



SCOTIABANK PERÚ S.A.A. AND  
SUBSIDIARIES  
Consolidated Interim Financial Statements

**June 30, 2017**

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



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# INDEPENDENT AUDITORS' REPORT ON REVIEW OF CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

### Introduction

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

- The consolidated statement of financial position as at June 30, 2017;
- The consolidated statement of income for the six-month period ended June 30, 2017;
- The consolidated statement of income and other comprehensive income for the six-month period ended June 30, 2017;
- The consolidated statements of changes in shareholders' equity for the six-month period ended June 30, 2017; and
- The consolidated statements of cash flows for the six-month period ended June 30, 2017; and
- Notes to the consolidated interim financial statements comprising a summary of significant accounting policies and other explanatory information.

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

### Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



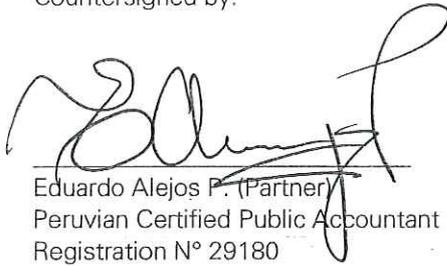
## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying June 30, 2017 consolidated interim financial statements do not present fairly, in all material respects, the financial position, financial performance and cash flows of Scotiabank Perú S.A.A. and Subsidiaries in accordance with accounting standards established by the SBS for financial institutions in Peru.

Lima, Peru

August 29, 2017

Countersigned by:



Eduardo Alejos P. (Partner)  
Peruvian Certified Public Accountant  
Registration N° 29180



Caspo y Asociados

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

Consolidated Interim Financial Statements

**June 30, 2017**

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

Consolidated Statement of Financial Position

As of June 30, 2017 and December 31, 2016

<i>In thousands of soles</i>	<i>Note</i>	<b>06.30.2017</b>	<b>12.31.2016</b>
		<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Assets</b>			
Cash and due from banks:	5		
Cash		1,000,839	972,188
Deposits with Banco Central de Reserva del Perú		7,401,030	7,139,718
Deposits with local and foreign banks		417,741	440,271
Clearing		253,842	74,083
Restricted cash other cash		2,893,224	3,292,706
		<b>11,966,676</b>	<b>11,918,966</b>
Interbank funds		116,483	224,619
Investments at fair value through profit or loss and available-for-sale investments	6	2,662,023	2,801,541
Loan portfolio, net	7	42,078,699	39,857,633
Held-for-trading derivative instruments	8	47,025	58,971
Accounts receivable, net	9	936,816	873,718
Investments in associates		63,508	66,327
Goodwill	10	570,664	570,664
Property, furniture, and equipment, net	11	394,097	399,381
Deferred tax assets	26	272,386	257,601
Other assets, net	12	599,904	1,236,101
<b>Total assets</b>		<b>59,708,281</b>	<b>58,265,522</b>
<b>Risks and contingent commitments</b>	18	<b>38,758,538</b>	<b>35,668,090</b>

<i>In thousands of soles</i>	<i>Note</i>	<b>06.30.2017</b>	<b>12.31.2016</b>
		<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Liabilities and shareholders' equity</b>			
Obligations and Deposits in financial system entities			
Demand deposits	13	11,691,156	11,936,162
Savings deposits		8,108,615	8,082,642
Time deposits		16,634,681	14,805,983
Other obligations		1,037,294	875,188
		<b>37,471,746</b>	<b>35,699,975</b>
Interbank funds		43,269	415,863
Borrowings and financial obligations	14	8,904,201	9,596,568
Held-for-trading derivative instruments	8	98,353	92,114
Provisions and other liabilities	15	5,660,485	5,251,288
<b>Total liabilities</b>		<b>52,178,054</b>	<b>51,055,808</b>
<b>Shareholders' equity</b>	16		
Capital stock		5,166,667	4,816,667
Additional paid-in capital		394,463	394,463
Legal reserve		960,640	843,801
Unrealized earnings		17,308	24,136
Retained earnings		991,149	1,130,647
<b>Total shareholders' equity</b>		<b>7,530,227</b>	<b>7,209,714</b>
<b>Total liabilities and shareholders' equity</b>		<b>59,708,281</b>	<b>58,265,522</b>
<b>Risks and contingent commitments</b>	18	<b>38,758,538</b>	<b>35,668,090</b>

The accompanying notes on pages 6 to 69 are part of these consolidated financial statements.

**SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES**  
Consolidated Statement of Income  
For the six-month periods ended June 30, 2017 and 2016

<i>In thousands of soles</i>	<b>Note</b>	<b>2017 (Unaudited)</b>	<b>2016 (Unaudited)</b>
Interest income	19	2,294,914	2,174,488
Interest expenses	20	(567,596)	(528,232)
<b>Gross finance income</b>		<b>1,727,318</b>	<b>1,646,256</b>
Provisions for loans, net of recoveries	7	(607,935)	(537,031)
<b>Net finance income</b>		<b>1,119,383</b>	<b>1,109,225</b>
Income from finance services, net	21	329,938	340,408
<b>Net finance income and finance service expenses</b>		<b>1,449,321</b>	<b>1,449,633</b>
Results from financial transactions	22	153,680	143,300
<b>Operating margin</b>		<b>1,603,001</b>	<b>1,592,933</b>
Administrative expenses	23	(790,203)	(780,081)
Depreciation of property, furniture, and equipment	11	(31,017)	(32,585)
Amortization of intangible assets		(7,261)	(7,873)
<b>Net operating margin</b>		<b>774,520</b>	<b>772,394</b>
Net provisions for contingent loans, doubtful and other accounts receivable, realizable, repossessed assets, and other assets		(17,112)	(9,803)
<b>Operating results</b>		<b>757,408</b>	<b>762,591</b>
Other income, net	24	2,050	(2,217)
<b>Net profit before income tax</b>		<b>759,458</b>	<b>760,374</b>
Deferred income tax	26	14,802	(10,701)
Current income tax	25.A	(214,605)	(197,931)
<b>Net profit</b>		<b>559,655</b>	<b>551,742</b>

The accompanying notes on pages 6 to 69 are part of these consolidated financial statements.

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

Consolidated Statement of Income and Other Comprehensive Income  
For the six-month periods ended June 30, 2017 and 2016

<i>In thousands of soles</i>	<b>2017 (Unaudited)</b>	<b>2016 (Unaudited)</b>
Net profit	559,655	551,742
Other comprehensive income:		
Unrealized (loss) gain on available-for-sale investments	(6,795)	26,080
Share in other comprehensive income of associates	(16)	387
Income tax effect	(17)	-
<b>Other comprehensive income, net of income tax</b>	<b>(6,828)</b>	<b>26,467</b>
<b>Total comprehensive income for the year</b>	<b>552,827</b>	<b>578,209</b>

*The accompanying notes on pages 6 to 69 are part of these consolidated financial statements.*

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

Consolidated Statement of Changes in Shareholders' Equity

For the six-month periods ended June 30, 2017 and 2016

<i>In thousands of soles</i>	Number of shares (note 16.B)	Capital stock (note 16.B)	Additional paid-in capital (note 16.C)	Legal reserve (note 16.D)	Unrealized earnings (note 16.F)	Retained earnings (note 16.E)	Total shareholders' equity
<b>Balance as of December 31, 2015 (Audited)</b>	<b>412,864,969</b>	<b>4,156,666</b>	<b>368,513</b>	<b>742,398</b>	<b>(10,693)</b>	<b>980,823</b>	<b>6,237,707</b>
Net profit	-	-	-	-	-	551,742	551,742
Other comprehensive income:							
Net unrealized gain on available-for-sale investments	-	-	-	-	26,080	-	26,080
Net unrealized gain on investment in associates	-	-	-	-	387	-	387
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>26,467</b>	<b>551,742</b>	<b>578,209</b>
Application to legal reserve	-	-	-	101,403	-	(101,403)	-
Dividend distribution	-	-	-	-	-	(252,629)	(252,629)
Capitalization of retained earnings	68,801,917	660,000	25,950	-	-	(660,000)	25,950
Other adjustments	-	-	-	-	-	-	-
<b>Balance as of June 30, 2016 (Unaudited)</b>	<b>481,666,886</b>	<b>4,816,666</b>	<b>394,463</b>	<b>843,801</b>	<b>15,774</b>	<b>518,533</b>	<b>6,589,237</b>
Balance as of December 31, 2016 (Audited)	481,666,886	4,816,667	394,463	843,801	24,136	1,130,647	7,209,714
Net profit	-	-	-	-	-	559,655	559,655
Other comprehensive income:							
Net unrealized loss on available-for-sale investments	-	-	-	-	(6,812)	-	(6,812)
Net unrealized loss on investment in associates	-	-	-	-	(16)	-	(16)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(6,828)</b>	<b>559,655</b>	<b>552,827</b>
Application to legal reserve	-	-	-	116,839	-	(116,839)	-
Dividend distribution	-	-	-	-	-	(233,677)	(233,677)
Capitalization of retained earnings	35,000,000	350,000	-	-	-	(350,000)	-
Other adjustments	-	-	-	-	-	1,363	1,363
<b>Balance as of June 30, 2017 (Unaudited)</b>	<b>516,666,886</b>	<b>5,166,667</b>	<b>394,463</b>	<b>960,640</b>	<b>17,308</b>	<b>991,149</b>	<b>7,530,227</b>

The accompanying notes on pages 6 to 69 are part of these consolidated financial statements.

**SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES**  
Consolidated Statement of Cash Flows  
For the six-month periods ended June 30, 2017 and 2016

<i>In thousands of soles</i>	<b>2017</b>	<b>2016</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Cash flows from operating activities		
Net profit	559,655	551,742
<b>Adjustments to reconcile net profit to cash used in operating activities</b>		
Provision for doubtful loans, net of recoveries	607,935	537,031
Provision for realizable, repossessed and other assets, net	1,375	2,620
Provision for accounts receivable, net	9,028	9,414
Depreciation and amortization	38,278	40,458
Provision for fringe benefits	24,958	23,885
Provision for current and deferred income tax	199,803	208,632
Provision for contingent loans and country risk, net of recoveries	2,660	(1,214)
Other provisions	(217)	(138,458)
(Gains) loss on sale of investment, property, furniture, and equipment	(688)	4,750
Gains on sale of realizable and repossessed assets	(3,615)	(863)
<b>Net changes in assets and liabilities:</b>		
Loans	(2,831,605)	(181,035)
Investments at fair value through profit or loss	353,684	700,058
Available-for-sale investments	(199,311)	(632,368)
Accounts receivable	(53,434)	(94,462)
Other assets	608,034	(115,244)
Non - subordinated financial liabilities	747,886	(3,995,971)
Accounts payable	300,674	540,713
Provisions and other liabilities	(426,125)	262,996
<b>Net results for the year after net changes in assets, liabilities and adjustments</b>	<b>(61,025)</b>	<b>(2,277,316)</b>
Income taxes paid	(144,805)	(150,939)
<b>Net cash and cash equivalents used in operating activities</b>	<b>(205,830)</b>	<b>(2,428,255)</b>
Cash flows from investing activities		
Dividends received	3,200	2,020
Acquisition of property, furniture, and equipment	(27,250)	(17,297)
Acquisition of other financial assets	(4,184)	(2,603)
Sale of realizable and repossessed assets	5,458	-
Sale of property, furniture, and equipment	1,037	33
<b>Net cash and cash equivalents used in investing activities</b>	<b>(21,739)</b>	<b>(17,847)</b>
Dividend paid	(233,677)	(252,629)
<b>Net cash and cash equivalents used in financing activities</b>	<b>(233,677)</b>	<b>(252,629)</b>
Net decrease in cash and cash equivalents, before the effect of exchange rate fluctuations	(461,246)	(2,698,731)
<b>Exchange rate fluctuations effect on cash and cash equivalents</b>	<b>1,827</b>	<b>137,440</b>
Net decrease in cash and cash equivalents	(459,419)	(2,561,291)
<b>Cash and cash equivalents at beginning of year</b>	<b>8,856,572</b>	<b>10,467,542</b>
<b>Cash and cash equivalents at end of year</b>	<b>8,397,152</b>	<b>7,906,251</b>

The accompanying notes on pages 6 to 69 are part of these consolidated financial statements.

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

Notes to the Consolidated interim Financial Statement

As of June 30, 2017 (unaudited), December 31, 2016 (audited) and June 30, 2016 (unaudited)

### **1. Reporting Entity**

#### **A. Background**

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 98.05% of the Bank's capital stock as of June 30, 2017 and December 31, 2016, respectively. The Bank of Nova Scotia owned 2.32% of the Bank's shares directly, and through NW Holdings Ltd. and Scotia Perú Holdings S.A. owned indirectly 55.32% and 40.41% of shares as of June 30, 2017 and December 31, 2016, respectively.

#### **B. Economic activity**

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 (Banking, Insurance and Pension Plan Agency, hereinafter the SBS). The Bank's operations mainly comprise financial intermediation, characteristic of banking entities; which are governed by the SBS through the Ley General del Sistema Financiero y del Sistema de Seguros y Orgánica de la SBS, Law 26702 (hereinafter the Banking Law). This law establishes the requirements, rights, obligations, guarantees, restrictions, and other operating conditions to which every legal entity operating in the financial and insurance system is subject.

The Bank's registered office address is Av. Dionisio Derteano N° 102, San Isidro, Lima, Peru. As of June 30, 2017, Scotiabank Perú S.A.A. and Subsidiaries performed their activities through a national network of 351 branches (as of December 31, 2016, it had 361 national branches and one branch abroad). On February 2, 2017 the bank informed the SBS about the definitive closure of the Panama branch also authorized by the Superintendencia de Bancos de Panamá through SBP Resolution 0010 – 2017.

As of June 30, 2017 and December 31, 2016, the accompanying financial statements include those corresponding to the Bank and other companies that are part of the consolidated group (hereinafter Scotiabank Perú S.A.A. and Subsidiaries or Scotiabank Group), such as: 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. (hereinafter SAB), engaged in intermediation activities in the Peruvian securities market; Scotia Fondos Sociedad Administradora de Fondos S.A. (hereinafter SAF), engaged in mutual funds management; Scotia Sociedad Titulizadora S.A., (hereinafter Titulizadora), engaged in the management of trusts as well as special purpose entities called SBP DPR Finance Company, Fideicomiso CrediScotia-Dinero Electrónico, and the Patrimonio en Fideicomiso sobre Bienes Inmuebles -Depsa; and, finally, Promoción de Proyectos Inmobiliarios y Comerciales S.A. which to date is inactive.

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

Notes to the Consolidated Financial Statements

As of June 30, 2017 (unaudited), December 31, 2016 (audited)

and June 30, 2016 (unaudited)

Below are the main balances of the Bank and other companies mentioned in the previous paragraphs as of June 30, 2017 and December 31, 2016 indicating the Bank's shareholding percentages, as well as relevant information in this regards:

<b>06.30.2017</b>					
<i>In thousands of soles</i>	<b>Shareholding</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Shareholders'</b>	
<b>Activity</b>	<b>percentage</b>			<b>equity</b>	
Scotiabank Peru S.A.A.	-	56,792,357	49,220,201	7,572,156	
CrediScotia Financiera S.A.	100.00	4,146,026	3,430,870	715,156	
Servicios, Cobranzas e Inversiones S.A.C.	100.00	135,651	68,767	66,884	
Scotia Fondos Sociedad Administradora de Fondos S.A.	100.00	46,213	6,181	40,032	
Scotia Sociedad Agente de Bolsa S.A.	100.00	43,469	1,290	42,179	
Scotia Sociedad Titulizadora S.A.	100.00	4,580	1,446	3,134	
Patrimonio en Fideicomiso sobre Bienes Inmuebles - Depsa	-	1,944	1,300	644	
Fideicomiso CrediScotia-Dinero Electrónico	-	515	547	(32)	
SBP DPR Finance Company	-	20,362	20,362	-	

<b>12.31.2016</b>					
<i>In thousands of soles</i>	<b>Shareholding</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Shareholders'</b>	
<b>Activity</b>	<b>percentage</b>			<b>equity</b>	
Scotiabank Peru S.A.A.	-	55,451,689	48,203,596	7,248,093	
CrediScotia Financiera S.A.	100.00	4,097,630	3,416,460	681,170	
Servicios, Cobranzas e Inversiones S.A.C.	100.00	131,326	66,044	65,282	
Scotia Sociedad Agente de Bolsa S.A.	100.00	78,914	3,020	75,894	
Scotia Fondos Sociedad Administradora de Fondos S.A.	100.00	42,316	3,326	38,990	
Scotia Sociedad Titulizadora S.A.	100.00	4,393	881	3,512	
Patrimonio en Fideicomiso sobre Bienes Inmuebles - Depsa	-	2,123	1,318	805	
Fideicomiso CrediScotia-Dinero Electrónico	-	511	534	(23)	
SBP DPR Finance Company	-	136,000	136,000	-	

### C. Approval of financial statements

The consolidated financial statements as of December 31, 2016 were approved by the Annual General Meeting of Shareholders held on March 23, 2017. On August 15, 2017, the Bank's management approved the consolidated financial statement as of June 30, 2017.

## **2. Basis for the Preparation of Financial Statements**

### **A. Statement of compliance**

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

### **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 assets are measured at fair value.

### **C. Presentation currency**

The consolidated financial statements are presented in soles (S/) under SBS standards. The information presented in soles (S/) and has been rounded to the nearest thousand (S/ 000), except as otherwise indicated.

