SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2013 and 2012

(Including Independent Auditors' Report)

(TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH)

KPMG

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(TRANSLATION OF A REPORT ORIGINALLY ISSUED IN SPANISH)

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Scotiabank Perú S.A.A. (a subsidiary of the Bank of Nova Scotia – BNS, an entity established in Canada) and Subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2013 and 2012, and the consolidated income statement, statement of income and other comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Scotiabank Perú S.A.A. and Subsidiaries as of December 31, 2013 and 2012, and its financial performance and its consolidated cash flows for the years then ended in accordance with accounting standards established for financial institutions in Peru by the SBS.

Lima, Peru

Caipo y Asociados

February 24, 2014

Countersigned by:

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

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SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Statement of Financial Position

As of December 31, 2013 and 2012

(stated in thousands of nuevos soles)

	Note	2013	2012
Assets			
Cash and due from banks:	6		
Cash		1,079,942	845,183
Deposits with Banco Central de Reserva del Perú		9,563,951	6,139,068
Deposits with local and foreign banks		446,935	328,084
Clearing		183,267	175,019
Other cash and due from banks		97,320	52,500
		11,371,415	7,539,854
Interbank funds		364,224	184,119
Investments at fair value through profit or loss and available-for-sale	7	2,101,530	1,433,859
Loan portfolio, net	8	27,341,186	22,675,973
Held-for trading derivative instruments	9	142,288	127,838
Accounts receivable, net	10	612,878	380,453
Investments in associates	11	55,342	53,193
Goodwill	12	278,818	278,818
Property, furniture, and equipment, net	13	471,646	503,570
Deferred income tax	29	268,901	212,346
Other assets, net	14	626,285	654,554
Total assets		43,634,513	34,044,577
Contingent and memoranda accounts:	21		
Contingent accounts		42,953,144	30,386,538
Memoranda accounts		217,547,867	186,209,672
		260,501,011	216,596,210

	Note	2013	2012
Liabilities and shareholders' equity			
Deposits and obligations:	15		
Demand deposits		11,065,459	7,794,845
Savings deposits		5,107,171	4,475,356
Time deposits		12,489,488	7,889,690
Other obligations		1,422,887	577,564
		30,085,005	20,737,455
Interbank funds		-	25,025
Borrowings and financial obligations	16	4,884,722	5,011,365
Securities, bonds, and obligations issued	17	2,562,077	2,716,693
Held-for trading derivative instruments	9	176,863	117,224
Deferred income tax	29	808	-
Provisions and other liabilities	18	884,672	809,336
Total liabilities		38,594,147	29,417,098
Shareholders' equity	19		
Capital stock		3,052,822	2,852,818
Additional paid-in capital		368,564	368,553
Legal reserve		561,285	479,029
Unrealized earnings		18,493	42,291
Retained earnings		1,039,202	884,788
Total shareholders' equity		5,040,366	4,627,479
Total liabilities and shareholders' equity		43,634,513	34,044,577
Contingent and memoranda accounts:	21		
Contingent accounts		42,953,144	30,386,538
Memoranda accounts		217,547,867	186,209,672
		260,501,011	216,596,210

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Income Statement

For the years ended December 31, 2013 and 2012

(stated in thousands of nuevos soles)

	Note	2013	2012
Interest income	22	3,113,996	2,963,211
Interest expense	23	(615,994)	(559,775)
Gross finance income		2,498,002	2,403,436
Provisions for doubtful loans, net of recoveries	8	(808,002)	(731,612)
Net finance income		1,690,000	1,671,824
Income from finance services, net	24	553,819	538,690
Net finance income and finance service expenses		2,243,819	2,210,514
Results from financial transactions	25	308,806	240,408
Operating margin		2,552,625	2,450,922
Administrative expenses	26	(1,332,958)	(1,234,842)
Depreciation of property, furniture, and equipment		(61,793)	(64,394)
Amortization of intangible assets		(11,255)	(9,376)
Net operating margin		1,146,619	1,142,310
(Provisions) recoveries for contingent loans, doubtful and other accounts receivable, realizable and repossessed assets, and other assets		(23,994)	13,665
Operating results		1,122,625	1,155,975
Other income, net	27	102,349	29,080
Net profit before income tax		1,224,974	1,185,055
Deferred income tax	29	28,644	50,155
Current income tax	28.a	(395,661)	(413,785)
Net profit		857,957	821,425

(Continued)

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Income Statement and Other Comprehensive Income

For the years ended December 31, 2013 and 2012

(stated in thousands of nuevos soles)

(Continued)

	2013	2012
Net profit	857,957	821,425
Other comprehensive income:		
(Loss) Gain on available-for-sale investments	(58,896)	6,398
Share in other comprehensive income of subsidiaries and associates	5,867	(8,957)
Tax effect	29,231	2,429
Other comprehensive income, net of tax	(23,798)	(130)
Total comprehensive income	834,159	821,295

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Statement of Changes in Shareholders' Equity

For the years ended December 31, 2013 and 2012

(stated in thousands of nuevos soles)

	Number of shares (note 19.b)	Capital stock (note 19.b)	Additional paid –in capital (note 19.c)	Legal reserve (note 19.d)	Unrealized earnings (note 19 .f)	Retained earnings (note 19.e)	Total shareholders' equity
Balances as of December 31, 2011	227,128,755	2,299,303	368,553	400,180	42,421	932,275	4,042,732
Net profit	-	-	-	-	-	821,425	821,425
Other comprehensive income:							
Unrealized losses on available-for-sale investments	-	-	-	-	(130)	-	(130)
Total comprehensive income	-	-	-	-	(130)	821,425	821,295
Application to legal reserve	-	-	-	78,849	-	(78,849)	-
Dividend distribution	-	-	-	-	-	(236,548)	(236,548)
Capitalization of retained earnings	55,351,508	553,515	-	-	-	(553,515)	-
Balances as of December 31, 2012	282,480,263	2,852,818	368,553	479,029	42,291	884,788	4,627,479
Net profit	-	-	-	-	-	857,957	857,957
Other comprehensive income:							
Unrealized losses on available-for-sale investments	-	-	-	-	(26,567)	-	(26,567)
Adjustments to other comprehensive income of subsidiaries and associates	-	-	-	-	2,769	-	2,769
Total comprehensive income	-	-	-	-	(23,798)	857,957	834,159
Application to legal reserve	-	-	-	82,256	-	(82,256)	-
Dividend distribution	-	-	-	-	-	(399,356)	(399,356)
Capitalization of retained earnings	20,000,000	200,000	-	-	-	(200,000)	-
Operations with treasury shares	-	4	11	-	-	-	15
Other consolidation adjustments	-	-	-	-	-	(21,931)	(21,931)
Balances as of December 31, 2013	302,480,263	3,052,822	368,564	561,285	18,493	1,039,202	5,040,366

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Statement of Cash Flows

For the years ended December 31, 2013 and 2012

(stated in thousands of nuevos soles)

	2013	2012
Cash flows from operating activities		
Net profit	857,957	821,425
Adjustments to reconcile net profit to net cash from operating activities:		
Provision for doubtful loans, net of recoveries	808,002	731,612
Impairment loss on investments	21	916
Provision (recovery) on realizable, repossessed and other assets, net	1,329	(5,511)
Provision (recovery) for accounts receivable, net	6,109	(6,619)
Depreciation and amortization	73,048	73,770
Provision for fringe benefits	39,962	38,660
Provision for current and deferred income tax	367,016	363,631
Provision for contingent loans and country risk, net of recoveries	8,893	7,810
Other (recoveries) provisions	(420,683)	70,587
Gain on sale of property, furniture, and equipment	(82,210)	(17,238)
Loss on sale of realizable and repossessed assets	2,569	24,038
Gain on sale of investment in subsidiary	(31,067)	-
Net changes in assets and liabilities:		
Loans	(5,477,928)	(2,546,988)
Investments at fair value through profit or loss	(1,286,033)	(6,012)
Available-for-sale investments	587,498	287,522
Accounts receivable	(253,421)	(27,372)
Other assets	255,983	257,331
Non- subordinated financial liabilities	8,965,474	350,774
Accounts payable	(187,472)	(249,000)
Provisions and other liabilities	(73,884)	(176,367)
Income of the period after net variation in assets, liabilities and adjustments	4,161,163	(7,031)
Income taxes paid	(235,695)	(390,960)
Net cash and cash equivalents from (used in) operating activities	3,925,468	(397,991)
Cash flows from investing activities:		
Proceeds from sale of investment in subsidiary	67,709	-
Proceeds from sale of property, furniture, and equipment	91,361	23,566
Acquisition of other financial assets	(13,490)	(9,892)
Acquisition of property, furniture, and equipment	(81,968)	(65,916)
Dividends received	15,957	12,760
Net cash and cash equivalents from (used in) investing activities	79,569	(39,482)
Cash flows from financing activities:		
Proceeds from issuance of subordinated financial liabilities	-	1,150,000
Payment of subordinated financial liabilities	(25,500)	(161,603)
Proceeds from sale of treasury shares	16	-
Dividends paid	(399,356)	(236,548)
Net cash and cash equivalents (used in) from financing activities	(424,840)	751,849
Net increase in cash and cash equivalents before effect of exchange rate fluctuations	3,580,197	314,376
Effect of exchange rate fluctuations on cash and cash equivalents	428,293	(63,596)
Net increase in cash and cash equivalents	4,008,490	250,780
Cash and cash equivalents at beginning of year	7,675,627	7,424,847
Cash and cash equivalents at end of year	11,684,117	7,675,627

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

(1) Operations

Scotiabank Perú S.A.A. (hereinafter the Bank) is a subsidiary of The Bank of Nova Scotia - BNS (a financial entity from Canada), which holds directly and indirectly 97.75% of the Bank's capital stock as of December 31, 2013 and 2012. The Bank of Nova Scotia directly owned 2.32% of the Bank's shares, and indirectly through NW Holdings Ltd. and Scotia Perú Holdings S.A. owned 55.32% and 40.11% of shares, respectively, as of those dates.

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 are governed by the SBS through the Ley General del Sistema Financiero y del Sistema de Seguros y Orgánica, Law 26702 (herein the Banking Law). This law establishes the requirements, rights, obligations, guarantees, restrictions, and other operating conditions to which Peruvian banking and insurance legal entities are governed.

The Bank's registered office address is Av. Dionisio Derteano N° 102, San Isidro, Lima, Peru. As of December 31, 2013, the Bank performed its activities through a national network of 196 branches, and one branch abroad (as of December 31, 2012, it had 190 Peruvian branches and one branch abroad).

As of December 31, 2013 and 2012, the accompanying consolidated financial statements include those corresponding to the Bank and other companies that are part of the consolidated group (hereinafter Scotiabank Perú S.A.A. and Subsidiaries), 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; SBP DPR Finance Company, special purpose entity and Promoción de Proyectos Immobiliarios y Comerciales S.A. engaged in purchasing and selling of goods in general. As of December 31, 2013 and 2012, the subsidiary Promoción de Proyectos Immobiliarios y Comerciales S.A. is an inactive company.

As indicated in note 2 to the financial statements, on September 27, 2013 Depósitos S.A., engaged in providing warehousing services, ceased to be part of the Group from that date.

Additionally, on August 8, 2013, the Trust Patrimonio en Fideicomiso sobre Inmuebles Depsa 2013-01-D. Leg. 861, Title XI, (hereinafter the Trust), which special-purpose is to maintain properties granted as operating leases, was established, as part of the Group from that date.

Below are the main balances of the Bank and other companies mentioned in the previous paragraphs as of December 31, 2013 and 2012, indicating the Bank's shareholding percentages, as well as relevant information in this regards:

As of December 31, 2013:

Entity	Activity	Percentage of shareholding	In thousands of S/. Assets	Liabilities	Shareholders' equity
Scotiabank Perú S.A.A.	Banking	-	40,951,474	35,892,844	5,058,630
CrediScotia Financiera S.A.	Finance	100.00	3,517,074	2,980,840	536,234
Servicios, Cobranzas e Inversiones S.A.C.	Collection services	100.00	136,304	34,603	101,701
Scotia Sociedad Agente de Bolsa S.A.	Stock market broker	100.00	82,930	3,601	79,329
Scotia Fondos Sociedad Administradora de Fondos S.A.	Administration of mutual funds	100.00	31,857	2,286	29,571
Patrimonio en Fideicomiso sobre Bienes Inmuebles – Depsa	Special purpose entity	100.00	18,691	5,130	13,561
Scotia Sociedad Titulizadora S.A.	Securitization	100.00	3,283	33	3,250
SBP DPR Finance Company	Special purpose entity	-	737,438	737,438	-

As of December 31, 2012:

Entity	Activity	Percentage of shareholding	In thousands of S/. Assets	Liabilities	Shareholders' equity
Scotiabank Perú S.A.A.	Banking	-	31,215,261	26,586,647	4,628,614
CrediScotia Financiera S.A.	Finance	100.00	3,861,601	3,305,865	555,736
Servicios, Cobranzas e Inversiones S.A.C.	Collection services	100.00	124,741	30,723	94,018
Scotia Sociedad Agente de Bolsa S.A.	Stock market broker	100.00	83,562	5,065	78,497
Depósitos S.A.	Warehousing	100.00	67,340	23,392	43,948
Scotia Fondos Sociedad Administradora de Fondos S.A.	Administration of mutual funds	100.00	29,074	2,127	26,947
Scotia Sociedad Titulizadora S.A.	Securitization	100.00	3,215	41	3,174
SBP DPR Finance Company	Special purpose entity	-	830,676	830,676	-

Approval of Consolidated Financial Statements

Annual Obligatory Shareholders' Meeting, held on March 26, 2013, approved the consolidated financial statements as of December 31, 2012. On February 24, 2014, management approved the consolidated financial statements as of December 31, 2013, and they will be presented to the Board of Directors' and General Shareholders' Meeting for their corresponding approval, within the terms established by law. These consolidated financial statements have been prepared based on the separate financial statements of companies that are part of Scotiabank Perú S.A.A. and Subsidiaries and they will be presented for approval to the corresponding Board of Directors and General Shareholders' Meeting within the terms established by law.

(2) Sale of Subsidiary

On September 27, 2013, the Bank sold the total shareholding held as sole shareholder of its subsidiary Depósitos S.A. to a non-related third party, which was represented by 2,776,857 common shares. In the nine months period to the date of sale, Depósitos S.A. contributed income of S/. 225,297 thousand and profit for S/. 123,092 thousand to the Group´s result before disposals. According to the terms of the sale agreement, in exchange of these shares, the Bank received a cash amount of US$ 24,465 thousand (equivalent to S/. 67,709 thousand), net of the adjustment for net debt of US$ 757 thousand (equivalent to S/. 2,105 thousand) in favor of the purchaser reimbursed on December 20, 2013. As a result of this transaction, the Bank generated a profit before taxes of S/. 31,067 thousand (note 25.a)

Prior to the sale, Depósitos S.A. established a Trust (note 1); and as Trustee, transferred under fiduciary domain 6 real estate properties with a net carrying amount of S/. 20,927 thousand to the Trust, receiving in exchange two shares certificates. Such certificates were sold to the Bank at an amount of S/. 202,267 thousand and were paid in cash; therefore, since the Bank is the only beneficiary, it will receive the benefits generated by the Trust as a result of the administration and arrangement of such properties.

In September 2013, the Trust sold one of the real estate properties to a non-related party in S/. 89,269 thousand, obtaining a gain on sale of S/. 53,795 net of taxes; consequently, one of the certificates was cancelled (note 27).

(3) Basis for the Preparation of Consolidated Financial Statements

(a) Statement of Compliance

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

By means of Resolution 051-2012-EF/30 issued on August 29, 2012, the CNC made official the 2012 version of IFRS (IAS, IFRS, IFRIC and SIC). In Peru, the CNC authorized as of December 31, 2012, current IASs 1 to 41, IFRSs 1 to 13, SICs 7 to 32 (except for superseded SICs), and all the pronouncements from 1 to 20 issued by the current Interpretations Committee (IFRIC).

