
|--|---------------------|------------|-------------------|------------|
|  | 2011                | %          | 2010              | %          |
| Mortgage and consumer loans                          | 6,939,328           | 31         | 5,304,905         | 29         |
| Trade  | 2,779,470           | 13         | 2,191,813         | 12         |
| Manufacturing  | 2,742,342           | 12         | 2,543,140         | 14         |
| Real estate business and lease service               | 1,886,416           | 9          | 2,461,163         | 13         |
| Mining   | 997,006             | 5          | 795,394           | 4          |
| Transportation                                       | 923,083             | 4          | 751,016           | 4          |
| Electricity, gas, and water                          | 916,804             | 4          | 724,983           | 4          |
| Financial intermediation                             | 775,411             | 4          | 599,113           | 3          |
| Education, services, and other                       | 502,406             | 2          | 390,083           | 2          |
| Fishing  | 420,839             | 2          | 298,408           | 2          |
| Agriculture and livestock                            | 368,882             | 2          | 242,064           | 1          |
| Construction   | 312,934             | 1          | 243,514           | 1          |
| Hotel and restaurants                                | 238,505             | 1          | 130,111           | 1          |
| Public administration and defense                    | 7,678               | -          | 8,671             | -          |
| Other (mainly non-profit, healthcare and automotive) | 2,262,349           | 10         | 1,635,909         | 10         |
|  | <u>22,073,453</u>   | <u>100</u> | <u>18,320,287</u> | <u>100</u> |

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

|                                       | In thousands of S/. |                |                |
|---------------------------------------|---------------------|----------------|----------------|
|                                       | Specific            | Generic        | Total          |
| Balances as of December 31, 2009      | 580,396             | 289,810        | 870,206        |
| Additions charged to income statement | 593,960             | 92,382         | 686,342        |
| Recovery of provisions                | ( 215,779)          | ( 40,735)      | ( 256,514)     |
| Transfers and other                   | ( 34,040)           | ( 13,150)      | ( 47,190)      |
| Write-offs and forgiveness            | ( 469,559)          | -              | ( 469,559)     |
| Foreign exchange difference           | ( 6,651)            | ( 3,133)       | ( 9,784)       |
| Balances as of December 31, 2010      | <u>448,327</u>      | <u>325,174</u> | <u>773,501</u> |
| Additions charged to income statement | 670,089             | 206,541        | 876,630        |
| Recovery of provisions                | ( 213,853)          | ( 104,682)     | ( 318,535)     |
| Transfers and other                   | 24,391              | ( 22,548)      | 1,843          |
| Write-offs and forgiveness            | ( 414,088)          | -              | ( 414,088)     |
| Foreign exchange difference           | ( 7,610)            | ( 6,062)       | ( 13,672)      |
| Balances as of December 31, 2011      | <u>507,256</u>      | <u>398,423</u> | <u>905,679</u> |

As of December 31, 2011, the provision for foreign exchange credit risk and the procyclical provision amounted to S/. 1,165 thousand and S/. 113,598 thousand (S/. 1,139 thousand and S/. 65,423 thousand, respectively as of December 31, 2010).

Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. recorded the provision for doubtful loans according to the policy described in note 3.e.

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

## Notes to the Consolidated Financial Statements

In the opinion of the management of Scotiabank Perú S.A.A. and CrediScotia Financiera S.A., the provision for doubtful loans recorded as of December 31, 2011 and 2010 is recorded according to current SBS standards effective as of that date.

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

|                          | In thousands of S/. |                     |            |                   |                     |            |
|--------------------------|---------------------|---------------------|------------|-------------------|---------------------|------------|
|                          | 2011                |                     |            | 2010              |                     |            |
|                          | Local<br>currency   | Foreign<br>currency | Total      | Local<br>currency | Foreign<br>currency | Total      |
| Less than 1 month        | 1,004,576           | 1,291,325           | 2,295,901  | 887,479           | 1,323,876           | 2,211,355  |
| 1-3 months               | 1,799,566           | 1,861,033           | 3,660,599  | 1,414,959         | 2,049,606           | 3,464,565  |
| 3-6 months               | 2,236,794           | 1,225,443           | 3,462,237  | 1,277,775         | 1,152,115           | 2,429,890  |
| 6-12 months              | 2,057,608           | 1,220,801           | 3,278,409  | 1,573,409         | 974,249             | 2,547,658  |
| Over 12 months           | 3,865,363           | 5,310,196           | 9,175,559  | 3,405,943         | 4,068,281           | 7,474,224  |
| Overdue and lawsuit      | 216,009             | 174,915             | 390,924    | 171,360           | 157,331             | 328,691    |
| Less accrued<br>interest | ( 136,647)          | ( 53,529)           | ( 190,176) | ( 94,108)         | ( 41,988)           | ( 136,096) |
|                          | 11,043,269          | 11,030,184          | 22,073,453 | 8,636,817         | 9,683,470           | 18,320,287 |

(8) Accounts Receivable, net

It comprises the following:

|  | In thousands of S/. |         |
|--|---------------------|---------|
|  | 2011                | 2010    |
| Tax claims (a)   | 268,667             | 133,208 |
| Accounts receivable for differential of derivative<br>financial instruments - forwards (b) | 55,996              | 30,789  |
| Accounts receivable for collection and warehousing services                                | 49,358              | 45,013  |
| Commissions receivable   | 17,172              | 16,615  |
| Payments on behalf of third parties, net   | 4,772               | 4,703   |
| Accounts receivable from principals  | 2,712               | 15,880  |
| Accounts receivable from guarantee trusts, net (c)   | -                   | 11,132  |
| Advances to personnel  | 2,146               | 2,094   |
| Other accounts receivable, net (d)   | 87,495              | 97,135  |
|  | 488,318             | 356,569 |

- (a) Scotiabank Perú S.A.A. and Subsidiaries tax proceedings as of December 31, 2011 and 2010, correspond to the compensation of the credit balance against ITAN (Temporary Tax on net Assets) for years 2006 and 2005 (see note 24e).

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



SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (b) As of December 31, 2011, Scotiabank Perú S.A.A. holds sale and purchase forward operations for a total notional value of US\$ 1,348,492 thousand and US\$ 1,218,749 thousand; respectively, with maturities until April 2013 (as of December, 31, 2010, held forward operations for US\$ 1,392,761 thousand and US\$ 1,851,123 thousand, respectively, with maturities until April 2013). Forward operations in 2011, generated net gain of S/. 19,347 thousand (net loss of S/. 19,225 thousand in 2010), see notes 19 and 20.
- (c) The SBS, by means of Resolution 1796-2003, authorized the Bank to transfer to a guarantee trust a loan portfolio, provisions and guarantees related to this portfolio. This guarantee trust was to support a financing operation with Banco de Credito del Peru for US\$ 10,000 thousand. The term of the trust agreement was December 29, 2012, which could be extended upon agreement of both parties. This agreement allows the Bank to replace or remove assets from the trust, in compliance with the terms of the contract. As of December 31, 2011, the Bank had not yet requested any withdraw of this facility. During 2011, the Bank had transferred loans to the guarantee trust for a net value of S/. 17,244 thousand (S/. 52,747 thousand during 2010).

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

As of December 31, 2011, the accounts receivable from the trust were fully provided for (net balance of S/. 11,132 thousand as of December 31, 2010) and accumulated provisions as of that date amount to S/. 118,252 thousand (S/. 143,821 thousand as of December 31, 2010).

- (d) As of December 31, 2011, the balance of other accounts receivable, net of the related provision for doubtful accounts, is mainly composed of: i) accounts receivable from the sale of investments for S/. 41,950 thousand (S/. 14,195 thousand as of December 31, 2010); ii) accounts receivable from property rental for S/. 1,708 thousand (S/. 2,278 thousand as of December 31, 2010); and iii) various accounts receivable for S/. 43,837 thousand (S/. 80,662 thousand as of December 31, 2010).
- (9) Goodwill  
In 2008, the Bank acquired 100% of the capital stock of Banco del Trabajo S.A., currently CrediScotia Financiera S.A., and recognized goodwill as of December 31, 2011 and 2010 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 is recorded at cost and has been assessed by management, concluding that there is no impairment as of December 31, 2011 and 2010.

## 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<br>12.31.11 |
|--------------------------------------|---------------------------|-----------|-----------|-----------------------|---------------------------|
|                                      | Balance as of<br>12.31.10 | Additions | Disposals | Reclass. &<br>Adjust. |                           |
| Cost:                                |                           |           |           |                       |                           |
| Land                                 | 153,994                   | -         | -         | -                     | 153,994                   |
| Property and premises                | 685,353                   | 3,969     | ( 1,160)  | 22,299                | 710,461                   |
| Furniture, fixture, and IT           | 309,352                   | 47,177    | ( 11,863) | 4,517                 | 349,183                   |
| Vehicles                             | 6,208                     | 404       | ( 1,502)  | -                     | 5,110                     |
| Units in transit and replacing units | 2,946                     | 7,802     | -         | ( 4,381)              | 6,367                     |
| Work-in-progress                     | 13,330                    | 21,412    | -         | ( 25,436)             | 9,306                     |
|                                      | -----                     | -----     | -----     | -----                 | -----                     |
|                                      | 1,171,183                 | 80,764    | ( 14,525) | ( 3,001)              | 1,234,421                 |
|                                      | =====                     | =====     | =====     | =====                 | =====                     |
| Accumulated depreciation:            |                           |           |           |                       |                           |
| Property and premises                | 441,976                   | 30,852    | ( 1,008)  | ( 8)                  | 471,812                   |
| Furniture, fixture, and IT           | 228,736                   | 28,585    | ( 11,024) | ( 6)                  | 246,291                   |
| Vehicles                             | 3,927                     | 727       | ( 1,477)  | -                     | 3,177                     |
|                                      | -----                     | -----     | -----     | -----                 | -----                     |
|                                      | 674,639                   | 60,164    | ( 13,509) | ( 14)                 | 721,280                   |
|                                      | -----                     | =====     | =====     | =====                 | -----                     |
|                                      | 496,544                   |           |           |                       | 513,141                   |
|                                      | =====                     |           |           |                       | =====                     |

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

(11) Other Assets, net

It comprises the following:

|   | In thousands of S/. |         |
|---|---------------------|---------|
|   | 2011                | 2010    |
| Tax credits and other (a)   | 367,973             | 329,899 |
| Deferred income tax (note 25)   | 164,800             | 89,921  |
| Prepaid expenses (b)  | 118,220             | 96,790  |
| Transactions in process (c)   | 78,662              | 68,283  |
| Repossessed and realizable assets, net of accumulated depreciation and provision for impairment for S/. 129,743 thousand (S/. 130,918 thousand in 2010) | 28,135              | 24,521  |
| Intangible assets, net of amortizations of S/. 191,726 thousand (S/. 190,452 thousand in 2010)  | 16,376              | 10,925  |
| Inventories   | 6,995               | 12,869  |
| Deferred employees' profit sharing  | -                   | 15,734  |
| Other   | 12,233              | 14,947  |
|   | -----               | -----   |
|   | 793,394             | 663,889 |
|   | =====               | =====   |

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

## Notes to the Consolidated Financial Statements

- (a) As of December 31, 2011 and 2010, tax credit mainly includes the value added tax (VAT) for S/. 350,331 thousand and S/. 322,899 thousand, respectively, from acquisition of assets that have been transferred under finance leases, which have not yet been applied to taxable operations.
- (b) As of December 31, 2011, prepaid expenses include mainly: (i) deferred loan origination costs, mainly to fees paid to external sales of S/. 49,876 thousand (S/. 37,080 thousand in 2010); (ii) prepaid rent of S/. 6,499 thousand (S/. 6,032 thousand in 2010); (iii) prepaid commissions of received borrowings for S/. 11,931 thousand (S/. 11,683 thousand in 2010); (iv) advertising and marketing services for S/. 7,341 thousand (S/. 1,973 thousand in 2010); and, (v) commissions on financing of S/. 13,019 thousand.
- (c) Transactions in process are those carried out during the last days of the month and are reclassified in the following month to their definitive respective accounts in the consolidated balance sheet; these transactions do not affect the results of Scotiabank Perú S.A.A. and Subsidiaries. As of December 31, 2011, they comprise S/. 61,920 thousand related to treasury transactions and S/. 1,373 thousand for invoices in transit for services received and S/. 3,852 thousand for Unibanca unsettled transactions (as of December 31, 2010 for S/. 56,276 thousand, S/. 301 thousand and S/. 1,850 thousand, respectively).

(12) Deposits and Obligations

It comprises the following:

|                          | In thousands of S/. |      |            |      |
|--------------------------|---------------------|------|------------|------|
|                          | 2011                | %    | 2010       | %    |
| Individuals              | 6,954,267           | 32   | 6,470,634  | 33   |
| Corporate clients        | 11,213,141          | 53   | 9,821,637  | 51   |
| Non-profit organizations | 2,129,085           | 10   | 2,144,642  | 11   |
| Other                    | 1,126,718           | 5    | 982,633    | 5    |
|                          | -----               | ---- | -----      | ---- |
|                          | 21,423,211          | 100  | 19,419,546 | 100  |
|                          | =====               | ==== | =====      | ==== |

Deposits and other obligations in U.S. dollars represent 50% and 51% of the total deposits as of December 31, 2011 and 2010, respectively. Deposits included accounts pledged in favor of Scotiabank Perú S.A.A. and Subsidiaries for credit operations for S/. 301,583 thousand and US\$ 191,905 thousand as of December 31, 2011 and S/. 277,877 thousand and US\$198,195 thousand as of December 31, 2010.

Likewise, as of December 31, 2011 and 2010, from the total of deposits and obligations from individuals and non-profit legal entities, the amounts of S/. 5,493,735 thousand and S/. 5,081,394 thousand, respectively, are covered by the Peruvian Deposit Insurance Fund, according to current legal regulations.

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

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

## Notes to the Consolidated Financial Statements

- (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 December 31, 2011, amounted to S/. 92 thousand (S/. 86 thousand as of December 31, 2010).

The Bank and CrediScotia Financiera S.A. freely establish deposits interest rates based on supply and demand, and the type of deposits. Effective annual rates for main products at December 31 were:

|   | %                 |                     |                   |                     |
|---|-------------------|---------------------|-------------------|---------------------|
|   | 2011              |                     | 2010              |                     |
|   | Local<br>currency | Foreign<br>currency | Local<br>currency | Foreign<br>currency |
| Savings deposits                        | 0.96 - 2.70       | 0.45 - 1.71         | 0.97 - 2.62       | 0.45 - 1.66         |
| Term deposits                           | 1.28 - 5.81       | 0.73 - 3.08         | 1.29 - 5.67       | 0.84 - 3.03         |
| Bank certificates                       | -                 | 0.18 - 1.04         | -                 | 0.28 - 1.04         |
| Severance indemnities<br>(CTS) deposits | 1.50 - 6.00       | 1.42 - 4.00         | 1.47 - 6.00       | 1.35 - 4.00         |

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

|                | In thousands of S/. |                     |                    |                    |                     |                    |
|----------------|---------------------|---------------------|--------------------|--------------------|---------------------|--------------------|
|                | 2011                |                     |                    | 2010               |                     |                    |
|                | Local<br>currency   | Foreign<br>currency | Total              | Local<br>currency  | Foreign<br>currency | Total              |
| Up to 1 month  | 2,029,422           | 2,214,016           | 4,243,438          | 2,286,473          | 2,504,849           | 4,791,322          |
| 1-3 months     | 1,066,844           | 1,300,964           | 2,367,808          | 618,384            | 442,233             | 1,060,617          |
| 3-6 months     | 503,051             | 370,236             | 873,287            | 230,367            | 714,117             | 944,484            |
| 6-12 months    | 602,510             | 592,888             | 1,195,398          | 129,811            | 609,304             | 739,115            |
| Over 12 months | 339,600             | 382,885             | 722,485            | 1,038,173          | 489,939             | 1,528,112          |
|                | -----<br>4,541,427  | -----<br>4,860,989  | -----<br>9,402,416 | -----<br>4,303,208 | -----<br>4,760,442  | -----<br>9,063,650 |
|                | =====               | =====               | =====              | =====              | =====               | =====              |

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

As of December 31, 2011, CrediScotia Financiera S.A. issued the Second Program of short-term Negotiable Certificates of Deposits for an amount up to S/. 200,000 thousand. As of December 31, 2010, CrediScotia Financiera S.A., made the Program's First Issuance for an amount of S/. 50,000 thousand.