### **D. Significant accounting estimates and criteria**

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

The significant estimates related to the consolidated financial statements correspond to provision for doubtful loans, valuation of investments, estimation of useful life and the recoverable amount of property, furniture, and equipment, intangible assets, impairment of goodwill, provision for realizable assets, received as payment and repossessed assets, estimate of the deferred sales tax recovery, provision for income tax, and the fair value of derivative instruments. Accounting criteria is described in note 3.

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

Notes to the Consolidated Financial Statements

As of June 30, 2017 (unaudited), December 31, 2016 (audited)

and June 30, 2016 (unaudited)

### **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 previous period, unless otherwise indicated, are the following:

#### **A. Basis of 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 has control and is 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.

Financial statements of the Subsidiaries and special purpose entities have been included for consolidation purposes and represent 7.19% and 7.50%, respectively, of the total Bank's assets before eliminations as of June 30, 2017 and December 31, 2016. As of those dates, there is non-controlling interest resulting from the consolidation process.

#### **B. Financial instruments**

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity instrument in another.

Financial instruments are recognized on the date when they are originated and are classified as assets, liabilities or equity instruments according to the substance of the contract. Interest, gains and losses generated by a financial instrument, whether classified as an asset or liability, are recorded as income or expense. The payment to holders of financial instruments classified as equity is recorded directly in shareholders' equity.

Scotiabank Perú S.A.A. and Subsidiaries classify their financial instruments in one of the following categories defined by IAS 39: (i) financial assets and liabilities at fair value through profit or loss, (ii) loans and accounts receivable, (iii) available-for-sale investments, (iv) held-to-maturity investments and (v) other financial liabilities. Scotiabank Perú S.A.A. and Subsidiaries determine the rating of financial instruments at initial recognition and on the basis of instrument by instrument.

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are initially recognized at their fair value plus incremental costs directly attributable to the acquisition or issuance of the instrument, except in the case of financial assets or liabilities held at fair value through profit or loss.

Purchases or sales of financial assets requiring the provision of assets within a time frame established according to regulations or market conventions (regular market terms) are recognized at the contracting date.

***Derecognition of financial assets and liabilities***

***i. Financial assets***

A financial asset (or when applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognized when: (i) the contractual rights to the cash flows from the asset expire; or (ii) Scotiabank Perú S.A.A. and Subsidiaries transfer their rights to receive cash flows of assets or have assumed a contractual obligation to pay total cash flows immediately received from a third party subject to a pass through agreement; and (iii) Scotiabank Perú S.A.A. and Subsidiaries have substantially transferred all the risks and rewards of the asset or, if the Company have neither transferred nor retained all of the risks and rewards of the asset, but they have transferred their control.

***ii. Financial liabilities***

A financial liability is removed when the payment obligation is discharged, cancelled or expires. When an existent financial liability is replaced by other of the same borrower in terms significantly different, or terms are significantly modified, such replacement or modification is treated as a derecognition of the original liability and as a recognition of a new liability, recognizing the difference between both of them in the results for the period.

***Impairment of financial assets***

The Bank evaluates at the end of each year whether there is objective evidence that leads to conclude the impairment of an asset or group of financial assets.

A financial asset or group of financial assets is impaired, if and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset ("loss event"), and if such loss event had an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be estimated reliably. The evidence of impairment can be an indication that a borrower or group of borrowers are experiencing significant financial difficulties, defaults or delays in payments of interest or principal, the probability that the Company will enter bankruptcy, restructuring or other legal and financial reorganization in which it is shown that there is a significant decrease in expected future cash flows such as changes in circumstances or economic conditions related to non-compliance with payments.

***Financial instruments offsetting***

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position, when, and only when: (i) a current legal right to offset the amounts exists and (ii) there is an intention either 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 statement of financial position correspond to cash and due from banks, interbank funds, investments at fair value through profit or loss and available-for-sale investments, financial instruments at fair value, loan portfolio, accounts receivable, other assets and liabilities in the consolidated statement of financial position, except as otherwise indicated in the note corresponding to assets or liabilities.

Likewise, all derivative products and indirect credits are considered financial instruments. Accounting policies on recognition and valuation of these items are disclosed in corresponding accounting policies described in this note.

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### **C. Financial derivative instruments**

The SBS provides authorizations per type of derivative instrument contract and underlying asset, and may comprise more than one type of contract and underlying asset.

Authorization schemes, valuation guidelines and accounting treatment for derivative instruments that financial entities shall apply are established in SBS

Resolution 1737-2006 Regulation for Trading and Accounting of Derivative Products in Financial System Enterprises and its amendments which include accounting criteria for held-for-trading, hedging and embedded derivative operations which conform to IAS 39 *Financial Instruments*.

#### **Recognition and measurement**

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

In addition to their recording in the consolidated statement of financial position, derivative instruments described above are accounted in contingent accounts at their notional amounts translated at the spot exchange rate.

As of June 30, 2017 and December 31, 2016 and for the years then ended, Scotiabank Perú S.A.A. and Subsidiaries do not hold derivative instruments classified as hedging nor embedded derivatives.

### **D. Investments**

Scotiabank Perú S.A.A. and Subsidiaries apply the recording and valuation criteria of investments established in SBS Resolution 7033-2012 Regulations for Classification and Valuation of Investments of Financial System Companies, which is in line with the classification and valuation criteria stated in IAS 39 *Financial Instruments: Recognition and Measurement*, except for investments in associates; which are not within the scope of IAS 39, as detailed below:

#### **i. Investments at fair value through profit and 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 the near future, or they form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. These financial assets are recognized on trade date, when Scotiabank Perú S.A.A. and Subsidiaries enter into contractual arrangements with counterparties to purchase securities, and they are normally derecognized when sold.

Measurement is initially made at fair value without including transaction costs, which is recognized in the consolidated statement of income. Subsequently, fair values are re-measured, and fluctuations generated through profit or loss are recognized in the consolidated statement of income.

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

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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. Once these transactions are concluded, instruments shall be reclassified at their initial category, transferring the unrealized earnings from shareholders' equity to the consolidated statement of income.

### **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 statement of income.

If an available-for-sale security is impaired, the accumulated 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 statement of income and other comprehensive income) is removed from equity and recognized in the consolidated statement of income. In the case of unquoted equity shares, the impairment loss shall be the difference between the carrying amount and the present value of estimated future cash flows, discounted using current market rates for similar assets.

Gains or losses from foreign exchange differences related to instruments representing capital shall be recognized in equity in the 'unrealized earnings' account while those related to debt instruments shall be recognized as profit or loss of the period.

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 originated on the investment purchase date are included in the calculation of its effective interest rates. Dividends are recognized in the consolidated statement of income when the right to receive the payment has been established.

### **iii. Investments in associates**

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

When variations in the shareholders' equity of associate are due to concepts other than the profit or loss of the year; these variations shall be accounted directly in the shareholders' equity. Dividends are accounted reducing the investment carrying amount.

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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. During the six month period ended in June 30, 2017 and during the year 2016, the Bank has not reclassified its investment instruments in categories.

SBS Resolution 7033-2012 details a standard methodology for the identification of impairment of instruments classified as available-for-sale investments, which considers two filters; the first one contains two conditions: i) significant decrease in the fair value up to under 50% of the cost or, ii) a decrease exceeding the 20% consecutively during the last twelve months; in the event of meeting any of these two conditions of the first filter, it will be necessary to evaluate if these conditions are justified at least concerning two of the qualitative aspects of the issuer indicated in the second filter of such resolution.

During the three month period ended in June 30, 2017 and during the year 2016, Scotiabank Perú S.A.A. and Subsidiaries has not recognized impairment losses on investment instruments.

### **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 in the event of making a payment to third parties. Likewise, changes in loan payment conditions due to debtors' payment difficulties are considered as refinancing or restructuring.

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

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

#### ***Loan portfolio classification***

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

#### ***Credit risk rating categories***

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

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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 and CrediScotia Financiera have included in the automatic rating process, 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 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:

	<b>Description</b>	<b>CCF (%)</b>
(i)	Confirmations of irrevocable letters of credit for up to one 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)	Granted loans not disbursed and unused credit lines.	0
(v)	Others not considered above.	100

Provision requirements 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.

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

<b>Risk category</b>	<b>Without collateral</b>	<b>With preferred collateral</b>	<b>With preferred easily realizable collateral</b>	<b>With preferred readily realizable collateral</b>
Standard				
Corporate loans	0.70	0.70	0.70	0.70
Large-business loans	0.70	0.70	0.70	0.70
Medium-business loans	1.00	1.00	1.00	1.00
Small-business loans	1.00	1.00	1.00	1.00
MES loans	1.00	1.00	1.00	1.00
Consumer loans (*)	1.00	1.00	1.00	1.00
Mortgage loans	0.70	0.70	0.70	0.70
Potential problem	5.00	2.50	1.25	1.00
Substandard	25.00	12.50	6.25	1.00
Doubtful	60.00	30.00	15.00	1.00
Loss	100.00	60.00	30.00	1.00

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

**Procyclical component**

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

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

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

For consumer loans that have contracts with discount agreements from eligible payrolls, the procyclical component shall be 0.25%.

The SBS can activate or deactivate the application of the procyclical component whether the average annual percentage of the Gross Domestic Product (GDP) is above or below 5%, respectively.

Likewise other conditions for activation or deactivation are set out in Appendix I of SBS Resolution 11356-2008. The application of the procyclical component was activated between December 2008 and August 2009, and between September 2010 and October 2014. From November 2014, it is deactivated.

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

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

### F. Securities trading transactions carried out by third parties

Scotia Sociedad Agente de Bolsa S.A. conducts security trading transactions carried out on behalf of its clients (principals).

Transfer of funds made by clients for purchase/sale transactions in the stock market and over-the-counter market result in the consolidated statement of financial position items only if they comply with assets definition (accounts receivable) and liabilities definition (accounts payable); otherwise, such balances are presented more appropriately in memoranda accounts. An account receivable or payable is only recognized when they have not yet been settled at their maturity or if Scotia Sociedad Agente de Bolsa S.A., due to any operating cause, does not have the funds transferred by principals, however, since it is a solvent entity, funds are covered by Scotia Sociedad Agente de Bolsa S.A. in an amount equivalent to the acquisition of securities acquired through a loan that is regularized almost immediately.

Since Scotia Sociedad Agente de Bolsa S.A. only manages funds from principals, in its capacity as trustor, cannot use these resources and there is a commitment to return them to the trustees; these resources do not belong to the entity and are accounted in memoranda accounts. Unsettled transactions by Bolsa de Valores de Lima S.A. are also recorded in memoranda accounts, until corresponding collection or payment.

### G. Property, furniture and equipment

The 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 recognized as assets 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.

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

	<b>Years</b>
Property and premises	Between 30 and 10
Furniture, fixture, and IT equipment	Between 10 and 2
Vehicles	5

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

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### **H. Realizable assets, received as payment, repossessed assets**

Realizable assets include assets purchased specifically for granting financial leases which are accounted initially at their acquisition cost. Further, realizable assets not granted as financial leases, including recovered assets, are accounted at the lower of its cost or market value.

Realizable assets, received as payment, and repossessed assets (note 12) 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 lower of value determined by the court, arbitrator, recovery value, estimated market value or the value of unpaid debt amount.

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

- 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 the net realizable value shown in the valuation report demonstrates that the asset is impaired by a percentage higher than 20%, then the required initial provision shall be accounted at an amount equivalent to the amount effectively impaired.
- For furniture 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 Act, the provision shall be completed up to 100% of the value upon repossession or recovery less the impairment provision, at the maturity of the corresponding year.
- A provision shall be accounted 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 in books obtained in the eighteenth or twelfth month, depending on if there is or is not an extension approved by the SBS, respectively.

An impairment loss is recognized in the consolidated statement of income when the net realizable value is lower than net carrying amount; accordingly, the carrying amount will be reduced and the loss shall be recognized in the consolidated statement of income. 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 non-financial assets**

When there are events or circumstantial economic changes indicating that the value of a long-lived asset might not be recoverable. At each statement of financial position date, management reviews the carrying amount of these assets to determine if there is impairment. When the carrying amount of the asset exceeds its recoverable amount, the Bank recognizes an impairment loss in the consolidated statement of income, by an amount equivalent to the excess in the carrying amount net of its tax effects. Recoverable amounts are estimated for each asset or, if it is not possible, for each cash-generating unit.

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The recoverable amount of a long-lived asset or a cash-generating unit is the higher of the asset's fair value less costs to sell and its value in use.

Fair value less selling cost of a long-lived asset or cash-generating unit, is the amount resulting from an arm's length sale transaction, between knowledgeable parties, less corresponding selling costs. Value in use is the present value of the future cash flows expected to arise from an asset or a cash-generating unit.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows (cash-generating units) from continuing use that are largely independent of the cash inflows of other assets.

An impairment loss on goodwill is determined by assessing the recoverable amount for each cash-generating unit or group of cash-generating unit to which the goodwill relates.

### **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 25).

Deferred income tax is accounted 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 based on tax rates and legislation expected to be applied when the deferred tax asset is realized or the deferred tax liability is settled (note 26).

Deferred income tax assets and liabilities are recognized without considering the estimated time when the temporary differences will disappear. Deferred 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 the acquisition and development cost of computing software shown in 'Other assets' and are amortized using the straight-line method over an average period of 3 years. Likewise, they include depreciable costs coming from commercial activities of CrediScotia Financiera S.A. and are amortized during the effectiveness of the contract.

Costs related to the development or maintenance of computing software are recognized in profit or loss 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 software include personnel costs of the development team and a fractional part of general expenses.

### **L. Goodwill**

Goodwill is related to the higher value paid between the acquisition cost over the identifiable fair values of an associate subsidiary and as a result of the acquisition of the equity block from Citibank Perú S.A. (note 10).

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Business acquisitions are accounted 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 owns an indefinite useful life and it is proved through impairment every year or more frequently, when there are events or circumstantial changes indicating that goodwill balance might not be recoverable.

### **M. Securities, bonds, and obligations issued**

This includes the liability for the issuance of redeemable subordinated bonds and corporate bonds; those are measured at their amortized cost using the effective interest method. Discounts granted or income generated during the bonds issuance is amortized during the maturity term 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 (legal or constructive), as a result of past events, and when it is probable that an outflow of resources will be required to settle the obligation, and it is possible to reliably estimate its amount. Provisions are reviewed and adjusted in each period to reflect the best estimates as of the date of the consolidated statement of financial position. When the effect of the time value of money is material, provisions are discounted using an interest rate reflecting the current market rate for time value of money and specific risks of liabilities.

The provision for length of service legal compensation (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 at the date of the consolidated statement of financial position and it is included in the 'Provision for fringe benefits' account. It is presented in the consolidated statement of financial position under "Other liabilities".

#### ***ii. Contingencies***

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

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

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### **O. Income and expense recognition**

Interest income and expense are recognized in profit or loss in the corresponding period on an accrual basis, depending on the term of the generating transactions and the interest rate agreed with the clients. Commissions for banking services are recognized as income when earned.

Resolution 7036-2012 establishes that this income from commission of indirect loans shall be recognized on an accrual basis during the term of such indirect loans. Likewise, commissions and expenses for formalization of loans, as well as opening, study and evaluation of direct and indirect loans, are recognized as income based on the accrual within the term of the corresponding contracts.

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 statement of income. Interest in suspense is accounted 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, the recording on accrual basis is restated.

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

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

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

Income from remunerations of funds managed by SAF, are estimated daily as an equity percentage of each of the funds.

Income generated by fees from redemption of shares is recognized as income when such redemption is carried out.

Fees for trust management services are recognized in profit or loss of the period to the extent the service is rendered and accrued.

Other income and expenses of Scotiabank Perú S.A.A. and Subsidiaries are recognized as earned or incurred in the period when 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 amounts of preferred shares and their par value being recorded in the capital account. Dividends on preferred shares are accounted as liabilities and charged to income of the period. As of June 30, 2017 and December 31, 2016, Scotiabank Perú S.A.A. and Subsidiaries do not hold preferred shares outstanding.

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### **Q. Employees' profit sharing**

Scotiabank Perú S.A.A. and Subsidiaries recognize a liability and an expense for employees' profit sharing in the consolidated statement of income based on 5% of taxable base determined according to the current tax legislation.

### **R. Repurchase agreements**

The Bank applies SBS Resolution 5790-2014 which establishes that securities sold under repurchase agreements on a specific future date, are not derecognized from the consolidated statement of financial position since the Bank retains substantially all of the risks and rewards inherent to the property.

The Bank recognizes received cash and liability for the obligation to return such cash at maturity. Also, it will make the reclassification of securities subject to the operation in conformity with SBS provisions. Accounting records of returns will depend on the agreements between the parties. Difference between the final amount and initial amount will be recognized as expenses against liabilities, within the term of the operation applying the effective interest rate method.

As of June 30, 2017 and 2016, the Bank conducts repurchase agreements of securities and currency.

### **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 the assets, as of June 30, 2017 and 2016, were considered as cash and cash equivalents except for the restricted cash and due from banks for compliance with foreign currency repurchase commitments with BCRP and reserve funds for compliance with contractual commitments with foreign financial entities (note 5.c).

### **T. Trust funds**

Assets and income from trust operations, where there is an obligation to return the assets to clients and the Bank and Scotia Sociedad Titulizadora S.A. act as trustee, are not included in the consolidated financial statements since they belong to neither the Bank nor Scotia Sociedad Titulizadora S.A., and are accounted in memoranda accounts for corresponding control and commissions on those activities are included in income from finance services (note 21).

### **U. Foreign currency transactions and balances**

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

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**V. New accounting pronouncements*****i. New accounting pronouncements not early adopted***

The following new standards, amendments and interpretations have been issued but are effective for annual periods beginning on or after January 1, 2017, and the Bank has not adopted them in preparing these consolidated financial statements. Those that might be relevant to Scotiabank Perú and Subsidiaries are detailed below. Scotiabank Perú and Subsidiaries do not plan to adopt these standards early.