(b) Basis of Measurement

The consolidated financial statements have been prepared in conformity with the historical cost principle, except for the following:

- Derivative instruments are measured at fair value.
- Financial instruments at fair value through profit or loss are measured at fair value.
- Available-for-sale financial instruments are measured at fair value.

(c) Presentation Currency

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

(d) Use of Estimates and Judgments

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

The significant estimates related to the consolidated financial statements correspond to provision for doubtful loans, valuation of investments, estimation of useful life and the recoverable amount of property, furniture, and equipment, intangible assets, impairment of goodwill, provision for realizable assets, received as payment and repossessed assets, estimate of the deferred income tax recovery, provision for income tax, and the fair value of derivative instruments, which accounting criteria is described in note 4.

(e) SBS pronouncements adopted by the Bank

- On September 19, 2012, SBS issued Resolution SBS 7036-2012, modifying the Accounting Manual for financial system entities. Main modifications comprised:

  - The SBS establishes new criteria for recognizing revenues of indirect loan commissions, which apply to contracts entered into 2013.

  - For recording of property, furniture and equipment this resolution establishes that only the cost model and premises in leased property under terms exceeding one year must comply with IAS 16.

  - In quarterly financial statements for period 2013 (March, June and September) the SBS will not require comparative presentation, however the financial entities must disclose in its notes to financial statements a complete set of main accounting policies and a description of the change in accounting policies.

  - For annual financial information for the year-end 2013, disclosure in notes is compared to the previous year, to the extent practicable. Also, the effect on each of the financial statement items for application of the new requirements shall be disclosed as one of the notes to the financial statements; i.e., compare the final balances as of December 31, 2012 based on the former accounting principles.

  - Accounting adjustments from previous years that may arise from the application of changes in the Accounting Manual shall be recognized in retained earnings as of January 1, 2013.

  - Additional information concerning financial instruments and risks shall be established and disclosed through notes to the annual financial statements.

The Management has considered the changes described in this SBS resolution and in its opinion, these changes had an impact on the presentation of the Financial Statements and not in the profit or loss of the Bank.

- By means of Official Letter 1575-2014-SBS, the SBS stated that for minimum information disclosure purposes, financial entities shall include a note for the fair value of financial instruments, as indicated in the Accounting Manual. Such Official Letter states that concerning the loan portfolio and deposits, their fair value correspond to the accounting value or carrying amount.

(4) Accounting Principles and Practices

The primary accounting principles and practices applied to prepare the consolidated financial statements of Scotiabank Perú S.A.A. and Subsidiaries, which have been consistently applied in 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 holds shareholding over 50% of its voting shares; likewise, those where they are able to manage its financial and operating policies.

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

Financial statements of the Subsidiaries and special purpose entities have been included for consolidation purposes and represent 9.97% and 13.79%, respectively, of the total Bank's assets before eliminations as of December 31, 2013 and 2012. As of those dates, there is non-controlling interest resulting from the consolidation process.

(b) Financial Instruments

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

The financial assets and liabilities presented in the consolidated statement of financial position correspond to cash and due from banks, interbank funds, investments, loan portfolio, accounts receivable, other assets and liabilities in the 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. The recognition and valuation criteria of those items are disclosed in the accounting principles policies related to those notes herein.

Classification of Financial Assets

Regardless of accounts used for recording, the Bank and Subsidiaries classify non-derivative financial assets for valuation purposes in conformity with IAS 39 in the following categories: i) financial assets at fair value through profit or loss, ii) held-to-maturity financial assets, loans and items receivable and available-for-sale financial assets.

i) Financial assets at fair value through profit or loss.

A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such at initial recognition. Directly attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, including any interests or dividends income, are recognized in profit or loss.

Other financial assets at fair value through profit or loss designated at initial recognition by the Bank as such shall also be included under this category. Such designation shall only be made in cases allowed by the Regulations for Classification and Valuation of Investments of Financial System Entities, and when made, the most relevant information shall be obtained due to:

- By means of the above mentioned, it is possible to significantly reduce inconsistencies in the recognition or valuation that would arise from the valuation of assets or liabilities or from the recognition of gains or losses with different criteria.
- Thus, it is possible to manage and evaluate performance based on the fair value, according to a risk management or investment strategy.

Additionally, in the case of investments, article 5º of the Regulations for Classification and Valuation of Investments of Financial System Entities is considered.

ii) Loans and items receivable

Financial assets whose cash flows have an amount determined or to be determined are included under this category. Through these cash flows, it would be possible to recover disbursements made by Scotiabank Perú S.A.A. and Subsidiaries, excluding reasons attributed to the debtor's solvency. This category includes investments from loan activity, such as cash amounts made available and with pending amortization by clients considered as loans or deposits made in other entities, irrespective of their legal instrument, as well as debts incurred by purchasers of goods or users of services that are part of the business of Scotiabank Perú S.A.A. and Subsidiaries.

iii) Available-for-sale financial assets
Financial assets that are not classified as a) financial assets at fair value through profit or loss or b) loans and items receivable are included under this category.

These assets are initially recognized at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, they are recognized at fair value; and changes other than impairment losses and foreign exchange differences on debt instruments classified as available-for-sale are recognized in other comprehensive income and accumulated in the fair value reserve in equity. When these assets are derecognized, the gain or loss accumulated in equity is reclassified from equity to profit or loss.

As of December 31, 2013 and 2012 and for the years then ended, Scotiabank Perú S.A.A. and Subsidiaries do not hold held-to-maturity financial assets.

Classification of financial liabilities
Regardless of accounts used for recording, Scotiabank Perú S.A.A. and Subsidiaries classify financial liabilities for valuation purposes in conformity with IAS 39.

In conformity with disclosure requirements established by SBS, Scotiabank Perú S.A.A. and Subsidiaries have classified its financial assets and liabilities under the corresponding categories (note 33).

Financial instruments offsetting
Financial assets and liabilities are offset and the net amount is presented in the 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.

(c) Derivative Instruments
The SBS provides authorizations per type of derivate 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 1349-2008. Such accounting criteria for held-for-trading, hedging and embedded derivative operations 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.

As of December 31, 2013 and 2012 and for the years then ended, Scotiabank Perú S.A.A. and Subsidiaries do not hold derivative instruments classified as hedging nor embedded derivatives.

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

(d) Investments

From January 1, 2013 Scotiabank Perú S.A.A. and Subsidiaries apply the recording and valuation criteria of investments established in SBS Resolution N° 7033-2012 which replaced Resolution 10639-2008 *Regulations for Classification and Valuation of Investments of Financial System Companies* which is in line with the classification and valuation criteria stated in IAS 39 *Financial Instruments*: *Recognition and Measurement*, except for investments in associates; which are not within the scope of IAS 39, as detailed below:

(i) Investments at fair value through profit or loss

Debt securities and equity shares are classified as Investments at fair value through profit or loss if they have been acquired principally for the purpose of selling in a near future, or they form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. These financial assets are recognized on trade date, when Scotiabank Perú S.A.A. and 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 income statement. Subsequently, fair values are re-measured, and fluctuations generated through profit or loss are recognized in the consolidated income statement. Interest income is recognized using the effective interest rate method. Dividends are recognized in the consolidated income statement when the right to receive the payment has been established.

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

(ii) Available-for-sale investments

Available-for-sale investments are all other investment instruments that are not classified as Investments at fair value through profit or loss, Held-to-maturity investments and Investments in associates. Likewise, investment instruments will be included in this category when the SBS explicitly requires it.

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

If an available-for-sale security is impaired, the cumulative loss (measured as the difference between the asset’s acquisition cost, net of any principal repayments and amortization, and its current fair value, less any impairment loss on that asset previously recognized in the consolidated income statement) is removed from equity and recognized in the consolidated income statement. 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 in the consolidated income statement.

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

(iii) Investments in associates

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

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

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

During 2013 and 2012, the Bank has not reclassified its investment instruments in categories.

Resolution SBS 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 2013, the Bank has recognized impairment losses on investment instruments for S/. 21 thousand (S/. 916 thousand, during 2012).

(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 became direct loans and generate a liability against third parties. Changes in loan payment conditions due to debtors' payment difficulties are considered as refinancing or restructuring.

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

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

Loan portfolio classification

In conformity with SBS Resolution 11356-2008, and its amendments, the Bank and CrediScotia Financiera S.A. classify their loan portfolio in two groups: Wholesale Banking (corporate, large companies and medium companies) and Retail Banking (small business, micro business, revolving consumer, non-revolving consumer and mortgage loans). These classifications are made considering the nature of the client (corporate, government or individual), the purpose of credit, and business size measured by revenues, indebtedness, among other indicators.

Credit risk rating categories

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

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

Provisions for doubtful loans

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

The equivalent credit risk exposure of indirect loans is determined by multiplying indirect loans by the different types of Credit Conversion Factor (CCF), as follows:

	Description	FCC (%)
(i)	Confirmation of irrevocable letters of credit 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 no disbursed and unused credit lines.	0
(v)	Other 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.

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

Risk Rating	With collateral	With preferred collateral	With preferred easily realizable collateral	With preferred readily realizable collateral
Standard				
- Corporate loans	0.70	0.70	0.70	0.70
- Large company loans	0.70	0.70	0.70	0.70
- Medium company loans	1.00	1.00	1.00	1.00
- Small business loans	1.00	1.00	1.00	1.00
- Micro business 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	60.00	30.00	1.00

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

Procyclical component

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

Type of credit	Procyclical Component %
Corporate loans	0.40
Large-business loans	0.45
Medium-business loans	0.30
Small-business loans	0.50
Micro business loans	0.50
Revolving consumer loans	1.50
No revolving consumer loans	1.00
Mortgage loans	0.40

For corporate, large company and mortgage loans that have preferred readily realizable collateral, the procyclical component rate is 0.30%. For all other types of credits with preferred readily realizable collateral, the procyclical component rate is 0% for the portion covered by such collateral.

For consumer loans supported by payroll discount agreements, the procyclical component rate is 0.25%.

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

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 8), and provisions for indirect loans are presented as liabilities (note 18). Likewise, according to Resolution SBS N°6941-2008 “Regulation on Risk Management on Indebtedness of Retail Debtors”, additional generic provisions of 1% over consumer and micro-business loans required are presented as liabilities, in provisions for contingent loans and country risk account (note 18).

(f) Securities Trading Transactions Carried Out by Third Parties

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

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

Since the SAB only manages funds of clients in trust, and because it is not able to use such resources and there is the commitment to return them to clients, these resources are not owned by the entity and shall be recorded in memoranda accounts.

Unsettled transactions by the Bolsa de Valores de Lima S.A. are recorded in memoranda accounts, until they are collected or paid.

(g) Property, Furniture and Equipment

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

Maintenance and repair expenses are charged to income in the period they are incurred. Work-in-progress and in-transit goods are recorded at acquisition cost. These goods are not depreciated until relevant assets are finished and/or received, and are in operative condition.

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

	Years
Property	20
Premises	10
Furniture and fixtures	10
IT equipment	4 and 5
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 results in the period they are incurred.

Useful life and depreciation method are periodically reviewed by management according to the forecasted economic benefits to be provided by the components of property, furniture, and equipment.

(h) Realizable Assets, Received as Payment, and Repossessed Assets
Realizable assets include assets purchased specifically for granting financial leases which are recorded initially at their acquisition cost; further, realizable assets not granted in financial leases are recorded at the lower of its cost or market value. Likewise, realizable assets also include repossessed assets.

Realizable assets received as payment and repossessed assets (note 14) 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 recorded at an amount equivalent to the amount effectively impaired.

- For plant and equipment, the Bank records a monthly provision equivalent to 1/18 of the cost in books, less the aforementioned initial provision. Regarding goods that have not been sold or leased within a one-year term and that do not have the extension established in the Banking Act, the provision shall be completed up to 100% of the value upon repossession or recovery less the impairment provision, at the close of the corresponding year.

- A provision shall be recorded for real estate that has not been sold or leased within one year from its recovery or repossession. This provision shall be a uniform monthly provision over a term of three and a half years until there is a 100% provision of the net carrying amount 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 income statement when the net realizable value is lower than net carrying amount. In cases where the net realizable value is higher than the net carrying amount, the higher value shall not be recognized in the books.

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

(i) Value Impairment

Scotiabank Perú S.A.A. and Subsidiaries establishes criteria for the identification of impaired assets based on the classification of financial or non-financial assets.

On each reporting date, Scotiabank Perú S.A.A. and Subsidiaries review the carrying amounts of financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If such indications exist, then the recoverable amount of the financial asset is estimated. 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.

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

Goodwill arising from a business combination is allocated to CGU or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate reflects current market assessments of time value of money and the risks specific associated to the asset or CGU. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in the profit and loss.

Impairment loss in respect of recognized in goodwill is not reversed. For other assets, an impairment loss is reversed only if the carrying amount of an asset does not exceed the carrying amount that would have been determined, net of amortization or depreciation, if no impairment loss had been recognized.

(j) Income Tax

Current income tax is determined based on the taxable income and recorded according to tax legislation applicable to the Bank and each company that are part of Scotiabank Perú S.A.A. and Subsidiaries independently (note 28).

Deferred income tax is recorded using the liability method based on temporary differences derived from tax accounting of assets and liabilities, and their balances in the financial statements of each company that is part of Scotiabank Perú S.A.A. and Subsidiaries. Deferred income tax is determined based on tax rates and legislation expected to be applied by Scotiabank Perú S.A.A. and Subsidiaries when the deferred tax asset is realized or the deferred tax liability is settled (note 29).

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

(k) Intangible Assets

Intangible assets are mainly related to the acquisition and development cost of computing software shown in the "Other assets" item and are amortized using the straight-line method over 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 the income statement when they are incurred. However, costs that are directly related to a single and identifiable computing software, package or program, controlled by Management and that will give future economic benefits higher than their cost in a period exceeding one year, are considered as an intangible asset. Direct costs related to the development of computing programs include personnel costs of the development team and a fractional part of general expenses.

(l) Goodwill

Goodwill is the difference between the acquisition costs (amount paid) versus identifiable fair values of its subsidiary (note 12).

Business acquisitions are recorded using the acquisition method. This means, recognizing identifiable net 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.

(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 terms of these instruments.

Interest is recognized in results when accrued.

(n) Provisions and Contingencies

(i) Provisions

Provisions are recognized when Scotiabank Perú S.A.A. and Subsidiaries have a present obligation, either legal or assumed, 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 severance payment (CTS) is calculated according to current legislation, on the total employees' indemnities and should be paid through deposits in authorized financial entities as chosen by them. Calculation is made for the amount that should have to be paid as at the reporting date 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.

(o) Income and Expense Recognition

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

Up to December 31, 2012 income from indirect loan commissions were recognized based on the received amount. From year 2013 Resolution SBS 7036-2012 establishes that this income shall be recognized on an accrual basis during the term of such indirect loans. Likewise, such resolution established that financial entities shall adopt this change prospectively when income is recognized.

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

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

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

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

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

Income from remunerations of funds managed by Sociedad Administradora de Fondos, 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.

(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 recorded as liabilities and charged to income of the period. As of December 31, 2013 and 2012, the Bank does not hold preferred shares outstanding.

(q) Employees' Profit Sharing

The SBS with Official Letter 4049-2011, dated January 21, 2011, established that employees' profit sharing should be recorded according to IAS 19 *Employee Benefits*. As a result, this profit sharing shall be treated as personnel expenses and a liability related to employee benefits.