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

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

## Notes to the Consolidated Financial Statements

amount, on July 8, S/. 47,740 thousand were issued and on August 19, 2011 the amount of S/. 60,000 thousand was issued.

At the Board of Directors' meeting of CrediScotia Financiera S.A. held on October 28, 2008, the Second Program of short-term Negotiable Certificates of Deposits was approved for an amount up to S/. 200,000 thousand or equivalent amount in U.S. dollars. This program had a term of two years beginning on the registration date of the program in the Public Registry of Stock Market of the Superintendency of Securities and Exchange.

(13) Borrowings and Financial Obligations

It comprises the following:

|                                 | <u>In thousands of S/.</u> |             |
|---------------------------------|----------------------------|-------------|
|                                 | <u>2011</u>                | <u>2010</u> |
| COFIDE credits lines (a)        |                            |             |
| Mivivienda                      | 254,012                    | 197,869     |
| Working capital and other       | 432,000                    | 300,000     |
| Ordinary loans from abroad (b): |                            |             |
| Related banks                   | 1,377,124                  | 877,258     |
| Other banks                     | 1,938,419                  | 2,391,286   |
|                                 | -----                      | -----       |
|                                 | 4,001,555                  | 3,766,413   |
| Interest payable                | 22,475                     | 16,267      |
|                                 | -----                      | -----       |
|                                 | 4,024,030                  | 3,782,680   |
|                                 | =====                      | =====       |

(a) COFIDE - Corporación Financiera de Desarrollo S.A. (Finance Development Corporation) credit lines correspond to resources obtained for loans granting, mainly for Fondo Mivivienda mortgage financing programs, which accrue a fixed interest rate adjusted to the VAC index. Likewise, as of December 31, 2011 and 2010, 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 6.60% and 8.05% (between 4.45% and 7.25% as of December 31, 2010).

(b) As of December 31, 2011, ordinary loans correspond to debts with related foreign financial entities: Scotiabank Ltd. Bahamas for US\$ 503,165 thousand and The Bank of Nova Scotia for US\$ 7,638 thousand (as of December 31, 2009 for US\$ 303,165 thousand and US\$ 9,138 thousand, respectively).

As of December 31, 2011, this line includes borrowings of Bank agreed with various foreign financial institutions for US\$ 593,998 thousand (US\$ 726,294 thousand as of December 31, 2010), accrued interest at annual average rates that range from 1.91% to 7.50% (from 0.59% to 7.50% as of December 31, 2010).

During 2010, the Bank negotiated borrowings with two foreign financial institutions for US\$ 125,000 thousand maturing in September 2017. From this amount, US\$ 62,500 thousand accrue interest at a fixed rate of 3.88%; while US\$ 62,500 thousand accrue interest at a variable rate of 3-month LIBOR plus a spread of 2.10%. These transactions contain standard clauses of compliance with financial

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

## Notes to the Consolidated Financial Statements

ratios and other administrative matters. In the opinion of the management those clauses do not affect the Bank's operations and are being met.

In June 2008, the Bank agreed a medium-term syndicated loan from abroad. The loan amounted to US\$ 280,000 thousand and accrues interest at LIBOR rate plus 1.25% annually which was paid off in June 2011.

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

|                | In thousands of S/. |                  |
|----------------|---------------------|------------------|
|                | 2011                | 2010             |
| Up to 1 month  | 237,514             | 560,770          |
| 1-3 months     | 467,379             | 786,303          |
| 3-6 months     | 380,893             | 760,629          |
| 6-12 months    | 361,040             | 252,258          |
| Over 12 months | 2,577,204           | 1,422,720        |
|                | <u>4,024,030</u>    | <u>3,782,680</u> |

(14) Securities, Bonds and Obligations Issued

It comprises the following:

| Issuance                             | Annual interest  | Maturity    | Outstanding balance in thousands of S/. |                  |
|--------------------------------------|------------------|-------------|---|------------------|
|                                      |                  |             | 2011                                    | 2010             |
| Negotiable notes (a)                 |                  |             |   |                  |
| Series A                             | 5.25%            | 2017        | 134,800                                 | 140,450          |
| Series B                             | 3m LIBOR + 2.75% | 2017        | 337,000                                 | 351,125          |
|                                      |                  |             | <u>471,800</u>                          | <u>491,575</u>   |
| Redeemable subordinated bonds (b)    |                  |             |   |                  |
| 1st Issuance                         | 9.75% - 9.10%    | 2012 & 2013 | 188,563                                 | 196,140          |
| 2nd Issuance E                       | 8.25%            | 2011        | -                                       | 8,427            |
|                                      |                  |             | <u>188,563</u>                          | <u>204,567</u>   |
| Corporate bonds (c)                  |                  |             |   |                  |
| 1st Issuance A                       | 5.69%            | 2012        | 30,000                                  | 30,000           |
| 1st Issuance B                       | 5.78%            | 2012        | 26,660                                  | 26,660           |
| 1st Issuance A                       | 6.34%            | 2013        | 100,000                                 | 100,000          |
| 1st Issuance B                       | 6.28%            | 2014        | 60,000                                  | -                |
| 2nd Issuance A                       | 7.72%            | 2014        | 50,000                                  | -                |
| 3rd Issuance A                       | 6.81%            | 2013        | 150,000                                 | 150,000          |
| 3rd Issuance A                       | 6.81%            | 2013        | 75,920                                  | -                |
| 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          |
|                                      |                  |             | <u>798,060</u>                          | <u>612,140</u>   |
|                                      |                  |             | 1,458,423                               | 1,308,282        |
| Interest payable and obligations (d) |                  |             | 12,514                                  | 8,776            |
|                                      |                  |             | <u>1,470,937</u>                        | <u>1,317,058</u> |

## 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.
- Redeemable subordinated bonds 2nd issuance from the Simple Reorganization made by the Bank with Wiese Sudameris Leasing S.A. and Banco Sudamericano S.A. Those bonds were paid off in July 2011.
- (c) From 2007 to date, the Bank and CrediScotia Financiera S.A. have issued Corporate Bonds for S/. 688,060 and S/. 110,000 thousand, respectively within terms ranging from 1 to 7 years. Proceeds were exclusively destined to credit operations financing.
- (d) As of December 31, 2011, interest payable on securities and obligations mainly include unpaid interest on securities issued by the Bank and CrediScotia Financiera S.A. for S/. 12,514 thousand (S/. 8,776 thousand as of December 31, 2010).

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

|                | <u>In thousands of S/.</u> |             |
|----------------|----------------------------|-------------|
|                | <u>2011</u>                | <u>2010</u> |
| Up to 3 months | 30,446                     | -           |
| 3-6 months     | 188,472                    | -           |
| 6-12 months    | 30,600                     | 17,203      |
| Over 12 months | 1,221,419                  | 1,299,855   |
|                | -----                      | -----       |
|                | 1,470,937                  | 1,317,058   |
|                | =====                      | =====       |

## 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>2011</u>                | <u>2010</u> |
| Various accounts payable (a)   | 131,843                    | 175,935     |
| Provisions for litigations and legal claims (b)  | 119,757                    | 113,877     |
| Transactions in process (c)  | 102,539                    | 115,431     |
| Dividends, vacations, profit sharing and remunerations payable                             | 104,692                    | 99,972      |
| Income tax provision   | 98,130                     | 120,443     |
| Generic provision (d)  | 63,702                     | 64,383      |
| Put option (e)   | 53,106                     | 52,527      |
| Provision for indirect loans   | 52,562                     | 28,747      |
| Accounts payable for differential of derivative financial instruments - forwards (note 8b) | 51,904                     | 31,916      |
| Accounts receivable from principals  | 49,970                     | 46,786      |
| Dividends payable to principals  | 19,068                     | 19,176      |
| Deferred income on portfolio sale and other  | 12,096                     | 15,541      |
| Deferred income tax (note 25)  | 5,038                      | 9,606       |
| Deferred employees' profit sharing   | -                          | 1,686       |
| Other provisions (f)   | 116,694                    | 135,541     |
|  | -----                      | -----       |
|  | 981,101                    | 1,031,567   |
|  | =====                      | =====       |

(a) As at December 31, 2011, this account was composed mainly of accounts payable to: (i) suppliers for S/. 91,880 thousand; ii) tax agencies for S/. 7,820 thousand; iii) purchase of investments for S/. 12,729 thousand; iv) insurance companies for services agreed-upon by customers for S/. 7,400 thousand; for S/. 12,014 thousand (S/. 62,140 thousand, S/. 8,379 thousand, S/. 8,826 thousand, S/. 7,341 thousand, and S/. 7,556 thousand; respectively as of December 31, 2010).

(b) As of December 31, 2011 and 2010, Scotiabank Perú S.A.A. and Subsidiaries have various legal actions underway, which are related to civil and labour 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.

(c) Transactions in process are mainly those carried out during the last days of the month and are reclassified in the following month to their definitive respective consolidated balance sheet accounts. These operations do not affect the results of Scotiabank Perú S.A.A. and Subsidiaries. As of December 31, 2011, liability transactions in process mainly include S/. 53,076 thousand related to Treasury transactions, S/. 15,710 thousand related to credit card operations, S/. 1,380 thousand related to the clearing process at the Electronic Clearinghouse, and S/. 4,123 thousand related to debit purchase transactions (as of December 31, 2010, the



SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

amounts of S/. 55,647 thousand, S/. 15,419 thousand, S/. 10,369 thousand, and S/. 578 thousand, respectively).

- (d) As of December 31, 2011, the generic provision account corresponds to:
  - i) reversals or recoveries of provisions recorded since 2002 charged to equity accounts, which, according to SBS Official Letter 23797-2003, shall be reallocated to deficits of provisions in other asset accounts of the Bank for S/. 40,594 thousand (S/. 45,862 thousand as of December 31, 2010); and ii) generic provision made with charge to income statement of the period for S/. 23,108 thousand (S/. 18,521 thousand as of December 31, 2010).
- (e) As of December 31, 2011 and 2010, the Bank has signed a put option contract on its own common shares held in a trust, entitling the trustee the right to sell to the Bank all of these shares at a price calculated based on this contract. This option is effective from September 15, 2006 through December 31, 2015 and its carrying amount does not differ significantly from its estimated market value.
- (f) As of December 31, 2011, the balance of other provisions mainly include:
  - i) provisions for personnel expenses for S/. 31,615 thousand (S/. 27,633 thousand as of December 31, 2010), ii) deposit insurance fund premiums for S/. 6,001 thousand (S/. 5,560 thousand as of December 31, 2010), iii) the balance of the adjustment to the acquisition cost (earn out) of the shares of CrediScotia Financiera S.A. for S/. 55,169 thousand (S/. 83,290 thousand as of December 31, 2010) and iv) the balance of the provisions for indirect loans for S/. 3,608 thousand (S/. 1,104 thousand as of December 31, 2010).

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 contract. The payment of the contingent amount shall be made based on the criteria set out in that agreement. In March 2011, the Bank made the first payment amounting to US\$ 10,000 thousand.

(16) Shareholders' Equity

(a) General

The regulatory net worth of Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. are determined in accordance with the Banking Law and as of December 31, 2011 amounts to S/. 2,455,924 thousand and S/. 346,099 thousand respectively (S/. 2,018,359 thousand and S/. 292,139 thousand, respectively as of December 31, 2010). This figure is used to calculate certain legal limits and restrictions according to the Peruvian Banking Law applicable to the financial institutions' operations in Peru.

As of December 31, 2011, 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/. 21,230,475 thousand and S/. 3,213,061 thousand (S/. 16,453,820 thousand and S/. 2,368,519 thousand as of December 31, 2010).

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As at December 31, 2011, the Banking Law established as a global limit that the regulatory capital shall be equal to or greater than 10% of the total risk weighted assets and contingent credits, which corresponds to the sum of: the amount of regulatory capital requirements for market risk multiplied by 10, plus the amount of the regulatory capital requirements for operational risk multiplied by 10, plus the risk weighted credit related assets and contingencies (9.8% as of December 31, 2010).

As of December 31, 2011, the regulatory capital of Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. represents 10.94% and 10.77% respectively of the total aforementioned risk weighted assets and contingent credits (11.53% and 12.33% respectively as of December 31, 2010).

Likewise, by means of Resolution 2115-2009, the SBS approved the rules for the Regulatory Net Worth 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 net worth 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 net worth requirement, which establishes that this net worth shall be equal to the sum of the regulatory net worth 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 December 31, 2011, the Bank's capital stock comprised 227,128,755 common shares (154,108,966 common shares as of December 31, 2010). All shares have voting rights and a par value of S/. 10.00 each. As of December 31, 2011 and 2010, the quoted value of common shares of the Bank was S/. 36.50 and S/. 78.00 per share, respectively. As of December 31, 2011 and 2010, 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 August 25, 2011 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/. 250,000 thousand from the capitalization of retained earnings corresponding to fiscal period 2010 through the issuance of 25,000 thousand common shares, with a par value of S/. 10.00, each. Consequently, capital stock increases to S/. 2,271,287 thousand and will be represented by 227,129 thousand common shares with a par value of S/. 10.00, each.

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

## Notes to the Consolidated Financial Statements

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 and delegate the Board of Directors the powers to determine other formal aspects that may be required for implementation.

At the Board of Directors' meeting, held on June 16, 2010 and pursuant to the delegation conferred by the General Shareholders' meeting, held on March 26, 2009, the Board approved a capital stock increase amounting to S/. 141,598 thousand. This increase was made after completion of the subscription of shares for S/. 297,780 thousand equivalent to 14,159,771 new common shares, which were subscribed and paid. Out of the total subscribed amount, S/. 141,598 thousand corresponds to capital stock increase and S/. 156,182 thousand represents the premium paid as additional capital. The amount of S/. 297,780 thousand was provided initially by a shareholder to whom other shareholders reimbursed S/. 178,036 thousand subscribed by them.

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

| Percentage<br>of shareholding | 2011                      |        | 2010                      |        |
|-------------------------------|---------------------------|--------|---------------------------|--------|
|                               | Number of<br>shareholders | %      | Number of<br>shareholders | %      |
| 0.01 to 1                     | 2,279                     | 2.29   | 2,514                     | 2.29   |
| 1.01 to 50                    | 2                         | 42.39  | 2                         | 42.39  |
| 50.01 to 100                  | 1                         | 55.32  | 1                         | 55.32  |
|                               | -----                     | -----  | -----                     | -----  |
|                               | 2,282                     | 100.00 | 2,517                     | 100.00 |
|                               | =====                     | =====  | =====                     | =====  |

As of December 31, 2011, the Banking Law requires that the capital stock of the Bank shall reach the minimum amount of S/. 24,853 thousand (S/. 23,176 thousand as of December 31, 2010), 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 31, 2011, it was decided to apply to legal reserve an amount of S/. 68,020 thousand, corresponding to 10% of net profit for the year 2010.

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 17, 2010, it was decided to apply to legal reserve an amount of S/. 63,705 thousand, corresponding to 10% of net profit 2009.

(d) Retained Earnings

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.

At the Bank's Annual Obligatory General Shareholders' meeting, held on March 17, 2010, the distribution of 2009 profits for a total of S/. 637,053 thousand was as follows:

- (i) Cash dividends payment for S/. 191,116 thousand.
- (ii) Allocate 10% of net income, amounting to S/. 63,705 thousand to increase the legal reserve.
- (iii) Remaining balance, amounting to S/. 382,232 thousand will be held in the retained earnings account.

Afterwards, at the Board of Directors' meeting, held on March 30, 2010, the Board agreed to allocate retained earnings up to S/. 200,000 thousand as profits with capitalization agreement.

(17) Contingencies and Commitments

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

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

## Notes to the Consolidated Financial Statements

Bank and its Subsidiaries; therefore, management considers that no additional provision is necessary for these contingencies (note 15.b).

(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.

