FitchRatings

Banks
Universal Commercial Banks
Peru

Scotiabank Peru S.A.A.

Key Rating Drivers

Parent Support: Scotiabank Peru S.A.A.'s (SBP's) Issuer Default Ratings (IDRs) and Shareholder Support Rating (SSR) are based on expected support from its parent, The Bank of Nova Scotia (BNS, 'AA-'/Negative). Fitch Ratings' assessment of support for SBP places high importance on its role in the group as a strategically important subsidiary. It is capped by the country risks related to transfer and convertibility reflected in the country ceiling of 'BBB+' and constrains Fitch's assessment of the ability of the shareholder to support its subsidiary. SBP's Local Currency (LC) IDR is consistent with a maximum uplift of two notches above Peru's sovereign rating. Our rating also incorporates SBP's operational integration with the parent.

Credit Profile Sensitive to Operating Environment: SBP's Viability Rating (VR) is in line with the implied VR, which is underpinned by its solid business profile and capitalization. Fitch believes the credit profile is sensitive to a material deterioration in the local operating environment (OE) or a negative sovereign rating action.

Solid Capital Levels: Although SBP continues to report one of the strongest capitalization metrics among the largest Peruvian banks, it has decreased in respect to its peak in 2020 (14.8%). Fitch Core Capital/risk-weighted assets (FCC/RWA) stood at 13.8% as of December 2021. In Fitch's view, the capital ratio is explained by growth in secured loans, recurrent earnings generation and a flexible dividend payout. Loss absorption was also enhanced by higher loan loss allowances coverage. Fitch's capitalization assessment is a rating strength and supports the current VR, as the assessment highly benefits from ordinary support from its ultimate parent.

Risk Appetite Underpinned Asset Quality: SBP's adjustment to its risk appetite contributes to the return of asset quality to pre-coronavirus pandemic levels. Additionally, continued tuning of its internal models and ongoing monitoring of the loan portfolio and warning signals, as well as a strengthened collection process, have contributed to asset quality performance. As expected by Fitch, consolidated PDL decreased to 3.9% at YE21 from 6.5% at YE20, a result close to its average for 2016-2019 of 3.6%. Meanwhile, assets under forbearance programs decreased to 5% of gross loans as of December 2021, which compares favorably to the average for Peruvian banks (YE21: 11%).

Operational Profits Recovery: In Fitch's opinion, SBP's partial recovery on profitability is explained by risk appetite adjustments, good efficiency levels and solid business generation amid local political uncertainty pressures. Although loan portfolio rebalancing and lower interest rates decreased business volume, SBP's operational profit recovery was supported on lower than expected provisions for expenses and greater contributions from subsidiaries and fees. The operating profit to RWA ratio was 1.8% at YE21, still below its good pre-pandemic levels, but better than the 0.4% at YE20.

Adequate Liquidity and Stable Funding: SBP has appropriately managed its liquidity to fund asset growth while closely matching the maturities of its liabilities. SBP's funding profile is strengthened by its diversified mix of deposits, short-term funding and long-term debt. SBP conforms with Basel III regulatory liquidity requirements and significantly reduced its historical asymmetry of loans/deposits in LC versus foreign currency (FC). Its loans to customer deposits ratio of 124.7% as pf December 2021 is explained by SBP's usage of long-term debt that aims for a composition of stable resources in line with the liquidity policies and coverage ratios. Core deposits decreased 3% during 2021 due to an outflow of funds during the first half of 2021 as part of election process uncertainty.

Ratings

Foreign Currency	
Long-Term IDR	BBB+
Short-Term IDR	F1
Local Currency	
Long-Term IDR	A–
Short-Term IDR	F1
Viability Rating	bbb
Shareholder Support Rating	bbb+
Sovereign Risk	
Long-Term Foreign-Currency IDR	BBB
Long-Term Local-Currency IDR Country Ceiling	BBB

Outlooks

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (November 2021)

Future Flow Securitization Rating Criteria (May 2021)

Related Research

Weakening Governance a Risk for Peru Economy, Ratings (March 2022)

Fitch Affirms Bank of Nova Scotia at 'AA-'; Outlook Negative (July 2021)