<b>New IFRS</b>	<b>Date of mandatory application</b>
IFRS 9 Financial Instruments.	Mandatory application for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.
IFRS 15 Revenue from Contracts with Customers	Mandatory applications for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.
IFRS 16: Leases	Mandatory application for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted.
IFRIC 22: Foreign Currency Transactions and Advance Consideration.	Mandatory application for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.
IFRIC 23: Uncertainty about Treatment Income Tax.	Mandatory application for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted.

**Amendments to IFRS**

IFRS 2 Share-based Payment: Clarifying the Accounting for Certain Types of Share-based Payment Arrangements.	Mandatory application for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.
IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or contribution of assets between an investor and its associate or joint venture.	Effective date was indefinitely deferred.
IFRS 15 Revenue from Contracts with Customers: Amendment clarifying requirements and providing additional transitional relief for companies that are implementing the new standard.	Mandatory application for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

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### **ii. Resolutions and Standards issued by CNC and the Peruvian Securities Market Regulator concerning the approval and adoption of IFRS in Peru**

- By means of Resolution 002-2017-EF/30 issued on April 28, 2017, the CNC made official annual improvements to IFRS Cycle 2014-2016, IFRIC 22 Foreign Currency Transactions and Advance Consideration and amendments to IAS 40 Investment Property.
- By means of Resolution 063-2016-EF/30 issued on September 7, 2016, the CNC made official the 2016 version of IFRS (IAS, IFRS, IFRIC and SIC).
- By means of Resolution 062-2016-EF/30 issued on June 14, 2016, the CNC made official IFRS 16 *Leases*, and amendments to *IFRS 15 Revenue from Contracts with Customers*.
- By means of Resolution 061-2016-EF/30 issued on April 2, 2016, the CNC made official amendments to IAS 12 *Income Taxes*, and *IAS 7 Statement of Cash Flows*.
- By means of Resolution 060-2016-EF/30 issued on February 4, 2016, the CNC made official amendments to IFRS 15 *Revenue from Contracts with Customers*, IFRS 10 *Consolidated Financial Statements* and *IAS 28 Investments in Associates and Joint Ventures*.

As indicated in note 2.A, the standards and interpretations detailed above in i) and ii) will only be applicable to the Bank and CrediScotia Financiera S.A., in absence of applicable SBS regulations for situations not covered in the 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.

### **iii. SBS pronouncements**

- By means of Official Letter 10250-2017-SBS dated March 16, 2017, as a consequence of rains and flooding affected Peru between February and March, focused mostly on the central and north regions of the Country, generating difficulties to some debtors to meet the payment of credits, SBS established that financial entities may modify contractual conditions of different type of loans through a reschedule program. This benefit applies to debtors located in declared as emergency zones. This official letter established the conditions for debtors to qualify for the benefit.
- By means of SBS Resolution 930-2017 dated March 1, 2017, the SBS extended the exceptional treatment of the tenure of adjudicated and recovery assets, without having to request authorization to the SBS.
- By means of Official Letter 45825-2016-SBS, dated November 30, 2016, SBS specified that the accounting record of other facilities associated with credit cards, different than purchases and cash availability, be in the analytical sub-accounts 'Credit card for other concepts' having as the term until the closed financial information of March 2017.

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### 4. Foreign Currency Balances

Consolidated statements of financial position include balances of foreign currency transactions, mainly in U.S. dollars (US\$), which are recorded in soles (S/) at the exchange rate established by the SBS. As of June 30, 2017 and December 31, 2016, the exchange rate was US\$ 1 = S/ 3.253 and S/ 3.356 thousand, respectively.

Foreign currency transactions in the country and international trade transactions referred to the concepts authorized by Banco Central de Reserva del Perú (Central Bank), are channeled through an interbank foreign exchange market. As of June 30, 2017, buy and sell exchange rates used were US\$ 1 = S/ 3.251 and US\$ 1 = S/ 3.255, respectively (US\$ 1 = S/ 3.352 buy and US\$ 1 = S/ 3.36 sell, as of December 31, 2016).

Foreign currency balances stated in thousands of U.S. dollars and other currencies as of June 30, 2017 and December 31, 2016, are summarized as follows:

	06.30.2017			12.31.2016		
	US\$ dollars	Other currencies	Total	US\$ dollars	Other currencies	Total
<i>In thousands of US dollars</i>						
<b>Assets:</b>						
Cash and due from banks	3,306,111	23,794	3,329,905	3,212,196	68,479	3,280,675
Interbank funds	20,002	-	20,002	50,002	-	50,002
Investments at fair value through profit or loss and available-for-sale investments	903	-	903	122,372	-	122,372
Loan portfolio, net	4,279,837	-	4,279,837	3,685,207	-	3,685,207
Held-for-trading derivative instruments	1,352	-	1,352	1,952	-	1,952
Accounts receivable, net	19,942	-	19,942	24,644	-	24,644
Other assets, net	33,234	1,148	34,382	133,458	1,678	135,136
	<b>7,661,381</b>	<b>24,942</b>	<b>7,686,323</b>	<b>7,229,831</b>	<b>70,157</b>	<b>7,299,988</b>
<b>Liabilities:</b>						
Obligations and deposits in financial system entities	5,042,073	36,734	5,078,807	4,841,966	27,174	4,869,140
Interbank funds	-	-	-	50,002	-	50,002
Borrowings and financial obligations	2,043,718	-	2,043,718	2,040,116	-	2,040,116
Held-for-trading derivative instruments	496	-	496	698	-	698
Other liabilities	102,401	4,686	107,087	167,520	42,489	210,009
	<b>7,188,688</b>	<b>41,420</b>	<b>7,230,108</b>	<b>7,100,302</b>	<b>69,663</b>	<b>7,169,965</b>
<b>Net asset position in the consolidated statement of financial position</b>	<b>472,693</b>	<b>(16,478)</b>	<b>456,215</b>	<b>129,529</b>	<b>494</b>	<b>130,023</b>
<b>Derivative instruments operations</b>	<b>(385,028)</b>	<b>17,082</b>	<b>367,946</b>	<b>(22,315)</b>	<b>-</b>	<b>(22,315)</b>

As of June 30, 2017 and 2016, Scotiabank Perú S.A.A. and Subsidiaries accounted gains on foreign exchange, net of various operations amounting to S/ 131,316 thousand and S/ 199,021 thousand, respectively in Results from financial transactions (note 22).

As of June 30, 2017, Scotiabank Perú S.A.A. and Subsidiaries have contingent operations in foreign currency amounting to US\$ 8,532,438 thousand equivalent to S/ 27,756,024 thousand (US\$ 7,550,641 thousand, equivalent to S/ 25,339,950 thousand as of December 31, 2016).

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**5. Cash and due from banks**

This caption comprises the following:

<i>In thousands of soles</i>	<b>06.30.2017</b>	<b>12.31.2016</b>
Cash (a)	1,000,839	972,188
Banco Central de Reserva del Perú - BCRP (a)	7,401,030	7,139,718
Banks and other financial system companies of country (b)	44,098	47,978
Banks and other financial system companies of abroad (b)	373,643	392,293
Clearing	253,842	74,083
Restricted cash and due from banks (c)	2,892,511	3,292,351
Other cash and due from banks	713	355
	<b>11,966,676</b>	<b>11,918,966</b>

- (a) As of June 30, 2017 funds held in cash and deposits with BCRP include US\$ 2,259,268 thousand and S/ 888,427 thousand (US\$ 199,604 thousand and S/ 866,355 thousand as of December 31, 2016) destined to cover the legal cash reserves that the Bank and CrediScotia Financiera S.A. must maintain for deposits and obligations from third parties according to the limits established by current legislation. These funds are held at BCRP and in the own financial entities' vaults.

Cash reserves held at BCRP do not accrue interest, except for the local currency and foreign currency amount that exceeded the minimum legal cash reserve. As of June 30, 2017, the excess of minimum legal cash reserve in local and foreign currency accrues interest at annual rate of 0.80% and 0.29%; respectively (as of December 31, 2016, the excess of the minimum reserve requirement in foreign currency accrued interest at an annual effective rate of 0.18%, there was no excess of the minimum legal reserve requirement in local currency). Interest accrued on the excess in local currency and foreign currency as of June 30, 2017 amounts to S/ 213 thousand and US\$ 1,809 thousand, respectively (US\$ 1,029 thousands as of June 30, 2016).

As of June 30, 2017, deposits with BCRP include "overnight" operations of US\$ 47,000 thousand; such operations accrued interest at an annual nominal rate of 1.22% (US\$ 1,975,500 thousand and S/ 15,000 thousand of December 31, 2016 at annual nominal rates of 0.70% and 3.00%, respectively).

- (b) Deposits in local and foreign banks mainly correspond, to balances in soles and in U.S. dollars, and lower amounts in other currencies, with free withdrawal option and accrue interest at market rates. As of June 30, 2017, deposits in foreign banks, included deposits held at The Bank of Nova Scotia by US\$ 3,418 thousand and Canadian dollars CAD 716 thousand (US\$ 1,048 thousand and Canadian dollars CAD 569 thousand as of December 31, 2016).

As of June 30, 2017 and December 31, 2016, Scotiabank Perú S.A.A. and Subsidiaries concentrate 91% and 84% in deposits to foreign banks, in five and three financial entities, respectively.

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- (c) As of June 30, 2017, restricted cash and due from banks are comprised: i) reserve funds for comply of repurchase of foreign currency agreements to BCRP by US\$ 872,189 thousand, see note 15.a (US\$ 950,959 thousand as of December 31, 2016); ii) reserve funds for compliance of contractual commitments with foreign financial entities for US\$ 15,613 thousand (US\$ 28,410 thousand as of December 31, 2016), iii) guarantee funds for treasury transactions by US\$ 64 thousand and S/ 15 thousand (same amounts as of December 31, 2016); iv) guarantee funds for lawsuits against the Bank for US\$ 14 thousand and S/ 401 thousand (US\$ 13 thousand and S/ 399 thousand as of December 31, 2016); and v) other operational restrictions for US\$ 827 thousand and S/ 1,131 (US\$ 1,072 thousand and S/ 1,310 as of December 31, 2016).

As of June 30, 2017 and 2016, interest income from cash and due from banks amounted to S/ 12,595 thousand and S/ 7,557 thousand, respectively, and it is included as interest income in the consolidated statement of income (note 19).

## 6. Investments at Fair Value through Profit or Loss and Available-for-Sale Investments

This caption comprises the following:

<i>In thousands of soles</i>	<b>06.30.2017</b>	<b>12.31.2016</b>
<b>Investments at fair value through profit or loss:</b>		
Peruvian Treasury Bonds (a)	87,180	38,333
BCRP certificates of deposit (b)	69,980	87,191
Mutual funds (c)	10,845	10,523
Central Bank indexed certificates of deposit (d)	-	385,631
Other	-	11
	<b>168,005</b>	<b>521,689</b>
<b>Available-for-sale investments:</b>		
BCRP certificates of deposit (b)	2,210,409	1,953,559
Peruvian Treasury Bonds (a)	278,663	245,858
Global bonds (e)	-	22,139
Listed shares:		
BVL – Lima Stock Exchange (f)	-	54,455
Other	529	561
Unlisted shares	4,399	3,262
Other shares, net	18	18
	<b>2,494,018</b>	<b>2,279,852</b>
<b>Total investments at fair value through profit or loss and available-for-sale investments</b>	<b>2,662,023</b>	<b>2,801,541</b>

- (a) 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 June 30, 2017, these bonds accrue interest at annual rates ranging from 3.93% to 6.41% (from 4.28% to 7.10% annually as of December 31, 2016), with maturities between August 2017 and February 2055 (between August 2017 and February 2042 as of December 31, 2016).
- (b) BCRP certificates of deposits, are securities freely negotiable in local currency; they are acquired through BCRP public bids and traded in the Peruvian secondary market. As of June 30, 2017, these certificates accrue interest based on the BCRP reference rate which ranged from 4.22% to 4.99% annually (between 4.42% and 5.15% annually as of

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December 31, 2016), and have maturities between July 2017 and September 2018 (between January 2017 and June 2018 as of December 31, 2016). Likewise, as of June 30, 2017, the Bank holds certificates of negotiable deposits issued by BCRP which cannot be withdrawn since they warrant repurchase agreement for an amount of S/ 1,196,934 thousand (S/ 532,199 thousand as of December 31, 2016).

- (c) As of June 30, 2017, SAF holds mutual fund investment shares in local and foreign currency for S/ 9,144 thousand and US\$ 523 thousand, respectively (S/ 8,889 thousand and US\$ 487 thousand as of December 31, 2016).
- (d) As of December 31, 2016 Central Bank indexed certificated of deposit, recorded at fair value through profit or loss, are securities freely negotiable in foreign currency, they are acquired through BCRP public bids and traded in the Peruvian secondary market. These certificates are subject to a readjustment based on an average exchange rate variation between the date of issuance and the date of maturity. These certificates expired in January 2017.
- (e) As of December 31, 2017, it corresponds to global bonds from the Republic of Peru which are bonds issued in foreign currency by the Peruvian Government, accrue interest at an annual rate of 3.30%. These instruments was realized in April 2017.
- (f) In January 2017, Scotia Sociedad Agente de Bolsa S.A. sold to a not related third party its position of 14,919,321 shares held in the Lima Stock Exchange (BVL) by S/ 50,726 thousand, recognizing a gain on sale of securities amounting to S/ 15,910 thousand, net of the corresponding deferred tax (note 22).

As of June 30, 2017 and 2016, the accrued interest on investments amounted to S/ 64,809 thousand and S/ 50,283 thousand, respectively, and it is included as interest income item of the consolidated statement of income (note 19).

As of June 30, 2017 and December 31, 2016, investment at fair value through profit or loss and available-for-sale, have the following maturities:

<i>In thousands of soles</i>	<b>06.30.2017</b>	<b>12.31.2016</b>
Up to 3 months	270,056	546,393
From 3 to 12 months	1,492,242	828,755
Over 12 months	899,725	1,426,393
	<b>2,662,023</b>	<b>2,801,541</b>

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**7. Loan Portfolio, Net**

This caption comprises the following:

<i>In thousands of soles</i>	<b>06.30.2017</b>		<b>12.31.2016</b>	
Direct loans:				
Current loans	42,025,425	95%	39,762,923	96%
Refinanced loans	438,099	1%	434,620	1%
Past due loans	863,383	2%	951,421	2%
Lawsuits loans	680,769	2%	465,327	1%
	<b>44,007,676</b>	<b>100%</b>	<b>41,614,291</b>	<b>100%</b>
Plus (less):				
Accrued interest on current loans	284,986		279,941	
Non-accrued interest	(35,185)		(38,380)	
Provision for loan losses	(2,178,778)		(1,998,219)	
	<b>42,078,699</b>		<b>39,857,633</b>	
<b>Contingent loans (note 18)</b>	<b>9,291,981</b>		<b>9,331,872</b>	

As of June 30, 2017 and December 31, 2016, 51% of the direct and indirect loan portfolio was concentrated in 621 and 744 clients, respectively.

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

Annual interest rates are regulated by the market and may be set at Scotiabank Perú S.A.A. and CrediScotia Financiera S.A.'s discretion. As of June 30, 2017 and December 31, 2016 the annual average effective rates of main products fluctuated as follows:

	<b>06.30.2017</b>		<b>12.31.2016</b>	
	<b>Local currency</b>	<b>Foreign currency</b>	<b>Local currency</b>	<b>Foreign currency</b>
Overdrafts (*)	55.00 – 85.00	30.00 – 55.00	55.00 – 85.00	30.00 – 55.00
Discounts and commercial loans	5.42 – 49.43	1.77 – 26.76	5.63 – 49.25	1.79 – 27.38
Consumer loans	14.58 – 46.11	9.94 – 27.11	14.26 – 46.30	10.20 – 27.11

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

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As of June 30, 2017 and December 31, 2016, according to current SBS regulations, the loan portfolio of the Bank and CrediScotia Financiera S.A. risk-based ratings are as follows:

<i>In thousands of soles</i>	<b>06.30.2017</b>				<b>12.31.2016</b>			
	<b>N° of debtors</b>	<b>Direct</b>	<b>Indirect</b>	<b>Total</b>	<b>N° of debtors</b>	<b>Direct</b>	<b>Indirect</b>	<b>Total</b>
<b><i>Risk category</i></b>								
Standard	988,886	40,317,478	9,193,686	49,511,164	961,832	38,419,748	9,255,006	47,674,754
With potential problems	44,588	1,204,803	64,560	1,269,363	40,974	864,182	50,051	914,233
Substandard	31,414	503,882	6,512	510,394	29,704	493,270	8,095	501,365
Doubtful	52,126	752,238	18,907	771,145	52,293	714,908	9,851	724,759
Loss	47,060	1,229,275	8,316	1,237,591	43,797	1,122,183	8,869	1,131,052
	<b>1,164,074</b>	<b>44,007,676</b>	<b>9,291,981</b>	<b>53,299,657</b>	<b>1,128,600</b>	<b>41,614,291</b>	<b>9,331,872</b>	<b>50,946,163</b>

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

<i>In thousands of soles</i>	<b>Specific</b>	<b>Generic</b>	<b>Total</b>
Balance as of January 1, 2016	1,265,687	556,936	1,822,623
Additions debited to profit or loss	1,023,818	158,791	1,182,609
Recovery of provisions	(450,923)	(167,184)	(618,107)
Transfers of provisions and other	4,717	(3,811)	906
Write-offs and forgiveness	(374,695)	-	(374,695)
Exchange differences	(17,082)	(5,156)	(22,238)
<b>Balance as of June 30, 2016</b>	<b>1,451,522</b>	<b>539,576</b>	<b>1,991,098</b>
Balance as of January 2017	1,435,174	563,045	1,998,219
Additions debited to profit or loss	1,139,105	196,271	1,335,376
Recovery of provisions	(547,588)	(146,653)	(694,241)
Transfers of provisions and other	2,188	(2,112)	76
Write-offs and forgiveness	(442,779)	-	(442,779)
Exchange difference	(13,415)	(4,458)	(17,873)
<b>Balance as of June 30, 2017</b>	<b>1,572,685</b>	<b>606,093</b>	<b>2,178,778</b>

Provision for doubtful loans, net, as shown in the consolidated statement of income is as follows:

<i>In thousands of soles</i>	<b>06.30.2017</b>	<b>06.30.2016</b>
Provisions for doubtful loans of the period	1,335,376	1,182,609
Recovery of provisions	(694,241)	(618,107)
Recovery from written – off portfolio	(33,200)	(27,471)
<b>Provisions for loans, net of recoveries</b>	<b>607,935</b>	<b>537,031</b>

Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. records regulatory provisions for loan portfolios according to the policy described in note 3.E. Also, these entities record discretionary provisions for doubtful loans included in the generic provision for loans. As of June 30, 2017 and December 31, 2016, discretionary provisions amount to S/ 122,174 thousand and S/ 98,106 thousand, respectively.

