Scotiabank Perú S.A.A. and Subsidiaries

Unaudited Consolidated Interim Financial Statements

March 31, 2020

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

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INDEPENDENT AUDITORS' REPORT ON REVIEW OF CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying consolidated statement of financial position of Scotiabank Perú S.A.A. (a subsidiary of The Bank of Nova Scotia – BNS, an entity established in Canada) and Subsidiaries as at March 31, 2020, the consolidated statement of profit of loss, consolidated statements of profit of loss and other comprehensive income, changes in equity and cash flows for the three-month period then ended, and notes, comprising significant accounting policies and other explanatory information ("the consolidated interim financial statements"). Management is responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with accounting standards established by Superintendencia de Banca, Seguros y Administradoras Privadas de Fondos de Pensiones - SBS (Banking, Insurance and Pension Plan Agency) for financial institutions in Peru. Our responsibility is to express a conclusion on these consolidated interim financial statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying March 31, 2020 consolidated interim financial statements do not present fairly, in all material respects, the financial position, financial performance and cash flows of Scotiabank Perú S.A.A. and Subsidiaries in accordance with accounting standards established by the SBS for financial institutions in Peru.

Lima, Peru

August 20, 2020

Caipo y Asociados

Countersigned by:

Gloria Gennell O. (Partner)
Peruvian Certified Public Accountant
Registration No. 01-27725

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Consolidated Statement of Financial Position
As of March 31, 2020 and December 31, 2019

In thousands of soles	*Note*	03.31.2020 (Unaudited)	12.31.2019
Assets			
Cash and due from banks	6		
Cash		1,298,400	1,413,879
Deposits with Central Reserve Bank of Peru		9,138,628	9,657,121
Deposits with local and foreign banks		256,748	158,622
Clearing		19,970	28,452
Restricted cash and due from banks and others		3,925,899	3,814,133
		14,639,645	**15,072,207**
Interbank funds		225,508	38,002
Investments at fair value through profit or loss and available-for- sale investments	7	7,108,680	6,412,104
Loan portfolio, net	8	51,827,453	51,289,356
Held-for-trading and hedging instruments	9	316,550	158,148
Accounts receivable, net	10	1,124,165	1,155,740
Investments in associates		85,212	79,897
Goodwill	11	570,664	570,664
Property, furniture and equipment, net	12	361,107	362,427
Deferred tax	28	205,684	169,513
Intangible assets, net	13	403,139	404,329
Other assets, net	14	1,000,898	602,431
Total assets		**77,868,705**	**76,314,818**
Contingent risks and commitments	20	74,028,440	70,358,389

In thousands of soles	*Note*	03.31.2020 (Unaudited)	12.31.2019
Liabilities			
Deposits and obligations with financial institutions	15		
Demand deposits		19,124,157	16,990,769
Savings accounts		11,397,168	10,624,076
Time deposits		15,881,905	16,430,886
Other obligations		632,800	717,161
		47,036,030	**44,762,892**
Interbank funds		-	362,422
Borrowings and debts	16	13,066,171	12,680,874
Held-for-trading and hedging instruments	9	238,339	129,701
Provisions and other liabilities	17	7,345,990	8,480,749
Total liabilities		**67,686,530**	**66,416,638**
Equity	18		
Share capital		6,763,271	6,763,271
Additional paid-in capital		394,463	394,463
Legal reserve		1,357,281	1,210,807
Unrealized gains and losses		(33,198)	13,105
Retained earnings		1,595,843	1,413,709
Equity attributable to shareholders of Scotiabank Perú S.A.A.		**10,077,660**	**9,795,355**
Non-controlling interests	2	**104,515**	**102,825**
Total equity		**10,182,175**	**9,898,180**
Total liabilities and equity		**77,868,705**	**76,314,818**
Contingent risks and commitments	20	74,028,440	70,358,389

The accompanying notes on pages 6 to 85 are part of these consolidated interim financial statements.