Fitch Affirms Scotiabank Peru's IDR at 'BBB+'; Outlook Stable (April 2022)

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Rating Sensitivities

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- A rating upgrade of SBP's Long-Term LC IDR is unlikely in the near future. Over the medium term, this rating could be upgraded if the parent's ratings are upgraded, or if Fitch's support assessment of SBP changes to an equalization of its IDRs with those of the parent, but it is subject to constraints on the maximum uplift above the sovereign rating.
- While unlikely in the current operating environment (OE), SBP's Long-Term FC IDR would be upgraded if Peru's sovereign rating and Country Ceiling were to be upgraded.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Under Fitch's current support assessment and a multiple notch downgrade scenario from BNS, SBP's IDRs will likely remain at the level determined by its own VR or one notch below its parent's IDR, whichever is higher, but subject to sovereign rating and Country Ceiling considerations.
- Pressure on SBP's VR could arise from a significant asset quality or profitability deterioration that erodes SBP's reserve and capital cushion, specifically, operating profit/RWA sustained below its historical average of 2.0% and an FCC ratio below 10%.

Other Debt and Issuer Ratings: Key Rating Drivers

Subordinated Debt: SBP's subordinated debt rating of 'BBB' is one notch below what Fitch considers the appropriate anchor rating, the bank's own support-driven LT FC IDR of 'BBB+'. This anchor rating is capped by Peru's country ceiling, which addresses transfer and convertibility risks, so the overall notching for this issue rating is only one notch lower than the anchor to reflect loss severity risk partially mitigated by institutional support, instead of the baseline case of two notches lower.

Other Debt and Issuer Ratings: Rating Sensitivities

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- SBP's subordinated debt ratings would move in line with the bank's LT FC IDR.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

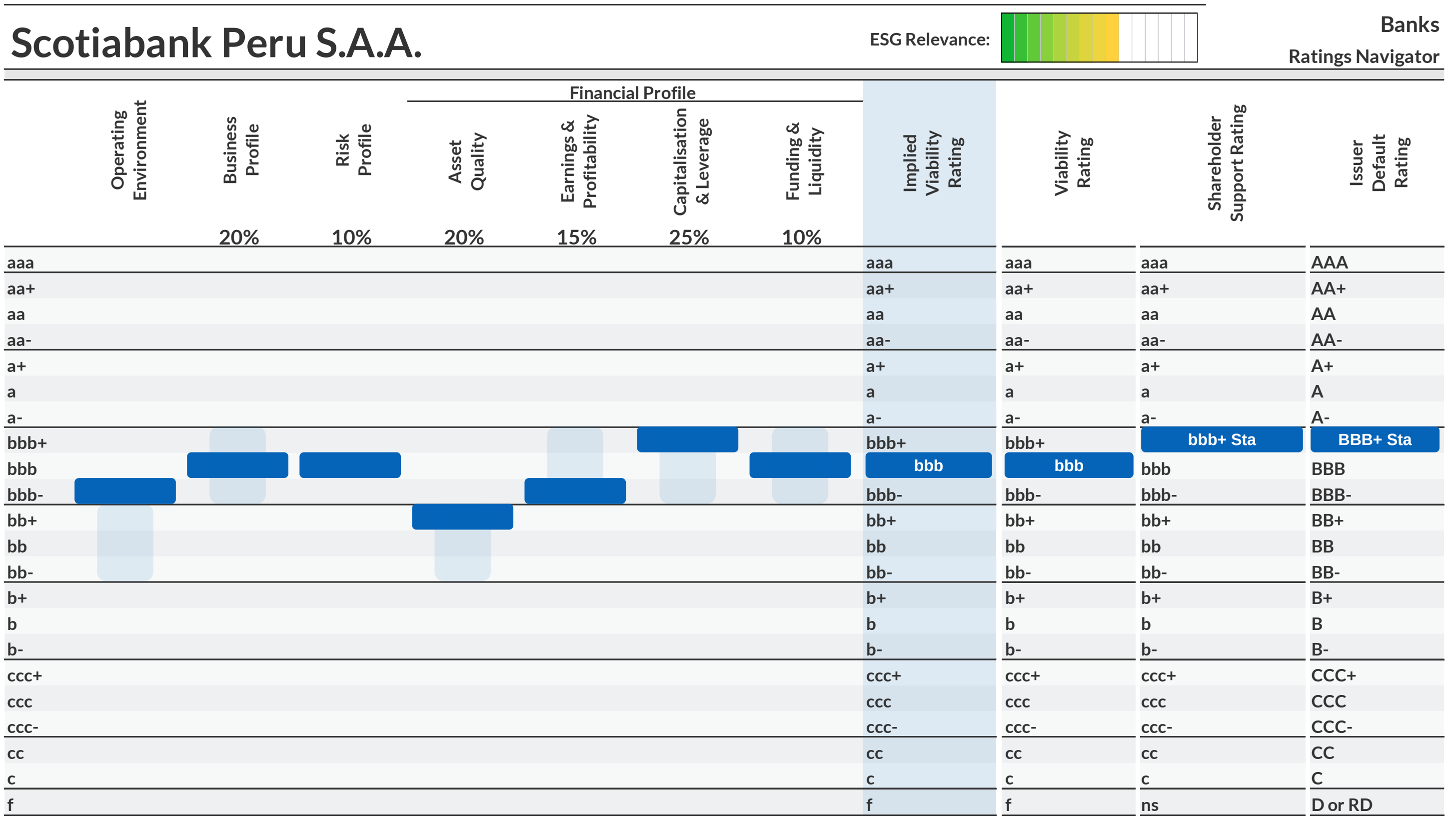
- SBP's subordinated debt ratings would move in line with the bank's LT FC IDR.