As of June 30, 2017, the provision for foreign exchange credit risk amounts to S/ 693 thousand (S/ 910 thousand as of December 31, 2016).

As indicated in note 3.e, from November 2014, the procyclical component for provision for doubtful loans calculation was deactivate. As of June 30, 2017 and December 31, 2016, the bank and Credisotia Financiera S.A. procyclical provisions did not apply for the registration of specific provisions. As of June 31, 2017 and December 31, 2016 a procyclical provisions balance amounting to S/ 54,411 thousand and S/ 55,671 thousand, respectively.

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As of June 30, 2017 and December 31 2016, direct loan portfolio had the following maturities:

	06.30.2017			12.31.2016		
	Local currency	Foreign currency	Total	Foreign currency	Foreign currency	Total
<i>In thousands of soles</i>						
Up to 1 month	2,208,825	358,059	2,566,884	2,033,398	1,700,411	3,733,809
From 1 to 3 months	3,464,435	2,981,375	6,445,810	3,854,484	2,603,622	6,458,106
From 3 to 6 months	2,896,643	1,477,045	4,373,688	3,258,453	1,558,448	4,816,901
From 6 to 12 months	3,986,603	3,981,714	7,968,317	3,374,777	1,245,574	4,620,351
Over 12 months	16,161,592	5,232,257	21,393,849	15,489,534	5,358,785	20,848,317
Overdue and lawsuit loans	1,057,571	486,582	1,544,153	941,501	475,247	1,416,748
Less, accrued interest	(232,202)	(52,822)	(285,024)	(228,043)	(51,900)	(279,941)
	<b>29,543,467</b>	<b>14,464,210</b>	<b>44,007,677</b>	<b>28,724,104</b>	<b>12,890,187</b>	<b>41,614,291</b>

**8. Held-for-trading Derivative Instruments**

The Bank holds agreements of foreign currency forwards, cross currency swaps (CCS) and interest rate swaps (IRS). As of June 30, 2017 and December 31, 2016 the fair value of these trading financial instruments has generated accounts receivable and payable as described below:

	06.30.2017		12.31.2016	
	Accounts receivable	Accounts payable	Accounts receivable	Accounts payable
Forwards	25,780	53,766	37,237	33,243
Interest Rate Swap - IRS	4,397	1,612	6,550	2,341
Cross Currency Swaps - CCS	16,848	42,975	15,184	56,530
	<b>47,025</b>	<b>98,353</b>	<b>58,971</b>	<b>92,114</b>

As of June 30, 2017 and 2016 these derivatives generated a net loss for S/ 28,716 thousand and S/ 81,721 thousand, respectively (note 22).

**9. Accounts Receivable, Net**

This caption comprises the following:

<i>In thousands of soles</i>	06.30.2017	12.31.2016
Financial instruments:		
Sale of investments (a)	99,539	45,767
Collection services	41,978	40,434
Payments on behalf of thirds parties, net	26,573	21,626
Commissions receivable	18,874	18,638
Advances to personnel	5,085	14,274
Sales of goods and services, trust, net	1,936	1,708
Accounts receivable from brokerage customers	228	626
Other accounts receivable, net	50,646	37,168
	<b>244,859</b>	<b>180,241</b>
Non-financial instruments:		
Tax claims (b)	691,957	693,477
	<b>936,816</b>	<b>873,718</b>

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and June 30, 2016 (unaudited)

- (a) As of June 30, 2017 and December 31, 2016, the balance corresponds to accounts receivable mainly related to the sale of sovereign bonds for approximately S/ 81,750 thousand and S/ 26,692 thousand, which were settle during the first days of the following month.
- (b) Tax claims comprise tax proceedings with the Tax Authority (SUNAT) that as of June 30, 2017 amount to S/ 251,491 thousand (S/ 253,011 thousand as of December 31, 2016), which mainly correspond to: i) payments made by the Bank under protest referred to the Temporary Tax on Net Assets (ITAN) of fiscal years 2005 and 2006 which are being challenged in the courts by the Bank as they are considered undue payments and shall be offset with the income tax and other tax credits and, ii) income tax paid in excess by CrediScotia Financiera S.A. for the years 2010, 2011, 2012 and 2013. In opinion of the Bank's Management, CrediScotia Financiera S.A. and its legal advisors, these amounts will be returned on the resolution of the case.

Also, this net account receivable of the pertinent provision for doubtful account includes tax claims of the Bank amounting to S/ 433,815 thousand, as of June 30, 2017 and December 31, 2016, which are related to payments made under protest due to a resolution issued by the Tax Authority, which is being challenged in the Judicial Courts by the Bank. In the opinion of the Bank's Management and its legal advisors, these amounts will be returned on the resolution of the case.

**10. Goodwill**

Corresponds to the goodwill determined on the purchases of capital investments made by the Bank. As of June 30, 2017 and December 31, 2016, goodwill amounts to S/ 570,664 thousand which mainly includes i) goodwill arising on the acquisition of 100% of the capital stock of Banco de Trabajo S.A., currently CrediScotia Financiera S.A. which amounts to S/ 278,818 thousand, and ii) goodwill arising on the acquisition of 100% of the capital stock of the subsidiary of Citibank del Perú S.A. for S/ 287,074 thousand.

According to SBS standards, such goodwill has been assessed by Management, concluding that there is no impairment as of June 30, 2017 and December 31, 2016.

**11. Property, Furniture, and Equipment, Net**

This caption comprises the following:

<i>In thousands of soles</i>	<b>Balance as of 01.01.2017</b>	<b>Additions</b>	<b>Disposals</b>	<b>Adjustment</b>	<b>Balance as of 06.30.2017</b>
Cost:					
Land	133,027	-	(134)	-	132,893
Property and premises	745,474	7,296	(309)	299	752,760
Furniture, fixture, and IT equipment	423,737	8,893	(28,329)	1,956	406,257
Vehicles	3,684	153	(331)	-	3,506
Units in transit and replacing units	13,964	6,510	-	(3,604)	16,870
Work-in-progress	2,832	4,398	-	(439)	6,791
	<b>1,322,718</b>	<b>27,250</b>	<b>(29,103)</b>	<b>(1,788)</b>	<b>1,319,077</b>
Accumulated depreciation:					
Property and premises	580,066	15,568	(502)	-	595,132
Furniture, fixture, and IT equipment	339,442	15,410	(28,489)	(52)	326,311
Vehicles	3,829	39	(331)	-	3,537
	<b>923,337</b>	<b>31,017</b>	<b>(29,322)</b>	<b>(52)</b>	<b>924,980</b>
	<b>399,381</b>				<b>394,097</b>

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

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and June 30, 2016 (unaudited)

<i>In thousands of soles</i>	Balance as of			Reclas. and/or	Balances as of
	01.01.2016	Additions	Disposals	adjustments	06.30.2016
<b>Cost</b>					
Land	133,027	-	-	-	133,027
Property and premises	735,302	139	-	757	736,198
Furniture, fixture, and IT equipment	426,856	7,696	(16,287)	691	418,956
Vehicles	4,120	-	-	-	4,120
Units in transit and replacing units	6,732	2,584	(3,428)	(839)	5,049
Work-in-progress	2,052	6,878	-	(1,059)	7,871
	<b>1,308,089</b>	<b>17,297</b>	<b>(19,715)</b>	<b>(450)</b>	<b>1,305,221</b>
<b>Accumulated depreciation</b>					
Property and premises	550,244	15,418	(3)	(978)	564,681
Furniture, fixture, and IT equipment	326,596	17,072	(14,924)	(582)	328,162
Vehicles	4,047	94	-	-	4,141
	<b>880,887</b>	<b>32,584</b>	<b>(14,927)</b>	<b>(1,560)</b>	<b>896,984</b>
	<b>427,202</b>				<b>408,237</b>

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.

## 12. Other Assets, Net

This caption comprises the following:

<i>In thousands of soles</i>	06.30.2017	12.31.2016
<b>Financial instruments:</b>		
Transactions in progress (a)	300,339	897,294
	<b>300,339</b>	<b>897,294</b>
<b>Non-financial instruments:</b>		
Prepaid expenses (b)	103,958	103,477
Payments on account of income tax, net	93,271	117,123
Realizable and repossessed asset, net of accumulated depreciation and provision for impairment of S/ 132,163 thousand (S/ 130,788 thousand as of December 31, 2016)	73,463	74,077
Intangible assets, net of amortizations for S/ 253,602 thousand (S/ 246,786 thousand as of December 31, 2016)	20,143	20,708
Tax credit (VAT) and other (c)	-	12,021
Other	8,730	11,401
	<b>299,565</b>	<b>338,807</b>
	<b>599,904</b>	<b>1,236,101</b>

- (a) Transactions in progress are mainly 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 statement of financial position. These operations do not affect the results of Scotiabank Perú S.A.A. and Subsidiaries. As of June 30, 2017, assets transactions in progress mainly include treasury operations and invoices-in-transit amounting to S/ 264,432 thousand and S/ 10,794 thousand respectively (S/ 887,198 thousand and S/ 4,527 thousand, respectively as of December 31, 2016).

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

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and June 30, 2016 (unaudited)

- (b) As of June 30, 2017, prepaid expenses include mainly: i) deferred loan origination costs related to commissions paid to the external sales force for S/ 67,373 thousand (S/ 68,130 thousand as of December 31, 2016); ii) prepaid commissions of received borrowings for S/ 9,793 thousand (S/ 11,971 thousand as of December 31, 2016); iii) prepaid rent for S/ 4,454 thousand (S/ 4,420 thousand as of December 31, 2016); and iv) and advertising and marketing services for S/ 2,737 thousand (S/ 1,411 thousand as of December 31, 2016), among other.
- (c) As of December 31, 2016, tax credit of the general sales tax (VAT) comprises S/ 57,615 thousand net of sales tax payable for S/ 45,594 thousand. This tax credit includes the sales tax for the acquisition of assets that has been transferred under finance lease for S/ 43,359 thousand as of December 31, 2016, which have not yet been applied against taxable transactions. As of June 30, 2017 Scotiabank Perú S.A.A. and Subsidiaries has VAT payable, net of tax credits for VAT for S/ 10,113 thousand and is presented in the other accounts payable.

### 13. Obligations and Deposits in Financial System Entities

This caption comprises the following:

<i>In thousands of soles</i>	<b>06.30.2017</b>		<b>12.31.2016</b>	
Corporate clients	18,374,597	49%	17,169,413	48%
Individuals	12,595,498	34%	12,535,115	35%
Non-profit organizations	4,703,823	13%	3,495,432	10%
Other	1,797,828	4%	2,500,015	7%
	<b>37,471,746</b>	<b>100%</b>	<b>35,699,975</b>	<b>100%</b>

Deposits and other obligations in U.S. dollars represent 44% and 46% of the total deposits as of June 30, 2017 and December 31, 2016, respectively. Deposits includes accounts pledged in favor of Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. for credit operations for S/ 623,883 thousand and US\$ 189,740 thousand as of June 30, 2017 (S/ 586,920 thousand and US\$ 159,456 thousand as of December 31, 2016).

As of June 30, 2017 and December 31, 2016, the total deposits and obligations from individuals and non-profit legal entities for S/ 9,321,696 thousand and S/ 9,289,298 thousand, respectively, are covered by the Peruvian Deposit Insurance Fund (FSD), according to current legal regulations.

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

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

The maximum amount covered for each individual as of June 30, 2017 and December 31, 2016, amounted to S/ 98 thousand.

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The Bank and CrediScotia Financiera S.A. freely establish deposits interest rates based on bid and demand, and the type of deposit. Effective rates as of June 30, 2017 and December 31, 2016, fluctuated as follows (annual effective rate):

	06.30.2017		12.31.2016	
	Local currency	Foreign currency	Local currency	Foreign currency
Savings deposits	0.51 - 1.31	0.17 - 0.21	0.49 - 1.50	0.16 - 0.21
Time deposits	3.79 - 6.23	0.16 - 1.07	3.58 - 6.03	0.22 - 1.19
Severance payment deposits	3.03 - 6.48	1.12 - 2.56	2.98 - 6.46	1.11 - 3.02

As of June 30, 2017 and December 31, 2016, the scheduled maturity dates of the time deposits were as follows:

<i>In thousands of soles</i>	06.30.2017			12.31.2016		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Up to 1 month	3,387,676	2,285,175	5,672,851	2,932,624	1,914,759	4,847,383
From 1 to 3 months	1,792,433	1,609,463	3,401,896	2,185,767	1,196,157	3,381,924
From 3 to 6 months	2,714,070	734,199	3,448,269	1,963,491	799,030	2,762,521
From 6 to 12 months	1,802,789	503,944	2,306,733	1,433,770	566,592	2,000,362
Over 12 months	1,144,583	527,488	1,672,071	1,060,240	611,150	1,671,390
	<b>10,841,551</b>	<b>5,660,269</b>	<b>16,501,820</b>	<b>9,575,892</b>	<b>5,087,688</b>	<b>14,663,580</b>
<b>Interest</b>	<b>124,131</b>	<b>8,730</b>	<b>132,861</b>	<b>134,884</b>	<b>7,519</b>	<b>142,403</b>
	<b>10,965,682</b>	<b>5,668,999</b>	<b>16,634,681</b>	<b>9,710,776</b>	<b>5,095,207</b>	<b>14,805,983</b>

Demand deposits, savings deposits and length of service legal compensation (CTS) have no contractual maturities.

## 14. Borrowings and Financial Obligations

This caption comprises the following:

<i>In thousands of soles</i>	06.30.2017	12.31.2016
Borrowings and financial obligations		
Obligations in the country:		
COFIDE (a)	1,196,522	1,154,786
Other local banks	-	44,000
Ordinary loans from abroad:		
Related banks (b)	3,090,350	2,852,600
Other banks (c)	2,069,721	2,499,137
	<b>6,356,593</b>	<b>6,550,523</b>
Interest payable	16,754	20,039
	<b>6,373,347</b>	<b>6,570,562</b>
Securities and obligations (d)	2,530,854	3,026,006
	<b>8,904,201</b>	<b>9,596,568</b>

- (a) Correspond to resources obtained for loans granting, mainly for mortgage financing programs of MiVivienda Fund, which accrue a fixed interest rate adjusted to the VAC index.

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

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As of June 30, 2017 and December 31, 2016, the Bank and CrediScotia Financiera S.A. maintain obligations with of COFIDE for S/ 634,938 thousand and S/ 651,443 thousand, respectively, which is guaranteed by mortgage loan portfolio, as detailed below:

<i>In thousands of S/ and US</i>	<b>Currency</b>	<b>06.30.2017</b>		<b>12.31.2016</b>	
		<b>Net loans</b>	<b>Backed debt</b>	<b>Net loans</b>	<b>Backed debt</b>
Mortgage loans-Fondo MiVivienda (*)	Sol	597,551	577,405	600,771	583,655
Mortgage loans-Fondo MiVivienda (*)	U.S. dollars	19,796	17,686	22,116	20,199

(\*) The Bank and CrediScotia Financiera S.A. signed specific agreements on these loans which hold standard clauses of compliance on certain operating issues that, in the opinion of Management, are being met.

Likewise, as of June 30, 2017 and December 31, 2016, another agreements for borrowing resources were agreed between the Bank and COFIDE for an amount of S/ 326,584 thousand and S/ 318,343 thousand, respectively, used to fund corporate and medium entities loans.

Additionally, CrediScotia Financiera S.A. holds credit lines of COFIDE in local currency to be used as working capital on a short-term basis and are subject to specific agreements on the manner of using received funds, financial conditions that should be held and other administrative matters. As of June 30, 2017 and December 31, 2016, obligations for this item amount to S/ 235,000 thousand and S/ 185,000 thousand, respectively.

- (b) As of June 30, 2017 and December 31, 2016, ordinary loans with related banks include debts payable to Scotiabank Ltd. Bahamas amounting to US\$ 950,000 thousand and US\$ 850,000 thousand, respectively, which accrue interest at annual rates ranging between 1.71% and 2.28% and have maturities between July 2017 and June 2019 (accruing interest at annual rates ranging between 1.44% and 1.99% and have maturities between March 2017 and August 2018).

These borrowings do not have guarantees nor compliance covenants.

- (c) As of June 30, 2017, it also includes borrowings and financial obligations negotiated with other foreign banks for US\$ 630,000 thousand (US\$ 713,427 thousand as of December 31, 2016) accruing interest at average rates that range between 1.38% and 4.12% (1.07% and 4.00% as of December 31, 2016).