(r) Statement of Cash Flows

For presentation purposes of this financial statement, the balances of "Cash and due from banks" and "Interbank funds", of the assets, as of December 31, 2013 and 2012, were considered as cash and cash equivalents except for the restricted cash and due from banks for compliance with contractual commitments (note 6.c).

(s) Reclassifications

Certain financial statements items of 2012 have been reclassified to make them comparable to those in this period.

These reclassifications were determined based on Resolution SBS 7036-2012 in force from year 2013, through which SBS established changes in the presentation of the consolidated statement of financial position and consolidated income statement; therefore, for comparison purposes as of December, 2012 and period from January 1 and December 31, 2012, the following reclassifications were made:

Consolidated Statement of Financial Position

	In thousands of S/.		
	12.31.2012 (1)	Reclassification	12.31.2012 (2)
Assets			
Cash and due from banks	7,539,869	(15)	7,539,854
Interbank funds	184,119	-	184,119
Investments at fair value through profit or loss	-	93,094	93,094
Available-for-sale investments	1,429,502	(88,737)	1,340,765
Loan portfolio, net	22,675,973	-	22,675,973
Held-for trading derivative instruments	-	127,838	127,838
Accounts receivable, net	512,648	(132,195)	380,453
Investments in associates	53,193	-	53,193
Goodwill	278,818	-	278,818
Property, furniture, and equipment, net	503,570	-	503,570
Other assets, net	927,576	(60,676)	866,900
Total assets	34,105,268	(60,691)	34,044,577
Liabilities			
Deposits and obligations	20,813,311	(75,856)	20,737,455
Interbank funds	25,025	-	25,025
Borrowings and financial obligations	5,011,365	-	5,011,365
Securities, bonds, and obligations issued	2,716,693	-	2,716,693
Held-for trading derivative instruments	-	117,224	117,224
Provisions and other liabilities	911,395	(102,059)	809,336
Total liabilities	29,477,789	(60,691)	29,417,098

(1) It corresponds to the consolidated statement of financial position as of December 31, 2012 without reclassifications.

(2) It corresponds to the consolidated statement of financial position as of December 31, 2012 including reclassifications.

Consolidated Income Statement

	In thousands of S/.		
	12.31.2012 (3)	Reclassification	12.31.2012 (4)
Interest income	3,243,294	(280,083)	2,963,211
Interest expense	(628,380)	68,605	(559,775)
Provisions for doubtful loans, net of recoveries	(701,710)	(29,902)	(731,612)
Income from finance services, net	665,662	(126,972)	538,690
Results from financial transactions	-	240,408	240,408
Administrative expenses	(1,328,357)	93,515	(1,234,842)
Depreciation of property, furniture, and equipment	-	(64,394)	(64,394)
Amortization of intangible assets	-	(9,376)	(9,376)
Provision for doubtful accounts receivable, realizable and repossessed assets, and other assets	(134,221)	147,886	13,665
Other income, net	68,767	(39,687)	29,080
Income tax:	(363,630)	-	(363,630)
Net profit	821,425	-	821,425

(3) It corresponds to balances of the consolidated income statement for the year ended December 31, 2012 without reclassifications.

(4) It corresponds to balances of the consolidated income statement for the year ended December 31, 2012 including reclassifications.

The modification in the comparative information does not imply changes in decisions taken based on them.

(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 recorded in memoranda accounts for corresponding control (note 21). Commissions on those activities are included in income from finance services (note 24).

(u) Foreign Currency Transactions and Balances
Foreign currency transactions are those transactions carried out in a currency that is different from the nuevo sol. Foreign currency transactions are translated into nuevo sol using exchange rates established by the SBS reported at the dates of the transactions (note 5). Gains or losses on exchange difference 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 income statement.

New International Accounting Pronouncements

(i) Pronouncement of the Peruvian Accounting Board -CNC

A certain number of standards and modification to standards and interpretations are in force for annual periods beginning January 1, 2014 and that have not been applied in the preparation of these separate financial statement, which are detailed as follows:

- Amendment to IAS 32 *Financial Instruments, Asset and liability offsetting.* These amendments are comprised in the application guide of IAS 32 *Financial Instruments*: *Presentation* and set out requirements for offsetting financial assets and liabilities in the statement of financial position.

- Amendments to IAS 36 *Impairment of Assets.* This amendment eliminated certain disclosure requirements of the recoverable amount of CGU that were included in IAS 36 as a result of the issuance of IFRS 13.

- Amendments to IFRS 10, IFRS 12 and IAS 27 *Investment Entities*, which provide a consolidation exception for investment entities. These amendments provide industry-specific solutions; they generally require qualifying these investment entities to account for their investments where they have control at fair value through profit or loss.

- IFRS 9 *Financial Instruments* covers classification, measurement and recognition of financial assets and liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces parts of IAS 39 relating to classification and measurement of financial instruments. IFRS 9 requires that financial assets be classified into two measurement categories: those measured at fair value and those measured at amortized cost. This determination is made at initial recognition. The classification depends on the business model of the entity for the administration of financial instruments and the characteristics of the contractual cash flows of the instrument. With respect to financial liabilities, the standard retains most of the requirements of IAS 39. The main change concern the cases where the fair value option is taken for financial liabilities, the part that corresponds to the change in fair value arising from the credit risk of the entity will be recorded in other comprehensive income rather than in the income statement , unless this creates an accounting discrepancy.

- IFRIC 21, “Levies”, addresses the accounting treatment of liabilities to pay levies other than the income tax. The interpretation identifies the obligating event arising in the payment of a levy and when it should recognize a liability/obligation.

- Amendment to IAS 19 *Employee Benefits*, this modification to the scope of IAS 19 aims at simplifying accounting of contributions that are independent of the years of service of the employee, for example employee contributions calculated according to a fixed percentage of salary. Effective for annual periods beginning on or after July 1, 2014.

(ii) Resolutions and Standards issued by CNC and the Peruvian Securities Market Regulator concerning the approval and adoption of IFRS in Peru -

As of the date of these financial statement, the CNC has made official through Resolution 053-2013-EF/30 published on September 11, 2013, version 2013 of International Financial Reporting Standards (IAS, IFRS, IFRIC and SIC). Also IFRIC 21 – “Levies”, and amendment to IAS 36 “Recoverable Amount Disclosures for Non-Financial Assets”, amendments to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”, were made official. Effectiveness of amendments and International Standards above mentioned shall be standardized in each of them.

As indicated in note 3.a, the standards and interpretations detailed above will only be applicable to the Bank, 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 financial statements in case such standards were adopted by the SBS.

(5) Foreign Currency Balances

Consolidated statements of financial position include balances of foreign currency transactions, mainly in U.S. dollars (US$), which are recorded in nuevos soles (S/.) at the exchange rate established by the SBS. As of December 31, 2013 and 2012, these rates were US$1 = S/. 2.795 and S/. 2.550 respectively.

Foreign currency transactions in the country and international trade transactions referred to the concepts authorized by Banco Central de Reserva del Perú - BCRP (Central Bank), are channeled through an interbank foreign exchange market. As of December 31, 2013, the buy and sell exchange rates used were US$ 1 = S/. 2.794 and US$ 1= S/. 2.796, respectively (US$ 1= S/. 2.549 buy rate and US$ 1= S/. 2.551 sell rate as of December 31, 2012).

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

	2013		
	U.S. dollars	Other currencies	Total
Assets:			
Cash and due from banks	3,070,137	24,858	3,094,995
Interbank funds	9,000	-	9,000
Investments at fair value through profit or loss and available-for-sale investments	453,625	-	453,625
Loan portfolio, net	4,790,518	-	4,790,518
Held-for trading derivative instruments	4,068	-	4,068
Accounts receivable, net	15,945	19	15,964
Other assets, net	8,776	968	9,744
	8,352,069	25,845	8,377,914
Liabilities:			
Deposits and obligations and other obligations	5,851,644	44,755	5,896,399
Borrowings and financial obligations	1,548,557	-	1,548,557
Securities, bonds, and obligations issued	520,769	-	520,769
Held-for trading derivative instruments	4,550	-	4,550
Provisions and other liabilities	104,596	1,601	106,197
	8,030,116	46,356	8,076,472
Net asset (liability) position on the consolidated statement of financial position	321,953	(20,511)	301,442
Operations with derivative instruments	(312,597)	20,703	(291,894)

	2012		
	U.S. dollars	Other currencies	Total
Assets:			
Cash and due from banks	1,357,441	37,915	1,395,356
Interbank funds	48,661	-	48,661
Investments at fair value with changes in profit or loss and available-for-sale investments	10,764	-	10,764
Loan portfolio, net	4,390,855	-	4,390,855
Held-for trading derivative instruments	5,587	-	5,587
Accounts receivable, net	22,141	-	22,141
Other assets, net	25,188	7,932	33,120
	5,860,637	45,847	5,906,484
Liabilities:			
Deposits and obligations and other obligations	3,485,664	53,469	3,539,133
Borrowings and financial obligations	1,775,741	-	1,775,741
Securities, bonds, and obligations issued	567,836	-	567,836
Held-for trading derivative instruments	5,967	-	5,967
Other liabilities	100,137	11,274	111,411
	5,935,345	64,743	6,000,088
Net liability position on the consolidated statement of financial position	(74,708)	(18,896)	(93,604)
Operations with derivative instruments	3,482	19,830	23,312

In 2013 and 2012, Scotiabank Perú S.A.A. and Subsidiaries recorded in Results from financial operations, gains amounting to S/. 190,601 thousand and S/. 141,320, respectively for exchange difference of various operations (note 25).

As of December 31, 2013, Scotiabank Perú S.A.A. and Subsidiaries have contingent operations in foreign currency amounting to US$ 11,574,315 equivalent to S/. 32,350,210 thousand (US$ 8,022,529 thousand, equivalent to S/. 20,457,447 thousand as of December 31, 2012).

(6) Cash and Due from Banks

This caption comprises the following:

	In thousands of S/.	
	2013	2012
Cash (a)	1,079,942	845,183
Banco Central de Reserva del Perú (a)	9,563,951	6,139,068
Banks and other local financial system entities (b)	57,389	50,305
Banks and other foreign financial system entities (b)	389,546	277,779
Clearing	183,267	175,019
Restricted cash and due from banks (c)	96,991	52,323
Other cash and due from banks	329	177
	11,371,415	7,539,854

(a) As of December 31, 2013, funds held in cash and Banco Central de Reserva del Peru (BCRP) include US$ 1,811,316 thousand and S/. 1,132,588 thousand (US$ 1,238,508 thousand and S/. 1,682,368 thousand as of December 31, 2012), of legal cash reserve the Bank and CrediScotia Financiera S.A. these funds should be set aside to cover deposits from third parties, according to limits established by current legislation. These funds are held at BCRP kept in their vaults of such financial entities.

Cash reserves held at BCRP do not accrue interest, except for the amount in local and foreign currency exceeding the minimum legal cash reserve. As of December 31, 2013, the excess of legal cash reserve in local and foreign currency accrued interest at annual rates of 1.25% and 0.04%, respectively (1.75% in local currency and 0.11% in foreign currency as of December 31, 2012). Interest accrued from the excess in foreign currency in 2013 amounts to US$ 849 thousand (US$ 1,566 thousand for year 2012). Interest accrued for the excess in local currency in 2013 amounts to S/. 18,000 thousand (S/. 18,350 thousand as of December 31, 2012).

As of December 31, 2012, deposits with BCRP include US$ 1,089,000 thousand and S/. 1,248,000 for overnight operations; such operations accrued interest at an annual nominal rate of 0.15% and 3.20%, respectively (S/. 25,000 thousand as of December 31, 2012 at an annual rate of 3.45%).

(b) Deposits in local and foreign banks mainly correspond, to balances in nuevos soles and in U.S. dollars, and lower amounts in other currencies, with free withdrawal option and accrue interest at market rates. As of December 31, 2013, deposits in foreign banks, included deposits held at The Bank of Nova Scotia by US$ 6,329 thousand and Canadian dollars by $ 42 (US$ 4 thousand and Canadian dollars by $ 420 thousand as of December 31, 2012).

As of December 31, 2013 and 2012, the Bank concentrates 61% and 74% in deposits to foreign banks, in two financial entities, respectively.

(c) As of December 31, 2013, restricted cash and due from banks comprises mainly: i) reserve funds for compliance with contractual commitment and guarantees demanded by regulating entities, over which Scotiabank Perú S.A.A. and Subsidiaries are not able to exert immediate availability for S/. 223 thousand and US$ 18,354 thousand (S/. 223 thousand and US$ 18,872 thousand as of December 31, 2012), ii) guarantee funds for treasury transactions amounting to US$ 14,529 thousand (US$ 6 thousand as of December 31, 2012) and; iii) guarantee funds for legal proceedings against the Bank and CrediScotia Financiera S.A. for S/. 1,963 thousand and US$ 1,036 thousand (S/. 1,474 thousand and US$ 976 thousand as of December 31, 2012).

During 2013 and 2012, interest revenue from cash and due from banks amounted to S/. 81,832 thousand and S/. 68,631, respectively and is included under the interest income item in the income statement (note 22).

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

This caption comprises the following:

	In thousands of S/.	
	2013	2012
Investments at fair value through profit or loss:		
Central Bank indexed certificates of deposit (a)	1,265,759	-
Peruvian Treasury Bonds (b)	104,035	78,519
Mutual fund (c)	9,297	14,565
Other	36	10
	1,379,127	93,094
Available-for-sale investments:		
Peruvian Treasury Bonds (b)	381,644	327,934
Central Bank certificates of deposit (a)	269,747	919,644
Listed shares		
BVL-Lima Stock Exchange (d)	48,837	47,646
CAVALI S.A (e)	11,696	9,876
Other	1,283	1,019
Unlisted shares	7,440	7,454
Mutual fund (c)	1,740	27,155
Other shares, net	16	37
	722,403	1,340,765
Total investment at fair value through profit or loss and available-for-sale investments	2,101,530	1,433,859

(a) Central Bank indexed certificates of deposit, recorded at fair value through profit or loss, are securities freely negotiable in local 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, and mature in January and February, 2014.

Central Bank certificates of deposit, recorded as available for sale, are securities freely negotiable in local currency; they are acquired through BCRP public bids and traded in the Peruvian secondary market. As of December 31, 2013, these certificates accrue interest based on the BCRP reference rate which ranged from 3.78% to 4.30% annually (between 3.95% and 4.20% as of December 31, 2012), and have maturities between March and November 2014 (between March 2013 and April 2014, as of December 31, 2012). Likewise, as of December 31, 2013 and 2012, the Bank did not have certificates of deposit issued by BCRP with restricted availability.

(b) The Peruvian Treasury Bonds correspond to sovereign bonds issued in local currency by the Peruvian Ministry of Economy and Finance and represent internal public debt instruments of the Republic of Peru. As of December 31, 2013, these bonds accrue interest at annual rates ranging from 4.12% to 7.08% (from 3.05% to 4.95% annually as of December 31, 2012), with maturities between May 2015 and August 2037 (between May 2015 and August 2037 as of December 31, 2012).

(c) As of December 31, 2013, SAF and Titulizadora hold investments in mutual funds in local and foreign currency for S/. 9,978 thousand and US$ 379 thousand, respectively, which are managed by SAF (S/. 15,241 thousand and US$ 10,384 thousand as of December 31, 2012, held by the Bank, SAF and Titulizadora).

(d) Shares held by SAB in the Lima Stock Exchange (BVL), entity that, by means of the agreement its General Shareholders' Meeting dated April 21, 2003, changed from civil association to corporation, with a capital stock of 47,772,672 shares from which 32,843,712 corresponded to class "A" shares and 14,928,960 corresponded to Class "B" shares. As of December 31, 2013 shares held by SAB are class "A" shares, they amount to 4,764,577 shares and are listed at S/.10.25 each (as of December 31, 2012 the same amount of shares was held and it was listed at S/. 10.00 each).