Debt Rating Classes

Rating Level	Rating
Subordinated: Long-Term	BBB

Source: Fitch Ratings.

Ratings Navigator



Significant Changes

The Rating Outlook on the LT IDRs is Stable. Despite OE pressures, which include a slow recovery of the GDP, due greater political uncertainty and the challenging investment and business environment, SBP's core financial metrics have sufficient headroom to maintain its current ratings.

Brief Company Summary

Business Model

Diversified Business Model

SBP has a diverse and stable business model and its overall business is weighted toward commercial traditional banking and increasingly retail operations. Its reliance on volatile businesses is modest. Likewise, on the funding side, SBP is funded roughly 50% corporate / 50% retail and therefore counts on a stable and diversified deposit base.

SBP is 98.05% owned by The Bank of Nova Scotia (BNS) ('AA-'/Negative by Fitch, July 2021), Canada's third-largest banking group with increasing focus on Latin America and the Caribbean. SBP is BNS's third-largest investment outside of Canada after Mexico and Chile and is part of Scotiabank's Pacific Alliance strategy. Within BNS Canada, SBP contributed roughly 2% of assets and 5% of income as of December 2021.

Management and Strategy

SBP's management is experienced and well-focused, while the corporate culture of the firm is consistent with BNS's culture. Management has successfully guided complex merger and acquisition processes and solidified its position in the Peruvian market. This has resulted in a high degree of confidence at the parent level, with SBP entrusted with some strategic regional functions like overseeing BNS's smaller operations in the southern cone.

SBP Strategy Aligns with BNS's Global Vision

The bank's strategy aims to achieve balanced and profitable growth, while increasing its profitable and stable customer base, improving operational efficiency and enhancing clients' digital experience. SBP's credit cards include Cencosud, its retail portfolio is highly profitable and is viewed as a strategic objective to strengthen its consumer financing, and a credit card business in Peru, which aligns with BNS's global vision to increase scale in Pacific Alliance countries.

The bank adjusted its growing strategy toward mortgage and secured portfolios. Although the strategic plan was affected by the coronavirus pandemic, cost control, a decrease in risk appetite and digital transformation contributed to the business plan's adjustment.

For the commercial loan portfolio, the bank's main objective is to build long-term relationships with its customers, satisfy their needs and requirements with both local and international financial products and services, leveraged on its deep knowledge of its customers and specialized units in corporate finance, cash management, transaction banking and leasing. SBP is also focused on diversifying funding from retail and wholesale sources, as well as maintaining contingent lines. The bank is also focused on maintaining a liquid portfolio of assets and a diversified FX, while monitoring liquidity ratios, gaps and performing stress tests on these.