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

As of June 30, 2017 and December 31, 2016, the scheduled maturity dates of borrowings from banks and other financial institutions were as follows:

<i>In thousands of soles</i>	<b>06.30.2017</b>	<b>12.31.2016</b>
Up to 1 month	419,621	1,393,559
From 1 to 3 months	1,169,160	1,319,661
From 3 to 6 months	1,055,952	-
From 6 to 12 months	706,642	1,518,233
Over 12 months	3,021,972	2,339,109
	<b>6,373,347</b>	<b>6,570,562</b>

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(d) The detail of securities and bonds is as follows:

<i>In thousands of soles</i>	<b>Annual interest</b>	<b>Maturity</b>	<b>06.30.2017</b>	<b>12.31.2016</b>
Issuance				
Redeemable Subordinated Bonds				
1st Issuance, single series (i)	4.50%	2027	1,301,200	1,342,400
1st Issuance A – 1st Program - SBP (ii)	7.34%	2025	535,560	535,560
1st Issuance A – 1st Program - CSF (iii)	7.41%	2027	130,000	130,000
			<b>1,966,760</b>	<b>2,007,960</b>
Negotiable Notes				
Series A	5.25%	2017	-	8,833
Series B	LIBOR 3m + 2.75%	2017	-	22,079
			-	<b>30,912</b>
Corporate bonds (iv)				
8th issuance A – 1st Program	7.31%	2017	100,000	100,000
9th Issuance C – 2nd Program	5.03%	2018	100,000	100,000
3rd Issuance B – 2nd Program	5.56%	2019	100,000	100,000
3rd Issuance A – 2nd Program	6.78%	2018	75,920	75,920
5th Issuance A – 2nd Program	5.09%	2017	58,000	58,000
5th Issuance B – 2nd Program	6.19%	2018	38,500	38,500
9th Issuance B – 2nd Program	5.44%	2017	-	100,000
7th issuance A – 1st Program	7.19%	2017	-	60,000
2nd Issuance B – 2nd Program	5.19%	2017	-	50,000
2nd Issuance C – 2nd Program	5.16%	2017	-	50,000
9th Issuance A – 2nd Program	5.50%	2017	-	69,480
4th issuance A – 1st Program	4.72%	2017	-	50,000
1st Issuance A – 2nd Program	5.72%	2017	-	100,000
			<b>472,420</b>	<b>951,900</b>
Other instruments representing debt				
Negotiable certificates of deposits			70,991	7,645
			<b>70,991</b>	<b>7,645</b>
			<b>2,510,171</b>	<b>2,998,417</b>
Interest payable and obligations			20,683	27,589
			<b>2,530,854</b>	<b>3,026,006</b>

- i. In December 2012, the Bank issued subordinated bonds for US\$ 400,000 thousand which under SBS Resolution 8093-2012, qualifies as tier 2 capital. These bonds mature on December 2027 and accrue interest at an annual fixed rate of 4.500% during the first ten years; from the eleventh year, they will accrue interest at a variable rate of 3-month LIBOR rate plus a spread of 3.856% to be paid each six months. After the eleventh year, all these bonds can be redeemed without penalties. This issuance was performed in the international market and contains certain standard clauses of compliance with financial ratios and other operating matters, which in the opinion of the management, they do not affect the Bank's operations and are being met.
- ii. Through SBS Resolution 2315-2015, dated April 24, 2015, the SBS authorized the issuance of the First Subordinated Bonds Program Scotiabank Peru up to an amount of US\$ 400,000 thousand or the equivalent in soles; these bonds qualifies as a tier 2 capital. In May 2015, the Bank issued 53,556 subordinated bonds in local currency with a face value of S/ 10,000 each and a term of 10 years from the date of issuance. These bonds accrue an annual interest rate of 7.34375% to be paid each semester. This issue was private and held in the local market.

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- iii. In July 2012, CrediScotia Financiera S.A. issued, through public auction, subordinated bonds in local currency for S/ 130,000 thousand denominated Subordinated Bonds - First Issuance with SBS authorization by means of Resolution 4873 - 2012. Such series comprise 13,000 bonds at a par value of S/ 10 thousand each, with maturity in July 2027 and a put option from the tenth year if the terms and conditions of such issuance are met. The proceeds were exclusively destined to credit operations financing.

Subordinated bonds issued by the Bank and CrediScotia Financiera S.A. do not have specific collateral; however, they have a generic guarantee on the net shareholders' equity of those entities.

- iv. Corresponds to Corporate Bonds issued by Scotiabank Perú S.A.A. for S/ 472,420 thousand, with terms that ranged between 1 to 2 years and accrued interest rates that ranged between 4.72% and 7.31%. The proceeds were exclusively destined to fund loans operations.

As of June 30, 2017 and December 31, 2016, the maturities of issued securities were as follows:

<i>In thousands of soles</i>	<b>06.30.2017</b>	<b>12.31.2016</b>
Up to 3 months	170,505	267,463
From 3 to 6 months	8,178	267,664
From 6 to 12 months	108,639	164,239
Over 12 months	2,243,532	2,326,640
	<b>2,530,854</b>	<b>3,026,006</b>

As of June 30, 2017 and 2016, interest expenses on borrowings and financial obligations of Scotiabank Perú S.A.A. and Subsidiaries amount to S/ 169,413 thousand and S/ 166,648 thousand, respectively (note 20).

**15. Provisions and Other Liabilities**

This caption comprises the following:

<i>In thousands of soles</i>	<b>06.30.2017</b>	<b>12.31.2016</b>
<b>Accounts payable:</b>		
Repurchase agreements (a)	4,319,150	3,674,545
Other accounts payable	351,567	235,886
Dividends, vacations, remunerations and profit sharing payable	47,902	43,158
	<b>4,718,619</b>	<b>3,953,589</b>
<b>Provisions:</b>		
Provisions for litigations and legal claims (b)	84,515	85,801
Provisions for various contingencies (c)	44,306	44,983
Provision for contingent loans and country risk	91,773	91,059
Other provisions (d)	154,287	123,266
	<b>374,881</b>	<b>345,109</b>
<b>Other liabilities:</b>		
Transactions in progress (e)	505,388	884,105
Deferred income on portfolio sale and other	61,597	68,485
	<b>566,985</b>	<b>952,590</b>
	<b>5,660,485</b>	<b>5,251,288</b>

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- (a) Corresponds to obligations for foreign currency purchase transactions with commitments of repurchase made with Central Bank (note 5.c). As of June 30, 2017 accrues interest payable from 4.00% to 6.56% (3.20% to 6.56% as of December 31, 2016). Likewise, as of June 30, 2017 the maturities of these operations fluctuate between July 2017 and June 2019 (between January 2017 and March 2019 as of December 31, 2016).
- (b) As of June 30, 2017 and December 31, 2016, Scotiabank Perú S.A.A. and Subsidiaries have legal actions underway, which are related to civil and labor claims, among others. These legal actions resulted from activities and operations performed during the normal course of Scotiabank Perú S.A.A. and Subsidiaries' operations; it is not anticipated they will have a significant impact on operations or results.
- (c) As of June 30, 2017, this account mainly comprises reversals or recoveries of provisions recorded in prior years against equity accounts for S/ 13,144 thousand (S/ 13,300 thousand as of December 31, 2016) which, according to SBS Official Letter 23797-2003, should be reassigned to other deficits in Bank's asset accounts. Also, the balance as of June 30, 2017 and December 31, 2016 includes provisions recorded against profit or loss for various contingencies for S/ 31,097 thousand and S/ 31,618 thousand, respectively.
- (d) As of June 30, 2017, the balance of other provisions mainly include: i) provisions for personnel expenses for S/ 125,172 thousand (S/ 93,830 thousand as of December 31, 2016); ii) provisions for marketing campaigns of liability products for S/ 9,121 thousand (S/ 9,594 thousand as of December 31, 2016), and iii) provisions related to credit and debit cards transactions for S/ 18,807 thousand (S/ 18,573 thousand as of December 31, 2016).
- (e) Transactions in progress are mainly those carried out during the last days of the month and are reclassified in the following month to their definitive accounts of the consolidated statement of financial position. These operations do not affect the results of Scotiabank Perú S.A.A. and Subsidiaries. As of June 30, 2017, liability transactions in progress include mainly: i) S/ 273,678 thousand related to Treasury operations (S/ 740,475 thousand as of December 31, 2016), ii) S/ 82,182 thousand related to credit card transactions (S/ 51,772 thousand as of December 31, 2016) and iii) S/ 80,412 thousand corresponding to client deposits in transit (S/ 37,336 thousand as of December 31, 2016).

## **16. Shareholders' Equity**

### **A. General**

The regulatory capital of Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. is determined in accordance with the Banking Law and is used to calculate legal limits and restrictions applicable to financial institutions in Peru. As of June 30, 2017, the regulatory capital of both companies amount to S/ 7,428,225 thousand and S/ 766,452 thousand, respectively (S/ 7,347,673 thousand and S/ 649,031 thousand as of December 31, 2016, respectively).

As of June 30, 2017, 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 amount to S/ 48,789,570 thousand and S/ 4,157,559 thousand, respectively (S/ 47,026,838 thousand and S/ 3,940,172 thousand, as of December 31, 2016 respectively).

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Shareholders' Meetings, held on March 28, 2016, conferred authority to the Board of Directors to commit on capitalizations of year 2015 profits, with the purpose that these can be included in the calculation of the regulatory capital of the Bank. In that sense, in August 2016, the Board approved the commitment to capitalize the results for the year 2016 for a total of S/ 350,000 thousand.

As of June 30, 2017 and December 31, 2016, the Banking Law established as a global limit that the regulatory capital shall be equal to or greater than 10% of the total risk weighted assets and contingent credits, which corresponds to the sum of: the amount of regulatory capital requirements for market risk multiplied by 10, plus the amount of the regulatory capital requirements for operational risk multiplied by 10, plus the risk weighted credit related assets and contingencies. As of June 30, 2017, the regulatory net capital of Scotiabank Perú S.A.A. and Crediscotia Financiera S.A. represents 14.22% and 17.03% respectively, of the minimum capital requirements per market, operational and credit risk (14.41% and 14.19% respectively as of December 31, 2016).

By means of Official Letter 17024-2016-SBS and 17016-2016-SBS, SBS authorized Scotiabank Perú S.A.A. and CrediScotia Financiera S.A., respectively, to use the alternative standard method for the calculation of the regulatory capital requirement for operational risk. It also pointed out that Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. shall apply a regulatory capital requirement additional to the one calculated using the basic indicator method and the alternative standard method, which shall be equivalent to 25% of the difference between the requirements calculated using the basic indicator method and the alternative standard method, from April 2016 to March 2017; and, equivalent to 50% of the difference, from April 2017 to March 2018. On May 15, 2017, by means Official Letter 17205-2017-SBS and 17217-2017-SBS, SBS eliminated the regulatory capital requirement additional mentioned.

Likewise, by means of Resolution 2115-2009, the SBS approved the rules for the Additional Regulatory Net Capital for Operational Risk. As of June 30, 2017 and December 31, 2016, Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. have applied the alternative standard method for the calculation of the regulatory capital requirement for operational risk.

Finally, by means of SBS Resolution 8425-2011 and amendments, the SBS approved the methodology for the calculation of additional regulatory capital requirement, which establishes that this requirement shall be equal to the sum of the regulatory capital requirements, calculated for each of the following components: i) economic cycle, ii) concentration risk, iii) market risk concentration, iv) interest rate risk in the banking books, and v) other risks. As of June 30, 2017, additional regulatory capital of the Bank and CrediScotia Financiera S.A. amounted to S/ 1,134,278 thousand and S/ 127,991 thousand, respectively (S/ 1,100,545 thousand and S/ 126,703 thousand, as of December 31, 2016 respectively).

### **B. Capital stock**

As of June 30, 2017, the Bank's capital stock comprises 516,666,886 common shares (481,666,886 common shares as of December 31, 2016). All shares have voting rights and a par value of S/ 10.00 each. As of June 30, 2017 and December 31, 2016, the quotation value of common shares of the Bank was S/ 35.50 and S/ 29.90 per share, respectively.

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

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General Shareholders' Meeting, held on March 23, 2017, approved the increase of capital stock as a result of the capitalization of year 2016 retained earnings for S/ 350,000 thousand. As a result of both capitalizations, the capital stock increased to S/ 5,166,669 thousand and is represented by 516,666,886 common shares with a par value of S/ 10.00 each as of June 30, 2017.

General Shareholders' Meeting, held on March 28, 2016, approved the increase of capital stock as a result of the capitalization of currency adjustment for inflation corresponding to years 2001 through 2004 totaling S/ 28,019 thousand. Pursuant to the delegation conferred by the General Shareholders' meeting, the board approved the increase of capital stock arising from the capitalization of year 2015 retained earnings for S/ 660,000 thousand. As a result of both capitalizations, the capital stock increased to S/ 4,816,669 thousand.

Shares participation on the Bank's capital stock as of June 30, 2017 and December 31, 2016, is as follows:

Percentage of interest in capital	06.30.2017		12.31.2016	
	Number of shareholders	%	Number of shareholders	%
From 0.01 to 1	1,503	1.95	1,553	1.95
From 1.01 to 50	2	42.73	2	42.73
From 50.01 to 100	1	55.32	1	55.32
	<b>1,506</b>	<b>100.00</b>	<b>1,556</b>	<b>100.00</b>

Under the Banking Law, it is required that as of June 30, 2017, the capital stock reaches the minimum amount of S/ 26,747 thousand (S/ 26,476 thousand as of December 31, 2016), at constant value. This amount is annually updated at the closing date of every fiscal year, based on the wholesale price index (WPI), as published by the Instituto Nacional de Estadística e Informática (National Institute of Statistics).

### C. Additional paid-in capital

This additional paid-in capital balance comprises:

<i>In thousands of soles</i>	06.30.2017	12.31.2016
Issuance premium	393,159	393,159
Gain on treasury shares	1,304	1,304
	<b>394,463</b>	<b>394,463</b>

As of June 30, 2017 and December 31, 2016, the Bank holds 191 and 143 treasury shares, respectively.

### D. 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.

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At the General Shareholders' Meeting, held on March 23, 2017 and March 28, 2016, it was decided to apply to legal reserve an amount of S/ 116,839 thousand and S/ 101,403 thousand corresponding to 10% of net profit for the year 2016 and 2015.

### **E. Retained earnings**

At the Bank's General Shareholders' Meeting, held on March 23, 2017, the distribution of 2016 net profit for a total of S/ 1,168,387 thousand was approved, as follows:

- i Cash dividends payment for S/ 233,677 thousand.
- ii Allocate 10% of net profit, amounting to S/ 116,839 thousand to increase the legal reserve.
- iii Remaining balance, amounting to S/ 817,871 thousand, will be held in 'retained earnings'.

At the Bank's General Shareholders' Meeting, held on March 28, 2016, the distribution of 2015 net profit for a total of S/ 1,014,032 thousand was approved, as follows:

- i Cash dividends payment for S/ 252,629 thousand.
- ii Allocate 10% of net profit, amounting to S/ 101,403 thousand to increase the legal reserve.
- iii Remaining balance, amounting to S/ 660,000 thousand, will be held in 'retained earnings'.

### **F. Other comprehensive income**

As of June 30, 2017 and December 31, 2016, it mainly includes unrealized results of available-for-sale investments and share in other comprehensive income of associates, net of its deferred income tax effects.

## **17. Contingencies**

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

## **18. Risks and Contingent Commitments**

In the normal course of business, the Bank and CrediScotia Financiera S.A. perform contingent transactions under off-statement of financial position 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 statement of financial position. Credit risk for contingent transactions are accounted in memoranda accounts of the consolidated statement of financial position 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 for 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.

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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 for the Bank and CrediScotia Financiera S.A. Also, documentary credits, like export and import letters of credit and guarantees and stand-by letters of credit are conditional commitments issued by the Bank and CrediScotia Financiera S.A. to guarantee a customer obligation before a third party.