    Likewise, during year 2013, BVL has distributed dividends to SAB for S/. 2,035 thousand (S/. 1,533 thousand during year 2012), which are recorded as income from dividends in the consolidated income statement.

(e) Shares held by SAB in CAVALI -
    As per law, from April 30, 1997 clearing and settlement of securities recorded by the BVL were transferred to CAVALI S.A. I.C.L.V. (CAVALI); therefore, shares in CAVALI grant the right to the Corporation for clearing and settlement of securities listed in the BVL.

    CAVALI's shares are presented at fair value or are listed. As of December 31, 2013, such shares amounted to 1,299,534 and are listed at S/. 9.00 each (as of December 31, 2012 the same amount of shares was held and it was listed at S/. 7.6 each).

    During the year ended December 31, 2013, CAVALI has distributed dividends to SAB for S/. 408 thousand (S/. 407 thousand during year 2012), which are recorded as income from dividends in the consolidated income statement.

As of December 31, 2013 and 2012, the accrued interest on investments amounted to S/. 47,126 thousand and S/. 70,234 thousand, respectively and is included under the interest income item in the income statement (note 22).

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

	In thousands of S/.	
	2013	2012
Up to 3 months	1,280,686	148,086
From 3 to 12 months	264,152	797,774
Over 12 months	556,692	487,999
	2,101,530	1,433,859

(8) Loan Portfolio, net

This caption comprises the following:

	In thousands of S/.			
	2013	%	2012	%
Direct loans:				
Current loans	27,491,530	97	22,847,230	97
Refinanced loans	166,227	-	189,098	1
Restructured loans	4,153	-	42,941	-
Past due loans	514,925	2	387,609	2
Lawsuits loans	220,779	1	161,137	-
	28,397,614	100	23,628,015	100
Plus (less):				
Accrued interest on current loans	214,816		202,413	
Non-accrued interest	(28,375)		(75,359)	
Provision for loan losses	(1,242,869)		(1,079,096)	
	27,341,186		22,675,973	
Contingent loans (note 21)	6,727,349		4,487,523	

As of December 31, 2013 and 2012, fifty-one percent of the direct and indirect loan portfolio of the Bank and CrediScotia Financiera S.A. was concentrated in 1,078 and 2,764 clients, respectively.

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

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

	%			
	2013		2012	
	Local currency	Foreign currency	Local currency	Foreign currency
Overdrafts (*)	55.00 - 85.00	30.00 - 55.00	55.00 - 85.00	30.00 - 55.00
Discounts and commercial loans	4.81 - 46.14	3.39 - 29.41	5.37 - 43.10	3.62 - 28.27
Consumer loans	14.06 - 50.88	9.26 - 21.95	14.31 - 47.10	9.42 - 20.53

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

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

Risk Rating	2013				2012			
	N° of debtors	In thousands of S/.			N° of debtors	In thousands of S/.		
		Direct	Contingent	Total		Direct	Contingent	Total
Standard	853,353	26,451,267	6,702,607	33,153,874	888,320	21,870,421	4,456,468	26,326,889
Potential problem	43,056	676,176	14,787	690,963	57,022	708,939	25,542	734,481
Substandard	30,110	328,858	5,027	333,885	32,832	254,205	2,112	256,317
Doubtful	55,586	428,790	3,088	431,878	57,128	326,058	717	326,775
Loss	32,860	512,523	1,840	514,363	35,632	468,392	2,684	471,076
	1,014,965	28,397,614	6,727,349	35,124,963	1,070,934	23,628,015	4,487,523	28,115,538

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

	In thousands of S/.		
	Specific	Generic	Total
Balances as of December 31, 2011	507,261	398,418	905,679
Additions debited to results	918,770	229,578	1,148,348
Recovery of provisions	(229,607)	(185,470)	(415,077)
Transfers of provisions and other	13,888	1,467	15,355
Write-offs and forgiveness	(555,221)	-	(555,221)
Foreign exchange differences	(11,474)	(8,514)	(19,988)
Balances as of December 31, 2012	643,617	435,479	1,079,096
Additions debited to results	1,078,933	236,743	1,315,676
Recovery of provisions	(280,763)	(210,693)	(491,456)
Transfers of provisions and other	14,119	(3,192)	10,927
Write-offs and forgiveness	(705,928)	-	(705,928)
Foreign exchange differences	19,495	15,059	34,554
Balances as of December 31, 2013	769,473	473,396	1,242,869

Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. record regulatory provisions for loan portfolios according to the policy described in note 4.e. Additionally, these entities record discretionary provisions for doubtful loans which are included under the generic provision for doubtful loans. As of December 31, 2013 and 2012, voluntary provisions amount to S/. 49,579 thousand and S/. 68,251 thousand, respectively.

As of December 31, 2013, the provision for foreign exchange credit risk and the procyclical provision amount to S/. 1,013 thousand and S/. 141,461 thousand, respectively (S/. 1,081 thousand and S/. 123,274 thousand, respectively as of December 31, 2012).

During 2013 and 2012, Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. recognized provisions for contingent loans in the income statement for S/. 48,227 thousand and S/. 37,615 thousand, respectively. Likewise, the Bank has recovered provisions for contingent loans for S/. 39,333 thousand and S/. 33,314 thousand, respectively. These provisions include provisions net of recovery for country risk on contingent loans for S/. 648 thousand in 2013 (net recovery for S/. 2,916 thousand in 2012).

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

	In thousands of S/.					
	2013			2012		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Up to 1 month	1,152,214	1,432,359	2,584,573	1,059,513	1,345,543	2,405,056
From 1 to 3 months	2,394,071	2,157,526	4,551,597	1,676,752	1,681,606	3,358,358
From 3 to 6 months	1,972,328	1,878,534	3,850,862	1,881,570	1,520,569	3,402,139
From 6 to 12 months	2,492,316	1,666,074	4,158,390	2,281,845	1,299,101	3,580,946
Over 12 months	6,290,279	6,441,025	12,731,304	4,967,730	5,567,453	10,535,183
Overdue and loans in litigation process	482,221	253,483	735,704	352,324	196,422	548,746
Less, accrued interest	(145,716)	(69,100)	(214,816)	(141,754)	(60,659)	(202,413)
	14,637,713	13,759,901	28,397,614	12,077,980	11,550,035	23,628,015

(9) Held-for Trading Derivative Instruments

The Bank holds forward foreign currency, cross currency swaps (CCS) and interest rate swaps (IRS) agreements. As of December 31, 2013 and 2012, the fair value of these trading financial instruments has generated accounts receivable and payable as described below:

	In thousands of S/.			
	2013		2012	
	Accounts receivable	Accounts payable	Accounts receivable	Accounts payable
Forwards	130,491	143,968	109,155	101,805
Interest Rate Swap (IRS)	11,371	12,717	14,247	15,216
Cross Currency Swaps (CCS)	426	20,178	4,436	203
	142,288	176,863	127,838	117,224

As of December 31, 2013 and 2012 these derivatives generated a net profit of S/. 42,240 thousand and S/. 30,602 thousand, respectively (note 25).

(10) Accounts Receivable, net

This caption comprises the following:

	In thousands of S/.	
	2013	2012
Financial Instruments:		
Accounts receivable from sale of investments	74,793	38,637
Collection and warehousing services	15,001	47,048
Commissions receivable	11,453	17,936
Payments on behalf of thirds parties, net	10,727	5,604
Advances to personnel	6,920	5,320
Accounts receivable from brokerage customers	1,079	495
Sales of goods and services, trust, net	854	196
Other accounts receivable, net	53,568	39,551
	174,395	154,787
Non-financial Instruments:		
Tax proceedings (a)	438,483	225,666
	612,878	380,453

(a) Tax proceedings with SUNAT as of December 31, 2013, include S/.228,483 thousand (S/.225,666 thousand as of December 2012) corresponding to payments under protest of Temporary Net Assets Tax (ITAN for its acronym in Spanish) for fiscal years 2005 and 2006, which are being challenged in the courts by the Bank as they are considered undue payments; and balances related to income tax and other credits subject to offsetting against ITAN. The Bank expects these amounts will be returned on resolution of the case in its favor.

In a separate tax matter, as of December 31, 2013, the financial statements include S/.210,000 thousand corresponding to payments under protest in respect of a resolution from the Tax Authority which is being challenged in the Judicial Courts by the Bank. The Bank expects these amounts will be returned on resolution of the case in its favor. See Note 36.a for further details.

(11) Investments in Associates

This caption comprises the following:

	In thousands of S/.	
	2013	2012
Procesos de Medios de Pago S.A.	27,298	21,350
Unibanca S.A.	14,583	17,256
Equifax S.A.	11,532	12,711
La Fiduciaria S.A.	1,929	1,876
	55,342	53,193

(12) Goodwill

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

According to SBS standards, such goodwill has been assessed by management, concluding that there is no impairment as of December 31, 2013 and 2012.

(13) Property, Furniture, and Equipment, net

This caption comprises the following:

	In thousands of S/.					
	Balances as of 12.31.12	Additions	Disposals	Other (a)	Reclas and adjustment	Balances as of 12.31.13
Cost:						
Land	153,598	-	(10,138)	(2,416)	-	141,044
Property and premises	729,846	18,703	(20,919)	(25,135)	17,911	720,406
Furniture, fixture, and IT equipment	373,507	33,745	(15,044)	(25,005)	2,295	369,498
Vehicles	5,635	224	(507)	(1,020)	-	4,332
Units in transit and replacing units	1,295	4,946	-	-	(2,567)	3,674
Work-in-progress	9,663	24,350	-	(376)	(22,075)	11,562
	1,273,544	81,968	(46,608)	(53,952)	(4,436)	1,250,516
Accumulated depreciation:						
Property and premises	499,573	29,177	(9,803)	(12,814)	62	506,195
Furniture, fixture, and IT equipment	266,544	31,967	(14,507)	(14,810)	134	269,328
Vehicles	3,857	649	(503)	(656)	-	3,347
	769,974	61,793	(24,813)	(28,280)	196	778,870
	503,570					471,646

(a) It corresponds to the disposal of fixed assets as a result of the sale of the subsidiary Depósitos S.A. (note 2).

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.

(14) Other Assets, net

This caption comprises the following:

	In thousands of S/.	
	2013	2012
Financial Instruments:		
Transactions in progress (a)	26,365	67,595
	26,365	67,595
Non-financial Instruments:		
Tax credits (VAT) and other (b)	360,098	333,424
Prepaid expenses (c)	105,070	106,799
Income tax prepayments, net	75,364	91,310
Intangible assets, net of amortization of S/. 207,984 thousand (S/. 198,561 thousand in 2012)	25,231	22,435
Realizable and repossessed asset, net of accumulated depreciation and provision for impairment for S/. 125,244 thousand (S/. 124,063 thousand in 2012)	21,860	21,140
Inventories	4,334	3,760
Other assests	7,963	8,091
	599,920	586,959
	626,285	654,554

(a) Transactions in progress are those carried out during the last days of the month and are reclassified in the following month to their definitive respective accounts in the statement of financial position. These transactions do not affect the results of Scotiabank Perú S.A.A. and Subsidiaries. As of December 31, 2013, they comprise S/. 11,140 thousand related to treasury transactions, S/. 7,536 for invoices in transit for services received, S/. 1,093 thousand for operations to be settled with credit card processors and S/. 3,154 thousand of operations to be settled by human resources department (as of December 31, 2012 for S/. 56,921 thousand, S/. 2,315 thousand, S/. 4,966 thousand and S/. 271 thousand respectively).

(b) As of December 31, 2013 and 2012, tax credits mainly include the value added tax (VAT) for S/. 529,080 thousand and S/. 391,384 thousand respectively; these amounts are net of the value added tax (VAT) payable by amounting to S/. 168,982 thousand and S/. 57,960 respectively. This tax credits mainly includes: the value added tax from acquisition of assets that have been transferred under finance leases for S/. 36,595 thousand as of December 31, 2013 (S/. 80,970 thousand as of December 31, 2012) which have not yet been applied to taxable operations.

(c) As of December 31, 2013, prepaid expenses include mainly: (i) deferred loan origination costs, mainly fees paid to external sales force for S/. 58,970 thousand (S/. 55,119 thousand in 2012); (ii) prepaid rent of S/. 6,043 thousand (S/. 6,451 thousand in 2012); (iii) prepaid fees of received borrowings for S/. 22,241 thousand (S/. 28,128 thousand in 2012); (iv) advertising and marketing services for S/. 2,124 thousand (S/. 6,806 thousand in 2012); among others.

(15) Deposits and Obligations

This caption comprises the following:

	In thousands of S/.			
	2013	%	2012	%
Corporate clients	16,301,047	54	10,163,074	49
Individuals	8,626,397	29	7,251,201	35
Non-profit organizations	3,700,209	12	2,063,634	10
Other	1,457,352	5	1,259,546	6
	30,085,005	100	20,737,455	100

Deposits and other obligations in U.S. dollars represent 55% and 43% of the total deposits as of December 31, 2013 and 2012, respectively. Deposits included accounts pledged in favor of Scotiabank Perú S.A.A. and Subsidiaries for credit operations for S/. 488,878 thousand and US$ 421,052 thousand as of December 31, 2013 (S/. 355,364 thousand and US$ 173,919 thousand as of December 31, 2012).

Likewise, as of December 31, 2013 and 2012, from the total of deposits and obligations from individuals and non-profit legal entities, the amounts of S/. 6,408,831 thousand and S/. 5,610,658 thousand, respectively, are covered by the Peruvian Deposit Insurance Fund (FSD, for its acronym in Spanish), according to current legal regulations.

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

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

The maximum amount covered for each individual as of December 31, 2013, amounted to S/. 93 thousand (S/. 91 thousand as of December 31, 2012).

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

	%			
	2013		2012	
	Local currency	Foreign currency	Local currency	Foreign currency
Savings deposits	0.67 - 1.72	0.30 - 0.86	0.71 - 1.64	0.32 - 0.71
Time deposits	3.22 - 5.94	0.81 - 2.88	3.45 - 6.35	0.88 - 2.37
Bank certificates	-	0.26 - 0.75	-	0.27 - 0.75
Severance indemnities deposits (CTS)	2.96 - 6.00	1.85 - 4.00	2.84 - 6.00	1.87 - 4.00

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

	In thousands of S/.					
	2013			2012		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Up to 1 month	1,654,108	2,827,226	4,481,334	1,920,882	1,350,806	3,271,688
From 1 to 3 months	1,688,334	1,294,595	2,982,929	1,072,580	378,907	1,451,487
From 3 to 6 months	1,161,986	867,466	2,029,452	736,303	340,686	1,076,989
From 6 to 12 months	1,029,585	656,258	1,685,843	573,445	336,196	909,641
Over 12 months	686,077	535,922	1,221,999	607,563	513,686	1,121,249
	-------------	-------------	-------------	-------------	-------------	-------------
	6,220,090	6,181,467	12,401,557	4,910,773	2,920,281	7,831,054
Interest	77,317	10,614	87,931	51,398	7,238	58,636
	-------------	-------------	-------------	-------------	-------------	-------------
	6,297,407	6,192,081	12,489,488	4,962,171	2,927,519	7,889,690
	========	========	========	========	========	========

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

At the Board of Directors' meeting of CrediScotia Financiera S.A., held on May 31, 2012, the Fourth Program of short-term Negotiable Certificates of Deposits (CDN, for its acronym Spanish) was approved for an amount up to S/. 500,000 thousand or equivalent amount in U.S. dollars. The Program was registered in the Public Registry of Stock Market effective by starting on December 31, 2012.