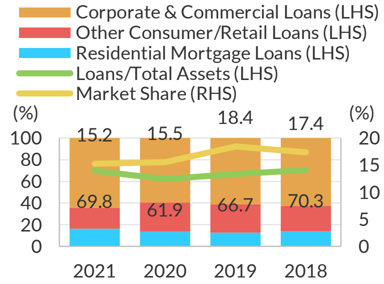
Execution

Fitch considers SBP's execution to be adequate, as it generally meets its business and financial objectives in different stages of the economic cycle. The bank's digital transformation has been central to improving speed of service, increasing its client focus, and simultaneously reducing its operating costs. During the last year SBP continued to transform its digital channels, increased its secured loans contribution (mortgages, payrolls) as well as resilient sectors, and used Reactiva funds for the commercial sector and its small-sized and medium-sized (SME) portfolio.

SBP's 2021 annual performance shows a recovery in profitability boosted by the de-risking strategy that increased mortgage and corporate loans, as well as low-cost funding. However, the economic recovery was narrowed by political uncertainty during the first half of the year. Further, inflation pressures and the international crisis also started to impact private investments. Nevertheless, Peruvian average adherence to relief programs decreased to 4.9% in 2021, down from 21% in 2020.

SBP Loan Portfolio

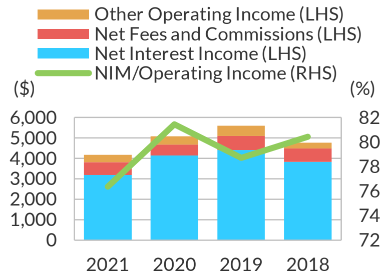
(2018–2021)



Source: Fitch Ratings, Fitch Solutions.

SBP Gross Revenues

(2018–2021)



Source: Fitch Ratings, Fitch Solutions.

Risk Appetite

Underwriting Standards

Risk Profile Aligned with its Parent BNS

Scotiabank Peru's underwriting standards are in line with international guidelines and processes, and these include internally-defined exposure limits, collateral requirements and internal risk ratings. SBP's underwriting standards are generally in line with industry practices and reflect medium-term expectations. The bank has a three-year comprehensive risk appetite framework and it provides quarterly, follow-up reports to the board of directors. The bank's risk management structure is fully integrated with that of its parent, and it applies all of BNS's global risk management policies.

Credit risk policies are set by the board of directors which also is in charge of defining credit portfolio limits, approving related-party transactions, and monitoring monthly results. The bank's main financial risk is credit risk. This is expected, given the importance of its credit portfolio, which represented 70% of its assets as of December 2021. SBP has established risk management practices that not only follow local regulatory standards but also are fully integrated with those of its parent, with the aim of achieving a diversified and stable portfolio and financial profits.

Adequate Risk Controls

The bank has strict parameters to monitor, measure, control and mitigates risks. It has specific procedures and policies for: leadership, risk appetite, and measurement, including follow up procedures. The bank's credit risk is mitigated by adequate diversification by economic sector and by a moderate concentration among its largest debtors. The combination of moderate risk appetite, strengthened risk management processes, and a stringent collection process should continue to sustain the loan portfolio's relatively good performance.

SBP followed regulatory guidance in term of forbearance programs that started in the second quarter of 2020. Approximately 5% of the loan portfolio received relief at YE21 (YE20: 29%). Adequate loan performance and conservative measures implemented in 2020 (relief credits that do not return to normal at YE20 migrated to past due loans) decreased the weight of provisions on profitability. The recession pressured credit costs in 2020, with loan impairment charges consuming 93% of pre-impairment operating profit as of December 2020, compared with an average of 44% for 2015-2019. As of December 2021, impairment charges returned gradually to their historic average (41%).