As of June 30, 2017 and December 31, 2016, the contingent accounts comprise the following:

<i>In thousands of soles</i>	<b>06.30.2017</b>	<b>12.31.2016</b>
Contingent loans (note 8):		
Guarantees and stand-by letters of credit	8,574,433	8,635,989
Issued letters of credit	608,323	627,313
Due from bank acceptances	109,225	68,570
	<b>9,291,981</b>	<b>9,331,872</b>
Unused credit lines	21,641,656	20,309,663
Financial derivative instruments	7,824,901	6,026,055
Other	-	500
	<b>38,758,538</b>	<b>35,668,090</b>

**19. Interest Income**

This caption comprises the following:

<i>In thousands of soles</i>	<b>06.30.2017</b>	<b>06.30.2016</b>
Direct loan portfolio	2,213,983	2,110,331
Available-for-sale investments (note 6)	60,746	47,065
Cash and due from banks (note 5)	12,595	7,557
Investments at fair value through profit or loss (note 6)	4,063	3,218
Interbank funds	1,560	4,101
Other finance income	1,967	2,216
	<b>2,294,914</b>	<b>2,174,488</b>

**20. Interest Expenses**

This caption comprises the following:

<i>In thousands of soles</i>	<b>06.30.2017</b>	<b>06.30.2016</b>
Obligations and Deposits	293,902	227,297
Borrowings and financial obligations (note 14)	169,413	166,648
Repurchase agreements	77,926	99,587
Commissions on borrowings and financial obligations	18,902	22,722
Deposits of financial entities	1,029	9,112
Interbank funds	6,424	2,866
	<b>567,596</b>	<b>528,232</b>

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

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**21. Income from Finance Services, Net**

This caption comprises the following:

<i>In thousands of soles</i>	<b>06.30.2017</b>	<b>06.30.2016</b>
<b>Income</b>		
Income from commissions from collections services	94,393	84,365
Other fees and commissions from banking services	75,645	75,514
Income from deposit transactions, services and transfer fees	55,131	59,256
Income from portfolio recovery	36,303	45,840
Income from structuring and administration services	34,287	18,987
Income from remunerations of mutual funds and administration fees	19,314	14,215
Income from teleprocessing services	11,051	17,655
Income from commissions and brokerage services	4,940	2,625
Other various income	168,802	171,135
	<b>499,866</b>	<b>489,592</b>
<b>Expenses:</b>		
Credit / debit cards expenses	(51,556)	(42,229)
Deposit insurance fund premiums	(20,856)	(19,025)
Insurance services expenses	(3,131)	(3,387)
Other various expenses	(94,385)	(84,543)
	<b>(169,928)</b>	<b>(149,184)</b>
	<b>329,938</b>	<b>340,408</b>

**22. Results from Financial Transactions**

This caption comprises the following:

<i>In thousands of soles</i>	<b>06.30.2017</b>	<b>06.30.2016</b>
Gain on foreign exchange (note 4)	131,316	199,021
Gains on valuation of available-for-sale investments (note 6)	33,008	9,018
Gain on valuation of investments at fair value through profit or loss	8,163	6,809
Gain in associates	8,109	6,767
Dividends received from available-for-sale investments	16	3,285
Loss on valuation of trading derivatives (note 8)	(28,716)	(81,721)
Others, net	1,784	121
	<b>153,680</b>	<b>143,300</b>

**23. Administrative Expenses**

This caption comprises the following:

<i>In thousands of soles</i>	<b>06.30.2017</b>	<b>06.30.2016</b>
Personnel and board of directors expenses	431,373	425,168
Expenses for services received from third parties	323,988	315,679
Taxes and contributions	34,842	39,234
	<b>790,203</b>	<b>780,081</b>

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**24. Other Income, Net**

This caption comprises the following:

<i>In thousands of soles</i>	<b>06.30.2017</b>	<b>06.30.2016</b>
Sale of non-financial services	6,847	5,933
Gain (loss) on sale of property, furniture, and equipment	3,984	(1,268)
Leasing of own goods	1,816	1,791
Proceeds from (losses in) sale of repossessed assets	785	(865)
Reimbursements and recoveries	102	80
Other expenses, net	(11,484)	(7,888)
	<b>2,050</b>	<b>(2,217)</b>

**25. Tax Matters*****Income tax legislation***

- A. Scotiabank Perú S.A.A. and Subsidiaries is subject to Peruvian tax legislation. As of June 30, 2017 and December 31, 2016, statutory income tax is calculated on the basis of the net taxable income determined by Scotiabank Perú S.A.A. and Subsidiaries at a rate of 29.5% and 28% respectively.

By means of Legislative Decree 1261, published on December 10, 2016 and effective January 1, 2017, the rate applicable to corporate income was modified to 29.5%.

Consequently, the rates applicable to corporate income tax for the last taxable years are as follows:

Until year 2014	30.0%
For years 2015 - 2016	28.0%
For year 2017 onwards	29.5%

Likewise, as of December 31, 2016, the income tax rate for dividend distribution and any other form of profit distribution applicable to legal persons not domiciled in Peru and natural persons is 6.8%. However, the Decree also established the modification of the income tax rate applicable to dividend distribution and any other form of profit distribution to 5%, in the case of profits generated and distributed since January 1, 2017.

Consequently, the rates applicable to income tax on dividends for the last taxable years are as follows:

Until year 2014	4.1%
For years 2015 - 2016	6.8%
For year 2017 onwards	5.0%

***Income tax determination***

Scotiabank Perú S.A.A. and Subsidiaries computed its taxable base for the six month period and year ended in June 30, 2017 and 2016, and determined current income tax of S/ 199,803 thousand and S/ 208,632 thousand, respectively.

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

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The current tax of Scotiabank Perú S.A.A. and Subsidiaries has been determined as of June 30, 2017 and 2016 as follows:

<i>In thousands of soles</i>	<b>06.30.2017</b>	<b>06.30.2016</b>
Scotiabank Perú S.A.A.	169,579	154,779
CrediScotia Financiera S.A.	40,037	39,351
Scotia Fondos Sociedad Administradora de Fondos S.A.	3,777	1,682
Servicios, Cobranzas e Inversiones S.A.	1,046	1,768
Scotia Sociedad Agente de Bolsa S.A.	104	248
Scotia Sociedad Titulizadora S.A.	62	103
	<b>214,605</b>	<b>197,931</b>

Income tax expense comprises:

<i>In thousands of soles</i>	<b>06.30.2017</b>	<b>06.30.2016</b>
<b>Current tax</b>		
Current year	214,605	197,931
	<b>214,605</b>	<b>197,931</b>
<b>Deferred tax</b>		
Current year	(14,802)	10,701
	<b>(14,802)</b>	<b>10,701</b>
<b>Net income tax expense</b>	<b>199,803</b>	<b>208,632</b>

B. The reconciliation of the tax rate and the effective tax rate is as follows:

<i>In thousands of soles</i>	<b>06.30.2017</b>		<b>06.30.2016</b>	
<b>Profit before taxes</b>	<b>759,458</b>	<b>100.00%</b>	<b>760,374</b>	<b>100.00%</b>
Income tax (theoretical)	224,040	29.50%	212,905	28.00%
Tax effect on additions and deductions				
Permanent differences	(24,237)	(3.19%)	(4,273)	(0.56%)
<b>Current and deferred income tax recorded as per effective rate</b>	<b>199,803</b>	<b>26.31%</b>	<b>208,632</b>	<b>27.44%</b>

**Income tax exemptions and exceptions**

C. From year 2010, capital gains from the disposal or redemption of securities made in centralized trading mechanisms are subject to income tax. For this purpose, the value of securities has been established as computable cost at the closing of the taxable period 2009 (quotation value), acquisition cost, or increase in the equity value, as per procedure established in Supreme Decree 011-2010-EF.

Accordingly, it is important to mention that only for 2016, the capital gain obtained from the disposal of shares and other securities representing shares are income tax exempt, provided that such disposal is negotiated through a centralized trading system supervised by the SMV, and in compliance with certain requirements established in Law 30341.

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

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### Other taxes and tax considerations

#### D. Temporary Tax on Net Assets

Scotiabank Perú S.A.A. and Subsidiaries are subject to Temporary Tax on Net Assets whose taxable base is composed of the prior period adjusted net asset value less depreciations, amortizations, legal cash reserve, and specific provisions for credit risk. The tax rate is 0.4% for years 2017 and 2016 and is applied to the amount of net assets exceeding S/ 1 million. It may be paid in cash or in nine consecutive monthly installments.

#### E. Tax on Financial Transactions

Tax on Financial Transactions (ITF) for fiscal periods 2017 and 2016 was fixed at the rate of 0.005%. This tax is applied on charges and credits in bank accounts or movements of funds made through the financial system, unless the account is tax-exempt.

#### F. Transfer Pricing

For income tax purposes, transfer pricing for transactions carried out with economically-related parties, and with companies domiciled in territories with low or null taxation, shall be supported with documentation and information about the valuation methods used, and the criteria considered, for the pricing. Until fiscal year 2016, the formal obligations of Transfer Pricing were the presentation of a Transfer Pricing Sworn Statement and Technical Study.

#### G. Tax assessment

The tax authorities has the right to audit and, if applicable, to modify the income tax calculated by the Scotiabank Perú S.A.A. and Subsidiaries within the four years following the year of the tax return filing. Income tax returns of Scotiabank Perú S.A.A. and Subsidiaries that have not yet been reviewed by the Tax Authority are the following:

<i>In thousands of soles</i>	<b>Tax returns subject to audit</b>	<b>Tax returns being (audited)</b>
Scotiabank Perú S.A.A.	2012 - 2016	2010 and 2011
CrediScotia Financiera S.A.	2012 - 2016	2010 and 2012
Servicios, Cobranzas e Inversiones S.A.	2012 - 2016	-
Scotia Fondos Sociedad Administradora de Fondos S.A.	2012 - 2016	2010 and 2011
Scotia Sociedad Agente de Bolsa S.A.	2012 - 2016	2013
Scotia Sociedad Titulizadora S.A.	2012 - 2016	-
Trust Property on real estate – Depsa	2012 - 2016	-

Concerning tax returns for fiscal years 2006 through 2008, the Tax Authority issued various Tax Assessment and Fine Resolutions on the determination of corporate income tax for said years, which were challenged by the Bank. In relation to year 2006, the Bank has filed an appeal which is pending resolution by the Tax Court. In relation to years 2007 and 2008, the Bank has filed a claim before the Tax Authority.

Tax Authority has sent the Bank, Tax Assessment and Fine Resolutions related to non-domiciled income tax for the periods 2008 through 2011 and related to Essalud contributions for the periods 2011 and 2012, which are being claimed. In the opinion of management and its legal advisors, these tax proceedings will not generate significant liabilities that may impact on the Bank's financial results.

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Concerning tax returns for fiscal years 2006 through 2009, the Tax Authority issued various Tax Assessment and Fine Resolutions on the determination of corporate income tax for said years, which were claimed by the Bank. In relation to year 2006, the Bank has filed an appeal which is pending resolution by the Tax Court. In relation to years 2007 through 2009, the Bank has filed a claim before the Tax Authority.

Tax Authority has sent the Bank, Tax Assessment and Fine Resolutions related to non-domiciled income tax for the periods 2008 through 2011 and related to Essalud contributions for the periods 2011 and 2012, which are being claimed. In the opinion of management and its legal advisors, these tax proceedings will not generate significant liabilities that may impact on the Bank's financial results.

Due to the possibility of various interpretations of the current legal regulations by the tax authorities, it is not possible to determine, to date, whether a future tax audit will result or not in liabilities for the Bank; therefore, any major tax, surcharges, and sanctions that might arise from eventual tax audits would be applied to profit or loss of the period in which they are recognized. However, it is the opinion of management and its legal advisors that, any possible additional settlement of taxes would not be significant for the consolidated financial statements of the Bank as of June 30, 2017 and December 31, 2016.

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**26. Deferred Taxes**

Deferred tax assets has been calculated applying the statement of financial position method (note 3.j). The consolidated deferred income tax asset as of June 30, 2017 and 2016 is mainly composed by:

<i>In thousands of soles</i>	<b>Balances as of 01.01.16</b>	<b>(Debit) Credit profit or loss</b>	<b>(Debit) other</b>	<b>Balances as of 06.30.16</b>	<b>Balances as of 01.01.17</b>	<b>(Debit) credit equity</b>	<b>Reclasifications</b>	<b>(Debit) credit profit or loss</b>	<b>Balances as of 06.30.17</b>
Generic provision for direct/indirect loans	175,834	(3,037)	(1,380)	171,417	188,189	-	-	11,337	199,526
Provision for accounts receivable	14,676	3,949	8,309	26,934	24,574	-	1	1,732	26,307
Provision for vacations	12,282	(1)	-	12,281	13,760	-	2	(1,638)	12,124
Provision for repossessed assets	10,317	707	(3,140)	7,884	9,708	-	-	1,006	10,714
Finance lease operations, net	33,597	(14,718)	(3,333)	15,546	12,123	-	100	(2,693)	9,530
Provision for credit and debit card rewards	3,738	-	-	3,738	5,273	-	-	-	5,273
Investment in subsidiaries	893	-	-	893	941	-	(1)	-	940
Valuation of available-for-sale investments	2,637	-	(409)	2,228	262	(262)	-	-	-
Intangible assets	(1,617)	1,157	14	(446)	(4,248)	-	657	(580)	(4,171)
Other	(3,392)	1,242	9,411	7,261	7,019	245	(759)	5,638	12,143
<b>Deferred tax assets, net</b>	<b>248,965</b>	<b>(10,701)</b>	<b>9,472</b>	<b>247,736</b>	<b>257,601</b>	<b>(17)</b>	<b>-</b>	<b>14,802</b>	<b>272,386</b>

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### **27. Employees' Profit Sharing**

According to Legislative Decree 677, bank's employees are entitled to a profit-sharing plan computed at 5% of the net profit, similarly to employees of the companies of Scotiabank Perú S.A.A. and Subsidiaries. This profit sharing is considered as a deductible expense for income tax calculation purposes. As of June 30, 2017 and 2016, Scotiabank Perú S.A.A. and Subsidiaries have determined legal employees' profit sharing for S/ 37,448 thousand and S/ 35,039 thousand, respectively, included under administrative expenses in the consolidated statement of income.

### **28. Trust Fund Activities**

Scotiabank Perú S.A.A. and Subsidiaries offer structuring and administration services of trust operations and trust fees, and are 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 June 30, 2017, the allocated value of assets in trusts and trust fees amounts to S/ 3,073,351 thousand (S/ 3,481,882 thousand as of December 31, 2016).

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### 29. Related Party Transactions

As of June 30, 2017 and December 31, 2016, the consolidated financial statements include transactions with related parties, which, as established by IAS 24, comprise the parent company, related parties, associates, other related parties, directors and key management. All related party transactions are conducted in accordance with market conditions applicable to non-related third parties.

A. The balances of the consolidated statement of financial position arising from related parties were as follows:

	06.30.2017					12.31.2016				
	Parent company	Related parties (i)	Associates	Key personnel & directors	Total	Parent company	Related parties (i)	Associates	Key personnel & directors	Total
<i>In thousands of soles</i>										
<b>Assets:</b>										
Cash and due from banks	-	40,739	-	29	40,768	-	23,701	-	-	23,701
Loan portfolio, net	-	4,765	5,976	15,367	26,108	-	186,189	6	7,943	194,138
Held-for-trading derivative	-	26,157	-	-	26,157	-	30,825	-	-	30,825
Other assets, net	8	95,430	75,775	32	171,245	-	446,410	71,205	2	517,617
<b>Total assets</b>	<b>8</b>	<b>167,091</b>	<b>81,751</b>	<b>15,428</b>	<b>264,278</b>	<b>-</b>	<b>687,125</b>	<b>71,211</b>	<b>7,945</b>	<b>766,281</b>
<b>Liabilities:</b>										
Obligations and Deposits in financial system entities	660,933	425,584	19,774	14,350	1,120,641	482,171	260,490	8,499	10,480	761,640
Borrowings and financial obligations	-	3,096,630	-	-	3,096,630	-	2,857,375	-	-	2,857,375
Held-for-trading derivative	-	65,570	-	-	65,570	-	61,667	-	-	61,667
Provisions and other liabilities	-	96,742	872	10	97,624	-	336,392	5,663	12	342,067
<b>Total liabilities</b>	<b>660,933</b>	<b>3,684,526</b>	<b>20,646</b>	<b>14,360</b>	<b>4,380,465</b>	<b>482,171</b>	<b>3,515,924</b>	<b>14,162</b>	<b>10,492</b>	<b>4,022,749</b>
<b>Off-balance sheet accounts</b>										
Contingent loans	-	291,075	68,034	-	359,109	-	274,397	70,846	-	345,244
Financial derivative instruments	-	3,955,342	-	-	3,955,342	-	2,997,482	-	-	2,997,482

(i) Related parties include balances and transactions with 'other related parties' as defined by IAS 24.

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B. Consolidated statement of income arising from related party transactions were as follows:

<i>In thousands of soles</i>	06.30.2017					06.30.2016				
	Parent company	Related parties (i)	Associates	Key personnel & directors	Total	Parent company	Related parties (i)	Associates	Key personnel & directors	Total
Interest income	-	3,596	69	534	4,199	-	1,507	2	364	1,873
Interest expenses	(1,272)	(34,494)	(1,140)	(155)	(37,061)	(1,264)	(22,869)	(1,258)	(111)	(25,502)
	<b>(1,272)</b>	<b>(30,898)</b>	<b>(1,071)</b>	<b>379</b>	<b>(32,862)</b>	<b>(1,264)</b>	<b>(21,362)</b>	<b>(1,256)</b>	<b>253</b>	<b>(23,629)</b>
Income from finance services	9	1,293	361	73	1,736	9	1,950	295	64	2,318
Expenses on finance services	-	(716)	(7,373)	(6)	(8,095)	-	(26)	(7,477)	(7)	(7,510)
	<b>9</b>	<b>577</b>	<b>(7,012)</b>	<b>67</b>	<b>(6,359)</b>	<b>9</b>	<b>1,924</b>	<b>(7,182)</b>	<b>57</b>	<b>(5,192)</b>
Results from financial transactions	-	(4,577)	8,107	-	3,530	-	178,680	6,341	-	185,021
Administrative expenses (ii)	-	(755)	(1,821)	(6)	(2,582)	-	(654)	(2,257)	(7)	(2,918)
Other income and expenses	-	-	(2)	-	(2)	-	-	-	(12)	(12)
<b>Net profit</b>	<b>(1,263)</b>	<b>(35,653)</b>	<b>(1,799)</b>	<b>440</b>	<b>(38,275)</b>	<b>(1,255)</b>	<b>158,588</b>	<b>(4,354)</b>	<b>291</b>	<b>153,270</b>

(i) Related parties include balances and transactions with 'other related parties' as defined by IAS 24.

(ii) It does not include personnel expenses.

C. Remuneration of key personnel and directors were as follows:

<i>In thousands of soles</i>	06.30.2017	06.30.2016
Remuneration to key personnel	14,211	15,779
Remuneration to members of the Board of Directors	671	548
	<b>14,882</b>	<b>16,327</b>

As of June 30, 2017 and 2016, the remuneration pending to pay to key personnel amounted to S/ 6,916 thousand and S/ 6,099 thousand, respectively.