As of December 31, 2013 and 2012, CrediScotia Financiera S.A. has issued short-term Negotiable Certificates of Deposits as detailed below:

Issuance	Rate	Maturity	In thousands of S/. 2013	In thousands of S/. 2012
4th CDN 1-A Program	3.97%	2014	60,560	-
4th CDN 1-B Program	3.81%	2014	60,000	-
4th CDN 1-C Program	3.81%	2014	88,230	-
3rd CDN 1-D Program	4.97%	2013	-	60,000
3rd CDN 1-E Program	4.41%	2013	-	60,000
3rd CDN 1-F Program	4.50%	2013	-	70,000
			208,790	190,000

(16) Borrowings and Financial Obligations

This caption comprises the following:

	In thousands of S/. 2013	In thousands of S/. 2012
COFIDE credits lines:		
Mivivienda (a)	379,346	287,881
Working capital (b)	265,000	265,000
Ordinary loans from abroad:		
Related banks (c)	2,529,475	1,950,750
Other banks (d)	1,692,747	2,486,105
	4,866,568	4,989,736
Interest payable	18,154	21,629
	4,884,722	5,011,365

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

(b) Correspond to COFIDE credit lines obtained in local currency to be used for working capital in the short term, which accrue interest at a rate of 5.40% (6.15% as of December 31, 2012) and are subject to specific agreements on the use of the funds received, the financial conditions that shall be maintained and other administrative matters. In Management's opinion, as of December 31, 2013 and 2012, the aforementioned conditions have been met by the Group.

(c) As of December 31, 2013, ordinary loans with related banks include debts payable to Scotiabank Ltd. Bahamas for US$ 865,000 thousand, which accrue annual interest rates ranging from 0.74% to 1.14% and mature between January 2014 and March 2017 (as of December 31, 2012, these amounted to US$ 765,000 thousand, accrued annual interest rates ranging from 0.81% to 1.22% and mature between February 2013 and January 2016).

Likewise, the balance with related banks as of December 31, 2013, includes loans received from The Bank of Nova Scotia for US$ 40,000 thousand. This loan accrues an annual interest rate of 0.50% and matures in March 2014.

(d) As of December 31, 2013, this line includes borrowings agreed with various foreign financial institutions for US$ 461,884 thousand (US$ 798,350 thousand and S/. 20,000 thousand as of December 31, 2012), which accrue interest at annual average rates ranging from 0.39% to 5.55% in foreign currency (1.01% to 7.50% in foreign currency and 5.55% in local currency as of December 31, 2012).

Also, as of December 31, 2013, the Bank negotiated borrowings with foreign financial institutions for approximately US$ 143,750 thousand (US$ 168,750 thousand as of December 31, 2012) with maturity between June and September 2017. From this amount, US$ 46,875 thousand (US$ 59,375 thousand as of December 31, 2012) accrue interest at a fixed rate of 3.88% and US$ 96,875 thousand (US$ 109,375 thousand as of December 31, 2012) accrue interest at a variable rate of 3-month LIBOR plus a spread between 2.34% and 2.49% (2.41% and 2.56% as of December 31, 2012). These transactions contain standard clauses of compliance with financial ratios and other administrative matters. In the opinion of the management, those clauses do not affect the Bank's operations and are being met.

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

	In thousands of S/.	
	2013	2012
Up to 1 month	215,859	404,294
From 1 to 3 months	972,638	1,164,990
From 3 to 6 months	160,089	478,203
From 6 to 12 months	49,333	1,232,598
Over 12 months	3,486,803	1,731,280
	4,884,722	5,011,365

(17) Securities, Bonds and Obligations Issued

This caption comprises the following:

Issuance	Annual interest	Maturity	Outstanding balances in thousands of S/. 2013	2012
Negotiable notes (a)				
Series A	5.25%	2017	95,618	114,079
Series B	3m LIBOR + 2.75%	2017	239,046	285,197
			---------------	---------------
			334,664	399,276
			---------------	---------------
Redeemable subordinated bonds				
1st issuance single series (b)	4.50%	2027	1,118,000	1,020,000
1st issuance (c)	9.10%	2013	-	25,500
1st issuance A – 1st Program (d)	7.41%	2027	130,000	130,000
			--------------	---------------
			1,248,000	1,175,500
			--------------	---------------
Corporate bonds (e)				
1st issuance A – 1st Program	6.34%	2013	-	100,000
2nd issuance A – 1st Program	7.72%	2014	60,000	60,000
2nd issuance B – 1st Program	6.28%	2014	50,000	50,000
2nd issuance C – 1st Program	5.53%	2015	50,000	50,000
3rd issuance A – 1st Program	6.81%	2013	-	150,000
4th issuance A – 1st Program	4.72%	2017	50,000	-
5th issuance A – 1st Program	6.44%	2014	40,900	40,900
5th issuance B – 1st Program	6.59%	2014	25,150	25,150
5th issuance C – 1st Program	6.31%	2014	49,290	49,290
7th issuance A – 1st Program	7.19%	2017	60,000	60,000
8th issuance A – 1st Program	7.31%	2017	100,000	100,000
1st issuance A – 2nd Program	5.72%	2017	100,000	100,000
2nd issuance B – 2nd Program	5.19%	2017	50,000	50,000
2nd issuance C – 2nd Program	5.16%	2017	50,000	50,000
3rd issuance A – 2nd Program	6.78%	2018	75,920	75,920
3rd issuance B – 2nd Program	5.56%	2019	100,000	100,000
5th issuance A – 2nd Program	5.09%	2017	58,000	58,000
5th issuance B – 2nd Program	6.19%	2018	38,500	-
			---------------	---------------
			957,760	1,119,260
			---------------	---------------
			2,540,424	2,694,036
Interest payable and obligations			21,653	22,657
			---------------	---------------
			2,562,077	2,716,693
			=========	=========

(a) In January 2010, SBP DPR Finance Company (special purpose entity established in Grand Cayman and consolidated by Scotiabank Group) made a securitization agreement of Diversified Payment Rights (DPR, for its acronym in English), in which SBP DPR Finance Company acquired the rights and future flows from remittances received from correspondent banks up to the deadline specified in the contract. SBP DPR Finance Company issued two series of long-term notes, Series A for US$ 50,000 thousand and Series B for US$ 125,000 thousand, both series with maturities in 2017. As of December 31, 2013, Series A notes amounted to US$ 34,211 thousand (US$ 44,737 thousand as of December 31, 2012) and Series B notes amounted to US$ 85,526 thousand (US$ 111,842 thousand as of December 31, 2012). The notes are guaranteed by remittances received through SWIFT messages and are transferred to SBP DPR Finance Company. These contracts and transactions contain standard clauses of compliance with financial ratios and other administrative matters. In the opinion of the management, those clauses do not affect the Bank's operations and are being met.

(b) 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 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.

(c) During 2000, the Bank issued, through public auction, subordinated bonds for US$ 70,000 thousand denominated Banco Wiese Sudameris Subordinated Bonds-First Issuance with SBS authorization – Resolution 366-2000. The issuance of these bonds concluded in 2001 and was executed in seven series (identified with letters A, B, C, D, E, F and G) of 1,000 bonds per series at a par value of US$ 10 thousand each maturing in June 2012 (series A, B, C, D, E and F) and October 2013 (series G). The proceeds were exclusively destined to credit operations financing.

(d) In July 31, 2012, CrediScotia Financiera S.A. issued, through public auction, subordinated bonds for S/. 130,000 thousand denominated Subordinated Bonds – First Issuance with SBS authorization – Resolution 4873 – 2012, such series comprise 13,000 bonds at a par value of S/. 10 thousand each, with maturity in July 2027 and a put option from the tenth years if the terms and conditions of such issuance are met. The proceeds were exclusively destined to credit operations financing.

(e) From 2007 to date, Scotiabank Perú S.A.A and CrediScotia Financiera S.A. have issued Corporate Bonds for S/. 747,760 thousand and S/. 210,000 thousand, respectively within terms ranging from 1 to 7 years. The proceeds were exclusively destined to credit operations financing.

As of December 31, 2013 and 2012, interest expenses on issued securities, bonds and obligations of Scotiabank Perú S.A.A. and Subsidiaries amount to S/. 139,276 thousand and S/. 99,064 thousand, respectively (note 23).

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.

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

	In thousands of S/.	
	2013	2012
Less than 3 month	39,156	37,275
3 to 6 months	130,734	282,358
6 to 12 months	180,076	72,476
Over 12 months	2,212,111	2,324,584
	-----------------	-----------------
	2,562,077	2,716,693
	==========	==========

(18) Provisions and Other Liabilities

This caption comprises the following:

	In thousands of S/.	
	2013	2012
Accounts payable:		
Other accounts payable (a)	257,616	162,242
Dividends, vacations, profit sharing and remunerations payable	111,397	109,024
Put option (b)	61,627	53,162
	430,640	324,428
Provisions:		
Provisions for litigations and legal claims (c)	99,924	102,147
Provisions for various contingencies (d)	74,146	72,576
Provision for contingent loans and country risk	69,581	57,296
Other provisions (e)	71,226	90,057
	314,877	322,076
Other liabilities:		
Transactions in progress (f)	103,366	102,267
Accounts payable to brokerage customers	-	17,193
Dividends payable to brokerage customers	-	17,532
Deferred income on portfolio sale and other	35,789	14,356
Income tax provision	-	11,484
	139,155	162,832
	884,672	809,336

(a) As of December 31, 2013, this account was composed mainly of accounts payable to: (i) suppliers for S/. 119,363 thousand; (ii) purchase of investments for S/. 74,181 thousand; iii) insurance companies for services agreed-upon by customers for S/. 10,138 thousand; and iv) merchants for purchases with credit cards issued for S/. 16,831 thousand (S/. 76,600 thousand, S/. 13,308 thousand, S/. 11,866 thousand and S/. 20,937 thousand; respectively as of December 31, 2012).

(b) As of December 31, 2013 and 2012, the Bank has signed a put option contract on its own common shares held in a trust, entitling the trustee the right to sell to the Bank all of these shares at a price calculated based on this contract. This option is effective from September 15, 2006 through December 31, 2015 and its carrying amount does not differ significantly from its estimated market value.

(c) As of December 31, 2013 and 2012, Scotiabank Perú S.A.A. and Subsidiaries have various legal actions underway, which are related to civil and labor claims, among others. These legal actions resulted from activities and operations performed during the normal course of Scotiabank Perú S.A.A. and Subsidiaries' operations, it is not anticipated they will have no significant impact on operations or results.

(d) As of December 31, 2013, this account was composed mainly of: i) reversals or recoveries of provisions recorded since 2002 charged to equity accounts, which, according to SBS Official Letter 23797-2003, shall be reallocated to deficits of provisions in other asset accounts of the Bank for S/. 43,413 thousand (S/. 40,065 thousand as of December 31, 2012); and ii) provision for various contingencies charged to profit or loss for S/. 23,281 thousand (S/. 24,442 thousand as of December 31, 2012).

(e) As of December 31, 2013, the balance of other provisions mainly include: i) provisions for personnel expenses for S/. 42,989 thousand (S/. 35,573 thousand as of December 31, 2012), ii) provisions for campaigns of products to attract funds for S/. 2,211 thousand (S/. 2,017 thousand as of December 31, 2012), and iii) provisions for debit and credit cards campaigns for S/. 12,798 thousand (S/. 11,531 thousand as of December 31, 2012).

Likewise, as of December 31, 2012, other provisions include the balance of the adjustment to the acquisition cost (earn out) of the shares of CrediScotia Financiera S.A. for S/. 28,579 thousand. The adjustment to the price was determined in conformity with the purchase agreement; which allowed the possibility to adjust the acquisition cost upon achievement of certain results indicated in the purchase agreement. The payment of this adjustment at cost was made through three annual payments of US$ 10,000 thousand as established in the contract; the last payment was made in April 2013.

(f) 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 accounts. These operations do not affect the results of Scotiabank Perú S.A.A. and Subsidiaries. As of December 31, 2013, liability transactions in progress mainly include S/. 11,584 thousand related to Treasury operations (S/. 54,819 thousand as of December 31, 2012), ii) S/. 3,278 thousand related to credit card operations (S/. 3,004 thousand as of December 31, 2012), iii) S/. 487 thousand related to the clearing process at the electronic clearinghouse (S/. 570 thousand as of December 31, 2012); iv) S/. 5,563 thousand related to debt purchase transactions (S/. 5,412 thousand as of December 31, 2012), v) S/. 32,658 thousand related to client's deposits in-transit (S/. 6,435 thousand as of December 31, 2012), and vi) S/. 11,351 thousand related to third party insurance (S/. 6,467 thousand as of December 31, 2012).

(19) 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 as of December 31, 2013 amounts to S/. 4,500,773 thousand and S/. 532,805; respectively (S/. 4,019,790 thousand and S/. 524,913, respectively as of December 31, 2012). This figure is used to calculate certain legal limits and restrictions according to the Peruvian Banking Law applicable to the financial institutions' operations in Peru.

As of December 31, 2013, credit risk weighted assets and contingent credits determined by Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. according to the legislation applicable to financial institutions amounted to S/. 32,011,827 thousand and S/. 2,910,696, respectively (S/. 23,899,141 thousand and S/. 3,381,243 thousand, respectively as of December 31, 2012).

As of December 31, 2013 and 2012, the Banking Law established as a global limit that the regulatory capital shall be equal to or greater than 10% of the total risk weighted assets and contingent credits, which corresponds to the sum of: the amount of regulatory capital requirements for market risk multiplied by 10, plus the amount of the regulatory capital requirements for operational risk multiplied by 10, plus the risk weighted credit related assets and contingencies. As of December 31, 2013, the regulatory capital of Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. represents 13.24% and 17.09% respectively, of the regulatory capital requirements for market, operative and credit risk (15.74% and 14.94% respectively as of December 31, 2012).

Likewise, by means of Resolution 2115-2009, the SBS approved the rules for the regulatory capital requirement for operational risk, effective July 1, 2009. On this respect, as of December 31, 2013 and 2012, 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. Such additional requirement determined by Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. as of December 31, 2013, amounted to S/. 550,826 thousand and S/. 70,874 thousand, respectively (S/. 292,194 thousand and S/. 60,383 thousand as of December 31, 2012, respectively).

(b) Capital Stock

As of December 31, 2013, the Bank's capital stock comprised 302,480,263 common shares (282,480,263 common shares as of December 31, 2012). All shares have voting rights and a par value of S/. 10.00 each. As of those dates, the quoted value of common shares of the Bank was S/. 30.40 and S/. 36.60 per share, respectively; likewise, the monetary inflation adjustment of 2001 through 2004 amounting to S/. 28,019 thousand is pending of capitalization.

Pursuant to the delegation conferred by the General Shareholders' meeting during December 2013, the board approved the increase of capital stock arising from the capitalization of year 2012 retained earnings for S/. 200,000 thousand. As of December 31, 2013, issuance of such shares is under process. As a result of the capitalization, the capital stock increased to S/. 3,024,803 thousand and will be represented by 302,480 thousand common shares with a par value of S/. 10.00 each.

During 2012, pursuant to the delegation conferred by the General Shareholders' meeting, the board approved the increase of capital stock resulting from the capitalization of year 2011 and 2010 retained earnings for S/. 395,397 thousand and S/. 158,118 thousand, respectively. As of December 31, 2012, issuance of part of the shares corresponding to capitalization of year 2011 retained earnings was in process. As a result of the capitalization, the capital stock will increase to S/. 2,824,803 thousand and were represented by 282,480 thousand common shares with a par value of S/. 10.00 each.

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

Percentage of shareholding	2013 Number of shareholders	2013 %	2012 Number of Shareholders	2012 %
0.01 to 1	1,875	2.25	2,039	2.25
1.01 to 50	2	42.43	2	42.43
50.01 to 100	1	55.32	1	55.32
	1,878	100.00	2,042	100.00

As of December 31, 2013, the Banking Law requires that capital stock shall reach the minimum amount of S/. 25,493 thousand (S/. 24,950 thousand as of December 31, 2012), which is a constant value and shall be updated annually at the closing of each period, based on the wholesale price index (WPI), as published by the Instituto Nacional de Estadistica e Informatica (National Institute of Statistics).