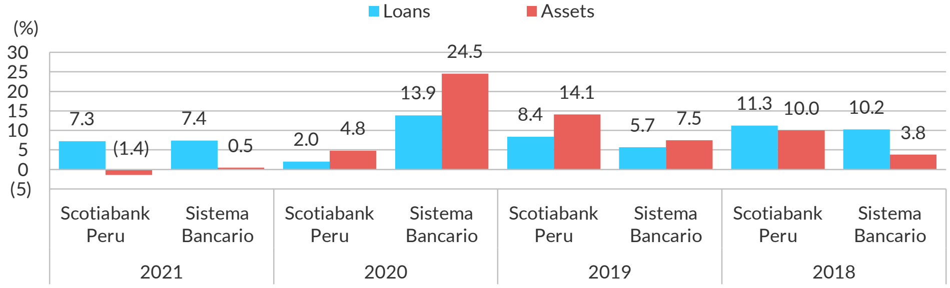
Growth

Political Uncertainty Narrows Asset Growth

Amid a regional economic recovery during 2021 after the 2020 contraction, political uncertainty during the first half of the year, generally conservative approaches to replace Reactiva funds, a decrease in liquidity and inflation pressures explained the banking sector's growth rate.

During 2021, SBP's loan growth of 7.3% was similar to the Peruvian system's 7.4% rate, and was focused on secured portfolios, mortgages and corporate loans. Deposits decreased 2.8% and was marked by an outflow of funds from the country during the first part of the year, and bank efforts to increase transactional and saving accounts, which contributed to lower funding costs.

Assets and Loan Growth
(SBP vs. Peruvian System)



Source: Fitch Ratings, Fitch Solutions.

Market Risk

Limited Market Risk

Regarding market risk, the bank follows the policies and procedures of its parent organization. The bank encounters risk exposure related to interest rates, currency, derivatives and market positions. The bank measures these risks utilizing several tools, including a value at risk (VaR) indicator with a 99% confidence level over a 300-day historical period, and assuming a 1-day holding period. VaR is calculated at the end of each day with a 1% probability that losses may exceed VaR. Further, an assets and liabilities committee (ALCO) sets VaR limitations and is monitored daily through reports submitted to the risk department and treasury of The Bank of Nova Scotia and is reviewed monthly by ALCO.

Stress tests are performed to determine the percentage impact selected stress factors would have on the portfolio. These stress tests are determined by the regulator and local management and reviewed by the parent. The regulator requires all banks to calculate, under strict guidelines, two additional ratios measuring interest rate risk: net interest income impact and equity impact. As of December 2021, 11.7% of equity and 2.4% of net interest margin were exposed to interest rate fluctuations (YE2020: 7.0% and 1.2%, respectively) - well below internal limits. Equity exposed to fluctuating interest rates cannot exceed 5%, per guidance from the regulator.

As of December 2021, SBP reported a net long position in USD (including derivatives) equivalent to approximately 18.7% of FCC (FY20: 30%). The difference is explained by larger deposits and credit lines compared to cash and loans, offset by derivatives instruments.