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

|   | <u>In thousands of S/.</u> |             |
|---|----------------------------|-------------|
|   | <u>2011</u>                | <u>2010</u> |
| Indirect loans:                           |                            |             |
| Guarantees and stand-by letters of credit | 3,421,005                  | 2,881,937   |
| Issued letters of credit                  | 479,787                    | 483,284     |
| Due from bank acceptances                 | 47,489                     | 67,540      |
|   | -----                      | -----       |
|   | 3,948,281                  | 3,432,761   |
| Unused credit lines                       | 14,467,629                 | 16,593,711  |
| Financial derivative contracts            | 6,808,862                  | 9,028,305   |
| Other                                     | 540                        | 542         |
|   | -----                      | -----       |
|   | 25,225,312                 | 29,055,319  |
| Memoranda accounts:                       |                            |             |
| Securities held in custody                | 6,932,796                  | 5,819,445   |
| Suspended interest on loans               | 2,664,017                  | 1,236,582   |
| Goods transferred in trust                | 3,906,930                  | 3,862,591   |
| Guarantees received                       | 44,316,206                 | 36,628,640  |
| Securities in collection                  | 12,126,698                 | 10,731,022  |
| Own securities in custody                 | 3,657,501                  | 1,907,208   |
| Written-off loans                         | 3,404,937                  | 3,531,924   |
| Notified letters of credit                | 426,926                    | 215,718     |
| Securities granted as warranties          | 766,951                    | 554,791     |
| Trust and debt trust commissions          | 2,028,553                  | 2,664,771   |
| Control of returned checks                | 20,238,257                 | 50,760,169  |
| Loans and other control                   | 21,316,765                 | 17,136,682  |
| Other memoranda accounts                  | 36,954,768                 | 45,355,475  |
|   | -----                      | -----       |
|   | 158,741,305                | 180,405,018 |
|   | -----                      | -----       |
|   | 183,966,617                | 209,460,337 |
|   | =====                      | =====       |

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

## Notes to the Consolidated Financial Statements

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.

Guarantees received from credit operations are recorded at the value of the guarantee agreed as of the date of the loan contract. This balance does not necessarily represent the market value of guarantees received by the Bank and CrediScotia Financiera S.A. As of December 31, 2011, loan balances covered by guarantees amount to S/. 9,414,316 thousand (S/. 8,434,235 thousand as of December 31, 2010).

(19) Finance Income

It comprises the following:

|   | <u>In thousands of S/.</u> |             |
|---|----------------------------|-------------|
|   | <u>2011</u>                | <u>2010</u> |
| Interest and commissions on loan portfolio  | 2,459,434                  | 1,980,400   |
| Gain on exchange difference from operations | 164,214                    | 174,026     |
| Income from investment valuation            | 68,494                     | 70,825      |
| Interest on cash and due from banks         | 39,130                     | 23,690      |
| Gains on derivative instruments, net        | 19,347                     | -           |
| Gains in associates                         | 11,634                     | 6,679       |
| Interest and commissions on interbank funds | 5,362                      | 2,170       |
| Other finance income                        | 43,601                     | 42,632      |
|   | -----                      | -----       |
|   | 2,811,216                  | 2,300,422   |
|   | =====                      | =====       |

(20) Finance Expenses

It comprises the following:

|  | <u>In thousands of S/.</u> |             |
|--|----------------------------|-------------|
|  | <u>2011</u>                | <u>2010</u> |
| Interest on obligations                                      | 252,330                    | 191,569     |
| Interest on borrowings from banks and financial institutions | 90,183                     | 65,716      |
| Interest on issued securities                                | 82,695                     | 72,119      |
| Deposit insurance fund premiums                              | 23,558                     | 21,898      |
| Loss on derivative instruments, net                          | -                          | 19,225      |
| Commissions on financial obligations                         | 14,882                     | 12,524      |
| Interest on deposits of financial entities                   | 8,083                      | 5,919       |
| Interest and commissions on interbank funds                  | 3,971                      | 1,716       |
| Other finance expenses                                       | 57,778                     | 49,663      |
|  | -----                      | -----       |
|  | 533,480                    | 440,349     |
|  | =====                      | =====       |

## 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>2011</u>                | <u>2010</u> |
| Income:   |                            |             |
| Income from services and maintenance fees of credit / debit cards | 163,054                    | 150,434     |
| Income from deposit transactions, services and transfer fees      | 148,505                    | 147,330     |
| Other fees and commissions from banking services                  | 91,980                     | 25,626      |
| Income from commissions from collections services                 | 81,179                     | 64,193      |
| Income from purchased portfolio recoveries                        | 70,360                     | 37,386      |
| Income from warehousing   | 48,720                     | 39,121      |
| Income from teleprocessing services                               | 27,249                     | 34,851      |
| Income from remunerations of mutual funds and administration fees | 25,836                     | 28,987      |
| Income from structuring and administration services               | 13,747                     | 8,848       |
| Income from brokerage services                                    | 10,564                     | 9,804       |
| Income from leased property                                       | 2,879                      | 3,581       |
| Other various income  | 47,762                     | 42,317      |
|   | -----                      | -----       |
|   | 731,835                    | 592,478     |
|   | -----                      | -----       |
| Expenses:   |                            |             |
| Credit / debit cards expenses                                     | ( 44,278)                  | ( 43,888)   |
| Insurance services expenses                                       | ( 11,866)                  | ( 11,692)   |
| Other expenses  | ( 57,549)                  | ( 63,631)   |
| Warehousing expenses  | ( 28,210)                  | ( 23,538)   |
|   | -----                      | -----       |
|   | ( 141,903)                 | ( 142,749)  |
|   | -----                      | -----       |
| Total income from finance services, net                           | 589,932                    | 449,729     |
|   | =====                      | =====       |

(22) Administrative Expenses

It comprises the following:

|   | <u>In thousands of S/.</u> |             |
|---|----------------------------|-------------|
|   | <u>2011</u>                | <u>2010</u> |
| Personnel and board of directors expenses         | 666,423                    | 609,749     |
| Expenses for services received from third parties | 444,162                    | 355,412     |
| Taxes and contributions                           | 67,388                     | 55,498      |
|   | -----                      | -----       |
|   | 1,177,973                  | 1,020,659   |
|   | =====                      | =====       |

## 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>2011</u>                | <u>2010</u> |
| Income from recovery of accounts receivable and other | 40,958                     | 142,419     |
| Income from repossessed assets                        | 11,277                     | 25,575      |
| Other extraordinary (expenses) income, net            | ( 7,269)                   | 634         |
| Income from previous periods                          | 53,079                     | 131,534     |
| Net (loss) gain on sale of out of use goods           | ( 271)                     | 14,887      |
|   | -----                      | -----       |
|   | 97,774                     | 315,049     |
|   | =====                      | =====       |

(24) Tax Matters

- (a) In accordance with current tax legislation, corporate income tax for the years 2011 and 2010 is calculated applying the statutory income tax rate of 30%. The income tax of each company composing Scotiabank Perú S.A.A. and Subsidiaries has been determined for fiscal years 2011 and 2010 as follows:

|  | <u>In thousands of S/.</u> |             |
|--|----------------------------|-------------|
|  | <u>2011</u>                | <u>2010</u> |
| Scotiabank Perú S.A.A.                 | 314,754                    | 244,967     |
| CrediScotia Financiera S.A.            | 61,805                     | 36,903      |
| Servicios, Cobranza e Inversiones S.A. | 13,433                     | 19,584      |
| Depósitos S.A.                         | 3,681                      | 3,105       |
| Scotia Fondos Sociedad                 |                            |             |
| Administradora de Fondos S.A.          | 3,193                      | 3,915       |
| Scotia Sociedad Agente de Bolsa S.A.   | 2,284                      | 2,479       |
| Scotia Sociedad Titulizadora S.A.      | 170                        | 229         |

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

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



SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the 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 December 31, 2011.
- (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 March to December of the fiscal period for which the tax was paid until maturity of each of the partial payments and against the payment for regularization of income tax of the corresponding taxable period.

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

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

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

## Notes to the Consolidated Financial Statements

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

- (f) Tax on Financial Transactions (ITF) since 2011 was 0.005% (0.05% in 2010). 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<br>12.31.10 | (Debit) credit<br>to retained<br>earnings | (Debit) credit<br>to results | Balance as of<br>12.31.11 |
| <b>Assets:</b>                                   |                           |   |                              |                           |
| Generic provision for loans                      | 47,726                    | -   | 32,872                       | 80,598                    |
| Transferred loan portfolio                       | 16,003                    | -   | ( 4,793)                     | 11,210                    |
| Provision for vacations                          | 11,269                    | -   | 1,304                        | 12,573                    |
| Doubtful loans provision                         | 10,325                    | -   | 20,408                       | 30,733                    |
| Time deposits interest                           | 4,632                     | -   | ( 4,632)                     | -                         |
| Intangible assets                                | 3,611                     | -   | ( 2,674)                     | 937                       |
| Provision for credit card rewards                | 2,835                     | -   | ( 16)                        | 2,819                     |
| Fixed assets                                     | 1,850                     | -   | ( 559)                       | 1,291                     |
| Provision for debit card rewards                 | 803                       | -   | ( 129)                       | 674                       |
| Provision for inventories and repossessed assets | 800                       | -   | 8,378                        | 9,178                     |
| Other  | ( 9,933)                  | ( 580)                                    | 25,300                       | 14,787                    |
|  | 89,921                    | ( 580)                                    | 75,459                       | 164,800                   |
| <b>Liabilities:</b>                              |                           |   |                              |                           |
| Valuation of investments in associates           | ( 9,225)                  | 4,482                                     | -                            | ( 4,743)                  |
| Other  | ( 381)                    | -   | 86                           | ( 295)                    |
|  | ( 9,606)                  | 4,482                                     | 86                           | ( 5,038)                  |
| Total deferred income tax asset, net             | 80,315                    | 3,902                                     | 75,545                       | 159,762                   |

(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. In 2011, a consolidated legal employees'

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

## Notes to the Consolidated Financial Statements

profit sharing of S/. 69,446 thousand has been determined (S/. 55,079 thousand in 2010) and is presented in administrative expenses item in the income statement.

(27) Earning per Share

As of December 31, 2011 and 2010, the calculation of weighted average of basic and diluted earnings per share is as follows:

|  | <u>Shares<br/>issued</u><br>(in thousands) | <u>Average<br/>basic<br/>shares</u><br>(in thousands) | <u>Effective<br/>days<br/>until<br/>year-end</u> | <u>Weighted<br/>average<br/>of common<br/>shares</u><br>(in thousands) |
|--|--|---|--|--|
| 2010 -   |  |   |  |  |
| Balances as of January 1, 2010                     | 50,617                                     | 187,969   | 365  | 187,969  |
| Capitalization of retained earnings of period 2008 | 89,332                                     | -   | -  | -  |
| Capital contribution                               | 14,160                                     | 14,160  | 192  | 7,449  |
| Capitalization of retained earnings of period 2010 | -  | 25,000  | -  | -  |
|  | -----                                      | -----   | -----  | -----  |
| Balances as of December 31, 2010                   | 154,109                                    | 227,129   | -  | 195,418  |
|  | =====                                      | =====   | =====  | =====  |
| 2011 -   |  |   |  |  |
| Balances as of January 1, 2011                     | 154,109                                    | 227,129   | 365  | 227,129  |
| Capitalization of retained earnings of period 2009 | 48,020                                     | -   | -  | -  |
| Capitalization of retained earnings of period 2010 | 25,000                                     | -   | -  | -  |
|  | -----                                      | -----   | -----  | -----  |
| Balances as of December 31, 2011                   | 227,129                                    | 227,129   | -  | 227,129  |
|  | =====                                      | =====   | =====  | =====  |

As of December 31, 2011 and 2010, earning per share calculated based on the average number of shares amounted to S/. 3.472 and S/. 3.523, 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,

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

### Notes to the Consolidated Financial Statements

applying the best practices of the market and the Scotiabank Group with regard to risk management.

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

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

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

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

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.

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

### Notes to the Consolidated Financial Statements

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

#### Liquidity Risks

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

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

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

### Notes to the Consolidated Financial Statements

#### 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.

#### Risk in Investments Portfolio

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

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

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

#### Credit Risk

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

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(29) Fair Value

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

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

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

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

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

- (a) Cash due from banks and interbank funds represent cash and short-term deposits that are not considered to be a significant credit risk.
- (b) Investments at fair value through profit or loss are recorded at their estimated market value, which is the same as the carrying amount.
- (c) Available-for-sale investments are generally listed or have a market value through future discounted cash flows. Available-for-sale investments in securitizations do not have a market value, for this reason, their fair value is determined by the net cost value of their accumulated provision according to SBS regulations, and corresponds to the value of recovery established by Scotiabank Perú S.A.A. and Subsidiaries' management.
- (d) Market value of the portfolio of short-term loans are similar to carrying amounts, net of their corresponding provisions for doubtful accounts, due to their short-term character which is considered by management as the estimated recoverable amount as of the date of the consolidated financial statements. Additionally, portfolio of long-term loans accrues fixed interest rates which are similar to their market rates. Placements of Mivivienda mortgage loans are agreed-upon at a fixed interest rate.
- (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.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (f) The market value of deposits and obligations corresponds to their respective carrying amount mainly because interest rates are similar to those of other liabilities.
  - (g) Debts to banks and correspondent banks accrue interest at fixed and floating rates and have maturities of short and long term. The fair value of these financial instruments have been calculated based on discounted future cash flows, using the current interest rate for liabilities with similar characteristics in Scotiabank Perú S.A.A. and Subsidiaries. Consequently, the estimated market value does not differ significantly from carrying amount.
  - (h) Securities, bonds and obligations issued accrue interest at fixed rates. The fair value of these financial instruments have been calculated based on discounted future cash flows, using the current interest rate for liabilities with similar characteristics in Scotiabank and Subsidiaries. Consequently, the estimated market value does not differ significantly from carrying amount.
  - (i) As described in note 18, Scotiabank Perú S.A.A. and Subsidiaries have granted guarantees, stand-by letters, import and export documentary credits, and has received guarantees in support of the credits granted. Based on the level of commissions currently collected for granting contingent loans, and considering the maturity, and the interest rates and current creditworthiness of the counterparts, Scotiabank Perú S.A.A. and Subsidiaries estimate that the difference between the carrying amount and the fair value is not significant.
  - (j) Purchase and sale agreements in foreign currency at a future date are recorded in the books at their estimated market values; therefore, no differences with their respective fair values exist.
- (30) Trust Fund Activities  
Scotiabank Perú S.A.A. and Subsidiaries offer structuring and administration services of trust operations and trust fees, and is in charge of the preparation of agreements related to these operations. Assets kept in trust are not included in the consolidated financial statements. Scotiabank Perú S.A.A. and Subsidiaries are responsible for the appropriate management of these trusts based on the limits established by applicable laws and the respective agreement. As of December 31, 2011, the allocated value of assets in trusts and trust fees amounted to S/. 1,438,915 thousand (S/. 1,980,681 thousand in 2010).



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

**Consolidated Financial Statements**

**As of December 31, 2011 and 2010**

**(Including Independent Auditors' Report)**

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

(TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH)

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

**Consolidated Financial Statements  
December 31, 2011 and 2010**

| <b>Contents</b>   | <b>Page</b> |
|---|-------------|
| <b>Independent Auditors' Report</b>                       |             |
| <b>Consolidated Financial Statements</b>                  |             |
| Consolidated Balance Sheet                                | 1           |
| Consolidated Income Statement                             | 2           |
| Consolidated Statement of Changes in Shareholders' Equity | 3           |
| Consolidated Statement of Cash Flows                      | 4           |
| Notes to the Consolidated Financial Statements            | 5 - 52      |

(TRANSLATION OF A REPORT ORIGINALLY ISSUED IN SPANISH)

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Scotiabank Perú S.A.A. (a subsidiary of The Bank of Nova Scotia – BNS, an entity established in Canada) and Subsidiaries which comprise the consolidated balance sheets as of December 31, 2011 and 2010, and the consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting standards established by Superintendencia de Banca, Seguros y Administradoras Privadas de Fondos de Pensiones - SBS (Superintendency of Banking, Insurance, and Private Pension Fund Administrators) for financial institutions in Peru. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Peru. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

(TRANSLATION OF A REPORT ORIGINALLY ISSUED IN SPANISH)

. 2 .

*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Scotiabank Perú S.A.A. and Subsidiaries as of December 31, 2011 and 2010, and the consolidated results of their operations and their consolidated cash flows for the years then ended, in accordance with accounting standards established by the SBS for financial institutions in Peru.