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### 30. Classification of Financial Instruments

Management classifies its financial assets and liabilities in categories as described in note 3.B. As of June 30, 2017 and December 31, 2016, financial assets and liabilities are classified as follows:

	06.30.2017						Total
	At fair value through profit or loss	Loans and items receivable	Available-for-sale investments		Liabilities at amortized cost	Other liabilities (b)	
			At amortized cost (a)	At fair value			
<i>In thousands of soles</i>							
<b>Assets:</b>							
Cash and due from banks	-	11,966,676	-	-	-	-	11,966,676
Interbank funds	-	116,483	-	-	-	-	116,483
Investments at fair value through profit or loss							
Capital instruments	10,845	-	-	-	-	-	10,845
Debt instruments	157,160	-	-	-	-	-	157,160
Available-for-sale investments:							
Instruments representing capital	-	-	4,399 (c)	547	-	-	4,946
Instruments representing debt	-	-	-	2,489,072	-	-	2,489,072
Loan portfolio	-	42,078,699	-	-	-	-	42,078,699
Held-for-trading derivative	47,025	-	-	-	-	-	47,025
Accounts receivable	-	244,859	-	-	-	-	244,859
Other assets	-	300,339	-	-	-	-	300,339
<b>Total</b>	<b>215,030</b>	<b>54,707,056</b>	<b>4,399</b>	<b>2,489,619</b>	<b>-</b>	<b>-</b>	<b>57,416,104</b>
<b>Liabilities:</b>							
Obligations and deposits	-	-	-	-	-	37,279,611	37,279,611
Interbank funds	-	-	-	-	-	43,269	43,269
Deposits of financial entities and international financial entities	-	-	-	-	-	192,135	192,135
Borrowings and financial obligations	-	-	-	-	8,904,201	-	8,904,201
Held-for-trading derivative	98,353	-	-	-	-	-	98,353
Accounts payable	-	-	-	-	-	4,707,829	4,707,829
Other liabilities	-	-	-	-	-	505,388	505,388
<b>Total</b>	<b>98,353</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,904,201</b>	<b>42,728,232</b>	<b>51,730,786</b>

(a) Including financial assets measured at cost.

(b) Including financial liabilities whose fair value correspond to carrying amounts as per Official Letter 43078-2014-SBS and Official Letter 1575-2015-SBS (note 2.D).

(c) Correspond to unlisted shares (note 6).

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<i>In thousands of soles</i>	12.31.2016						Total
	At fair value through profit or loss	Loans and items receivable	Available-for-sale investment		Liabilities at amortized cost	Other liabilities (b)	
			At amortized cost (a)	At fair value			
<b>Assets:</b>							
Cash and due from banks	-	11,918,966	-	-	-	-	11,918,966
Interbank funds	-	224,619	-	-	-	-	224,619
Investments at fair value through profit or loss							
Capital instruments	10,534	-	-	-	-	-	10,534
Debt instruments	511,155	-	-	-	-	-	511,155
Available-for-sale investments							
Instruments representing capital	-	-	3,262(c)	55,034	-	-	58,296
Instruments representing debt	-	-	-	2,221,556	-	-	2,221,556
Loan portfolio	-	39,857,633	-	-	-	-	39,857,633
Held-for-trading derivative	58,971	-	-	-	-	-	58,971
Accounts receivable	-	180,241	-	-	-	-	180,241
Other assets	-	897,294	-	-	-	-	897,294
<b>Total</b>	<b>580,660</b>	<b>53,078,753</b>	<b>3,262</b>	<b>2,276,590</b>	<b>-</b>	<b>-</b>	<b>55,939,265</b>
<b>Liabilities:</b>							
Obligations and Deposits	-	-	-	-	-	35,451,461	35,451,461
Interbank funds	-	-	-	-	-	415,863	415,863
Deposits of financial entities and international financial entities	-	-	-	-	-	248,514	248,514
Borrowings and financial obligations	-	-	-	-	9,596,568	-	9,596,568
Held-for-trading derivative	92,114	-	-	-	-	-	92,114
Accounts payable	-	-	-	-	-	3,927,580	3,927,580
Other liabilities	-	-	-	-	-	884,105	884,105
<b>Total</b>	<b>92,114</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,596,568</b>	<b>40,927,523</b>	<b>50,616,205</b>

(a) Including financial assets measured at cost.

(b) Including financial liabilities whose fair value correspond to carrying amounts as per Official Letter 43078-2014-SBS and Official Letter 1575-2014-SBS (note 2.D).

(c) Correspond to unlisted shares (note 6).

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### **31. Financial Risk Management**

Scotiabank Perú S.A.A. and Subsidiaries have a strong risk culture throughout the entire organization; the risk management is a responsibility shared by all employees, being a main element the risk diversification across different lines of business, products and industries.

It comprises the management of the following main risks:

- Credit risk: It is the risk of loss due to debtors, counterparties or third parties' incapacity or weakness of compliance with their contractual obligations.
- Market risk: It is the risk of loss in on-balance or off-balance sheet positions arising from the market conditions variations. It generally includes the following types of risk: exchange rate, interest on fair value, price, among other risks.
- Liquidity risk: It is the risk of loss due to noncompliance with borrowing requirements and applications of funds arising from cash flow mismatches.
- Operational risk: It is the direct or indirect risk of loss to which Scotiabank Perú S.A.A. and Subsidiaries are exposed due to external events, human error or deficiencies or failures in processes, procedures, systems or controls. This operational risk includes legal risk, but excludes the strategic and reputational risks.

Current risk management allows identification, measurement and evaluation of the return on risk, seeking to obtain greater value to shareholders. In order to ensure that strategic objectives are met, risk management is governed by the Risk Appetite Framework approved by the organization, ensuring an appropriate balance between risk and profitability. The Risk Appetite Framework's main purpose is to provide an integrated set of policies, guidelines and principles in order to ensure application of processes to monitor and mitigate the risks to which Scotiabank Perú S.A.A. and Subsidiaries are exposed, determining the amount and types of risks faced by the Bank.

For proper risk management, the Bank has a series of fundamentals, such as (A) adequate corporate governance, (B) aligned and updated risk policies and limits, and (C) risk monitoring.

#### **A. Adequate corporate governance**

The bodies supporting corporate governance are:

##### ***Board of Directors***

The Board of Directors is responsible to set the main guidelines to maintain an effective risk management supported by the Parent Company, establishing an integral risk management and providing an internal environment that facilitates the development of risk management relying on the Risk Management Committee and the Audit Committee.

##### ***Executive committees***

They are composed by the following committees: The Assets and Liabilities committee (ALCO), Retail Loan Policy committee and the Operational Risk committee.

##### ***Risk senior management***

It is responsible for proposing and implementing the policies, methodologies and procedures for an integral risk management to identify, monitor, mitigate and control the different types of risks to which Scotiabank Perú S.A.A. and Subsidiaries are exposed. Also, it is involved in the definition and design of the strategy and communicates and strengthens risk culture throughout the Group.

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Risk Senior Management has the following units: Corporate and Commercial Loans, Retail Loans, Special Banking, Integral Risk Management, Following and Retail Collection, Market Risk, and Operational and Technological Risk.

### **B. Aligned and updated risk policies and limits**

Policies are based on recommendations from the different risk units, internal audit, business lines, and industry best practices, regulatory requirements and BNS', as well as the recommendations of top management. Policies are guided by the Risk Appetite Framework, and set the limits and controls within which it can operate.

The policies are reviewed and approved by the Board of Directors, either directly or through its committees. These provide a description of the types of exposure, responsibilities and conditions that they are able to do business, in order to ensure proper understanding of customers, products, markets and fully understand the risks associated with each activity.

### **C. Risk monitoring**

Risk Division has developed a set of policies to identify measure and communicate the evolution of risk in different products and banking, which allow anticipation of impairment loss of any portfolio in order to take corrective actions.

Main activities and processes applied to have an appropriate risk management are described below:

#### **i. Credit risks**

##### **▪ Life cycle: Admission, monitoring and collection**

Credit adjudication units analyze and evaluate credit approval from different business segments, with different levels of delegation to other teams for their approval, from a risk (measured based on a rating or score) versus profitability perspective. Also, for portfolio managing purposes, the loans are monitored in order to minimize future losses. Concerning the collection models, these customers are segmented by Corporate and Commercial banking and Retail banking. For Corporate and Commercial Portfolio, collections are managed on a case by case basis, transferring it to the recovery area maximum after 90 days overdue in order to have time to take legal action, if necessary. For Retail portfolio, risk-based strategies are established (collection score) to optimize available resources for collection seeking to reach greater effectiveness.

##### **▪ Credit risk mitigation - collateral**

Management has a number of policies and practices to mitigate credit risk. One of them is the use of collaterals; however, the credits are not granted for the amount or quality of guarantees but for the debtor's repayment ability. While the guarantees reduce the risk of loss, they should not be linked to the primary source of repayment.

The value of collaterals is established by means of updated appraisals, which are held regularly and consider market fluctuations. Such valuations are performed by qualified independent experts; they shall meet the required standards and best practices. Additionally, when prices are volatile, margins are applied to compensate for this fluctuation.

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Periodical certifications of price of the collaterals are conducted; and for the fluctuations, if necessary, actions are taken to mitigate the risk associated with the value of these collaterals.

Management of appraisals and collaterals is conducted by an independent unit from the Risk Division.

The types of collateral include residential mortgages, special liens on the business assets, such as inventory, premises and accounts receivable, and special liens on financial instruments such as debt instruments and equity securities.

Additionally, collaterals are classified as established in SBS Resolution 11356 - 2008 Regulation for the Evaluation and Classification of the Debtor and Provisions Requirement, as follows:

- Preferred collaterals.
- Preferred easily realizable collaterals.
- Preferred readily realizable collaterals.

### ▪ ***Credit models (rating and scores)***

Scotiabank Perú S.A.A. and Subsidiaries operate an internal credit rating differentiated by banking, which is in line with BNS. For Corporate and Commercial loans, the Bank utilizes internal grade codes, which is based on quantitative and qualitative indicators that reflect the strength of the client. Also, this rating determines the levels of approval for customers.

For Retail segment, an internal score that reflects the strength of customers based on the probability of default and repay is used. Also, this score determines the strategies to be used with customer based on the risk of each.

With this qualifications, regulatory debtors' credit rating is used, which determines the provision requirement of customers.

### ▪ ***Debtor regulatory credit rating***

The debtor regulatory credit rating is conducted in accordance with criteria and parameters established by SBS through SBS Resolution 11356 - 2008 Regulation for the Evaluation and Classification of the Debtor and Provisions Requirement, which establishes five categories to classify: Wholesale loan portfolio (corporate, large and medium companies) and Retail loan portfolios (small-business loans, micro-business loans, consumer and mortgage) debtors:

- Standard (0)
- Potential problem (1)
- Substandard (2)
- Doubtful (3)
- Loss (4)

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### ▪ **Loan portfolio impairment loss**

As of June 30, 2017 and December 31, 2016, based on SBS Resolution 7036-2012, the Bank and CrediScotia Financiera S.A. have classified impaired and not impaired loans considering the following criteria:

- Neither past due nor impaired loans  
It comprises loans with risk category rated as "standard" or "potential problem" and classified in books as current loans.
- Past due but not impaired loan  
It comprises client's loans with risk category rated as "standard" or "potential problem" and classified in books as past due.
- Impaired loans:  
For wholesale portfolio, it comprises loans rated as substandard, doubtful or loss, and the refinanced, restructured and lawsuit loans. For Retail portfolio, it comprises loans overdue 90 days or more and those classified as lawsuit loans.

### **Market risk**

Market risk is the risk arising from fluctuations in market prices, such as interest rates, equity shares prices, foreign exchange rates and credit spreads that affect the income or the value of its holdings of financial instruments. The objective of the market risk management is to identify, evaluate and control market risk exposure within risk tolerance and appetite parameters, acceptable for the Board of Directors, in order to ensure the solvency while optimizing the return adjusted by risk.

#### **A. Management of market risk**

Management separates its exposure to market risk between trading and non-trading. Trading portfolios are managed by the Trading unit, and include positions arising from market making and own positions, together with financial assets and liabilities that are managed on a market value basis.

All foreign exchange positions are managed by the Trading Desk. Accordingly, the foreign exchange positions are treated as part of the trading portfolios for risk management purposes.

The Market Risk Management employs different tools to monitor and limit market risk exposures. These are discussed below, separately for trading and non-trading portfolios.

#### **B. Exposure to market risks – Trading portfolio**

The principal tool used to measure and control market risk exposure within the Group's trading portfolio is value at risk (VaR). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) due to an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based upon a 99% confidence level and assumes a 1-day holding period. Considering market data from the previous 300 days, relationship between different markets and prices are observed, the model generates a wide range of plausible future scenarios for market price movements.

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Although VaR is an important tool for measuring market risk, the assumptions on which the model is based generate some limitations, including the following:

- A 1-day holding period assumes that it is possible to hedge or dispose of positions within that period. This may not be the case for illiquid assets or in situations in which there is severe general market illiquidity.
- A 99% confidence level does not reflect losses that may occur beyond this level. Even within the model used, there is a 1% probability that losses could exceed the VaR.
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.
- The VaR measure depends upon Scotiabank Perú S.A.A. and Subsidiaries' position and the volatility of market prices. The VaR of a static position reduces if market price volatility declines and vice versa.

Management uses VaR limits for total market risk and interest rate and foreign exchange risks. The overall structure of VaR limits is subject to review and approval by the ALCO and is allocated to trading portfolios. VaR is measured at least daily and monitored through daily reports which are submitted from local Market Risk Unit to the Trading Desk and parent company, and monthly reports are submitted to ALCO.

VaR methodology limitations are recognized by complementing VaR limits with other position and sensitivity limits structures. In addition, a wide range of stress tests is used to model the financial impact of different trading portfolio scenarios. Management determines hypothetical scenarios considering potential macroeconomic events, for example, prolonged market illiquidity periods, reduced fungibility of currencies, natural disasters and other catastrophes. The analysis of scenarios and stress tests are reviewed by ALCO.

The VaR models are subject to regular validation to ensure that they continue to perform as expected and that assumptions used in model development are still appropriate. As part of the validation process, the potential weaknesses of the models are analyzed using statistical techniques, such as back-testing.

Sensitivity analysis in trading portfolio is used to measure the effect of change in the risk factors, including rates and differentials on products and portfolios. These measures are applied by type of product and allow appropriate monitoring, reporting and management.

### **C. *Exposure to market risks – Non-trading portfolio***

The principal risk to which non-trading portfolios are exposed is the risk of loss due to future cash flows or financial instruments fair values fluctuations because of a change in market interest rates. Interest rate risk is managed through monitoring interest rate gaps and establishing limits by currency for each term. ALCO monitors compliance of these limits and is assisted by Risk unit.

Equity value risk is subject to periodical monitoring by the Board of Directors, through the Risk Management Committee, but is not significant in relation to the results, capital and financial position.

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The effect of structural foreign exchange positions is managed by the Trading Unit within its limits of position by currency.

The main market risks to which it is exposed are: interest rate risk, currency risk and investment risk in portfolios, which are detailed below:

### ***Interest rate risk***

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

Market risk arising from financing and investment activities are identified, managed, and controlled as part of Scotiabank Perú S.A.A. and Subsidiaries' assets and liabilities management process, specially liquidity and interest rate risks. Sensitivity analysis assesses the effect of interest rates changes on earnings and the economic value of shareholders' equity. This sensitivity analysis uses variations of interest rate curves originated by positive and negative parallel shifts, as well as by changes in non-parallel shifts.

Gap analysis is used to assess the interest rate sensitivity of re-pricing mismatches in non-trading operations. Under gap analysis, off-balance sheet assets and liabilities are distributed within repricing dates. Products with a contractual maturity are assigned to an interest rate gap term based on the shorter of the contractual maturity date and the next re-pricing date. Products without contractual maturity are assigned an interest rate gap based on observed historical consumer behavior.

Interest rate risks in the non-trading portfolios are mainly driven by the terms and currency of the loan portfolio mismatches. The interest rate risk is managed within the framework of policies approved by the Board of Directors and global limits included in the Risk Appetite Framework and aims to keep under control the risk originated by the effects of net interest income and equity value fluctuations.

Interest rate risk report is presented on a monthly basis to the ALCO and to the Risk Control Committee and the Board of Directors, detailing the exposure to such risk by currency, as well as the results of measurement tools, use of limits and interest rate risk stress tests, among other issues related to market risk management in compliance with regulatory provisions of the Parent Company and Scotiabank Perú S.A.A. and Subsidiaries.

Gap analysis, sensitivity analysis, simulation modeling, and stress testing are used for monitoring and planning purposes.

Models defined by the SBS for interest rate risk assessment for the banking book are as follows:

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Earnings at Risks (EaR) and Equity Value at Risk (EVAR) indicators are focused on the potential impact of interest rate changes on value generation, specifically through the financial margin, and the equity value of Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. This methodology is applied both under normal and stressed market conditions:

- i* This indicator is focused on the potential impact of interest rate changes on value generation, specifically, through the financial margin, and the Bank's equity value; measures the percentage of regulatory capital exposed to interest rate risk as a result of marginal mismatches weighted by their respective sensitivity for all temporary bands.
- ii* This indicator measures the percentage of regulatory capital exposed to interest rate risk as a result of mismatches accumulated up to one year; this should not exceed 5%.

These methodologies have been determined by the SBS and apply under normal and stressed market conditions.

### ***Exchange rate risk***

This is the risk of loss due to exchange rates adverse variations of currencies in which Scotiabank Perú S.A.A. negotiates. This risk is managed by the Trading Unit.

The Trading Unit is responsible of administration of foreign exchange operations and forwards portfolio, in accordance with policies, procedures and controls designed to ensure profitable business opportunities, while considering adequate levels of risk and volatility of the market variables professionally and cautiously.