Summary Financials and Key Ratios

	2021		2020	2019	2018
	USD Mil.	PEN Mil.	PEN Mil.	PEN Mil.	PEN Mil.
(Years Ended Dec. 31)	Unaudited	Unaudited	Unaudited	Audited - Unqualified	Audited - Unqualified
Summary Income Statement					
Net Interest and Dividend Income	798	3,181.2	4,130.2	4,398.3	3,828.4
Net Fees and Commissions	155	617.7	532.5	685.4	646.3
Other Operating Income	100	399.7	425.0	524.7	299.6
Total Operating Income	1,054	4,198.6	5,087.7	5,608.4	4,774.3
Operating Costs	496	1,976.7	2,022.7	2,062.5	1,768.5
Pre-Impairment Operating Profit	558	2,221.9	3,065.0	3,545.9	3,005.8
Loan and Other Impairment Charges	229	910.7	2,845.3	1,599.1	1,286.5
Operating Profit	329	1,311.2	219.7	1,946.8	1,719.3
Other Non-Operating Items (Net)	5	19.2	35.7	11.6	37.1
Tax	75	298.3	3.0	485.8	479.7
Net Income	259	1,032.1	252.4	1,472.6	1,276.7
Other Comprehensive Income	(104)	(416.1)	(118.6)	32.9	(43.4)
Fitch Comprehensive Income	155	616.0	133.8	1,505.5	1,233.3
Summary Balance Sheet					
Assets					
Gross Loans	14,787	58,926.5	54,929.4	53,843.8	49,660.5
- of which impaired	582	2,317.9	3,530.8	2,017.7	1,905.1
Loan Loss Allowances	976	3,890.5	5,374.7	2,912.9	2,627.6
Net Loan	13,811	55,036.0	49,554.7	50,930.9	47,032.9
Interbank	166	661.6	474.5	38.0	66.5
Derivatives	104	412.8	189.6	158.1	99.1
Other Securities and Earning Assets	1,319	5,256.3	8,875.3	6,492.0	4,554.8
Total Earning Assets	15,400	61,366.7	59,094.1	57,619.0	51,753.3
Cash and Due from Banks	3,425	13,646.8	17,117.3	15,072.2	10,566.0
Other Assets	971	3,870.3	3,792.7	3,623.6	4,553.6
Total Assets	19,796	78,883.8	80,004.1	76,314.8	66,872.9
Liabilities					
Customer Deposits	11,854	47,237.6	48,575.2	44,763.0	39,951.1
Interbank and Other Short-Term Funding	1,626	6,480.1	16,709.3	12,718.3	8,845.3
Other Long-Term Funding	3,190	12,711.3	3,312.9	7,340.9	6,409.0
Trading Liabilities and Derivatives	100	398.3	181.6	129.7	86.2
Total Funding and Derivatives	16,770	66,827.3	68,779.0	64,951.9	55,291.6
Other Liabilities	314	1,250.8	1,203.6	1,464.7	2,769.9
Preference Shares and Hybrid Capital	N.A.	N.A.	N.A.	N.A.	N.A.
Total Equity	2,712	10,805.7	10,021.5	9,898.2	8,811.4
Total Liabilities and Equity	19,796	78,883.8	80,004.1	76,314.8	66,872.9
Exchange Rate		USD1 = PEN3.98	USD1 = PEN3.62	USD1 = PEN3.31	USD1 = PEN3.37

N.A. – Not applicable.
Source: Fitch Ratings, Fitch Solutions.

Summary Financials and Key Ratios

(%, Years Ended Dec. 31)	2021	2020	2019	2018
Ratios (Annualized as Appropriate)				
Profitability				
Operating Profit/Risk-Weighted Assets	1.8	0.4	2.9	2.9
Net Interest Income/Average Earning Assets	5.1	6.9	8.0	7.7
Non-Interest Expense/Gross Revenue	47.4	39.9	36.9	37.2
Net Income/Average Equity	10.0	2.5	15.9	15.4
Asset Quality				
Impaired Loans Ratio	3.9	6.4	3.8	3.8
Growth in Gross Loans	7.3	2.0	8.4	11.3
Loan Loss Allowances/Impaired Loans	167.9	152.2	144.4	137.9
Loan Impairment Charges/Average Gross Loans	1.6	5.1	3.0	2.6
Capitalization				
Common Equity Tier 1 Ratio	N.A.	N.A.	N.A.	N.A.
Fully Loaded Common Equity Tier 1 Ratio	N.A.	N.A.	N.A.	N.A.
Fitch Core Capital Ratio	13.8	14.8	13.6	13.8
Tangible Common Equity/Tangible Assets	12.7	11.5	11.8	12.4
Basel Leverage Ratio	N.A.	N.A.	N.A.	N.A.
Net Impaired Loans/Common Equity Tier 1	N.A.	N.A.	N.A.	N.A.
Net Impaired Loans/Fitch Core Capital	(15.9)	(20.3)	(10.0)	(8.8)
Funding and Liquidity				
Gross Loans/Customer Deposits	124.7	113.1	120.3	124.3
Liquidity Coverage Ratio	N.A.	N.A.	N.A.	N.A.
Customer Deposits/Total Non-Equity Funding	71.1	70.8	69.1	72.4
Net Stable Funding Ratio	N.A.	N.A.	N.A.	N.A.

N.A. – Not applicable.
Source: Fitch Ratings, Fitch Solutions.