Scotiabank Perú S.A.A. and Subsidiaries
Consolidated Statement of Profit or Loss
For the three-month periods ended March 31, 2020 and 2019

In thousands of soles	***Note***	**2020 (Unaudited)**	**2019 (Unaudited)**
Interest income	*21*	1,490,438	1,338,438
Interest expenses	*22*	(327,250)	(328,864)
Gross profit margin		**1,163,188**	**1,009,574**
Provision for loan losses, net of recoveries	*8(c)*	(467,063)	(305,859)
Net profit margin		**696,125**	**703,715**
Financial service income, net	*23*	161,418	151,387
Net profit margin of financial service income and expenses		**857,543**	**855,102**
Income from financial transactions	*24*	112,381	96,016
Operating margin		**969,924**	**951,118**
Administrative expenses	*25*	(499,686)	(463,284)
Depreciation of property, furniture and equipment	*12*	(11,873)	(14,646)
Amortization of intangible assets	*13*	(12,096)	(5,381)
Net operating margin		**446,269**	**467,807**
Net provisions for indirect loans losses, doubtful and other accounts receivable, realizable, repossessed and other assets		(5,788)	(18,934)
Operating income		**440,481**	**448,873**
Other income, net	*26*	(286)	399
Net profit before tax		**440,195**	**449,272**
Deferred tax	*28*	36,171	6,580
Current tax	*27.D*	(145,860)	(129,641)
Net profit		**330,506**	**326,211**
Profit or loss attributable to:			
Shareholders of Scotiabank Perú S.A.A.		328,884	325,430
Non-controlling interests	*2*	1,622	781
		330,506	**326,211**

The accompanying notes on pages 6 to 85 are part of these consolidated interim financial statements.

Scotiabank Perú S.A.A. and Subsidiaries
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the three-month periods ended March 31, 2020 and 2019

In thousands of soles	***Note***	**2020 (Unaudited)**	**2019 (Unaudited)**
Net profit		330,506	326,211
Other comprehensive income			
Net unrealized (loss) profit on available-for-sale investments	*18.F*	(6,615)	47,777
Adjustments to other comprehensive income of associates	*18.F*	(12)	(11)
Cash flow hedge	*9.B*	(39,676)	(4,795)
Other comprehensive income for the period, net of income tax		**(46,303)**	**42,971**
Total comprehensive income for the period		**284,203**	**369,182**
Total comprehensive income attributable to:			
Shareholders of Scotiabank Perú S.A.A.		282,506	368,401
Non-controlling interests		1,697	781
		284,203	**369,182**

The accompanying notes on pages 6 to 85 are part of these consolidated interim financial statements.

Scotiabank Perú S.A.A. and Subsidiaries
Consolidated Statement of Changes in Equity
For the three-month periods ended March 31, 2020 and 2019

In thousands of soles	Number of shares (note 18.B)	Share capital (note 18.B)	Additional paid-in capital (note 18.C)	Legal reserve (note 18.D)	Unrealized earnings (note 18.F)	Retained earnings (note 18.E)	Total	Non-controlling interest	Total equity
Balance as of December 31, 2018 (Audited)	612,294,780	6,122,946	394,463	1,082,742	(19,796)	1,231,070	8,811,425	-	8,811,425
Net profit	-	-	-	-	-	325,430	325,430	781	326,211
Other comprehensive income									
Net unrealized profit on available-for-sale investments	-	-	-	-	47,777	-	47,777	-	47,777
Cash flow hedge	-	-	-	-	(4,795)	-	(4,795)	-	(4,795)
Adjustments to other comprehensive income of associates	-	-	-	-	(11)	-	(11)	-	(11)
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**42,971**	**325,430**	**368,401**	**781**	**369,182**
Allocation to legal reserve	-	-	-	128,065	-	(128,065)	-	-	-
Dividend distribution	-	-	-	-	-	(512,260)	(512,260)	-	(512,260)
Retained earnings in process of capitalization	-	-	640,325	-	-	(640,325)	-	-	-
Acquisition of subsidiary	-	-	-	-	-	-	-	93,566	93,566
Other adjustments	-	-	-	-	1	17	18	-	18
Balance as of March 31, 2019 (Unaudited)	**612,294,780**	**6,122,946**	**1,034,788**	**1,210,807**	**23,176**	**275,867**	**8,667,584**	**94,347**	**8,761,931**
Balance as of December 31, 2019 (Audited)	676,327,282	6,763,271	394,463	1,210,807	13,105	1,413,709	9,795,355	102,825	9,898,180
Net profit	-	-	-	-	-	328,884	328,884	1,622	330,506
Other comprehensive income									
Net unrealized loss on available-for-sale investments	-	-	-	-	(6,615)	-	(6,615)	68	(6,547)
Cash flow hedge	-	-	-	-	(39,676)	-	(39,676)	-	(39,676)
Adjustments to other comprehensive income of associates	-	-	-	-	(12)	-	(12)	-	(12)
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**(46,303)**	**328,884**	**282,581**	**1,690**	**284,271**
Allocation to legal reserve	-	-	-	146,474	-	(146,474)	-	-	-
Other adjustments	-	-	-	-	-	(276)	(276)	-	(276)
Balance as of March 31, 2020 (Unaudited)	**676,327,282**	**6,763,271**	**394,463**	**1,357,281**	**(33,198)**	**1,595,843**	**10,077,660**	**104,515**	**10,182,175**

The accompanying notes on pages 6 to 85 are part of these consolidated interim financial statements.