(c) Additional paid-in Capital

As of December 31, the additional capital balance comprises:

	In thousands of S/.	
	2013	2012
Issuance premium	368,522	368,522
Gain on treasury shares	42	31
	368,564	368,553

During 2013, the Bank sold 4,470 treasury shares at the value of S/. 34.46 per share; thus generating a profit of S/. 11 thousand.

(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.

At the Bank's Annual Obligatory General Shareholders' meeting, held on March 26, 2013, it was decided to apply to legal reserve an amount of S/. 82,256 thousand, corresponding to 10% of net profit for the year 2012. At the Bank's Annual Obligatory General Shareholders' meeting, held on March 28, 2012, it was decided to apply to legal reserve an amount of S/. 78,849 thousand, corresponding to 10% of net profit for the year 2011.

(e) Retained Earnings

At the Bank's General Shareholders' meeting, held on March 26, 2013, the distribution of net profit 2012 for a total of S/. 822,560 thousand was approved, as follows:

(i) Cash dividends payment for S/. 329,024 thousand.
(ii) Allocate 10% of net profit, amounting to S/. 82,256 thousand to increase the legal reserve.
(iii) Remaining balance, amounting to S/. 411,280 thousand; will be held in the retained earnings account.

Likewise, the meeting agreed on the Scotiabank Perú S.A.A.'s dividend distribution though cash payments of the non-distributed balance of 2011 net profit which amounted to S/. 70,332 thousand.

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

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

(f) Other Comprehensive Income

As of December 31, 2013 and 2012, it mainly includes unrealized results of available-for-sale investments and share in other comprehensive income of subsidiaries and associates, net of its deferred income tax effects.

(20) Contingencies

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

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

Additionally, Scotiabank Perú S.A.A. and Subsidiaries 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 18.c).

(21) Contingent and Memoranda Accounts

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 recorded 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 credit losses in contingent transactions. The Bank and CrediScotia Financiera S.A. apply the same credit policies to evaluate and grant direct loans as indirect loans.

Many of the indirect loans are expected to expire without any withdraw required by the Bank and CrediScotia Financiera S.A. The total committed amounts do not necessarily represent future cash outflows. Also, documentary credits, like export and import letters of credit and guarantees and stand-by letters of credit are conditional commitments issued by the Bank and CrediScotia Financiera S.A. to guarantee a customer obligation before a third party.

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

	In thousands of S/.	
	2013	2012
Indirect loans:		
Guarantees and stand-by letters of credit	5,947,893	3,888,379
Issued letters of credit	660,510	532,412
Due from bank acceptances	118,946	66,732
	6,727,349	4,487,523
Unused credit lines	18,355,910	14,648,417
Financial derivative instruments	17,869,343	11,250,059
Other	542	539
	42,953,144	30,386,538
Memoranda accounts:		
Guarantee received (a)	63,011,522	50,240,478
Securities in collection	15,728,837	12,974,010
Written-off loans	8,955,505	3,450,933
Securities held in custody	6,237,260	6,820,480
Own securities in custody	3,291,316	3,082,350
Trust and debt trust commissions	2,316,981	2,669,887
Suspended interest on loans	1,407,607	5,966,669
Notified letters of credit	1,473,476	714,299
Securities granted as warranties	694,444	603,078
Goods transferred in trust	392,676	3,794,898
	103,509,624	90,317,082
Controlling account for transactional use: (b)		
Control of loan transactions	48,105,325	35,619,256
Control of returned checks	24,359,911	21,870,790
Control of financial derivative instruments	17,805,287	11,505,259
Other controlling account for transactional use	23,767,720	26,897,285
	217,547,867	186,209,672
	260,501,011	216,596,210

(a) Guarantees received from credit operations are recorded at the value of the collateral agreed as of the date of the loan contract. This balance does not necessarily represent the market value of guarantees received by the Bank and CrediScotia Financiera S.A. As of December 31, 2013, loan balances covered by guarantees amount to S/. 14,428,196 thousand (S/. 11,010,641 thousand as of December 31, 2012).

(b) Controlling accounts for tracking of transactions are automatically generated by the Bantotal system, which is an operational and accounting platform that records internal controlling accounts per transaction at face value. These accounts are used by the operating areas for managing and monitoring the processing operations.

(22) Interest Income

This caption comprises the interest income of:

	In thousands of S/.	
	2013	2012
Direct loan portfolio	2,974,432	2,809,341
Cash and due from banks and deposits in banks (note 6)	81,832	68,631
Available-for-sale investments (note 7)	43,257	66,002
Interbank funds	7,381	6,501
Investments at fair value through profit or loss (note 7)	3,869	4,232
Other finance income	3,225	8,504
	3,113,996	2,963,211

(23) Interest Expenses

This caption comprises the interest expenses of:

	In thousands of S/.	
	2013	2012
Obligations	340,737	318,748
Securities issued (note 17)	139,276	99,064
Interest on borrowings from banks and other financial institutions	100,963	108,006
Commissions on borrowings and financial obligations	28,285	19,393
Deposits of financial entities	5,630	11,328
Interbank funds	1,103	3,236
	615,994	559,775

(24) Income from Finance Services, net

This caption comprises the following:

	In thousands of S/.	
Income:	2013	2012
Income from deposit transactions, services and transfer fees	133,400	147,551
Income from purchased portfolio recoveries	137,693	94,219
Income from commissions from collections services	115,552	83,209
Other fees and commissions from banking services	98,920	105,885
Income from brokerage services	71,982	51,640
Income from teleprocessing services	37,002	25,944
Income from warehousing	39,615	50,747
Income from remunerations of mutual funds and administration fees	34,415	29,047
Income from structuring and administration services	23,371	23,765
Other various income	293,824	227,581
	985,774	839,588
Expenses:		
Other expenses	(255,503)	(160,330)
Brokerage services expenses	(62,301)	(37,377)
Credit / debit cards expenses	(48,722)	(45,552)
Warehousing expenses	(36,255)	(30,905)
Deposit insurance fund premiums	(26,645)	(24,645)
Insurance services expenses	(2,529)	(2,089)
	(431,955)	(300,898)
Total income from finance services, net	553,819	538,690

(25) Results from Financial Transactions

This caption comprises the results of:

	In thousands of S/.	
	2013	2012
Gain on exchange difference (note 5)	190,601	141,320
Trading derivatives (note 9)	42,240	30,602
Proceeds on sale of investments (a)	40,442	29,687
Gain on sale of loan portfolio	32,322	24,170
Gain in associates	16,038	11,585
Available-for-sale investments	2,081	2,443
Investments at fair value through profit or loss	(7,745)	2,404
Other	(7,173)	(1,803)
Total results from financial transactions, net	308,806	240,408

(a) The result in the trading of securities includes S/. 31,067 thousand corresponding to the proceeds from the sale of shares of Depósitos S.A. (note 2).

(26) Administrative Expenses

This caption comprises the following:

	In thousands of S/.	
	2013	2012
Personnel and board of directors expenses	696,991	671,443
Expenses for services received from third parties	554,463	492,632
Taxes and contributions	81,504	70,767
	1,332,958	1,234,842

(27) Other Income, net

This caption comprises the other income net of:

	In thousands of S/.	
	2013	2012
Leasing of own goods	7,153	7,311
Reimbursements and recoveries	5,736	-
Sales of services	3,237	1,405
Proceeds from sale of repossessed assets	1,471	10,199
Proceeds from sale of property, furniture, and equipment (a)	83,449	3,840
Other income, net	1,303	6,325
	102,349	29,080

(a) It mainly comprises S/.80,895 thousand for the profit before taxes arising from the sale of a property (note 2).

(28) Tax Matters

(a) In accordance with current tax legislation, corporate income tax for the years 2013 and 2012 is calculated applying the statutory income tax rate of 30%. The income tax of each company composing Scotiabank Perú S.A.A. and Subsidiaries has been determined for fiscal years 2013 and 2012, as follows:

	In thousands of S/.	
	2013	2012
Scotiabank Perú S.A.A.	322,597	299,660
CrediScotia Financiera S.A.	24,962	86,293
Depósitos S.A. (*)	24,240	4,904
Servicios, Cobranzas e Inversiones S.A.	18,329	12,909
Scotia Fondos Sociedad Administradora de Fondos S.A.	4,809	3,491
Trust Property on real estate - Depsa	433	-
Scotia Sociedad Titulizadora S.A.	106	124
Scotia Sociedad Agente de Bolsa S.A.	185	6,404
	395,661	413,785

(*) Income tax expense recognized for Depósitos S.A. for the nine (9) months of operations in 2013 as part of the Group, do not represent the total obligation of the entity for the fiscal period, according to income tax law.

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

Company	Tax returns subject to audit	Tax returns being audited
Scotiabank Perú S.A.A.	2011 through 2013	2007 through 2010
CrediScotia Financiera S.A.	2010 and 2013	2011 and 2012
Scotia Sociedad Agente de Bolsa S.A	2008, 2010 through 2013	-
Scotia Fondos Sociedad Administradora de Fondos S.A.	2009 through 2013	-
Scotia Sociedad Titulizadora S.A.	2009 through 2013	-
Depósitos S.A.	2010 through 2013	-
Servicios, Cobranzas e Inversiones S.A.C	2010 through 2013	2011

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

(c) The total or partial distribution of dividends, or other types of profit distribution, is subject to a 4.1% income tax withholding, except for the distribution of profits made in favor of domiciled entities.

(d) As from 2001, for income tax purposes, transfer pricing for transactions carried out with economically-related parties, and with companies domiciled in territories with low or null taxation, shall be supported with documentation and information about the valuation methods used, and the criteria considered, for pricing. Scotiabank Perú S.A.A. and Subsidiaries' management consider that for income tax purposes, pricing regarding transactions such as those aforementioned have been made in accordance with tax legislation; consequently, no significant liabilities will arise as of December 31, 2013.

(e) Beginning 2010, capital gains are subject to income tax. In this regard, it has been established, among others, that the tax cost of securities whose disposition was tax-exempt until December 31, 2009 since they were traded at stock exchange, will be the higher between: (i) market value as of December 31, 2009, (ii) acquisition cost, or (iii) increase in the equity value, following the procedures described in Executive Order 011-2010-EF. This rule is applicable to legal entities when securities are negotiated through or outside centralized trading mechanisms in Peru.

Beginning January 1, 2010, only interest and capital gains from bonds issued by the Republic of Peru are income tax-exempt if: (i) under Executive Order 007-2002-EF, (ii) under the Market-Makers program or the replacing mechanism, or (iii) in the international market since 2002; as well as interest and capital gains from obligations from the Peruvian Central Reserve Bank (except for those from legal cash reserve requirements deposited by credit institutions); and those coming from the direct or indirect disposition of securities that are traded or underlying Exchange Traded Fund (ETF) that replicate indexes constructed having as reference national investment instruments, when such disposition is made for the creation, payment or management of an investment portfolio of ETFs. Interest and capital gains from corporate bonds issued before March 11, 2007 are also tax-exempt, under certain conditions.

(f) In conformity with the Income Tax Law, as modified by Law 29663 and 29757, as from fiscal period 2011, income arising from indirect disposition of shares of Peruvian companies shall be subject to the aforementioned tax. An indirect share transfer occurs when the following assumptions are met:

   i. 10% of more of shares of the off-shore company will be sold in any twelve-month period (assumption effective on February 16, 2011) and,

   ii. Market value of the Peruvian company's shares shall represent 50% or more of the market value of the off-shore company, within any twelve-month period (assumption effective on July 22, 2011).

(g) In 2005, a tax named Temporary Tax on Net Assets (ITAN, for its acronyms in Spanish) was established. Taxable base is composed of the net asset value adjusted as of the closing of the period before the payment was made, deducting the depreciations, amortizations, legal cash reserve, and specific provisions for credit risk. Since 2009, the tax rate applicable to the amount of assets exceeding S/. 1,000 thousand is 0.4 %. It may be paid in cash or in nine consecutive monthly instalments. The amount actually paid may be used as partial payments of income tax for taxable periods March to December of the fiscal period for which the tax was paid until maturity of each of the partial payments and against the payment for regularization of income tax of the corresponding taxable period.

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

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

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

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

(i) Administrators of Mutual Funds of Investment in Securities are withholding agents with respect to income arising from the funds they administer; therefore, they are obliged to determine and allocate the revenues generated at each managed fund, which retain its original status of taxable, tax-exempt and exonerated according to law.

Likewise from 2013, Legislative Decree 1120 came into force thus resulting in a change in the fiscal transparency regime applicable to mutual funds.

The profit arising from redemption will be subject to a withholding effective rate of 5 % for individuals domiciled in Peru, regardless of the instruments where the fund invested.

(j) The reconciliation of the tax rate and the effective tax rate of Scotiabank Perú S.A.A. and Subsidiaries is as follows:

	2013		2012	
	In thousands of S/.	%	In thousands of S/.	%
Profit before taxes	1,224,974	100.00	1,185,055	100.00
Income tax (theoretical)	367,492	30.00	355,517	30.00
Tax effect on additions and (deductions):				
Permanent differences	(475)	(0.04)	8,113	0.68
Current and deferred income tax, recorded as per effective rate	367,017	29.96	363,630	30.68

(29) Deferred Income Tax

Deferred income tax has been calculated applying the statement of financial position method (note 4.j), and is attributed to the following items:

	In thousands of S/.						
	Balances as of 12.31.11	(Debit) credit to equity	(Debit) credit to results	Balances as of 12.31.12	(Debit) credit to equity	(Debit) credit to results	Balances as of 12.31.13
Assets:							
Generic provision for direct loans	108,142	-	17,705	125,847	-	12,601	138,448
Transferred loan portfolio	19,283	-	(344)	18,939	-	-	18,939
Generic provision for contingent loans	-	-	9,781	9,781	-	6,034	15,815
Provision for vacations	12,720	-	282	13,002	-	1,160	14,162
Doubtful loans provision	4,242	-	3,591	7,833	-	1,904	9,737
Provision for repossessed assets	9,318	-	(236)	9,082	-	245	9,327
Fixed assets	324	-	5,650	5,974	-	9,281	15,255
Provision for credit card rewards	2,819	-	(122)	2,697	-	226	2,923
Provision for debit card rewards	674	-	(29)	645	-	54	699
Intangible assets	341	-	-	341	-	(1,887)	(1,546)
Valuation of available-for-sale investments	-	-	2,420	2,420	-	(2,137)	283
Investment in subsidiary	-	-	-	-	30,133	-	30,133
Other	6,937	-	8,848	15,785	-	(1,059)	14,726
	164,800	-	47,546	212,346	30,133	26,422	268,901
Liabilities:							
Valuation of available-for-sale investments	(4,745)	2,429	2,316	-	(3,030)	2,222	(808)
Other	(293)	-	293	-	-	-	-
	(5,038)	2,429	2,609	-	(3,030)	2,222	(808)
Deferred income tax asset, net	159,762	2,429	50,155	212,346	27,103	28,644	268,093

(30) Employees' Profit Sharing

According to Legislative Decree 677, a 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 treated as deductible expenses for income tax calculation purposes. In 2013, a consolidated legal employees' profit sharing of S/. 77,855 thousand was determined (S/. 69,208 thousand in 2012) and is presented in 'administrative expenses' in the consolidated income statement.

(31) Trust Fund Activities

Scotiabank Perú S.A.A. and Subsidiaries offer structuring and administration services of trust operations and trust fees, and is in charge of the preparation of agreements related to these operations. Assets kept in trust are not included in the consolidated financial statements. Scotiabank Perú S.A.A. and Subsidiaries are responsible for the appropriate management of these trusts based on the limits established by applicable laws and the respective agreement. As of December 31, 2013, the allocated value of assets in trusts and trust fees amounted to S/. 1,323,611 thousand (S/. 1,512,103 thousand, in year 2012).