Key Financial Metrics – Latest Developments

Asset Quality

Gradual Return to Pre-pandemic Levels

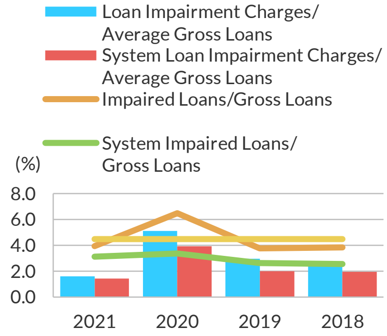
SBP's adjustment to its risk appetite contribute with the return of asset quality indicators to pre-pandemic levels. Additionally, continued tuning of its internal models and ongoing monitoring of the loan portfolio and warning signals, as well as a strengthened collection process, have contributed to asset quality performance. As expected by Fitch, consolidated PDL decreased to 3.9% at YE21 from 6.5% at YE20, a result close to its average for 2016-2019 of 3.6%. Meanwhile, assets under forbearance programs decreased to 5% of gross loans at December 2021, and that compares favorably to the average for Peruvian banks (YE21: 11%).

SBP's loan portfolio is generally well diversified by industry and economic group. The diversification by economic sector is wide with only two sectors with concentrations above 10% of total loans December 2021 (manufacture 17% and wholesale/retail trade 15%); these segments are diversified into several subsegments and were the sectors that received more government support amid the crisis. SBP's 20 largest exposures by economic group amounted on average to 20% of total loans (YE17-YE20), considered moderate by Fitch as a percentage of the loan portfolio.

Chargeoffs increased to 4.34% as part of the measures to de-risk the loan portfolio and the end of relief programs and past due loans migration to non-recovery categories. This result is above its 2016-2019 average of 2%. Reserve coverage remains high (90-day PDL: 163%) following local and matrix requirements. In Fitch's view, reserve levels give an adequate cushion to protect loan portfolio deterioration; and expects asset quality improvements in the medium term once uncertainty in the operating environment decrease.

Asset Quality and Provisions

(2018–2021)



Source: Fitch Ratings, Fitch Solutions.

Earnings and Profitability

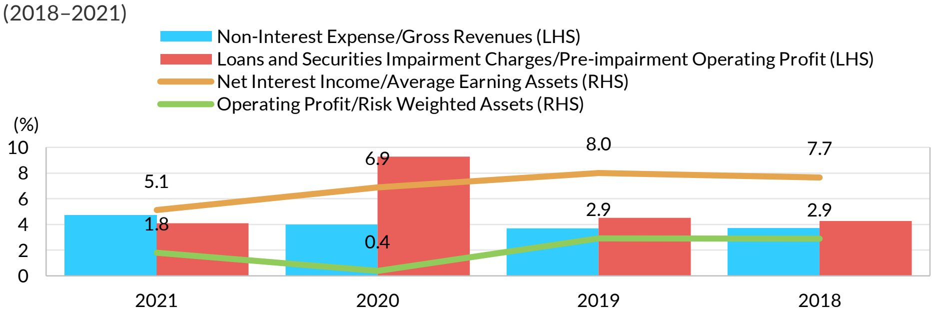
Gradual Return to Pre-pandemic Profits Amid Political Uncertainty

In Fitch's opinion, SBP's partial recovery on profitability is explained by risk appetite adjustments, good efficiency levels and solid business generation amid local political uncertainty pressures. Although loan portfolio rebalancing and lower interest rates decreased business volume, SBP's operational profit recovery was supported by lower than expected provision expenses and greater subsidiaries and fees contribution.

The operating profit to RWA ratio was 1.8% at YE21, still below its good pre-pandemic levels, but better than the 0.4% at YE20. In Fitch's view, profitability should continue to recover-taking advantage of its business mix, lower loan impairment charges, cost control and increases in interest rates, although they will remain below historical levels, due to political headwinds that could impact investor and consumer confidence, which will limit profits in the near term.

Earning and Profitability

(2018–2021)



Source: Fitch Ratings, Fitch Solutions.