Scotiabank Perú S.A.A. and Subsidiaries
Consolidated Statement of Cash Flows
For the three-month periods ended March 31, 2020 and 2019

In thousands of soles	*Note*	**2020 (Unaudited)**	**2019 (Unaudited)**
Cash flows from operating activities			
Net profit		330,506	326,211
Adjustments to reconcile net profit to cash used in operating activities			
Provision for loan losses, net of recoveries	*8(c)*	467,063	305,859
Provision for realizable, repossessed and other assets, net		6,668	9,717
Provision for accounts receivable, net		4,973	5,157
Depreciation and amortization	*12, 13*	23,969	20,027
Provision for fringe benefits		14,426	12,734
Provision for current and deferred tax	*27.D, 28*	109,689	123,061
Provision for indirect loan losses and country risk, net of recoveries		(7,575)	2,500
Other provisions		(57,848)	37,098
Gain on sale of property, furniture and equipment		(6,195)	595
Gain on sale of realizable and repossessed assets		(896)	(581)
Net changes in assets and liabilities			
Loan portfolio		(1,008,819)	407,164
Investments at fair value through profit or loss		195,549	66,621
Available-for-sale investments		(898,740)	(681,262)
Accounts receivable		(155,595)	255,649
Other assets		(405,445)	81,707
Non-subordinated financial liabilities		2,246,811	1,472,196
Accounts payable		(1,071,589)	(1,127,714)
Provisions and other liabilities		(22,412)	(169,261)
Cash generated from operating activities		**(235,460)**	**1,147,478**
Income tax paid		(165,571)	(133,376)
Net cash from operating activities		**(401,031)**	**1,014,102**
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		-	(116,809)
Dividends received		-	4
Acquisition of property, furniture and equipment	*12*	(12,897)	(10,761)
Acquisition of intangible assets	*13*	(10,906)	(1,645)
Sale of property, furniture and equipment		8,680	3
Net cash used in investing activities		**(15,123)**	**(129,208)**
Net decrease (increase) in cash and cash equivalents before effects of exchange rate fluctuations		(416,154)	884,894
Effects of exchange rate fluctuations on cash and cash equivalents		**59,428**	**(35,536)**
Net decrease (increase) in cash and cash equivalents		(356,726)	849,358
Cash and cash equivalents at the beginning of period		**11,302,522**	**8,988,942**
Cash and cash equivalents at the end of period		**10,945,796**	**9,838,300**
Non-cash transactions			
Capitalization of retained earnings		-	640,325
Net unrealized profit on available-for-sale investments		(6,615)	47,777
BCRP repurchase agreements		3,765,299	3,000,637

The accompanying notes on pages 6 to 85 are part of these consolidated interim financial statements.

1. Reporting Entity

A. Background

Scotiabank Perú S.A.A. (hereinafter the Bank) is a subsidiary of the Bank of Nova Scotia – BNS (a financial institution incorporated in Canada), which directly and indirectly owns 98.05% of the Bank's share capital as of March 31, 2020 and December 31, 2019. Up to May 31, 2019, the direct interests of BNS in the Bank's share capital Bank were 2.32% and its indirect interests, through NW Holdings Ltd. (hereinafter the NWH) and Scotia Perú Holdings S.A. (hereinafter the SPH), were 55.32% and 40.41%, respectively.

On June 1, 2019, the increase in interests of the SPH in the Bank's share capital from 40.41% to 95.73% became effective as a result of the merger by absorption with NWH and Scotia South America S.A. (a subsidiary of the BNS). This transaction was approved by the General Shareholders' Meeting of the SPH on June 11, 2018 and authorized by Superintendencia de Banca, Seguros y Administradoras Privadas de Fondos de Pensiones - SBS (Banking, Insurance and Pension Plan Agency) for financial institutions in Peru (hereinafter "SBS") through SBS Resolution 1285-2019, dated March 27, 2019. Also, on June 26, 2019, the BNS transferred its shares in the Bank of 2.32% to the SPH. As a result of these transactions, as of March 31, 2020 and December 31, 2019, the SPH holds 98.05% of direct interests in the Bank's share capital.