Lima, Peru

February 27, 2012

Countersigned by:

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

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

## Consolidated Balance Sheet

As of December 31, 2011 and 2010

(stated in thousands of nuevos soles)

| <u>Assets</u>   | <u>2011</u> | <u>2010</u> | <u>Liabilities and shareholders' equity</u>        | <u>2011</u> | <u>2010</u> |
|---|-------------|-------------|--|-------------|-------------|
| Cash and due from banks (note 5):   |             |             | Deposits and obligations (note 12):                |             |             |
| Cash  | 719,889     | 604,948     | Demand deposits                                    | 6,772,507   | 5,652,617   |
| Deposits with Banco Central de Reserva del Perú                                     | 5,856,563   | 6,987,711   | Savings deposits                                   | 4,461,212   | 3,942,311   |
| Deposits with local and foreign banks   | 503,139     | 376,991     | Time deposits                                      | 9,402,416   | 9,063,650   |
| Clearing  | 212,121     | 120,934     | Other obligations                                  | 787,076     | 760,968     |
| Accrued interest and due from banks   | 16,518      | 19,858      |  | -----       | -----       |
|   | -----       | -----       |  | 21,423,211  | 19,419,546  |
|   | 7,308,230   | 8,110,442   |  |             |             |
| Interbank funds   | 123,220     | 192,580     | Interbank funds                                    | 189,204     | 36,005      |
| Investments at fair value through profit or loss and<br>available-for-sale (note 6) | 1,659,254   | 1,708,204   | Borrowings and financial obligations (note 13)     | 4,024,030   | 3,782,680   |
| Loan portfolio, net (note 7)  | 20,869,482  | 17,148,245  | Securities, bonds and obligations issued (note 14) | 1,470,937   | 1,317,058   |
| Accounts receivable, net (note 8)   | 488,318     | 356,569     | Provisions and other liabilities (note 15)         | 981,101     | 1,031,567   |
| Investments in associates   | 97,358      | 86,914      |  | -----       | -----       |
| Goodwill (note 9)   | 278,818     | 278,818     | Total liabilities                                  | 28,088,483  | 25,586,856  |
| Property, furniture, and equipment, net (note 10)                                   | 513,141     | 496,544     |  | -----       | -----       |
| Other assets, net (note 11)   | 793,394     | 663,889     | Shareholders' equity (note 16):                    |             |             |
|   | -----       | -----       | Capital stock                                      | 2,299,303   | 1,569,109   |
| Total assets  | 32,131,215  | 29,042,205  | Additional capital                                 | 368,553     | 368,553     |
|   | =====       | =====       | Legal reserve                                      | 400,180     | 332,160     |
|   |             |             | Unrealized earnings                                | 42,421      | 16,968      |
|   |             |             | Retained earnings                                  | 932,275     | 1,168,559   |
|   |             |             |  | -----       | -----       |
|   |             |             | Total shareholders' equity                         | 4,042,732   | 3,455,349   |
|   |             |             | Contingencies and commitments (note 17)            |             |             |
|   |             |             |  | -----       | -----       |
|   |             |             | Total liabilities and shareholders' equity         | 32,131,215  | 29,042,205  |
|   |             |             |  | =====       | =====       |
| Contingent and memoranda accounts (note 18):  |             |             | Contingent and memoranda accounts (note 18):       |             |             |
| Contingent accounts   | 25,225,312  | 29,055,319  | Contingent accounts                                | 25,225,312  | 29,055,319  |
| Memoranda accounts  | 158,741,305 | 180,405,018 | Memoranda accounts                                 | 158,741,305 | 180,405,018 |
|   | -----       | -----       |  | -----       | -----       |
|   | 183,966,617 | 209,460,337 |  | 183,966,617 | 209,460,337 |
|   | =====       | =====       |  | =====       | =====       |

See the accompanying notes to the consolidated financial statements.

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

## Consolidated Income Statement

For the years ended December 31, 2011 and 2010

(stated in thousands of nuevos soles)

|  | <u>2011</u>  | <u>2010</u>  |
|--|--------------|--------------|
| Finance income (note 19)   | 2,811,216    | 2,300,422    |
| Finance expenses (note 20)   | ( 533,480)   | ( 440,349)   |
|  | -----        | -----        |
| Gross finance income   | 2,277,736    | 1,860,073    |
|  | -----        | -----        |
| Provision for doubtful loans, net of recoveries (note 7)   | ( 540,571)   | ( 423,289)   |
|  | -----        | -----        |
| Net finance income   | 1,737,165    | 1,436,784    |
| Income from finance services, net (note 21)  | 589,932      | 449,729      |
|  | -----        | -----        |
| Operating margin   | 2,327,097    | 1,886,513    |
| Administrative expenses (note 22)  | ( 1,177,973) | ( 1,020,659) |
|  | -----        | -----        |
| Net operating margin   | 1,149,124    | 865,854      |
|  | -----        | -----        |
| Provision for doubtful and other accounts receivable<br>realizable, and repossessed assets, and other assets | ( 72,809)    | ( 139,837)   |
| Depreciation of property, furniture, and equipment   | ( 60,164)    | ( 58,627)    |
| Amortization of intangible assets  | ( 8,527)     | ( 6,975)     |
|  | -----        | -----        |
|  | ( 141,500)   | ( 205,439)   |
|  | -----        | -----        |
| Operating results  | 1,007,624    | 660,415      |
| Other income, net (note 23)  | 97,774       | 315,049      |
|  | -----        | -----        |
| Net income before income tax   | 1,105,398    | 975,464      |
| Deferred income tax (note 25)  | 75,545       | 22,808       |
| Income tax (note 24)   | ( 392,448)   | ( 309,912)   |
|  | -----        | -----        |
| Net profit   | 788,495      | 688,360      |
|  | =====        | =====        |
| Earning per share (in nuevos soles) (note 27)  | 3.472        | 3.523        |
|  | =====        | =====        |
| Weighted average of common shares<br>issued (in thousands of shares) (note 27)                               | 227,129      | 195,418      |
|  | =====        | =====        |

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 years ended December 31, 2011 and 2010

(stated in thousands of nuevos soles)

|   | Capital<br>stock<br>(note 16.b) | Additional<br>capital<br>(note 16.b) | Capital in<br>progress<br>(note 16.b) | Legal<br>reserve<br>(note 16.c) | Unrealized<br>earnings | Retained<br>earnings<br>(note 16.d) | Total<br>shareholders'<br>equity |
|---|---------------------------------|--------------------------------------|---------------------------------------|---------------------------------|------------------------|-------------------------------------|----------------------------------|
| Balances as of December 31, 2009  | 1,427,511                       | 212,371                              | 297,780                               | 268,455                         | 19,435                 | 735,020                             | 2,960,572                        |
| Application to legal reserve  | -                               | -                                    | -                                     | 63,705                          | -                      | ( 63,705)                           | -                                |
| Dividend distribution   | -                               | -                                    | -                                     | -                               | -                      | ( 191,116)                          | ( 191,116)                       |
| Capital increase  | 141,598                         | 156,182                              | ( 297,780)                            | -                               | -                      | -                                   | -                                |
| Capital cash contribution   | -                               | -                                    | 178,036                               | -                               | -                      | -                                   | 178,036                          |
| Refund of capital contribution to shareholders  | -                               | -                                    | ( 178,036)                            | -                               | -                      | -                                   | ( 178,036)                       |
| Unrealized losses on available-for-sale investments and other                             | -                               | -                                    | -                                     | -                               | ( 2,467)               | -                                   | ( 2,467)                         |
| Net profit  | -                               | -                                    | -                                     | -                               | -                      | 688,360                             | 688,360                          |
| Balances as of December 31, 2010  | 1,569,109                       | 368,553                              | -                                     | 332,160                         | 16,968                 | 1,168,559                           | 3,455,349                        |
| Application to legal reserve  | -                               | -                                    | -                                     | 68,020                          | -                      | ( 68,020)                           | -                                |
| Dividend distribution   | -                               | -                                    | -                                     | -                               | -                      | ( 204,059)                          | ( 204,059)                       |
| Capitalization of retained earnings   | 730,198                         | -                                    | -                                     | -                               | -                      | ( 730,198)                          | -                                |
| Treasury shares   | ( 4)                            | -                                    | -                                     | -                               | -                      | -                                   | ( 4)                             |
| Unrealized gains on available-for-sale investments and other                              | -                               | -                                    | -                                     | -                               | 25,453                 | ( 8,164)                            | 17,289                           |
| Application of reduction of the deferred employees'<br>profit sharing from previous years | -                               | -                                    | -                                     | -                               | -                      | ( 14,338)                           | ( 14,338)                        |
| Net profit  | -                               | -                                    | -                                     | -                               | -                      | 788,495                             | 788,495                          |
| Balances as of December 31, 2011  | 2,299,303                       | 368,553                              | -                                     | 400,180                         | 42,421                 | 932,275                             | 4,042,732                        |

See the accompanying notes to the consolidated financial statements.

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

## Consolidated Statement of Cash Flows

For the years ended December 31, 2011 and 2010

(stated in thousands of nuevos soles)

|   | <u>2011</u>  | <u>2010</u>  |
|---|--------------|--------------|
| Cash flows from operating activities  |              |              |
| Net profit  | 788,495      | 688,360      |
| Adjustments to reconcile net profit to net cash from operating activities:      |              |              |
| Provision for doubtful loans, net of recoveries                                 | 540,571      | 423,289      |
| Impairment of investments and other assets                                      | -            | 4,370        |
| Provision for contingencies and indirect loans                                  | 28,379       | 38,516       |
| Depreciation and amortization   | 68,691       | 65,602       |
| Recovery of provision for realizable and repossessed assets                     | ( 1,102)     | ( 8,405)     |
| Recovery of provision for accounts receivable                                   | ( 55,809)    | ( 34,699)    |
| Provision for fringe benefits   | 35,468       | 31,995       |
| Loss (gain) on the sale of property, furniture, and equipment                   | 3,648        | ( 14,414)    |
| Loss (gain) on sale of realizable and repossessed assets                        | 13,100       | ( 7,471)     |
| Net changes in assets and liabilities:  |              |              |
| Net (increase) decrease in interest, commissions, and other accounts receivable | ( 82,300)    | 150,842      |
| Net (decrease) increase in interest, commissions, and other accounts payable    | ( 30,730)    | 33,722       |
| Net increase in other assets  | ( 131,466)   | ( 49,370)    |
| Net decrease in other liabilities   | ( 101,668)   | ( 24,909)    |
|   | -----        | -----        |
| Cash and cash equivalents from operating activities                             | 1,075,277    | 1,297,428    |
|   | -----        | -----        |
| Cash flows from investing activities  |              |              |
| Acquisition of property, furniture, and equipment                               | ( 80,764)    | ( 60,861)    |
| Acquisition of other non-financial assets                                       | ( 11,253)    | ( 5,824)     |
| Proceeds from the sale of property, furniture, and equipment                    | 356          | 35,908       |
| Proceeds from the sale of other non-financial assets                            | 25,588       | 49,600       |
|   | -----        | -----        |
| Cash and cash equivalents (applied to) from investing activities                | ( 66,073)    | 18,823       |
|   | -----        | -----        |
| Cash flows from financing activities  |              |              |
| Net increase in loan portfolio  | ( 4,296,461) | ( 3,017,071) |
| Net decrease in investments   | 71,321       | 1,910,142    |
| Net increase in deposits and obligations  | 2,003,732    | 1,344,157    |
| Net increase in borrowings, financial obligations and interbank funds           | 394,550      | 2,141,755    |
| Net increase in securities, bonds and obligations issued                        | 150,141      | 620,456      |
| Dividend paid   | ( 204,059)   | ( 191,116)   |
| Capital cash contribution   | -            | 178,036      |
|   | -----        | -----        |
| Cash and cash equivalents (applied to) from financing activities                | ( 1,880,776) | 2,986,359    |
|   | -----        | -----        |
| Net (decrease) increase in cash and cash equivalents                            | ( 871,572)   | 4,302,610    |
| Cash and cash equivalents at beginning of the year                              | 8,303,022    | 4,000,412    |
|   | -----        | -----        |
| Cash and cash equivalents at end of the year                                    | 7,431,450    | 8,303,022    |
|   | =====        | =====        |

See the accompanying notes to the consolidated financial statements.



SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2011 and 2010

(1) Operations

Scotiabank Perú S.A.A. (hereinafter the Bank) is a subsidiary of The Bank of Nova Scotia - BNS (a financial entity from Canada), which holds directly and indirectly 97.71% of the Bank's capital stock as of December 31, 2011 and 2010. The Bank of Nova Scotia directly owned 2.32% of the Bank's shares, and indirectly through NW Holdings Ltd. and Scotia Perú Holdings S.A. owned 55.32% and 40.07%, respectively.

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

The Bank's registered office address is Av. Dionisio Derteano N° 102, San Isidro, Lima, Peru. As of December 31, 2011, the Bank performed its activities through a national network of 181 branches, and one branch abroad (as of December 31, 2010, it had 169 Peruvian branches and one branch abroad).

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

Below are the main balances of the Bank and other companies mentioned in the previous paragraph as of December 31, 2011 and 2010, indicating the Bank's shareholding percentage, as well as relevant information in this regard:

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

## Notes to the Consolidated Financial Statements

As of December 31, 2011:

| Entity  | Activity                          | Percentage<br>of shareholding | In thousands of S/. |             |                         |
|---|-----------------------------------|-------------------------------|---------------------|-------------|-------------------------|
|   |                                   |                               | Assets              | Liabilities | Shareholders'<br>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<br>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<br>de Fondos S.A. | Administration of<br>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<br>entity         | -                             | 810,097             | 810,097     | -                       |

As of December 31, 2010:

| Entity  | Activity                          | Percentage<br>of shareholding | In thousands of S/. |             |                         |
|---|-----------------------------------|-------------------------------|---------------------|-------------|-------------------------|
|   |                                   |                               | Assets              | Liabilities | Shareholders'<br>equity |
| Scotiabank Perú S.A.A.                                  | Banking                           | -                             | 27,302,105          | 23,854,920  | 3,447,185               |
| CrediScotia Financiera S.A.                             | Finance                           | 100.00                        | 2,618,968           | 2,270,815   | 348,153                 |
| Servicios, Cobranzas e Inversiones S.A.C.               | Collection<br>services            | 100.00                        | 170,970             | 30,953      | 140,017                 |
| Scotia Sociedad Agente de Bolsa S.A.                    | Stock market broker               | 100.00                        | 148,811             | 85,398      | 63,413                  |
| Depósitos S.A.  | Warehousing                       | 100.00                        | 59,182              | 19,194      | 39,988                  |
| Scotia Fondos Sociedad Administradora<br>de Fondos S.A. | Administration of<br>mutual funds | 100.00                        | 28,215              | 3,594       | 24,621                  |
| Scotia Sociedad Titulizadora S.A.                       | Securitization                    | 100.00                        | 3,350               | 32          | 3,318                   |
| SBP DPR Finance Company                                 | Special purpose<br>entity         | -                             | 843,994             | 843,994     | -                       |

Approval of Consolidated Financial Statements

The consolidated financial statements as of December 31, 2011 were approved by the Bank's management, held on February 29, 2012. These consolidated financial statements have been prepared based on the separate financial statements of companies that are part of Scotiabank Perú S.A.A. and Subsidiaries and they will be presented for approval to the corresponding Board of Directors and General Shareholders' Meeting within the terms established by law. The separate financial statements that are part of the consolidated financial statements as of December 31, 2010 were approved 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 devices 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).

In Peru, the CNC authorized as of December 31, 2011, current IASs 1 to 41, IFRSs 1 to 8, SICs 7 to 32 (except for superseded SICs), and all the pronouncements from 1 to 19 issued by the current Interpretations Committee (IFRIC), as well as the modifications until May 2010 of IFRSs 1, 3 and 7, IASs 1 and 34, and IFRIC 13.

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/.) under SBS standards. Financial information is presented in nuevos soles (S/.) and has been rounded to the nearest thousand (S/. 000), except as otherwise indicated.