Market risks are measured and managed within VaR internal limits of global net position in combination with stress tests based on market variables. The consistency of these results is validated through periodical *backtesting* analysis which compared actual gains or losses with those obtained through the model.

Management calculates the VaR using historical simulation based on 300 days of market data to measure the maximum expected loss from fluctuations in the exchange rate, considering as variables the net asset position in foreign currency and exchange rate volatility. As of June 30, 2017, the net asset position of the consolidated statement of financial position in foreign currency amounted to US\$ 456,216 thousand (net liability position for US\$ 130,023 thousand as of December 31, 2016), see note 4.

As of June 30, 2017, global position of overbought in the Scotiabank Perú S.A.A. amounted to S/ 148,679 thousand (S/ 231,300 thousand as of December 31, 2016).

### ***Investment portfolio risk***

The own investment portfolio and trading portfolio are managed by the ALM Unit and Trading Unit, respectively.

The own investment portfolio is administered in order to manage liquidity and the interest rate risks, and medium-term capital investment with attractive returns, and administered within approved policies and limits: limits per type and terms of investment. On the other hand, trading portfolio is acquired with the intention of short-term profit-taking, arising from fluctuations prices.

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Investment portfolios are composed of liquid instruments, mainly certificates of deposits issued by the Peruvian Central Reserve Bank and Peruvian Government Treasury Bonds issued in local and foreign currency.

### **ii. Liquidity risk**

Liquidity risk is the risk that the Bank is unable to meet its short-term financial obligations and is obliged to borrow money or sell assets in unusually unfavorable conditions.

The approach to managing liquidity is to ensure, as far as possible, that it will always have enough liquidity to meet its obligations when due, under both normal and stressed conditions, without incurring unacceptable losses or damage to the reputation of Scotiabank Perú S.A.A. and Subsidiaries. The key elements of the liquidity strategy are as follows:

- Maintaining a diversified funding base which consist in customer deposits (both retail and corporate) and wholesale market deposits and maintaining contingent facilities;
- Carrying a portfolio of highly liquid assets, diversified by currency and maturity;
- Monitoring liquidity ratios, maturity mismatches, behavior characteristics of the financial assets and liabilities, and the extent to which the own assets are encumbered and available as potential collateral for obtaining funding.
- Carrying out stress testing of the liquidity position.

Regular liquidity stress testing is conducted under different scenarios covering normal and stress market conditions. The scenarios are developed using group- specific events (e.g. a rating downgrade) and market-related events (e.g. prolonged market illiquidity, reduced fungibility of currencies, natural disasters or other catastrophes).

Liquidity ratios are indicators that relate liquid assets to short-term liabilities under one year. The SBS has determined that this relation shall be greater than 8% and 20%, or 10% and 25% if deposit concentration is above 25% in the case of local and foreign currency, respectively. As of June 30, 2017, Scotiabank Perú S.A.A.'s ratios in local and foreign currencies were 14.67% and 38.77% respectively (16.11% and 42.80% as of December 31, 2016 respectively).

Liquidity Coverage Ratio (LCR) is an indicator of liquidity level in a hypothetical stress scenario; it indicates whether the entity has sufficient liquidity to withstand liquidity disruptions for up to 30 days, without the need of turning to the market. As of June 30, 2017, and December 31, 2016 the minimum amount required by the regulator was 80% and Scotiabank Perú S.A.A. presented comfortable levels of liquidity reaching 108.48% in local currency and 107.24% in foreign currency (101.05% in local currency and 114.83 in foreign currency as of December 31, 2016).

### **iii. Operational and technological risk**

The Operational Risk Management Framework sets out an integrated approach to identify, assess, control, mitigate and report operational risks based on key components such as the Internal Governance, Risk Appetite, Measurement, Monitoring and Reporting, among other approaches.

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The Scotiabank Group recognizes that an efficient and integrated operational risk management is a key component of risk management best practices; therefore the Bank, in order to have a solid internal governance of operational risk, adopted a three-line of defense model, establishing the responsibilities of operational risk management.

During 2016, the development of operational risk management methodologies for Scotiabank Perú S.A.A. and Subsidiaries have continued in order to incorporate aspects to strengthen management.

Main methodologies are the following:

- A. Loss event methodology.
- B. Key risk indicators – (KRIs) methodology.
- C. Business Continuity Management – BCM- methodology.
- D. Operational Risk and Controls Assessment methodology; Risk Control Assessment and Risk Control Self-Assessment (RCSA).
- E. Risk assessment of new initiatives and/or significant changes, among others.

During this period, the renewal of the authorization for the application of the alternative standard method for the calculation of the the regulatory capital requirements for operational risk under the SBS regulatory standard was obtained.

During 2016, as in previous years, a level of maximum losses for operational risk was determined at the level of the entire Scotiabank Perú Group, which was in turn distributed at the level of the companies that compose it, among them, the Bank and CrediScotia Financiera S.A. Likewise, a distribution of this loss limit was made to the Bank and CrediScotia's main management areas. These loss limits also are included within the balance scorecard's of each management areas indicated above.

In addition, a formal procedure for the distribution of the operational risk loss limit has been regulated, which procedure is included in the Operational Risk Policy.

### **A. *Loss event methodology***

The Scotiabank Group follows up relevant data of operational risk losses established per Business Line, in accordance with the Basel loss event types. Losses are reported by Operational Risk Managers designated in the various decentralized and specialized units of the Bank and identified by the Accounting area through reviews by the Operational and Technological Risk Unit, which are included in the centralized database of the Operational Risk Losses. This database is used to determine trends, conduct analysis, identify and mitigate risks, and prepare reports of operational risk losses intended for Senior Management and the Board of Directors.

Loss data collection exercise ensures consistent management across the Bank and its subsidiaries which allows classifying loss event data per line of business, type of event and effect type, as per Basel definitions and according to the Regulations for Operational Risk Management approved by the local regulator. Losses are also classified by significant internal units and types of risk, according to the Bank's standard inventory of operational risks. On the other hand, loss event data serves as information source and reference for Risk and Control Assessment and Key Risk Indicators, it also allows providing analysis and generating awareness on internal and external operational risks.

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As in previous years, GROs' performances were assessed considering the opportunity, availability, quality of the provided information and implementation of risk mitigation measures; also, following-up the obtained results from the management, where GROs' performance is highlighted, indicating opportunities for improvement, as well as the obtained rating.

As of the closing of year 2016, there are 40 Operational Risk Managers and 3 Liaison Officers at the group level, whereas at the bank level there are 32 Risk Managers for the management of Scotiabank's loss events. In addition, throughout the year 2016, the Scotiabank Group's results were periodically presented to the Global Operational Risk of the Parent Company, Operational Risk Committee, Risk Control Committee, Board of Directors of the Bank, as well as the first-line Management of the Bank and CrediScotia.

### **B. Key risk indicators (KRIs)**

The Key Risk Indicator methodology is a measure to report on potential risks, current status or trend of operational risk exposures.

The Key Risk Indicators methodology provides information to the first two lines of defense in order to promote proactive managing of risk exposures through the monitoring and communication of risks and operational trends to ensure adequate and timely response of Management. The existence of efficient Key Risk Indicators will serve as an early warning system of possible changes in the operational risk profile of the business.

The Key Risk Indicators methodology provides a systematic approach to coordinate the supervision of the key factors of operational risks and provides a focus, structure and terminology in common to implement and manage the selection of Key Risk Indicators across the Scotiabank Group.

During 2016, the activities developed within the methodology were:

- Monitoring of 32 executive risk indicators of the Bank, of which 5 were implemented in 2016. 50% of KRIS have risk thresholds, in which the accepted risk levels were exceeded and generated the implementation of action plans and corrective measures.
- Monitoring of 47 informative indicators, of which 91% have a threshold.
- Analyzing indicators, and if necessary, their accepted risk levels (risk thresholds) were assessed with the business owners/managers per appetite levels: acceptable (green), with potential risk (amber), critical (red).
- Following-up and monitoring of the action plans derived from the Risk Indicators methodology.
- Making presentations to the main Vice Chairs of the Bank, Risk Committee, Board of Directors and Parent Company.
- Mapping indicators for types of loss events and risk categories defined for the Bank.

### **C. Business Continuity Management – BCM**

Scotiabank Peru S.A.A. and Subsidiaries has 86 current and deployed Business Continuity Plans (BCPs) in its sixteen Vice chairs and/or main management areas, subsidiaries and special agencies.

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In February and March, several virtual trainings and evaluations were carried out, and between April and June, 8 face-to-face trainings were carried out for 171 Scotiabank Perú's business continuity planners. The objective of these trainings was to strengthen the Business Continuity culture in the company and also to assist them in the process of updating and executing annual tests of their Business Continuity Plans (BCPs). To date, Business Continuity Management is part of the Bank's general induction program.

The process of updating the Business Continuity plans was carried out in a massive way, meeting with the Scorecard of April and October of 2016. The business units updated their plan strategy, BIA analysis and guide to pandemic. They also performed corresponding tests (Walkthrough exercise, call chain test, quarterly review of the call chain and the complete simulation test at the alternate site).

The Scotiabank Group has an alternate site to support their most critical processes; which remains ready and operational 24 hours a day, 7 days a week providing support to the most sensitive processes. To date, there are 103 physical working positions. During the fourth quarter, simulation tests of continuity plans TYPE I and II (containing critical process sensitive to the time) were favorably completed. The objective of these tests is to ensure the proper functioning of the working positions in case these were required due to a contingency, disaster or emergency.

From June 24 to 26, the Disaster Recovery Plan - DRP was tested, comprising the certification of the BCPs of the business units that have critical processes (TYPE I and II) and the participation of Scotiabank agencies. This test was led by Vice Chairs of Technology of Information & Solutions which was supported by the Operational and Technological Risk area.

### **D. *Operational Risk and Controls Assessment methodology: Risk Self-Assessment and Risk Control Self Assessment (RCSA)***

Operational Risk and Controls Assessment methodology aims at reviewing and diagnosis the internal control system by identifying the main risks to which activities are exposed, the existing controls to mitigate them and the opportunities for improvement in the risk management process.

The process is a basic component and an efficient tool that provides advantages such as:

- It strengthens the risk and control culture in the organization by promoting an understanding of business risks and responsibilities in the mitigation process.
- It promotes a continuous critical thinking, motivating the support and business units to design, construct and maintain more effective control systems.
- It contributes to increase the quantity and quality of reliable information on the situation of control of the existing risks.
- It contributes to strengthening the internal control system; thus minimizing distrust of subsequent audits.
- It allows to focus on the most significant risks for the entity and to reduce costs in recurring reviews.

The universe for the application of risk and control assessment is composed by:

1. Business lines: approach per product family
2. Support units: per unit approach

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The Operational Risk and Controls Assessment methodology is composed of the following stages:

- Risk identification
- Inherent Risk Assessment
- Identification and assessment of controls
- Determination of residual risk
- Treatment

During 2016, methodological improvements were incorporated making it possible to strengthen the risk assessment program by incorporating scales for risk assessment and determination of exposure levels. This resulted in six risk assessments, one of them at the unit's overall level as part of the Parent Company's corporate methodology. Likewise, risk self-assessments have been managed in sixty-five (65) risk matrices with an approach per product family in business lines and support units.

The risk and control self-assessment matrix is the local tool for identification and assessment of operational risks of products and support areas. To complement this, the RCSA tool (Risk Control Self-Assessment) is being used to report operational risks to the Parent Company.

### ***E. Management of new initiatives and major changes in the business, operating and systems environment***

- i. The Scotiabank Group has established policies for comprehensive risk assessment of new products and in case of major changes in the business, operational or systems environment; these policies describe the general principles applicable to the review, approval and implementation of new products and services within the Bank. The principles are intended to provide guidance to Business Lines in the development of processes and guidelines of risk assessment to be integrated into the policies and procedures on new products. All new products or major change in the business, operational or system environment shall have a comprehensive risk assessment prior to its development, and it shall be updated after its implementation.
- ii. In order for an initiative to be approved, it is required that the initiative has a risk self-assessment conducted by the Leader or Sponsor, being the Operational and Technological Risk Unit the responsible for contrasting / challenging the results and other control functions such as Compliance and Legal Advisory units, among others.
- iii. The Operational Risk Committee provides oversight to ensure that all Business Lines implement principles and conduct products risk assessments consistently.
- iv. The Operational and Technological Risk Unit also provides advice to the owner of the initiative during the Integral Risk Assessment process.

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**F. Training and awareness**

Throughout 2016 and 2017, training on Technological and Operational Risk and Business Continuity has been provided to personnel of agencies, business officers, specialized units, operational risk managers and new staff joining the Scotiabank Group.

**32. Fair Value**

The table below shows a comparison of carrying amounts and fair values of Scotiabank Perú S.A.A. and Subsidiaries' financial instruments per item in the consolidated statement of financial position as of June 30, 2017 and December 31, 2016:

<i>In thousands of soles</i>	<b>Carrying amount</b>		<b>Fair value</b>	
	<b>06.30.2017</b>	<b>12.31.2016</b>	<b>06.30.2017</b>	<b>12.31.2016</b>
<b>Assets:</b>				
Cash and due from banks	11,966,676	11,918,966	11,966,676	11,918,966
Interbank funds	116,483	224,619	116,483	224,619
Investments at fair value through profit or loss				
Capital instruments	10,845	10,534	10,845	10,534
Debt instruments	157,160	511,155	157,160	511,155
Available-for-sale investments				
Instruments representing capital	4,946	58,296	4,946	58,296
Instruments representing debt	2,489,072	2,221,556	2,489,072	2,221,556
Loan portfolio	42,078,699	39,857,633	42,078,699	39,857,633
Held-for-trading derivative	47,025	58,971	47,025	58,971
Accounts receivable	244,859	180,241	244,859	180,241
Other assets	300,339	897,294	300,339	897,294
<b>Total</b>	<b>57,416,104</b>	<b>55,939,265</b>	<b>57,416,104</b>	<b>55,939,265</b>
<b>Liabilities:</b>				
Obligations and Deposits	37,279,611	35,451,461	37,279,611	35,451,461
Interbank funds	43,269	415,863	43,269	415,863
Deposits of financial entities and international financial entities	192,135	248,514	192,135	248,514
Borrowings and financial obligations	8,904,201	9,596,568	9,000,185	9,593,440
Held-for-trading derivative	98,353	92,114	98,353	92,114
Accounts payable	4,707,829	3,928,405	4,771,186	4,020,191
Other liabilities	505,388	884,105	505,388	884,105
<b>Total</b>	<b>51,730,786</b>	<b>50,617,030</b>	<b>51,890,127</b>	<b>50,705,688</b>

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

When a financial instrument is traded in a liquid and active market, its published price quotation is the best evidence of its fair value.

When a price quotation is not available, or may not be a reliable fair value of a financial instrument, its fair value could be estimated based on price quotation similar instruments, using discounted cash flow analysis or other estimation techniques. Due to these techniques are based on subjective factors and, in some cases, on inexact factors, any change in them or in the estimation methodology used could have a material effect on the fair values of financial

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instruments. Even though 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.

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.
- (d) Market values of loan portfolio are the same as the carrying amount.
- (e) Market values of deposits and obligations are the same as the carrying amount.
- (f) Debts to banks and correspondent banks accrue interest at fixed and floating rates and have short- and long- term maturities. The fair value of these financial instruments has been calculated using discounted cash flows considering the funding curve.
- (g) Securities, bonds and obligations issued accrue interest at fixed rates. The fair value of these financial instruments has been calculated using discounted cash flows considering the same methodology of item (f).
- (h) Forward foreign currency agreements are recorded at estimated market value; therefore there are no differences with their corresponding fair values.

Consequently, as of June 30, 2017 and December 31, 2016, fair or estimated market values of the financial instruments do not differ significantly from their corresponding carrying amount.

### ***Fair value hierarchy***

Scotiabank Perú S.A.A. and Subsidiaries classify financial instruments carried at fair value based on their hierarchy or valuation techniques applied. This classification has three levels as described below:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Valuation techniques that use significant inputs data and variables with material effect on fair value estimation that are directly or not directly observable in the market.
- Level 3: Valuation technique, where some of the input data and variables are not observable in the market.

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The table below shows the valuation levels applied as of June 30, 2017 and December 31 2016, to determine the fair value of financial instruments:

<i>In thousands of soles</i>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>2017</b>				
<b>Assets:</b>				
Investments at fair value through profit or loss:				
Instruments representing capital	-	10,845	-	10,845
Instruments representing debt	-	157,160	-	157,160
Available-for-sale investments:				
Instruments representing capital	529	-	4,417	4,946
Instruments representing debt	-	2,489,072	-	2,489,072
Held-for-trading derivative instruments	-	47,025	-	47,025
	<b>529</b>	<b>2,704,102</b>	<b>4,417</b>	<b>2,709,048</b>
<b>Liabilities:</b>				
Held-for-trading derivative instruments	-	98,353	-	98,353
	-	<b>98,353</b>	-	<b>98,353</b>
<b>2016</b>				
<b>Assets:</b>				
Investments at fair value through profit or loss:				
Instruments representing capital	-	10,523	11	10,534
Instruments representing debt	-	511,155	-	511,155
Available-for-sale investments:				
Instruments representing capital	55,016	-	3,280	58,296
Instruments representing debt	-	2,221,556	-	2,221,556
Held-for-trading derivative instruments	-	58,971	-	58,971
	<b>55,016</b>	<b>2,802,205</b>	<b>3,291</b>	<b>2,860,512</b>
<b>Liabilities:</b>				
Held-for-trading derivative instruments	-	92,114	-	92,114
	-	<b>92,114</b>	-	<b>92,114</b>