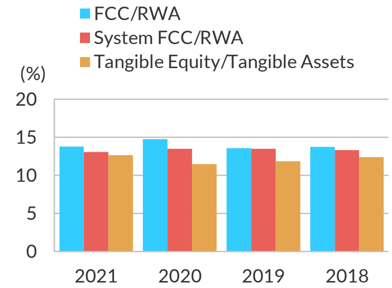
Profitability is supported by a diversified business mix between wholesale/retail portfolio and by an increase in low-cost funds. Further, a change in the customer risk profile decreased net interest margin to 5.1%, below the average of 7.6% from 2016-2020 – a result that was partially offset by lower interest expenses and loan growth on more secured portfolio. Treasury operations and particularly in 2021 fees constitute important and recurrent operating revenue contributions (roughly 24% operating revenues), offsetting operational expenses. Opportunities for improvement in the medium term are good as the economic recovery is gaining traction and operating revenues resumed growing.

Capitalization and Leverage

Solid Capital Ratios

Although SBP continues to report one of the strongest capitalization metrics among the largest Peruvian banks, it has decreased in respect to its peak in 2020 (14.8%). FCC/RWA stood at 13.8% as of December 2021. In Fitch's view, the capital ratio is explained by growth in secured loans, recurrent earnings generation and a flexible dividend payout. Loss absorption was also enhanced by a higher loan loss allowances coverage. Fitch's capitalization assessment is a rating strength and supports the current VR, as the assessment highly benefits from ordinary support from its ultimate parent.

Capital Ratios
(2018–2021)



Source: Fitch Ratings, Fitch Solutions.

Funding and Liquidity

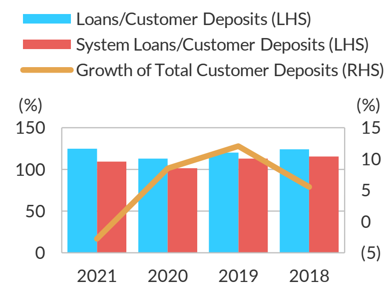
Adequate Liquidity

SBP has appropriately managed its liquidity, while closely matching maturities of its liabilities to fund asset growth. SBP's funding profile is strengthened by its diversified nature, which consists of deposits, short-term funding and long-term debt. SBP's competitive deposit rate offerings and consumer confidence in the bank, has positioned the entity as the third largest within the Peruvian banking system in terms of deposits. Its deposit mix has changed toward low-cost funds, decreased dependence on term deposits and it is also capture transactional resources to generate income for financial services.

Its loans to customer deposits ratio of 124.7% as of December 2021 is explained by SBP's usage of long-term debt and bonds issuances that aim for a composition of stable resources in line with its liquidity policies and coverage ratios. SPB's deposit growth, its primary funding source, has demonstrated resilience despite recent deceleration of the system. Core deposits decreased 3% during 2021, due to still high liquidity in the system, growth in low-cost funds and an outflow of funds during the first half of 2021, as part of election process uncertainty.

Liquidity has remained comfortably high given the level of cash and marketable securities which represented 35% as of December 2021 (40% FY20) of total deposits and short-term funding. The current regulatory LCR requirement is 100% which SBP surpassed in both local and foreign currency. SBP reported a 139% coverage ratio in local currency and 121% in foreign currency as of December 2021 (236.6% domestic, 113.6% foreign in FY2020).

Loans/Deposits
(2018–2021)



Sourcee. Fitch Ratings, Fitch Solutions.

Shareholder Support

Supporting Rationale

Fitch's assessment of support for SBP places high importance on its role in the group as a strategically important subsidiary, and is capped by the country risks related to transfer and convertibility reflected in the country ceiling of 'BBB+' and constrains Fitch's assessment of the ability of the shareholder to support its subsidiary. In turn, SBP's FC IDR is capped by Peru's country ceiling, whereas SBP's LC IDR is consistent with a maximum uplift of two notches above Peru's sovereign rating. Our rating also incorporates SBP's operational integration within the parent.

Environmental, Social and Governance Considerations

FitchRatings **Scotiabank Peru S.A.A.** Banks Ratings Navigator

Credit-Relevant ESG Derivation

Scotiabank Peru S.A.A. has 5 ESG potential rating drivers

- Scotiabank Peru S.A.A. has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

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