(d) Critical Accounting Estimates and Criteria

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

The significant estimates related to the accompanying consolidated financial statements correspond to provision for doubtful loans, valuation of investments, estimation of useful life and the recoverable amount of property, furniture, and equipment, goodwill, intangible assets, provision for realizable assets, received as payment and repossessed assets, and the valuation of derivative financial 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 the 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

Financial statements of the subsidiaries and special purpose entity have been included for consolidation purposes and represent 13.65% and 12.40%, respectively, of the total Bank's assets before eliminations as of December 31, 2011 and 2010. As of those dates, there is not minority 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. The financial instruments shall be offset when Scotiabank Perú S.A.A. and Subsidiaries have the legally enforceable right and management has the intention to settle them on a net basis or to realize the asset, and settle the liability simultaneously.

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

(c) Derivative Instruments

The 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* which establishes accounting criteria for held-for-trading, hedging, and embedded derivative 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 fall 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 against the 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 with effect in the income statement.

As of December 31, 2011 and 2010, 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 applies 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* as detailed below:

(i) Investments at Fair Value through Profit or Loss

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

(ii) Available-for-Sale Investments

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

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.

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 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.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(iii) Investments in Associates

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

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

Investment instruments held by companies can be reclassified. 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 Debtor Evaluation and Classification Unit is responsible for conducting, the evaluation and rating of the loan portfolio on a permanent basis. Each debtor receives a credit risk rating according to the guidelines established by the SBS Resolution 11356-2008 and its amendments.

Loan Portfolio Classification

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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:

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

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



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

## Notes to the Consolidated Financial Statements

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 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.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 Principals

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

Charges in favor of the Lima Stock Exchange and CONASEV (Peruvian Securities and Exchange Commission) for these securities trading transactions are recorded in 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 awaiting 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 charged to income 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 determined based on the straight-line method using the following estimated useful lives:

|                                      | <u>Years</u> |
|--------------------------------------|--------------|
| Property                             | 20           |
| 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. Book value of an asset is written off immediately at its recoverable amount when carrying amount of the asset exceeds its value in use.

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

Realizable assets, received as payment, and repossessed assets (note 11) are regulated by SBS Resolution 1535-2005. This caption mainly includes property, plant, and equipment received as payment for doubtful loans, and 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 current legislation, the treatment to record provisions for this type of assets is as follows:

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

(i) Impairment of Assets

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

The recoverable amount of an asset is the higher between its net selling price and its value in use. Net selling price is the expected amount at which an asset will be sold in a free market. 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 by Scotiabank Perú S.A.A. and Subsidiaries, Scotiabank Perú S.A.A. and Subsidiaries when the deferred tax asset is realized or the deferred tax liability is settled (note 25).

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

(k) Intangible Assets

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(l) Goodwill

Goodwill is the difference between the acquisition cost (amount paid) versus identifiable fair values of its subsidiary (note 9). Business acquisitions are recorded using the purchase accounting method. This means, recognizing identifiable assets of the acquired company at fair value. Any excess between the acquisition cost and the fair value of the identifiable net assets is recognized as goodwill.

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

Goodwill is not amortized and is only reduced in cases of impairment, which is reviewed annually, or more frequently, when there are events or circumstantial changes indicating that 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 results when accrued.

(n) Provisions and Contingencies

(i) Provisions

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The provision for severance payment (CTS) is calculated according to current legislation, on the total employees' indemnities and should be paid through deposits in authorized financial entities as chosen by them. 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 fringe benefits" account. It is presented in the 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 interim financial statements, and they are only disclosed when an inflow of economic benefits is probable.

(o) Income and Expense Recognition

Interest income and expenses are recognized in profit or loss corresponding fiscal year on an accrual basis, depending on the effectiveness 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 collectibility of the principal of a loan, the Bank and CrediScotia Financiera S.A. suspend the recognition of interest in the 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 collectibility of the principal has dissipated, it reestablishes the accounting of the interest on an accrual basis.

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

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

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

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(p) Capital Stock

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

(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/. 14,338 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 December 31, 2011 and 2010, the Bank does not have financial instruments with dilutive effects; therefore, basic and diluted earning per shares are the same.

(s) Consolidated Statement of Cash Flows

For presentation purposes of this consolidated financial statement, the balances of cash and due from banks and interbank funds of assets as of December 31, 2011 and 2010, were considered as cash and cash equivalents.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(t) Reclassifications

Certain entries of the 2010 consolidated financial statements have been reclassified to make them comparable to those in this period. Until 2010, employees' profit sharing expense (amounting to S/.51,061 thousand in 2010) were presented in the income statement after net income before tax. Effective 2011, these expenses are part of personnel expenses (see note 3.q).

(u) 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 to neither the Bank nor Scotia Sociedad Titulizadora S.A., and are recorded in memoranda accounts for corresponding control (note 18). Commissions on those activities are included in income from finance services (note 21).

(v) 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.

(w) New International Accounting Pronouncements

i) Pronouncements of the Peruvian Accounting Board -CNC

The CNC, through Resolution 048-2011-EF/30 published on January 6, 2012, approved the application of the 2011 version of the IFRS issued by the International Accounting Standards Board (IASB). The CNC authorized current IASs 1 to 41, IFRSs 1 to 13, 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 approved by the CNC

New standards and amendments to standards and interpretations that are effective internationally have not yet been approved by the CNC as of December 31, 2011:

- IFRS 10 *Consolidated Financial Statements*. Effective date: January 1, 2013.
- IFRS 11 *Joint Arrangements*. Effective date: January 1, 2013.



SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- IFRS 12 *Disclosure of Interests in Other Entities*. Effective date: January 1, 2013.
- IFRS 13 *Fair Value Measurement*. Effective date: January 1, 2013.

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

- IFRS 9 *Financial Instruments: Classification and Measurement*. Effective date: January 01, 2015.
- IAS 19 *Employee Benefits*. Effective date: January 1, 2013.
- IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*. Effective date: January 1, 2013.
- IAS 1 *Presentation of Financial Statements – presentation of other comprehensive income items*. Effective date: July 1, 2012.
- IAS 24 (revised), *Related party disclosure*. Effective date: January 1, 2011.
- IFRS 7 *Financial Instruments: disclosures– requirement to present additional disclosures for the derecognition of financial assets*. Effective date: July 1, 2011.
- IAS 12 *Deferred Income Tax: recovery of underlying assets*. Effective date: 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 January 2012. As of the date of this report, the Bank is evaluating the effects on the preparation of its financial statements that may arise from the application of IFRS until the SBS issues the corresponding regulation within the framework of the IFRS harmonization process.
- By means of SBS Resolution 914-2010, the SBS extended the application of IFRS 7 *Financial Instruments: Disclosures* and IFRS 8 *Operating Segments*. This postponement is effective until the SBS issues corresponding regulation as part of the process to harmonize its accounting regulations to IFRS.

As indicated in note 2.a, the standards and interpretations detailed above will only be applicable to Scotiabank Perú S.A.A. and Subsidiaries, in absence of applicable SBS regulations (covered in the regulatory Accounting Manual). Management has not determined the effect on the preparation of its consolidated financial statements in case such standards were adopted by the SBS.

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

## Notes to the Consolidated Financial Statements

(4) Balances in Foreign Currency

Consolidated balance sheet includes balances of transactions in foreign currency, mainly in U.S. dollars (US\$), which are recorded in nuevos soles (S/.) at the exchange rate established by the SBS. As of December 31, 2011 and 2010, these rates were US\$1 = S/. 2.696 and S/. 2.809, 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 December 31, 2011, the buy and sell exchange rates used were US\$ 1 = S/. 2.695 and US\$ 1= S/. 2.697, respectively (US\$ 1= S/. 2.808 buy rate and US\$ 1= S/. 2.809 sell rate as of December 31, 2010).

Foreign currency balances stated in thousands of U.S. dollars and other currencies as of December 31, 2011 and 2010, are summarized as follows:

|  | 2011            |        |                     | 2010            |           |                     |
|--|-----------------|--------|---------------------|-----------------|-----------|---------------------|
|  | U.S.<br>Dollars | Euros  | Other<br>currencies | U.S.<br>Dollars | Euros     | Other<br>currencies |
| <b>Assets:</b>   |                 |        |                     |                 |           |                     |
| Cash and due from banks  | 1,740,477       | 13,957 | 2,547               | 1,298,226       | 17,471    | 117                 |
| Investments at fair value through profit or loss<br>and available-for-sale investments | 42,689          | 39,285 | -                   | 32,138          | 30,740    | -                   |
| Loan portfolio, net  | 3,986,438       | -      | -                   | 3,351,313       | -         | -                   |
| Accounts receivable, net   | 20,733          | -      | -                   | 33,489          | 116       | 129                 |
| Other assets   | 39,458          | 2,852  | -                   | 100,512         | 3,056     | -                   |
|  | 5,829,795       | 56,094 | 2,547               | 4,815,678       | 51,383    | 246                 |
| <b>Liabilities:</b>  |                 |        |                     |                 |           |                     |
| Deposits and obligations   | 3,944,858       | 55,734 | 22                  | 3,504,742       | 70,427    | 28                  |
| Borrowings and financial obligations   | 1,452,873       | -      | -                   | 1,392,216       | -         | -                   |
| Securities, bonds and obligations issued   | 70,170          | -      | -                   | 73,054          | -         | -                   |
| Other liabilities  | 282,935         | 18     | 2,001               | 272,071         | 4,987     | -                   |
|  | 5,750,836       | 55,752 | 2,023               | 5,242,083       | 75,414    | 28                  |
| Net asset (liability) position on balance sheet  | 78,959          | 342    | 524                 | ( 426,405)      | ( 24,031) | 218                 |
| <b>Transactions</b>  |                 |        |                     |                 |           |                     |
| with derivative instruments  | 129,743         | -      | -                   | 435,783         | 22,579    | -                   |

In 2011, Scotiabank Perú S.A.A. and Subsidiaries recorded under finance income, gains on foreign exchange difference of various operations amounting to S/. 164,214 thousand (gains of S/. 174,026 thousand in the year 2010); see note 19.

As of December 31, 2011, Scotiabank Perú S.A.A. and Subsidiaries have contingent operations in foreign currency amounting to US\$ 6,023,998 thousand, equivalent to S/. 16,240,699 thousand (US\$ 5,976,267 thousand equivalent to S/. 16,787,334 thousand as of December 31, 2010).

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

## Notes to the Consolidated Financial Statements

(5) Cash and Due from Banks

It comprises

|   | <u>In thousands of S/.</u> |             |
|---|----------------------------|-------------|
|   | <u>2011</u>                | <u>2010</u> |
| Cash (a)                                      | 719,889                    | 604,948     |
| Banco Central de Reserva del Perú (a)         | 5,856,563                  | 6,987,711   |
| Deposits with local banks (b)                 | 44,155                     | 69,332      |
| Deposits with foreign banks (b)               | 458,984                    | 307,659     |
| Clearing                                      | 212,121                    | 120,934     |
| Restricted Funds (c)                          | 14,403                     | 17,110      |
| Accrued return on cash and due from banks (d) | 1,819                      | 2,567       |
| Other cash and due from banks                 | 296                        | 181         |
|   | -----                      | -----       |
|   | 7,308,230                  | 8,110,442   |
|   | =====                      | =====       |

(a) As of December 31, 2011, funds held in cash and deposits with Banco Central de Reserva del Perú (BCRP) include US\$ 1,159,010 thousand and S/. 1,091,220 thousand (US\$ 776,042 thousand and S/. 659,440 thousand as of December 31, 2010) 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 December 31, 2011, the excess of legal cash reserve in local and foreign currency accrued interest at annual rates of 2.45% and 0.17%, respectively (1.20% in local currency and 0.16% in foreign currency as of December 31, 2010). Interest accrued from the excess in foreign currency in 2011 amounts to US\$ 1,559 thousand (US\$ 1,552 thousand for year 2010). Interest accrued for the excess in local currency in 2011 amounts to S/. 7,456 thousand (in 2010, this excess became interest-bearing from October, accruing interest for S/. 425 thousand for the period October to December 2010 period).

As of December 31, 2011, deposits with BCRP include "overnight" operations of US\$ 395,000 thousand; such operations accrued interest at an annual nominal rate of 0.06% (US\$ 406,000 thousand and S/. 652,700 thousand at annual nominal rates of 0.19% and between 2.20% and 3.00% respectively, as of December 31, 2010).

(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 December 31, 2011, deposits in foreign banks, included deposits held at The Bank of Nova Scotia for US\$ 677 thousand and Canadian dollars for \$ 2,019 thousand (US\$ 6,093 thousand and Canadian dollars for \$ 49 thousand as of December 31, 2010).

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

## Notes to the Consolidated Financial Statements

As of December 31, 2011 and 2010, Scotiabank Perú S.A.A. and Subsidiaries have no significant deposits with any commercial banks.

(c) As of December 31, 2011, restricted funds for US\$ 4,588 thousand and S/. 2,035 thousand (US\$ 5,476 thousand and S/. 1,727 thousand as of December 31, 2010), mainly relate to guarantee funds and restricted funds due to lawsuits against the Bank and CrediScotia Financiera S.A.

(d) During 2011, interest revenue from cash and due from banks amounted to S/. 39,130 thousand (S/. 23,690 thousand during year 2010) and it is included as finance income item in the consolidated income statement (see note 19).

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

It comprises:

|   | <u>In thousands of S/.</u> |             |
|---|----------------------------|-------------|
|   | <u>2011</u>                | <u>2010</u> |
| Investments at fair value through profit or loss:   |                            |             |
| Peruvian Treasury Bonds (a)   | 85,846                     | 43,215      |
| BCRP certificates of deposit (b)  | -                          | 49,921      |
|   | -----                      | -----       |
|   | 85,846                     | 93,136      |
|   | -----                      | -----       |
| Available-for-sale investments:   |                            |             |
| Peruvian Treasury Bonds (a)   | 835,038                    | 869,323     |
| BCRP certificates of deposit (b)  | 545,770                    | 663,538     |
| Mutual funds (c)  | 179,714                    | 73,097      |
| Unlisted shares   | 11,739                     | 7,963       |
| Listed shares   | 1,145                      | 1,140       |
| Other   | 2                          | 7           |
|   | -----                      | -----       |
| Total investment at fair value through profit or loss<br>and available-for-sale investments | 1,659,254                  | 1,708,204   |
|   | =====                      | =====       |

(a) The Peruvian Treasury Bonds correspond to sovereign bonds issued in local currency by the Peruvian Ministry of Economy and Finance and represent internal public debt instruments of the Republic of Peru. As of December 31, 2011, these bonds accrue interest at annual rates ranging from 4.16% to 6.48% (from 4.42% to 6.76% annually as of December 31, 2010), with maturities between September 2013 and August 2037 (between May 2015 and August 2037 as of December 31, 2010).

(b) BCRP certificates of deposit are securities freely negotiable in local currency; they are acquired through BCRP public bids and traded in the Peruvian secondary market. As of December 31, 2011, these certificates accrue interest based on the BCRP reference rate which ranged from 4.15% to 4.24% annually (as of December 31, 2010, accrued interest at fixed rates between 0.09% and 2.88% annually) and have maturities between January and December 2012 (between January and June 2011, as of December 31, 2010).

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

## Notes to the Consolidated Financial Statements

Likewise, as of December 31, 2011 and 2010, the Bank did not have certificates of deposit issued by BCRP with restricted availability.

- (c) As of December 31, 2011, the participants in mutual funds included S/. 69,512 thousand and US\$ 40,876 thousand corresponding to investments in mutual funds managed mainly by a subsidiary (held S/. 11,548 thousand and US\$ 21,911 thousand as of December 31, 2010).

As of December 31, 2011 and 2010, the accrued interest on investments amounted to S/. 68,494 thousand and S/. 70,825 thousand, respectively, and is included in the finance income item in the consolidated income statement.

Management estimates the market value of investment at fair value through profit or loss and available-for-sale investments based on quoted market prices at the Lima Stock Exchange or, when those are not available, by discounting the expected cash flows at an interest rate reflecting the risk of the security. In the opinion of the Management of Scotiabank Perú S.A.A. and Subsidiaries, the market value of securities and the provisions, recorded to have them at their estimated market value, are enough to cover any eventual losses as of December 31, 2011 and 2010.