(32) Related Party Transactions

As of December 31, 2013 and 2012, the consolidated financial statements include transactions with related parties, which, as established by IAS 24, comprise the parent company, related parties, associates 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 as of December 31 were as follows:

	In thousands of S/.									
	2013					2012				
	Parent company	Related parties (i)	Associates	Key management	Total	Parent company	Related parties (i)	Associates	Key management	Total
Assets:										
Cash and due from banks	-	17,799	-	-	17,799	-	1,086	-	-	1,086
Loan portfolio, net	-	13	5	9,291	9,309	-	339	12	8,335	8,686
Held-for trading derivatives instruments	-	47,329	-	-	47,329	-	50,151	-	-	50,151
Other assets	16	4,682	-	262	4,960	147	11,714	1	31	11,893
Total assets	16	69,823	5	9,553	79,397	147	63,290	13	8,366	71,816
Liabilities:										
Deposits and obligations	2,991	1,183,367	11,896	13,760	1,212,014	33,263	176,202	29,475	13,298	252,238
Borrowings	-	2,531,428	-	-	2,531,428	-	1,952,402	-	-	1,952,402
Held-for trading derivatives instruments	-	75,030	-	-	75,030	-	35,177	-	-	35,177
Other liabilities	-	3,507	367	3,516	7,390	-	2,078	80	1,900	4,058
Total liabilities	2,991	3,793,332	12,263	17,276	3,825,862	33,263	2,165,859	29,555	15,198	2,243,875
Off-balance accounts:										
Contingent loans	-	250,265	22,801	140	273,206	241	118,839	20,851	-	139,931
Financial derivative instruments	-	10,209,374	-	-	10,209,374	-	4,312,207	-	-	4,312,207
Memoranda accounts	-	1,290,523	-	-	1,290,523	-	947,599	-	-	947,599

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

(b) Consolidated income statement arising from related party transactions for the year ended December 31 were as follows:

	In thousands of S/.									
	2013					2012				
	Parent company	Related parties (i)	Associates	Key management	Total	Parent company	Related parties (i)	Associates	Key management	Total
Interest income	273	2	3	542	820	192	55	36	435	718
Interest expenses	(14)	(26,339)	(3,216)	(231)	(29,800)	-	(26,816)	(2,191)	(224)	(29,231)
	259	(26,337)	(3,213)	311	(28,980)	192	(26,761)	(2,155)	211	(28,513)
Income from finance services	17	925	108	85	1,135	127	1,328	268	94	1,817
Expenses from finance services	-	(16)	(8,489)	(5)	(8,510)	-	(10)	(8,437)	(5)	(8,452)
	17	909	(8,381)	80	(7,375)	127	1,318	(8,169)	89	(6,635)
Results of financial transactions	-	(11,660)	-	-	(11,660)	-	58,163	-	-	58,163
Administrative expenses	-	(1,400)	(1,334)	(36,207)	(38,941)	-	(148)	(431)	(37,033)	(37,612)
Other income and expenses	-	471	-	(1)	470	-	1,141	(249)	1	893
Net profit	276	(38,017)	(12,928)	(35,817)	(86,486)	319	33,713	(11,004)	(36,732)	(13,704)

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

(c) Remuneration of key management for the years ended December 31, amounted to:

	In thousands of S/.	
	2013	2012
Remuneration of key management	35,829	36,780
Remuneration of members of the board of directors	372	249
	36,201	37,029

As of December 31, 2013 and 2012, the remuneration pending to pay to key management amounted to S/. 3,499 thousand and S/. 1,894 thousand, respectively.

(33) Classification of Financial Instruments

Management classifies its financial assets and liabilities in categories as described in note 4.b. As of December 31, financial assets and liabilities are classified as follows:

	In thousands of S/. 2013						
	At fair value through profit or loss	Loans & items receivable	Available-for-sale investments At amortized cost (a)	Available-for-sale investments At fair value	Liabilities at amortized cost	Other liabilities (b)	Total
Assets:							
Cash and due from banks	-	11,371,415	-	-	-	-	11,371,415
Interbank funds	-	364,224	-	-	-	-	364,224
Investment at fair value through profit or loss							
Capital instruments	9,333	-	-	-	-	-	9,333
Debt instruments	1,369,794	-	-	-	-	-	1,369,794
Available-for-sale investments							
Instruments representing capital	-	-	7,440 (c)	63,572	-	-	71,012
Instruments representing debt	-	-	-	651,391	-	-	651,391
Loan portfolio, net	-	27,341,186	-	-	-	-	27,341,186
Held-for trading derivatives instruments	142,288	-	-	-	-	-	142,288
Accounts receivable	-	174,395	-	-	-	-	174,395
Other assets	-	26,365	-	-	-	-	26,365
Total	1,521,415	39,277,585	7,440	714,963	-	-	41,521,403
Liabilities:							
Deposits and obligations	-	-	-	-	-	29,626,883	29,626,883
Deposits of financial entities and international finance institutions	-	-	-	-	-	458,122	458,122
Borrowings and financial obligations	-	-	-	-	7,446,799	-	7,446,799
Held-for trading derivatives instruments	176,863	-	-	-	-	-	176,863
Accounts payable	-	-	-	-	-	430,640	430,640
Provisions	-	-	-	-	-	314,877	314,877
Other liabilities	-	-	-	-	-	139,155	139,155
Total	176,863	-	-	-	7,446,799	30,969,677	38,593,339

(a) Including financial assets measured at cost.
(b) Including financial liabilities whose fair value correspond to carrying amounts as per Official Letter 1575-2014-SBS (note 3.e)
(c) Correspond to unlisted shares (note 7).

	In thousands of S/.						
	2012						
			Available-for-sale investments				
	At fair value through profit or loss	Loans items receivable	At amortized cost (a)	At fair value	Liabilities at amortized cost	Other liabilities (b)	Total
Assets:							
Cash and due from banks	-	7,539,854	-	-	-	-	7,539,854
Interbank funds	-	184,119	-	-	-	-	184,119
Investments at fair value through profit or loss							
Capital instruments	14,575	-	-	-	-	-	14,575
Debt instruments	78,519	-	-	-	-	-	78,519
Available-for-sale investments							
Instruments representing capital	-	-	7,454 (c)	85,733	-	-	93,187
Instruments representing debt	-	-	-	1,247,578	-	-	1,247,578
Loan portfolio, net	-	22,675,973	-	-	-	-	22,675,973
Held-for trading derivatives instruments	127,838	-	-	-	-	-	127,838
Accounts receivable	-	154,787	-	-	-	-	154,787
Other assets	-	67,595	-	-	-	-	67,595
Total	220,932	30,622,328	7,454	1,333,311	-	-	32,184,025
Liabilities:							
Deposits and obligations	-	-	-	-	-	20,459,570	20,459,570
Interbank funds	-	-	-	-	-	25,025	25,025
Deposits of financial entities and international finance institutions	-	-	-	-	-	277,885	277,885
Borrowings and financial obligations	-	-	-	-	7,728,058	-	7,728,058
Held-for trading derivatives instruments	117,224	-	-	-	-	-	117,224
Accounts payable	-	-	-	-	-	324,428	324,428
Provisions	-	-	-	-	-	322,076	322,076
Other liabilities	-	-	-	-	-	162,832	162,832
Total	117,224	-	-	-	7,728,058	21,571,816	29,417,098

(a) Including financial assets measured at cost.
(b) Including financial liabilities whose fair value corresponds to carrying amounts as per Official Letter 1575-2014-SBS (note 3.e).
(c) Correspond to unlisted shares (note 7).

(34) Financial Risk Management

Scotiabank Perú 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.

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 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 BNS as well as the approval of policies, limits and strategies for risk managing of risks to which Scotiabank Perú and Subsidiaries are exposed as Credit, Liquidity, Market, Operational and Technological risks, among others. For the development of risk management, the Board of Directors relies on the Risk Management Committee and the Audit Committee.

Executive Committees

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

Risk Senior Management

It is responsible for implementing the policies, methodologies and procedures to identify, monitor, mitigate and control the different types of risks to which Scotiabank Perú 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.

Risk Senior Management has the following units: Corporate and Commercial Loans, Retail Loans, Portfolio Risk, Risk Policies and Projects, 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:

A. Credit Risk
   (i) 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.

(ii) 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.

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.

A summary of the portions of credits covered by each type of collateral as of December 31, is presented below:

	In thousands of S/.	
	2013	2012
Loans with first mortgage or collateral trust on property registered in Public Records	6,578,717	4,543,280
Loans with non-preferred guarantees	4,389,329	1,597,758
Financial lease loans	4,041,848	3,767,364
Loans with subsidiary responsibility	994,407	547,523
Loans with first real estate collateral or collateral trust registered in Public Records	690,485	842,998
Loans with collateral or collateral trust registered in Public Records - warrants	363,320	332,439
Secured loans with cash deposits	286,645	286,868
Other collaterals	31,507	14,845
Loans without collateral	11,021,356	11,694,940
	28,397,614	23,628,015

(iii) Credit Rating

Scotiabank Perú 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.

Scotiabank Perú and Subsidiaries also utilize the regulatory debtors' credit rating, which determines the provision requirement of customers.

(iv) Debtor Regulatory Credit Rating
The debtor regulatory credit rating is conducted in accordance with criteria and parameters established by SBS through 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 small 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)

(v) Loan Portfolio Impairment Loss
As of December 31, 2013 and 2012, based on Resolution SBS 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 porfolio, it comprises loans overdue 90 days or more and those classified as lawsuit loans.

As of December 31, impaired and not impaired loans, per type of credit, are classified as follows:

	In thousands of S/. 2013					
	Wholesale loans	Small & medium-business loans	Consumer loans	Residential mortgage loans	Total	%
Neither past due not impaired loans:						
Standard	14,724,779	3,314,982	4,544,660	3,859,855	26,444,276	93
Potential problem	171,067	137,192	265,972	81,446	655,677	2
Past due but not impaired loans:						
Standard	6,167	41	77	-	6,285	-
Potential problem	11,043	18	10	137	11,208	-
Impaired loans:						
Standard	706	-	-	-	706	-
Potential problem	9,291	-	-	-	9,291	-
Substandard	74,686	93,717	131,969	28,486	328,858	1
Doubtful	60,369	123,986	213,767	30,668	428,790	2
Loss	119,159	203,912	142,215	47,237	512,523	2
Gross loan portfolio	15,177,267	3,873,848	5,298,670	4,047,829	28,397,614	100
Less: provisions	(340,994)	(331,525)	(477,851)	(92,499)	(1,242,869)	
Total net	14,836,273	3,542,323	4,820,819	3,955,330	27,154,745	

	In thousands of S/. 2012					
	Wholesale loans	Small & medium-business loans	Consumer loans	Residential mortgage loans	Total	%
Neither past due not impaired loans:						
Standard	10,833,037	3,835,059	4,140,027	3,065,980	21,874,103	93
Potential problem	165,764	138,840	262,131	77,079	643,814	3
Past due but not impaired loans:						-
Standard	6,260	32	84	2	6,378	-
Potential problem	6,649	4,963	144	89	11,845	-
Impaired loans:						-
Standard	738	-	-	-	738	-
Potential problem	47,303	-	-	-	47,303	-
Substandard	32,880	77,952	115,968	25,176	251,976	1
Doubtful	29,599	99,881	176,902	18,753	325,135	1
Loss	168,161	149,244	110,749	38,569	466,723	2
Gross loan portfolio	11,290,391	4,305,971	4,806,005	3,225,648	23,628,015	100
Less: provisions	(305,976)	(290,859)	(409,247)	(73,014)	(1,079,096)	
Total net	10,984,415	4,015,112	4,396,758	3,152,634	22,548,919	

As of December 31, 2013 and 2012, refinanced and restructured loans amount to S/. 170,380 thousand and S/. 232,039 thousand, respectively, of which S/. 16,904 thousand and S/. 15,884 thousand, are classified as "neither past due not impaired loans" and S/. 153,476 thousand and S/. 216,155 thousand as "impaired loans", respectively.

Likewise, as of December 31, past due loan but not impaired per type of loan, delinquency days and value of related collaterals are presented below:

	In thousands of S/.				
	2013				
Delinquency days	16 -30	31 – 60	61 – 90	Total	Value of the collaterals
Type on loans:					
Corporate	38	-	-	38	-
Large-business loans	875	187	2	1,064	486
Medium-business loans	9,064	7,021	23	16,108	16,716
Subtotal Wholesale banking	9,977	7,208	25	17,210	17,202
Small-business loans	-	31	25	56	2,630
Micro-business loans	-	3	-	3	56
Non-revolving consumer loans	-	26	54	80	258
Revolving consumer loan	-	-	7	7	-
Mortgage loans	-	137	-	137	164
Subtotal Retail banking	-	197	86	283	3,108
Total	9,977	7,405	111	17,493	20,310

	In thousands of S/.				
	2012				
Delinquency days	16 -30	31 – 60	61 – 90	Total	Value of the collaterals
Type on loans:					
Large-business loans	186	402	-	588	410
Medium-business loans	7,321	4,980	20	12,321	10,249
Subtotal Wholesale banking	7,507	5,382	20	12,909	10,659
Small-business loans	-	3,695	24	3,719	2,349
Micro-business loans	-	1,276	-	1,276	8,354
Non-revolving consumer loans	-	19	5	24	-
Revolving consumer loan	-	157	47	204	365
Mortgage loans	-	91	-	91	547
Subtotal Retail banking	-	5,238	76	5,314	11,615
Total	7,507	10,620	96	18,223	22,274

Coverage of impaired loans as of December 31, taking into consideration guarantees and related provisions are presented below:

	In thousands of S/.				
	2013				
	Wholesale loans	Small & Medium-business loans	Consumer loans	Residential mortgage loans	Total
Impaired loans	264,211	421,615	487,951	106,391	1,280,168
Value of collaterals	283,054	325,275	70,980	148,599	827,908
Provisions for doubtful loans	150,699	255,899	298,959	48,238	753,795

	In thousands of S/.				
	2012				
	Wholesale loans	Small & Medium-business loans	Consumer loans	Residential mortgage loans	Total
Impaired loans	278,681	327,077	403,619	82,499	1,091,876
Value of collaterals	227,362	217,516	52,586	106,165	603,629
Provisions for doubtful loans	149,607	197,522	242,039	37,644	626,812

The collaterals were considered for the provisions for doubtful loans calculations in accordance with the criteria established in SBS Resolution 11356-2008.