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

|                    | <u>In thousands of S/.</u> |                  |
|--------------------|----------------------------|------------------|
|                    | <u>2011</u>                | <u>2010</u>      |
| Less than 3 month  | 473,724                    | 149,939          |
| 3 months to 1 year | 337,603                    | 634,887          |
| 12 months +        | 847,927                    | 923,378          |
|                    | <u>1,659,254</u>           | <u>1,708,204</u> |

- (7) Loan Portfolio, net  
It comprises the following:

|                                   | <u>In thousands of S/.</u> |            |                   |            |
|-----------------------------------|----------------------------|------------|-------------------|------------|
|                                   | <u>2011</u>                | <u>%</u>   | <u>2010</u>       | <u>%</u>   |
| Direct loans:                     |                            |            |                   |            |
| Current loans                     | 21,410,972                 | 97         | 17,689,305        | 97         |
| Refinanced loans                  | 198,713                    | 1          | 226,376           | 1          |
| Restructured loans                | 72,844                     | -          | 75,915            | -          |
| Past due loans                    | 286,650                    | 2          | 257,343           | 2          |
| Lawsuits loans                    | 104,274                    | -          | 71,348            | -          |
|                                   | <u>22,073,453</u>          | <u>100</u> | <u>18,320,287</u> | <u>100</u> |
| Plus (less):                      |                            |            |                   |            |
| Accrued interest on current loans | 190,176                    |            | 136,096           |            |
| Non-accrued interest              | ( 488,468)                 |            | ( 534,637)        |            |
| Provision for doubtful loans      | ( 905,679)                 |            | ( 773,501)        |            |
|                                   | <u>20,869,482</u>          |            | <u>17,148,245</u> |            |
| Indirect loans (note 18)          | <u>3,948,281</u>           |            | <u>3,432,761</u>  |            |



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

## Notes to the Consolidated Financial Statements

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

|  | In thousands of S/. |            |                   |            |
|--|---------------------|------------|-------------------|------------|
|  | 2011                | %          | 2010              | %          |
| Mortgage and consumer loans                          | 6,939,328           | 31         | 5,304,905         | 29         |
| Trade  | 2,779,470           | 13         | 2,191,813         | 12         |
| Manufacturing  | 2,742,342           | 12         | 2,543,140         | 14         |
| Real estate business and lease service               | 1,886,416           | 9          | 2,461,163         | 13         |
| Mining   | 997,006             | 5          | 795,394           | 4          |
| Transportation                                       | 923,083             | 4          | 751,016           | 4          |
| Electricity, gas, and water                          | 916,804             | 4          | 724,983           | 4          |
| Financial intermediation                             | 775,411             | 4          | 599,113           | 3          |
| Education, services, and other                       | 502,406             | 2          | 390,083           | 2          |
| Fishing  | 420,839             | 2          | 298,408           | 2          |
| Agriculture and livestock                            | 368,882             | 2          | 242,064           | 1          |
| Construction   | 312,934             | 1          | 243,514           | 1          |
| Hotel and restaurants                                | 238,505             | 1          | 130,111           | 1          |
| Public administration and defense                    | 7,678               | -          | 8,671             | -          |
| Other (mainly non-profit, healthcare and automotive) | 2,262,349           | 10         | 1,635,909         | 10         |
|  | <u>22,073,453</u>   | <u>100</u> | <u>18,320,287</u> | <u>100</u> |

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

|                                       | In thousands of S/. |                |                |
|---------------------------------------|---------------------|----------------|----------------|
|                                       | Specific            | Generic        | Total          |
| Balances as of December 31, 2009      | 580,396             | 289,810        | 870,206        |
| Additions charged to income statement | 593,960             | 92,382         | 686,342        |
| Recovery of provisions                | ( 215,779)          | ( 40,735)      | ( 256,514)     |
| Transfers and other                   | ( 34,040)           | ( 13,150)      | ( 47,190)      |
| Write-offs and forgiveness            | ( 469,559)          | -              | ( 469,559)     |
| Foreign exchange difference           | ( 6,651)            | ( 3,133)       | ( 9,784)       |
| Balances as of December 31, 2010      | <u>448,327</u>      | <u>325,174</u> | <u>773,501</u> |
| Additions charged to income statement | 670,089             | 206,541        | 876,630        |
| Recovery of provisions                | ( 213,853)          | ( 104,682)     | ( 318,535)     |
| Transfers and other                   | 24,391              | ( 22,548)      | 1,843          |
| Write-offs and forgiveness            | ( 414,088)          | -              | ( 414,088)     |
| Foreign exchange difference           | ( 7,610)            | ( 6,062)       | ( 13,672)      |
| Balances as of December 31, 2011      | <u>507,256</u>      | <u>398,423</u> | <u>905,679</u> |

As of December 31, 2011, the provision for foreign exchange credit risk and the procyclical provision amounted to S/. 1,165 thousand and S/. 113,598 thousand (S/. 1,139 thousand and S/. 65,423 thousand, respectively as of December 31, 2010).

Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. recorded the provision for doubtful loans according to the policy described in note 3.e.

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

## Notes to the Consolidated Financial Statements

In the opinion of the management of Scotiabank Perú S.A.A. and CrediScotia Financiera S.A., the provision for doubtful loans recorded as of December 31, 2011 and 2010 is recorded according to current SBS standards effective as of that date.

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

|                          | In thousands of S/. |                     |            |                   |                     |            |
|--------------------------|---------------------|---------------------|------------|-------------------|---------------------|------------|
|                          | 2011                |                     |            | 2010              |                     |            |
|                          | Local<br>currency   | Foreign<br>currency | Total      | Local<br>currency | Foreign<br>currency | Total      |
| Less than 1 month        | 1,004,576           | 1,291,325           | 2,295,901  | 887,479           | 1,323,876           | 2,211,355  |
| 1-3 months               | 1,799,566           | 1,861,033           | 3,660,599  | 1,414,959         | 2,049,606           | 3,464,565  |
| 3-6 months               | 2,236,794           | 1,225,443           | 3,462,237  | 1,277,775         | 1,152,115           | 2,429,890  |
| 6-12 months              | 2,057,608           | 1,220,801           | 3,278,409  | 1,573,409         | 974,249             | 2,547,658  |
| Over 12 months           | 3,865,363           | 5,310,196           | 9,175,559  | 3,405,943         | 4,068,281           | 7,474,224  |
| Overdue and lawsuit      | 216,009             | 174,915             | 390,924    | 171,360           | 157,331             | 328,691    |
| Less accrued<br>interest | ( 136,647)          | ( 53,529)           | ( 190,176) | ( 94,108)         | ( 41,988)           | ( 136,096) |
|                          | 11,043,269          | 11,030,184          | 22,073,453 | 8,636,817         | 9,683,470           | 18,320,287 |

(8) Accounts Receivable, net

It comprises the following:

|  | In thousands of S/. |         |
|--|---------------------|---------|
|  | 2011                | 2010    |
| Tax claims (a)   | 268,667             | 133,208 |
| Accounts receivable for differential of derivative<br>financial instruments - forwards (b) | 55,996              | 30,789  |
| Accounts receivable for collection and warehousing services                                | 49,358              | 45,013  |
| Commissions receivable   | 17,172              | 16,615  |
| Payments on behalf of third parties, net   | 4,772               | 4,703   |
| Accounts receivable from principals  | 2,712               | 15,880  |
| Accounts receivable from guarantee trusts, net (c)   | -                   | 11,132  |
| Advances to personnel  | 2,146               | 2,094   |
| Other accounts receivable, net (d)   | 87,495              | 97,135  |
|  | 488,318             | 356,569 |

- (a) Scotiabank Perú S.A.A. and Subsidiaries tax proceedings as of December 31, 2011 and 2010, correspond to the compensation of the credit balance against ITAN (Temporary Tax on net Assets) for years 2006 and 2005 (see note 24e).

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



SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (b) As of December 31, 2011, Scotiabank Perú S.A.A. holds sale and purchase forward operations for a total notional value of US\$ 1,348,492 thousand and US\$ 1,218,749 thousand; respectively, with maturities until April 2013 (as of December, 31, 2010, held forward operations for US\$ 1,392,761 thousand and US\$ 1,851,123 thousand, respectively, with maturities until April 2013). Forward operations in 2011, generated net gain of S/. 19,347 thousand (net loss of S/. 19,225 thousand in 2010), see notes 19 and 20.
- (c) The SBS, by means of Resolution 1796-2003, authorized the Bank to transfer to a guarantee trust a loan portfolio, provisions and guarantees related to this portfolio. This guarantee trust was to support a financing operation with Banco de Credito del Peru for US\$ 10,000 thousand. The term of the trust agreement was December 29, 2012, which could be extended upon agreement of both parties. This agreement allows the Bank to replace or remove assets from the trust, in compliance with the terms of the contract. As of December 31, 2011, the Bank had not yet requested any withdraw of this facility. During 2011, the Bank had transferred loans to the guarantee trust for a net value of S/. 17,244 thousand (S/. 52,747 thousand during 2010).

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

As of December 31, 2011, the accounts receivable from the trust were fully provided for (net balance of S/. 11,132 thousand as of December 31, 2010) and accumulated provisions as of that date amount to S/. 118,252 thousand (S/. 143,821 thousand as of December 31, 2010).

- (d) As of December 31, 2011, the balance of other accounts receivable, net of the related provision for doubtful accounts, is mainly composed of: i) accounts receivable from the sale of investments for S/. 41,950 thousand (S/. 14,195 thousand as of December 31, 2010); ii) accounts receivable from property rental for S/. 1,708 thousand (S/. 2,278 thousand as of December 31, 2010); and iii) various accounts receivable for S/. 43,837 thousand (S/. 80,662 thousand as of December 31, 2010).
- (9) Goodwill  
In 2008, the Bank acquired 100% of the capital stock of Banco del Trabajo S.A., currently CrediScotia Financiera S.A., and recognized goodwill as of December 31, 2011 and 2010 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 is recorded at cost and has been assessed by management, concluding that there is no impairment as of December 31, 2011 and 2010.

## 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<br>12.31.11 |
|--------------------------------------|---------------------------|-----------|-----------|-----------------------|---------------------------|
|                                      | Balance as of<br>12.31.10 | Additions | Disposals | Reclass. &<br>Adjust. |                           |
| Cost:                                |                           |           |           |                       |                           |
| Land                                 | 153,994                   | -         | -         | -                     | 153,994                   |
| Property and premises                | 685,353                   | 3,969     | ( 1,160)  | 22,299                | 710,461                   |
| Furniture, fixture, and IT           | 309,352                   | 47,177    | ( 11,863) | 4,517                 | 349,183                   |
| Vehicles                             | 6,208                     | 404       | ( 1,502)  | -                     | 5,110                     |
| Units in transit and replacing units | 2,946                     | 7,802     | -         | ( 4,381)              | 6,367                     |
| Work-in-progress                     | 13,330                    | 21,412    | -         | ( 25,436)             | 9,306                     |
|                                      | -----                     | -----     | -----     | -----                 | -----                     |
|                                      | 1,171,183                 | 80,764    | ( 14,525) | ( 3,001)              | 1,234,421                 |
|                                      | =====                     | =====     | =====     | =====                 | =====                     |
| Accumulated depreciation:            |                           |           |           |                       |                           |
| Property and premises                | 441,976                   | 30,852    | ( 1,008)  | ( 8)                  | 471,812                   |
| Furniture, fixture, and IT           | 228,736                   | 28,585    | ( 11,024) | ( 6)                  | 246,291                   |
| Vehicles                             | 3,927                     | 727       | ( 1,477)  | -                     | 3,177                     |
|                                      | -----                     | -----     | -----     | -----                 | -----                     |
|                                      | 674,639                   | 60,164    | ( 13,509) | ( 14)                 | 721,280                   |
|                                      | -----                     | =====     | =====     | =====                 | -----                     |
|                                      | 496,544                   |           |           |                       | 513,141                   |
|                                      | =====                     |           |           |                       | =====                     |

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

(11) Other Assets, net

It comprises the following:

|   | In thousands of S/. |         |
|---|---------------------|---------|
|   | 2011                | 2010    |
| Tax credits and other (a)   | 367,973             | 329,899 |
| Deferred income tax (note 25)   | 164,800             | 89,921  |
| Prepaid expenses (b)  | 118,220             | 96,790  |
| Transactions in process (c)   | 78,662              | 68,283  |
| Repossessed and realizable assets, net of accumulated depreciation and provision for impairment for S/. 129,743 thousand (S/. 130,918 thousand in 2010) | 28,135              | 24,521  |
| Intangible assets, net of amortizations of S/. 191,726 thousand (S/. 190,452 thousand in 2010)  | 16,376              | 10,925  |
| Inventories   | 6,995               | 12,869  |
| Deferred employees' profit sharing  | -                   | 15,734  |
| Other   | 12,233              | 14,947  |
|   | -----               | -----   |
|   | 793,394             | 663,889 |
|   | =====               | =====   |

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

## Notes to the Consolidated Financial Statements

- (a) As of December 31, 2011 and 2010, tax credit mainly includes the value added tax (VAT) for S/. 350,331 thousand and S/. 322,899 thousand, respectively, from acquisition of assets that have been transferred under finance leases, which have not yet been applied to taxable operations.
- (b) As of December 31, 2011, prepaid expenses include mainly: (i) deferred loan origination costs, mainly to fees paid to external sales of S/. 49,876 thousand (S/. 37,080 thousand in 2010); (ii) prepaid rent of S/. 6,499 thousand (S/. 6,032 thousand in 2010); (iii) prepaid commissions of received borrowings for S/. 11,931 thousand (S/. 11,683 thousand in 2010); (iv) advertising and marketing services for S/. 7,341 thousand (S/. 1,973 thousand in 2010); and, (v) commissions on financing of S/. 13,019 thousand.
- (c) Transactions in process are those carried out during the last days of the month and are reclassified in the following month to their definitive respective accounts in the consolidated balance sheet; these transactions do not affect the results of Scotiabank Perú S.A.A. and Subsidiaries. As of December 31, 2011, they comprise S/. 61,920 thousand related to treasury transactions and S/. 1,373 thousand for invoices in transit for services received and S/. 3,852 thousand for Unibanca unsettled transactions (as of December 31, 2010 for S/. 56,276 thousand, S/. 301 thousand and S/. 1,850 thousand, respectively).

(12) Deposits and Obligations

It comprises the following:

|                          | In thousands of S/. |      |            |      |
|--------------------------|---------------------|------|------------|------|
|                          | 2011                | %    | 2010       | %    |
| Individuals              | 6,954,267           | 32   | 6,470,634  | 33   |
| Corporate clients        | 11,213,141          | 53   | 9,821,637  | 51   |
| Non-profit organizations | 2,129,085           | 10   | 2,144,642  | 11   |
| Other                    | 1,126,718           | 5    | 982,633    | 5    |
|                          | -----               | ---- | -----      | ---- |
|                          | 21,423,211          | 100  | 19,419,546 | 100  |
|                          | =====               | ==== | =====      | ==== |

Deposits and other obligations in U.S. dollars represent 50% and 51% of the total deposits as of December 31, 2011 and 2010, respectively. Deposits included accounts pledged in favor of Scotiabank Perú S.A.A. and Subsidiaries for credit operations for S/. 301,583 thousand and US\$ 191,905 thousand as of December 31, 2011 and S/. 277,877 thousand and US\$198,195 thousand as of December 31, 2010.

Likewise, as of December 31, 2011 and 2010, from the total of deposits and obligations from individuals and non-profit legal entities, the amounts of S/. 5,493,735 thousand and S/. 5,081,394 thousand, respectively, are covered by the Peruvian Deposit Insurance Fund, according to current legal regulations.

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

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

## Notes to the Consolidated Financial Statements

- (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 December 31, 2011, amounted to S/. 92 thousand (S/. 86 thousand as of December 31, 2010).

The Bank and CrediScotia Financiera S.A. freely establish deposits interest rates based on supply and demand, and the type of deposits. Effective annual rates for main products at December 31 were:

|   | %                 |                     |                   |                     |
|---|-------------------|---------------------|-------------------|---------------------|
|   | 2011              |                     | 2010              |                     |
|   | Local<br>currency | Foreign<br>currency | Local<br>currency | Foreign<br>currency |
| Savings deposits                        | 0.96 - 2.70       | 0.45 - 1.71         | 0.97 - 2.62       | 0.45 - 1.66         |
| Term deposits                           | 1.28 - 5.81       | 0.73 - 3.08         | 1.29 - 5.67       | 0.84 - 3.03         |
| Bank certificates                       | -                 | 0.18 - 1.04         | -                 | 0.28 - 1.04         |
| Severance indemnities<br>(CTS) deposits | 1.50 - 6.00       | 1.42 - 4.00         | 1.47 - 6.00       | 1.35 - 4.00         |

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

|                | In thousands of S/. |                     |                    |                    |                     |                    |
|----------------|---------------------|---------------------|--------------------|--------------------|---------------------|--------------------|
|                | 2011                |                     |                    | 2010               |                     |                    |
|                | Local<br>currency   | Foreign<br>currency | Total              | Local<br>currency  | Foreign<br>currency | Total              |
| Up to 1 month  | 2,029,422           | 2,214,016           | 4,243,438          | 2,286,473          | 2,504,849           | 4,791,322          |
| 1-3 months     | 1,066,844           | 1,300,964           | 2,367,808          | 618,384            | 442,233             | 1,060,617          |
| 3-6 months     | 503,051             | 370,236             | 873,287            | 230,367            | 714,117             | 944,484            |
| 6-12 months    | 602,510             | 592,888             | 1,195,398          | 129,811            | 609,304             | 739,115            |
| Over 12 months | 339,600             | 382,885             | 722,485            | 1,038,173          | 489,939             | 1,528,112          |
|                | -----<br>4,541,427  | -----<br>4,860,989  | -----<br>9,402,416 | -----<br>4,303,208 | -----<br>4,760,442  | -----<br>9,063,650 |
|                | =====               | =====               | =====              | =====              | =====               | =====              |

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

As of December 31, 2011, CrediScotia Financiera S.A. issued the Second Program of short-term Negotiable Certificates of Deposits for an amount up to S/. 200,000 thousand. As of December 31, 2010, CrediScotia Financiera S.A., made the Program's First Issuance for an amount of S/. 50,000 thousand.

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

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

## Notes to the Consolidated Financial Statements

amount, on July 8, S/. 47,740 thousand were issued and on August 19, 2011 the amount of S/. 60,000 thousand was issued.

At the Board of Directors' meeting of CrediScotia Financiera S.A. held on October 28, 2008, the Second Program of short-term Negotiable Certificates of Deposits was approved for an amount up to S/. 200,000 thousand or equivalent amount in U.S. dollars. This program had a term of two years beginning on the registration date of the program in the Public Registry of Stock Market of the Superintendency of Securities and Exchange.

(13) Borrowings and Financial Obligations

It comprises the following:

|                                 | <u>In thousands of S/.</u> |             |
|---------------------------------|----------------------------|-------------|
|                                 | <u>2011</u>                | <u>2010</u> |
| COFIDE credits lines (a)        |                            |             |
| Mivivienda                      | 254,012                    | 197,869     |
| Working capital and other       | 432,000                    | 300,000     |
| Ordinary loans from abroad (b): |                            |             |
| Related banks                   | 1,377,124                  | 877,258     |
| Other banks                     | 1,938,419                  | 2,391,286   |
|                                 | -----                      | -----       |
|                                 | 4,001,555                  | 3,766,413   |
| Interest payable                | 22,475                     | 16,267      |
|                                 | -----                      | -----       |
|                                 | 4,024,030                  | 3,782,680   |
|                                 | =====                      | =====       |

(a) COFIDE - Corporación Financiera de Desarrollo S.A. (Finance Development Corporation) credit lines correspond to resources obtained for loans granting, mainly for Fondo Mivivienda mortgage financing programs, which accrue a fixed interest rate adjusted to the VAC index. Likewise, as of December 31, 2011 and 2010, 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 6.60% and 8.05% (between 4.45% and 7.25% as of December 31, 2010).

(b) As of December 31, 2011, ordinary loans correspond to debts with related foreign financial entities: Scotiabank Ltd. Bahamas for US\$ 503,165 thousand and The Bank of Nova Scotia for US\$ 7,638 thousand (as of December 31, 2009 for US\$ 303,165 thousand and US\$ 9,138 thousand, respectively).

As of December 31, 2011, this line includes borrowings of Bank agreed with various foreign financial institutions for US\$ 593,998 thousand (US\$ 726,294 thousand as of December 31, 2010), accrued interest at annual average rates that range from 1.91% to 7.50% (from 0.59% to 7.50% as of December 31, 2010).

During 2010, the Bank negotiated borrowings with two foreign financial institutions for US\$ 125,000 thousand maturing in September 2017. From this amount, US\$ 62,500 thousand accrue interest at a fixed rate of 3.88%; while US\$ 62,500 thousand accrue interest at a variable rate of 3-month LIBOR plus a spread of 2.10%. These transactions contain standard clauses of compliance with financial

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

## Notes to the Consolidated Financial Statements

ratios and other administrative matters. In the opinion of the management those clauses do not affect the Bank's operations and are being met.

In June 2008, the Bank agreed a medium-term syndicated loan from abroad. The loan amounted to US\$ 280,000 thousand and accrues interest at LIBOR rate plus 1.25% annually which was paid off in June 2011.

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

|                | In thousands of S/. |                  |
|----------------|---------------------|------------------|
|                | 2011                | 2010             |
| Up to 1 month  | 237,514             | 560,770          |
| 1-3 months     | 467,379             | 786,303          |
| 3-6 months     | 380,893             | 760,629          |
| 6-12 months    | 361,040             | 252,258          |
| Over 12 months | 2,577,204           | 1,422,720        |
|                | <u>4,024,030</u>    | <u>3,782,680</u> |

(14) Securities, Bonds and Obligations Issued

It comprises the following:

| Issuance                             | Annual interest  | Maturity    | Outstanding balance in thousands of S/. |                  |
|--------------------------------------|------------------|-------------|---|------------------|
|                                      |                  |             | 2011                                    | 2010             |
| Negotiable notes (a)                 |                  |             |   |                  |
| Series A                             | 5.25%            | 2017        | 134,800                                 | 140,450          |
| Series B                             | 3m LIBOR + 2.75% | 2017        | 337,000                                 | 351,125          |
|                                      |                  |             | <u>471,800</u>                          | <u>491,575</u>   |
| Redeemable subordinated bonds (b)    |                  |             |   |                  |
| 1st Issuance                         | 9.75% - 9.10%    | 2012 & 2013 | 188,563                                 | 196,140          |
| 2nd Issuance E                       | 8.25%            | 2011        | -                                       | 8,427            |
|                                      |                  |             | <u>188,563</u>                          | <u>204,567</u>   |
| Corporate bonds (c)                  |                  |             |   |                  |
| 1st Issuance A                       | 5.69%            | 2012        | 30,000                                  | 30,000           |
| 1st Issuance B                       | 5.78%            | 2012        | 26,660                                  | 26,660           |
| 1st Issuance A                       | 6.34%            | 2013        | 100,000                                 | 100,000          |
| 1st Issuance B                       | 6.28%            | 2014        | 60,000                                  | -                |
| 2nd Issuance A                       | 7.72%            | 2014        | 50,000                                  | -                |
| 3rd Issuance A                       | 6.81%            | 2013        | 150,000                                 | 150,000          |
| 3rd Issuance A                       | 6.81%            | 2013        | 75,920                                  | -                |
| 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          |
|                                      |                  |             | <u>798,060</u>                          | <u>612,140</u>   |
|                                      |                  |             | 1,458,423                               | 1,308,282        |
| Interest payable and obligations (d) |                  |             | 12,514                                  | 8,776            |
|                                      |                  |             | <u>1,470,937</u>                        | <u>1,317,058</u> |

## 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.
- Redeemable subordinated bonds 2nd issuance from the Simple Reorganization made by the Bank with Wiese Sudameris Leasing S.A. and Banco Sudamericano S.A. Those bonds were paid off in July 2011.
- (c) From 2007 to date, the Bank and CrediScotia Financiera S.A. have issued Corporate Bonds for S/. 688,060 and S/. 110,000 thousand, respectively within terms ranging from 1 to 7 years. Proceeds were exclusively destined to credit operations financing.
- (d) As of December 31, 2011, interest payable on securities and obligations mainly include unpaid interest on securities issued by the Bank and CrediScotia Financiera S.A. for S/. 12,514 thousand (S/. 8,776 thousand as of December 31, 2010).

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

|                | <u>In thousands of S/.</u> |             |
|----------------|----------------------------|-------------|
|                | <u>2011</u>                | <u>2010</u> |
| Up to 3 months | 30,446                     | -           |
| 3-6 months     | 188,472                    | -           |
| 6-12 months    | 30,600                     | 17,203      |
| Over 12 months | 1,221,419                  | 1,299,855   |
|                | -----                      | -----       |
|                | 1,470,937                  | 1,317,058   |
|                | =====                      | =====       |

## 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>2011</u>                | <u>2010</u> |
| Various accounts payable (a)   | 131,843                    | 175,935     |
| Provisions for litigations and legal claims (b)  | 119,757                    | 113,877     |
| Transactions in process (c)  | 102,539                    | 115,431     |
| Dividends, vacations, profit sharing and remunerations payable                             | 104,692                    | 99,972      |
| Income tax provision   | 98,130                     | 120,443     |
| Generic provision (d)  | 63,702                     | 64,383      |
| Put option (e)   | 53,106                     | 52,527      |
| Provision for indirect loans   | 52,562                     | 28,747      |
| Accounts payable for differential of derivative financial instruments - forwards (note 8b) | 51,904                     | 31,916      |
| Accounts receivable from principals  | 49,970                     | 46,786      |
| Dividends payable to principals  | 19,068                     | 19,176      |
| Deferred income on portfolio sale and other  | 12,096                     | 15,541      |
| Deferred income tax (note 25)  | 5,038                      | 9,606       |
| Deferred employees' profit sharing   | -                          | 1,686       |
| Other provisions (f)   | 116,694                    | 135,541     |
|  | -----                      | -----       |
|  | 981,101                    | 1,031,567   |
|  | =====                      | =====       |

(a) As at December 31, 2011, this account was composed mainly of accounts payable to: (i) suppliers for S/. 91,880 thousand; ii) tax agencies for S/. 7,820 thousand; iii) purchase of investments for S/. 12,729 thousand; iv) insurance companies for services agreed-upon by customers for S/. 7,400 thousand; for S/. 12,014 thousand (S/. 62,140 thousand, S/. 8,379 thousand, S/. 8,826 thousand, S/. 7,341 thousand, and S/. 7,556 thousand; respectively as of December 31, 2010).

(b) As of December 31, 2011 and 2010, Scotiabank Perú S.A.A. and Subsidiaries have various legal actions underway, which are related to civil and labour 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.

(c) Transactions in process are mainly those carried out during the last days of the month and are reclassified in the following month to their definitive respective consolidated balance sheet accounts. These operations do not affect the results of Scotiabank Perú S.A.A. and Subsidiaries. As of December 31, 2011, liability transactions in process mainly include S/. 53,076 thousand related to Treasury transactions, S/. 15,710 thousand related to credit card operations, S/. 1,380 thousand related to the clearing process at the Electronic Clearinghouse, and S/. 4,123 thousand related to debit purchase transactions (as of December 31, 2010, the



SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

amounts of S/. 55,647 thousand, S/. 15,419 thousand, S/. 10,369 thousand, and S/. 578 thousand, respectively).

- (d) As of December 31, 2011, the generic provision account corresponds to:
  - i) reversals or recoveries of provisions recorded since 2002 charged to equity accounts, which, according to SBS Official Letter 23797-2003, shall be reallocated to deficits of provisions in other asset accounts of the Bank for S/. 40,594 thousand (S/. 45,862 thousand as of December 31, 2010); and ii) generic provision made with charge to income statement of the period for S/. 23,108 thousand (S/. 18,521 thousand as of December 31, 2010).
- (e) As of December 31, 2011 and 2010, the Bank has signed a put option contract on its own common shares held in a trust, entitling the trustee the right to sell to the Bank all of these shares at a price calculated based on this contract. This option is effective from September 15, 2006 through December 31, 2015 and its carrying amount does not differ significantly from its estimated market value.
- (f) As of December 31, 2011, the balance of other provisions mainly include:
  - i) provisions for personnel expenses for S/. 31,615 thousand (S/. 27,633 thousand as of December 31, 2010), ii) deposit insurance fund premiums for S/. 6,001 thousand (S/. 5,560 thousand as of December 31, 2010), iii) the balance of the adjustment to the acquisition cost (earn out) of the shares of CrediScotia Financiera S.A. for S/. 55,169 thousand (S/. 83,290 thousand as of December 31, 2010) and iv) the balance of the provisions for indirect loans for S/. 3,608 thousand (S/. 1,104 thousand as of December 31, 2010).

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 contract. The payment of the contingent amount shall be made based on the criteria set out in that agreement. In March 2011, the Bank made the first payment amounting to US\$ 10,000 thousand.

(16) Shareholders' Equity

(a) General

The regulatory net worth of Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. are determined in accordance with the Banking Law and as of December 31, 2011 amounts to S/. 2,455,924 thousand and S/. 346,099 thousand respectively (S/. 2,018,359 thousand and S/. 292,139 thousand, respectively as of December 31, 2010). This figure is used to calculate certain legal limits and restrictions according to the Peruvian Banking Law applicable to the financial institutions' operations in Peru.

As of December 31, 2011, 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/. 21,230,475 thousand and S/. 3,213,061 thousand (S/. 16,453,820 thousand and S/. 2,368,519 thousand as of December 31, 2010).

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As at December 31, 2011, the Banking Law established as a global limit that the regulatory capital shall be equal to or greater than 10% of the total risk weighted assets and contingent credits, which corresponds to the sum of: the amount of regulatory capital requirements for market risk multiplied by 10, plus the amount of the regulatory capital requirements for operational risk multiplied by 10, plus the risk weighted credit related assets and contingencies (9.8% as of December 31, 2010).

As of December 31, 2011, the regulatory capital of Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. represents 10.94% and 10.77% respectively of the total aforementioned risk weighted assets and contingent credits (11.53% and 12.33% respectively as of December 31, 2010).

Likewise, by means of Resolution 2115-2009, the SBS approved the rules for the Regulatory Net Worth 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 net worth 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 net worth requirement, which establishes that this net worth shall be equal to the sum of the regulatory net worth 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 December 31, 2011, the Bank's capital stock comprised 227,128,755 common shares (154,108,966 common shares as of December 31, 2010). All shares have voting rights and a par value of S/. 10.00 each. As of December 31, 2011 and 2010, the quoted value of common shares of the Bank was S/. 36.50 and S/. 78.00 per share, respectively. As of December 31, 2011 and 2010, 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 August 25, 2011 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/. 250,000 thousand from the capitalization of retained earnings corresponding to fiscal period 2010 through the issuance of 25,000 thousand common shares, with a par value of S/. 10.00, each. Consequently, capital stock increases to S/. 2,271,287 thousand and will be represented by 227,129 thousand common shares with a par value of S/. 10.00, each.

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

## Notes to the Consolidated Financial Statements

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 and delegate the Board of Directors the powers to determine other formal aspects that may be required for implementation.

At the Board of Directors' meeting, held on June 16, 2010 and pursuant to the delegation conferred by the General Shareholders' meeting, held on March 26, 2009, the Board approved a capital stock increase amounting to S/. 141,598 thousand. This increase was made after completion of the subscription of shares for S/. 297,780 thousand equivalent to 14,159,771 new common shares, which were subscribed and paid. Out of the total subscribed amount, S/. 141,598 thousand corresponds to capital stock increase and S/. 156,182 thousand represents the premium paid as additional capital. The amount of S/. 297,780 thousand was provided initially by a shareholder to whom other shareholders reimbursed S/. 178,036 thousand subscribed by them.

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

| Percentage<br>of shareholding | 2011                      |        | 2010                      |        |
|-------------------------------|---------------------------|--------|---------------------------|--------|
|                               | Number of<br>shareholders | %      | Number of<br>shareholders | %      |
| 0.01 to 1                     | 2,279                     | 2.29   | 2,514                     | 2.29   |
| 1.01 to 50                    | 2                         | 42.39  | 2                         | 42.39  |
| 50.01 to 100                  | 1                         | 55.32  | 1                         | 55.32  |
|                               | -----                     | -----  | -----                     | -----  |
|                               | 2,282                     | 100.00 | 2,517                     | 100.00 |
|                               | =====                     | =====  | =====                     | =====  |

As of December 31, 2011, the Banking Law requires that the capital stock of the Bank shall reach the minimum amount of S/. 24,853 thousand (S/. 23,176 thousand as of December 31, 2010), 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 31, 2011, it was decided to apply to legal reserve an amount of S/. 68,020 thousand, corresponding to 10% of net profit for the year 2010.