(vi) Write-off of Loans

As of December 31, 2013 and 2012, the Bank and CrediScotia Financiera S.A. hold written-off loans, which are presented in memoranda accounts. The table below shows the movement of these write-off loans:

	In thousands of S/.	
	2013	2012
Opening balance	1,012,787	932,018
Write-offs	708,654	557,166
Cash recovery	(10,863)	(2,840)
Forgiveness	(100)	(284)
Portfolio sale	(325,740)	(426,656)
Foreign exchange differences	74,823	(43,994)
Other	(6,198)	(2,623)
Final balance	1,453,363	1,012,787

(vii) Financial assets exposed to credit risk concentration

(a) As of December 31, financial assets are distributed among geographical areas as follows:

	In thousands of S/. 2013				
	At fair value through profit or loss	Loans and items receivable	Available-for-sale At amortized cost (*)	Available-for-sale At fair value	Total
Peru	1,474,920	38,797,926	6,377	714,963	40,994,186
Venezuela	-	-	1,063	-	1,063
Canada	44,824	17,799	-	-	62,623
France	496	-	-	-	496
United Kingdom	895	-	-	-	895
United States	280	436,202	-	-	436,482
Germany	-	23,685	-	-	23,685
Brazil	-	1,145	-	-	1,145
Switzerland	-	34	-	-	34
Australia	-	24	-	-	24
Belgium	-	71	-	-	71
Panama	-	699	-	-	699
Total	1,521,415	39,277,585	7,440	714,963	41,521,403

	In thousands of S/. 2012				
	At fair value through profit or loss	Loans and Items receivable	Available-for-sale At amortized cost (*)	Available-for-sale At fair value	Total
Peru	130,599	30,298,207	6,485	1,333,311	31,768,602
Venezuela	-	-	969	-	969
Canada	50,128	1,075	-	-	51,203
France	3,443	-	-	-	3,443
United Kingdom	716	-	-	-	716
United States	36,046	275,022	-	-	311,068
Germany	-	21,647	-	-	21,647
Brazil	-	997	-	-	997
Switzerland	-	25	-	-	25
Australia	-	535	-	-	535
Belgium		24,182			24,182
Panama	-	638	-	-	638
Total	220,932	30,622,328	7,454	1,333,311	32,184,025

(*) It includes financial assets measured at cost.

(b) As of December 31, direct loans are distributed among economic sectors as follows:

	In thousands of S/.			
	2013	%	2012	%
Mortgage and consumer loans	9,346,500	33%	8,031,654	34%
Trade	3,745,767	13%	2,995,426	13%
Manufacturing	3,332,140	12%	2,692,599	11%
Real estate business and lease service	2,404,597	8%	2,053,881	9%
Mining	1,548,857	5%	678,102	3%
Transport	1,232,754	4%	976,369	4%
Power, gas, and water	1,029,277	4%	758,360	3%
Education, services, and other	814,884	3%	627,503	3%
Brokerage service	793,346	3%	781,489	3%
Agriculture and livestock	536,368	2%	410,533	2%
Fishing	452,371	2%	361,033	2%
Construction	300,416	1%	323,963	1%
Hotel and restaurants	225,529	1%	254,285	1%
Public administration and defense	139,305	0%	25,802	0%
Other (mainly non-profit, healthcare and automotive)	2,495,503	9%	2,657,016	11%
	28,397,614	100%	23,628,015	100%

B. Market Risk

Market risk is the risk that changes in market prices, such as interest rates, equity shares prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's credit rating) will 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 acceptable risk tolerance and appetite parameters, in order to ensure the solvency while optimizing the return adjusted by risk.

(i) 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 Treasury. Accordingly, the foreign exchange positions are treated as part of the trading portfolios for risk management purposes.

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

(ii) 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 percent confidence level and assumes a 1-day holding period. Considering market data from the previous 300 days, relationships between different markets and prices are observed, the model generates a wide range of plausible future scenarios for market price movements.

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 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used, there is a one percent 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.

Managment 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 ALCO and is allocated to trading portfolios. VaR is measured at least daily and monitored through daily reports of use which are submitted from local Market Risk Unit to Treasury 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 rage 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.

According to this methodology, as of December 31, the daily expected maximum loss is:

	In thousands of S/.	
VaR	2013	2012
Peru total	1,400	1,290
Spot and Forwards unit	338	1,033
Fixed income unit	1,725	729

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.

(iii) 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 price 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 and financial position.

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

Exposure to market risks includes mainly:

(a) 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 Bank 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 statement of financial position 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 by the ALCO 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 others 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.

The table below summarizes the interest rate risk exposure as of December 31, including the carrying amount of assets and liabilities classified by the earlier of the contractual repricing or maturity dates:

	In thousands of S/.											
	2013						2012					
	Up to 1 month	1 to 3 months	3 to 12 months	Over 12 months	Do not accrue interest	Total	Up to 1 month	1 to 3 months	3 to 12 months	Over 12 months	Do not accrue interest	Total
Assets:												
Cash and due from banks	8,700,550	90	10,634	1,579,727	1,080,414	11,371,415	6,314,710	11,862	1,904	366,075	845,303	7,539,854
Interbank funds	364,224	-	-	-	-	364,224	184,119	-	-	-	-	184,119
Investments at fair value through profit or loss and available-for-sale	726,305	554,381	252,330	568,514	-	2,101,530	-	29,502	836,765	563,235	4,357	1,433,859
Loan portfolio, net	2,952,227	5,107,972	8,701,407	10,579,580	-	27,341,186	2,788,468	3,900,559	7,540,782	8,446,164	-	22,675,973
Held-for trading derivatives instruments	-	-	-	-	142,288	142,288	-	-	-	-	127,838	127,838
Accounts receivable	2,396	9,431	2,199	9,421	589,431	612,878	1,032	34	25,812	2,575	351,000	380,453
Other assets	-	-	12,075	16,291	1,672,626	1,700,992	-	-	1,466	13,979	1,687,036	1,702,481
Total Assets	12,745,702	5,671,874	8,978,645	12,753,533	3,484,759	43,634,513	9,288,329	3,941,957	8,406,729	9,392,028	3,015,534	34,044,577
Liabilities:												
Deposits and obligations	10,518,125	3,069,557	11,163,693	4,862,884	12,624	29,626,883	6,432,909	1,610,331	6,111,377	6,296,808	8,145	20,459,570
Interbank funds	-	-	-	-	-	-	25,025	-	-	-	-	25,025
Deposits of financial entities and International Financial Organizations	314,846	66,388	70,198	6,690	-	458,122	202,353	40,939	28,728	5,865	-	277,885
Borrowings and financial obligations	704,311	3,716,854	523,441	2,502,193	-	7,446,799	1,041,427	3,004,710	1,427,082	2,254,839	-	7,728,058
Held-for trading derivatives instruments	-	-	-	-	176,863	176,863	-	-	-	-	117,224	117,224
Accounts payable	3,611	947	1,688	-	424,394	430,640	3,902	7,293	845	-	312,388	324,428
Provisions	-	-	-	-	315,685	315,685	-	-	-	-	322,076	322,076
Other liabilities	391	1,216	3,523	-	134,025	139,155	1,511	-	264	44,207	116,850	162,832
Total Liabilities	11,541,284	6,854,962	11,762,543	7,371,767	1,063,591	38,594,147	7,707,127	4,663,273	7,568,296	8,601,719	876,683	29,417,098
Off-balance accounts:												
Derivative instruments	13,163,098	4,373,609	4,838,151	632,976	-	23,007,834	5,262,809	2,654,630	3,266,870	56,530	-	11,240,839
Marginal gap	1,204,418	(1,183,088)	(2,783,898)	5,381,766	2,421,168	5,040,366	1,581,202	(721,316)	838,433	790,309	2,138,851	4,627,479
Accumulated gap	1,204,418	21,330	(2,762,568)	2,619,198	5,040,366	-	1,581,202	859,886	1,698,319	2,488,628	4,627,479	-

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

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 entity's equity value. These methodologies are applied under both normal and stressed market conditions. As of December 31, the interest rate indicators are the following:

	%	
	2013	2012
EVAR (i)	7.73	4.51
EaR (ii)	0.62	2.40

(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.

(b) Exchange Rate Risk
This is the risk of loss due to exchange rates adverse variations of currencies negotiated by Scotiabank Perú S.A.A and Subsidiaries. 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.

The table below set outs the VaR results (expected maximum loss for exchange rate fluctuations) as of December 31:

	In thousands of S/.	
	2013	2012
VaR	375	2,088

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 December 31, 2013, the net asset position of the consolidated statement of financial position in foreign currency amounted to US$ 301,442 thousand (net asset position of US$ 93,604 thousand, as of December 31, 2012) (note 5).

As of December 31, 2013, the overbought/oversold position amounted to S/. 18,019 thousand and S/. 13 thousand, respectively (S/. 2,384 thousand and S/. 173,905 thousand, respectively as of December 31, 2012).

(c) Investments 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 long-term capital investment with attractive returns. It is managed in accordance with approved policies and limits for investments by type and term. On the other hand, trading portfolio is acquired with the intention of short-term profit-taking, arising from fluctuations prices.

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

(d) Liquidity Risk

Liquidity risk is the risk to not meet the 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 so available as potential collateral for obtaining funding; and
- 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).

Central Treasury 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%, in the case of local and foreign currency, respectively. As of December 31, 2013, the ratios in local and foreign currencies were 28.2% and 61.5% respectively (45.68% and 48.47% as of December 31, 2012).

The table below shows the maturity profile of financial liabilities based on contractual obligations as of December 31:

	In thousands of S/.					
	2013					
	Demand deposits	Up to 1 month	1 to 3 months	3 to 12 months	Over 1 year	Total
Deposits and obligations	16,138,108	4,515,007	3,115,427	2,644,942	3,213,399	29,626,883
Interbank funds	-	-	-	-	-	-
Deposits in financial system companies and international financial entities	142,383	172,463	66,388	38,349	38,539	458,122
Borrowings and Financial obligations	-	237,515	998,379	511,993	5,698,912	7,446,799
Held-for trading derivatives instruments	-	59,006	51,121	33,825	32,911	176,863
Provisions and other liabilities	-	222,885	-	42,660	619,127	884,672
Total liabilities	16,280,491	5,206,876	4,231,315	3,271,769	9,602,888	38,593,339
Off-balance Risk:						
Contingent liabilities	-	2,002,338	317,377	56,879	395,445	2,772,039

	In thousands of S/.					
	2012					
	Demand deposits	Up to 1 month	1 to 3 months	3 to 12 months	Over 1 year	Total
Deposits and obligations	12,247,521	3,281,136	1,568,813	2,260,582	1,101,518	20,459,570
Interbank funds	-	25,025	-	-	-	25,025
Deposits in financial system companies and international financial entities	103,988	98,365	40,939	28,728	5,865	277,885
Borrowings and Financial obligations	-	426,951	1,188,478	2,056,765	4,055,864	7,728,058
Held-for trading derivatives instruments	-	31,247	28,114	43,946	13,917	117,224
Provisions and other liabilities	-	204,526	-	202,945	401,865	809,336
Total liabilities	12,351,509	4,067,250	2,826,344	4,592,966	5,579,029	29,417,098
Off-balance risk:						
Contingent liabilities	-	4,388,002	491,966	364,310	5,530	5,249,808

(e) Operational and Technological Risk

It is the risk of loss to which the Bank is exposed due to inadequate or failed processes or systems, human error, or external events. This risk includes legal risk, but excludes the strategic and reputational risks.

The Operational Risk Appetite is a combination of qualitative and quantitative terms that expresses the acceptable level of exposure to operational risk that it is expected to be assumed in achieving its strategy and business objectives.

There is also a model that allows the identification of operational risks through Risk Control Assessment methodology and analysis of loss database and monitoring of operational risk key indicators.

The purpose of the operational risk management is to manage and control operational risk within acceptable levels, which are aligned to Risk Appetite Framework.

Management has a set of tools and controls for proper operational risk management through business units and control functions, as well as evaluating the controls effectiveness and monitoring action plans.

(35) 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 statement of financial position as of December 31:

	In thousands of S/.			
	Carrying amount		Fair Value	
	2013	2012	2013	2012
Assets:				
Cash and due from banks	11,371,415	7,539,854	11,371,415	7,539,854
Interbank funds	364,224	184,119	364,224	184,119
Investment at fair value through profit or loss				
Capital instruments	9,333	14,575	9,333	14,575
Debt instruments	1,369,794	78,519	1,369,794	78,519
Available-for-sale investments				
Instruments representing capital	71,012	93,187	71,012	93,187
Instruments representing debt	651,391	1,247,578	651,391	1,247,578
Loan portfolio, net	27,341,186	22,675,973	27,341,186	22,675,973
Held-for trading derivatives instruments	142,288	127,838	142,288	127,838
Accounts receivable	174,395	154,787	174,395	154,787
Other assets	26,365	67,595	26,365	67,595
Total	41,521,403	32,184,025	41,521,403	32,184,025

	In thousands of S/.			
	Carrying amount		Fair Value	
	2013	2012	2013	2012
Liabilities:				
Deposits and obligations	29,626,883	20,459,570	29,626,883	20,459,570
Interbank funds	-	25,025	-	25,025
Deposits in financial system companies and international financial entities	458,122	277,885	458,122	277,885
Borrowings and financial obligations	7,446,799	7,728,058	7,663,343	8,216,545
Held-for trading derivatives instruments	176,863	117,224	176,863	117,224
Accounts payable	430,640	324,428	430,640	324,428
Provisions	314,877	322,076	314,877	322,076
Other liabilities	139,155	162,832	139,155	162,832
Total	38,593,339	29,417,098	38,809,883	29,905,585

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 methodology applied could have a material effect on the fair values of financial instruments. Even though management has used its best judgment to estimate the fair values of these financial instruments, the fair value is not an indicator of net realizable 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) Purchase and sale agreements in foreign currency at a future date are recorded at their estimated market values; therefore, no differences with their respective carrying values exist.

Consequently, as of December 31, 2013 and 2012, fair or estimated market values of the financial instruments do not differ significantly from their corresponding carrying amount.

<u>Fair Value Hierarchy</u>
Scotiabank Perú 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.

The table below shows the valuation levels applied as of December 31 to determine the fair value of financial instruments:

	In thousands of S/. 2013			
	Level 1	Level 2	Level 3	Total
Assets:				
Investment at fair value through profit or loss:				
Capital instruments	36	9,297	-	9,333
Debt instruments	-	1,369,794	-	1,369,794
Available-for-sale investments:				
Instruments representing capital	61,816	1,740	7,456	71,012
Debt instruments	-	651,391	-	651,391
Held-for trading derivatives instruments	-	142,288	-	142,288
Total	61,852	2,174,510	7,456	2,243,818
Liabilities:				
Held-for trading derivatives instruments	-	176,863	-	176,863
Total	-	176,863	-	176,863

	In thousands of S/. 2012			
	Level 1	Level 2	Level 3	Total
Assets:				
Investment at fair value through profit or loss:				
Capital instruments	10	14,565	-	14,575
Debt instruments	-	78,519	-	78,519
Available-for-sale investments:				
Instruments representing capital	58,541	27,155	7,491	93,187
Instruments representing debt	-	1,247,578	-	1,247,578
Held-for trading derivatives instruments	-	127,838	-	127,838
Total	58,551	1,495,655	7,491	1,561,697
Liabilities:				
Held-for trading derivatives instruments	-	117,224	-	117,224
Total	-	117,224	-	117,224

(36) Subsequent Events

(a) The Bank received a Resolution in November 2013 from the Tax Authority relating to Value Added Tax credits claimed on the gold trading activities of Banco Wiese Ltd in 1997 and 1998. It ordered the Bank to pay S/. 476,450 thousand, which substantially relates to interest charges assessed dating back to 1997, due to the unusual extension of the process in SUNAT. The Bank paid the full amount under protest after the year end closing. The Bank is challenging the legal validity of the decision of the Tax Authority in the Judicial Courts, and expects that the final outcome of this case will be in the Bank's favor and that the payments made by it to the Tax Authority will be returned to the Bank. See the second paragraph of note 10.a for further details.

(b) On February 14, 2014, the Bank placed S/. 69,480 thousand corresponding to the series A of the Second Corporate Bond Program issued in the amount of up to S/. 300,000 thousand. Such bonds will be redeemed in a single payment at redemption date, have a 3-year term and earn interest through semiannual coupons at annual nominal interest rate of 5.50%; the last coupon matures on February 17, 2017.

(c) On February 27, 2014, CrediScotia Financiera S.A. placed S/. 55,000 thousand corresponding to the series E of the Fourth Program of Negotiable Certificates of Deposits issued in the amount of up to S/. 500,000 thousand. Such certificates will be redeemed in a single payment at maturity date. It has one-year term, matures on February 23, 2015 and will earn interest on business day before maturity date at an annual nominal interest rate of 4.625%.