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 17, 2010, it was decided to apply to legal reserve an amount of S/. 63,705 thousand, corresponding to 10% of net profit 2009.

(d) Retained Earnings

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.

At the Bank's Annual Obligatory General Shareholders' meeting, held on March 17, 2010, the distribution of 2009 profits for a total of S/. 637,053 thousand was as follows:

- (i) Cash dividends payment for S/. 191,116 thousand.
- (ii) Allocate 10% of net income, amounting to S/. 63,705 thousand to increase the legal reserve.
- (iii) Remaining balance, amounting to S/. 382,232 thousand will be held in the retained earnings account.

Afterwards, at the Board of Directors' meeting, held on March 30, 2010, the Board agreed to allocate retained earnings up to S/. 200,000 thousand as profits with capitalization agreement.

(17) Contingencies and Commitments

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

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

## Notes to the Consolidated Financial Statements

Bank and its Subsidiaries; therefore, management considers that no additional provision is necessary for these contingencies (note 15.b).

(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.

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

|   | <u>In thousands of S/.</u> |             |
|---|----------------------------|-------------|
|   | <u>2011</u>                | <u>2010</u> |
| Indirect loans:                           |                            |             |
| Guarantees and stand-by letters of credit | 3,421,005                  | 2,881,937   |
| Issued letters of credit                  | 479,787                    | 483,284     |
| Due from bank acceptances                 | 47,489                     | 67,540      |
|   | -----                      | -----       |
|   | 3,948,281                  | 3,432,761   |
| Unused credit lines                       | 14,467,629                 | 16,593,711  |
| Financial derivative contracts            | 6,808,862                  | 9,028,305   |
| Other                                     | 540                        | 542         |
|   | -----                      | -----       |
|   | 25,225,312                 | 29,055,319  |
| Memoranda accounts:                       |                            |             |
| Securities held in custody                | 6,932,796                  | 5,819,445   |
| Suspended interest on loans               | 2,664,017                  | 1,236,582   |
| Goods transferred in trust                | 3,906,930                  | 3,862,591   |
| Guarantees received                       | 44,316,206                 | 36,628,640  |
| Securities in collection                  | 12,126,698                 | 10,731,022  |
| Own securities in custody                 | 3,657,501                  | 1,907,208   |
| Written-off loans                         | 3,404,937                  | 3,531,924   |
| Notified letters of credit                | 426,926                    | 215,718     |
| Securities granted as warranties          | 766,951                    | 554,791     |
| Trust and debt trust commissions          | 2,028,553                  | 2,664,771   |
| Control of returned checks                | 20,238,257                 | 50,760,169  |
| Loans and other control                   | 21,316,765                 | 17,136,682  |
| Other memoranda accounts                  | 36,954,768                 | 45,355,475  |
|   | -----                      | -----       |
|   | 158,741,305                | 180,405,018 |
|   | -----                      | -----       |
|   | 183,966,617                | 209,460,337 |
|   | =====                      | =====       |

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

## Notes to the Consolidated Financial Statements

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.

Guarantees received from credit operations are recorded at the value of the guarantee agreed as of the date of the loan contract. This balance does not necessarily represent the market value of guarantees received by the Bank and CrediScotia Financiera S.A. As of December 31, 2011, loan balances covered by guarantees amount to S/. 9,414,316 thousand (S/. 8,434,235 thousand as of December 31, 2010).

(19) Finance Income

It comprises the following:

|   | <u>In thousands of S/.</u> |             |
|---|----------------------------|-------------|
|   | <u>2011</u>                | <u>2010</u> |
| Interest and commissions on loan portfolio  | 2,459,434                  | 1,980,400   |
| Gain on exchange difference from operations | 164,214                    | 174,026     |
| Income from investment valuation            | 68,494                     | 70,825      |
| Interest on cash and due from banks         | 39,130                     | 23,690      |
| Gains on derivative instruments, net        | 19,347                     | -           |
| Gains in associates                         | 11,634                     | 6,679       |
| Interest and commissions on interbank funds | 5,362                      | 2,170       |
| Other finance income                        | 43,601                     | 42,632      |
|   | -----                      | -----       |
|   | 2,811,216                  | 2,300,422   |
|   | =====                      | =====       |

(20) Finance Expenses

It comprises the following:

|  | <u>In thousands of S/.</u> |             |
|--|----------------------------|-------------|
|  | <u>2011</u>                | <u>2010</u> |
| Interest on obligations                                      | 252,330                    | 191,569     |
| Interest on borrowings from banks and financial institutions | 90,183                     | 65,716      |
| Interest on issued securities                                | 82,695                     | 72,119      |
| Deposit insurance fund premiums                              | 23,558                     | 21,898      |
| Loss on derivative instruments, net                          | -                          | 19,225      |
| Commissions on financial obligations                         | 14,882                     | 12,524      |
| Interest on deposits of financial entities                   | 8,083                      | 5,919       |
| Interest and commissions on interbank funds                  | 3,971                      | 1,716       |
| Other finance expenses                                       | 57,778                     | 49,663      |
|  | -----                      | -----       |
|  | 533,480                    | 440,349     |
|  | =====                      | =====       |

## 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>2011</u>                | <u>2010</u> |
| Income:   |                            |             |
| Income from services and maintenance fees of credit / debit cards | 163,054                    | 150,434     |
| Income from deposit transactions, services and transfer fees      | 148,505                    | 147,330     |
| Other fees and commissions from banking services                  | 91,980                     | 25,626      |
| Income from commissions from collections services                 | 81,179                     | 64,193      |
| Income from purchased portfolio recoveries                        | 70,360                     | 37,386      |
| Income from warehousing   | 48,720                     | 39,121      |
| Income from teleprocessing services                               | 27,249                     | 34,851      |
| Income from remunerations of mutual funds and administration fees | 25,836                     | 28,987      |
| Income from structuring and administration services               | 13,747                     | 8,848       |
| Income from brokerage services                                    | 10,564                     | 9,804       |
| Income from leased property                                       | 2,879                      | 3,581       |
| Other various income  | 47,762                     | 42,317      |
|   | -----                      | -----       |
|   | 731,835                    | 592,478     |
|   | -----                      | -----       |
| Expenses:   |                            |             |
| Credit / debit cards expenses                                     | ( 44,278)                  | ( 43,888)   |
| Insurance services expenses                                       | ( 11,866)                  | ( 11,692)   |
| Other expenses  | ( 57,549)                  | ( 63,631)   |
| Warehousing expenses  | ( 28,210)                  | ( 23,538)   |
|   | -----                      | -----       |
|   | ( 141,903)                 | ( 142,749)  |
|   | -----                      | -----       |
| Total income from finance services, net                           | 589,932                    | 449,729     |
|   | =====                      | =====       |

(22) Administrative Expenses

It comprises the following:

|   | <u>In thousands of S/.</u> |             |
|---|----------------------------|-------------|
|   | <u>2011</u>                | <u>2010</u> |
| Personnel and board of directors expenses         | 666,423                    | 609,749     |
| Expenses for services received from third parties | 444,162                    | 355,412     |
| Taxes and contributions                           | 67,388                     | 55,498      |
|   | -----                      | -----       |
|   | 1,177,973                  | 1,020,659   |
|   | =====                      | =====       |

## 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>2011</u>                | <u>2010</u> |
| Income from recovery of accounts receivable and other | 40,958                     | 142,419     |
| Income from repossessed assets                        | 11,277                     | 25,575      |
| Other extraordinary (expenses) income, net            | ( 7,269)                   | 634         |
| Income from previous periods                          | 53,079                     | 131,534     |
| Net (loss) gain on sale of out of use goods           | ( 271)                     | 14,887      |
|   | -----                      | -----       |
|   | 97,774                     | 315,049     |
|   | =====                      | =====       |

(24) Tax Matters

- (a) In accordance with current tax legislation, corporate income tax for the years 2011 and 2010 is calculated applying the statutory income tax rate of 30%. The income tax of each company composing Scotiabank Perú S.A.A. and Subsidiaries has been determined for fiscal years 2011 and 2010 as follows:

|  | <u>In thousands of S/.</u> |             |
|--|----------------------------|-------------|
|  | <u>2011</u>                | <u>2010</u> |
| Scotiabank Perú S.A.A.                 | 314,754                    | 244,967     |
| CrediScotia Financiera S.A.            | 61,805                     | 36,903      |
| Servicios, Cobranza e Inversiones S.A. | 13,433                     | 19,584      |
| Depósitos S.A.                         | 3,681                      | 3,105       |
| Scotia Fondos Sociedad                 |                            |             |
| Administradora de Fondos S.A.          | 3,193                      | 3,915       |
| Scotia Sociedad Agente de Bolsa S.A.   | 2,284                      | 2,479       |
| Scotia Sociedad Titulizadora S.A.      | 170                        | 229         |

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

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



SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the 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 December 31, 2011.
- (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 March to December of the fiscal period for which the tax was paid until maturity of each of the partial payments and against the payment for regularization of income tax of the corresponding taxable period.

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

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

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

## Notes to the Consolidated Financial Statements

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

- (f) Tax on Financial Transactions (ITF) since 2011 was 0.005% (0.05% in 2010). 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<br>12.31.10 | (Debit) credit<br>to retained<br>earnings | (Debit) credit<br>to results | Balance as of<br>12.31.11 |
| <b>Assets:</b>                                   |                           |   |                              |                           |
| Generic provision for loans                      | 47,726                    | -   | 32,872                       | 80,598                    |
| Transferred loan portfolio                       | 16,003                    | -   | ( 4,793)                     | 11,210                    |
| Provision for vacations                          | 11,269                    | -   | 1,304                        | 12,573                    |
| Doubtful loans provision                         | 10,325                    | -   | 20,408                       | 30,733                    |
| Time deposits interest                           | 4,632                     | -   | ( 4,632)                     | -                         |
| Intangible assets                                | 3,611                     | -   | ( 2,674)                     | 937                       |
| Provision for credit card rewards                | 2,835                     | -   | ( 16)                        | 2,819                     |
| Fixed assets                                     | 1,850                     | -   | ( 559)                       | 1,291                     |
| Provision for debit card rewards                 | 803                       | -   | ( 129)                       | 674                       |
| Provision for inventories and repossessed assets | 800                       | -   | 8,378                        | 9,178                     |
| Other  | ( 9,933)                  | ( 580)                                    | 25,300                       | 14,787                    |
|  | 89,921                    | ( 580)                                    | 75,459                       | 164,800                   |
| <b>Liabilities:</b>                              |                           |   |                              |                           |
| Valuation of investments in associates           | ( 9,225)                  | 4,482                                     | -                            | ( 4,743)                  |
| Other  | ( 381)                    | -   | 86                           | ( 295)                    |
|  | ( 9,606)                  | 4,482                                     | 86                           | ( 5,038)                  |
| Total deferred income tax asset, net             | 80,315                    | 3,902                                     | 75,545                       | 159,762                   |

(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. In 2011, a consolidated legal employees'

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

## Notes to the Consolidated Financial Statements

profit sharing of S/. 69,446 thousand has been determined (S/. 55,079 thousand in 2010) and is presented in administrative expenses item in the income statement.

(27) Earning per Share

As of December 31, 2011 and 2010, the calculation of weighted average of basic and diluted earnings per share is as follows:

|  | <u>Shares<br/>issued</u><br>(in thousands) | <u>Average<br/>basic<br/>shares</u><br>(in thousands) | <u>Effective<br/>days<br/>until<br/>year-end</u> | <u>Weighted<br/>average<br/>of common<br/>shares</u><br>(in thousands) |
|--|--|---|--|--|
| 2010 -   |  |   |  |  |
| Balances as of January 1, 2010                     | 50,617                                     | 187,969   | 365  | 187,969  |
| Capitalization of retained earnings of period 2008 | 89,332                                     | -   | -  | -  |
| Capital contribution                               | 14,160                                     | 14,160  | 192  | 7,449  |
| Capitalization of retained earnings of period 2010 | -  | 25,000  | -  | -  |
|  | -----                                      | -----   | -----  | -----  |
| Balances as of December 31, 2010                   | 154,109                                    | 227,129   | -  | 195,418  |
|  | =====                                      | =====   | =====  | =====  |
| 2011 -   |  |   |  |  |
| Balances as of January 1, 2011                     | 154,109                                    | 227,129   | 365  | 227,129  |
| Capitalization of retained earnings of period 2009 | 48,020                                     | -   | -  | -  |
| Capitalization of retained earnings of period 2010 | 25,000                                     | -   | -  | -  |
|  | -----                                      | -----   | -----  | -----  |
| Balances as of December 31, 2011                   | 227,129                                    | 227,129   | -  | 227,129  |
|  | =====                                      | =====   | =====  | =====  |

As of December 31, 2011 and 2010, earning per share calculated based on the average number of shares amounted to S/. 3.472 and S/. 3.523, 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,

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

### Notes to the Consolidated Financial Statements

applying the best practices of the market and the Scotiabank Group with regard to risk management.

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

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

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

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

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.

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

### Notes to the Consolidated Financial Statements

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

#### Liquidity Risks

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

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

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

### Notes to the Consolidated Financial Statements

#### 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.

#### Risk in Investments Portfolio

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

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

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

#### Credit Risk

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

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(29) Fair Value

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

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

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

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

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

- (a) Cash due from banks and interbank funds represent cash and short-term deposits that are not considered to be a significant credit risk.
- (b) Investments at fair value through profit or loss are recorded at their estimated market value, which is the same as the carrying amount.
- (c) Available-for-sale investments are generally listed or have a market value through future discounted cash flows. Available-for-sale investments in securitizations do not have a market value, for this reason, their fair value is determined by the net cost value of their accumulated provision according to SBS regulations, and corresponds to the value of recovery established by Scotiabank Perú S.A.A. and Subsidiaries' management.
- (d) Market value of the portfolio of short-term loans are similar to carrying amounts, net of their corresponding provisions for doubtful accounts, due to their short-term character which is considered by management as the estimated recoverable amount as of the date of the consolidated financial statements. Additionally, portfolio of long-term loans accrues fixed interest rates which are similar to their market rates. Placements of Mivivienda mortgage loans are agreed-upon at a fixed interest rate.
- (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.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (f) The market value of deposits and obligations corresponds to their respective carrying amount mainly because interest rates are similar to those of other liabilities.
  - (g) Debts to banks and correspondent banks accrue interest at fixed and floating rates and have maturities of short and long term. The fair value of these financial instruments have been calculated based on discounted future cash flows, using the current interest rate for liabilities with similar characteristics in Scotiabank Perú S.A.A. and Subsidiaries. Consequently, the estimated market value does not differ significantly from carrying amount.
  - (h) Securities, bonds and obligations issued accrue interest at fixed rates. The fair value of these financial instruments have been calculated based on discounted future cash flows, using the current interest rate for liabilities with similar characteristics in Scotiabank and Subsidiaries. Consequently, the estimated market value does not differ significantly from carrying amount.
  - (i) As described in note 18, Scotiabank Perú S.A.A. and Subsidiaries have granted guarantees, stand-by letters, import and export documentary credits, and has received guarantees in support of the credits granted. Based on the level of commissions currently collected for granting contingent loans, and considering the maturity, and the interest rates and current creditworthiness of the counterparts, Scotiabank Perú S.A.A. and Subsidiaries estimate that the difference between the carrying amount and the fair value is not significant.
  - (j) Purchase and sale agreements in foreign currency at a future date are recorded in the books at their estimated market values; therefore, no differences with their respective fair values exist.
- (30) Trust Fund Activities  
Scotiabank Perú S.A.A. and Subsidiaries offer structuring and administration services of trust operations and trust fees, and is in charge of the preparation of agreements related to these operations. Assets kept in trust are not included in the consolidated financial statements. Scotiabank Perú S.A.A. and Subsidiaries are responsible for the appropriate management of these trusts based on the limits established by applicable laws and the respective agreement. As of December 31, 2011, the allocated value of assets in trusts and trust fees amounted to S/. 1,438,915 thousand (S/. 1,980,681 thousand in 2010).