B. Economic activity

The Bank is a publicly traded corporation incorporated on February 2, 1943 and is authorized to operate as a banking institution by the SBS. The Bank's business mainly comprises financial intermediation by commercial banks, which are governed by the SBS through Law 26702 "General Law of the Financial and Insurance Systems and the SBS Organic Law" (hereinafter the Banking Law). This law establishes the requirements, rights, obligations, collaterals, restrictions, and other operating conditions to which every legal entity operating in the financial and insurance system is subject.

The Bank's registered office is Av. Dionisio Derteano N° 102, San Isidro, Lima, Peru. As of March 31, 2020, the Scotiabank Group operates through a national network of 438 branches (441 branches as of December 31, 2019).

As of March 31, 2020 and December 31, 2019, the accompanying consolidated financial statements include the consolidated financial statements of the Bank and other entities of the consolidated group (hereinafter the Scotiabank Group), such as: CrediScotia Financiera S.A. (hereinafter the CrediScotia), which is engaged in intermediation transactions for the micro-business and consumer goods sectors; Servicios, Cobranzas e Inversiones S.A.C. (hereinafter the SCI), which is engaged in collections and address verification, among other activities; Scotia Sociedad Agente de Bolsa S.A. (hereinafter the SAB), which is engaged in intermediation activities in the Peruvian securities market; Scotia Fondos Sociedad Administradora de Fondos Mutuos S.A. (hereinafter the SAF), which is engaged in mutual funds management; Scotia Sociedad Titulizadora S.A. (hereinafter the Titulizadora), which is engaged in trusts management; Caja Rural de Ahorro y Crédito CAT Perú S.A. (hereinafter the CRAC), which was acquired on March 1, 2019 and is engaged in credit and debit card issuance and management; and special purpose entities called the Fideicomiso CrediScotia-Dinero Electrónico and the Patrimonio en Fideicomiso sobre Bienes Inmuebles - Depsa.

Below are the main balances of the Bank and other entities referred to in the previous paragraph as of March 31, 2020 and December 31, 2019 indicating the Bank's shareholding percentages, as well as relevant information in this regard:

In thousands of soles	Activity	Shareholding percentage	Assets	Liabilities	Equity
03.31.2020					
Scotiabank Perú S.A.A.	Banking	-	73,648,265	63,520,146	10,128,119
CrediScotia Financiera S.A.	Financing	100.00	5,56,706	4,398,540	1,148,166
Caja Rural de Ahorro y Crédito CAT Perú S.A.	Financing	51.00	1,046,158	832,862	213,296
Servicios, Cobranzas e Inversiones S.A.C.	Collection services	100.00	160,035	74,415	85,620
Scotia Fondos Sociedad Administradora de Fondos Mutuos S.A.	Administration of mutual funds	100.00	103,234	5,612	97,622
Scotia Sociedad Agente de Bolsa S.A.	Intermediation in stock market	100.00	44,030	1,233	42797
Scotia Sociedad Titulizadora S.A.	Securitization	100.00	5,664	894	4,770
12.31.2019					
Scotiabank Perú S.A.A.	Banking	-	72,234,304	62,387,961	9,846,343
CrediScotia Financiera S.A.	Financing	100.00	5,390,543	4,300,585	1,089,958
Caja Rural de Ahorro y Crédito CAT Perú S.A.	Financing	51.00	1,049,870	840,024	209,846
Servicios, Cobranzas e Inversiones S.A.C.	Collection services	100.00	152,658	69,774	82,884
Scotia Fondos Sociedad Administradora de Fondos Mutuos S.A.	Administration of mutual funds	100.00	91,631	2,662	88,969
Scotia Sociedad Agente de Bolsa S.A.	Intermediation in stock market	100.00	43,889	1,216	42,673
Scotia Sociedad Titulizadora S.A.	Securitization	100.00	5,213	832	4,381

On March 15, 2020, the Peruvian Government, through Supreme Decree N° 044-2020, decreed a State of National Emergency and compulsory social isolation, due to the serious circumstances that put the life of the Nation at risk as a consequence of the outbreak of COVID-19. This period of national emergency has been extended until August 31, 2020 inclusive.

As a consequence, the SBS and the Peruvian Central Bank (hereinafter BCRP), in coordination with the Ministry of Economy and Finance, activated a package of preventive measures focused on mitigating the impact of non-compliance of debtor´s obligations due to limits to move within and outside the national territory, and the shutdown of certain economic sectors; as well as measures focused on ensuring the continuity of the payments chain in the country.

The most relevant measures are related to the rescheduling of loan installments, which these shouldn´t extend for more than (6) six months until May 31, 2020 and twelve (12) months since June 1, 2020 from original term, without considering refinancing; the possibility of exceptionally freezing of days in arrears, the non-application of limits on liquidity coverage ratios in national and foreign currency, the release of funds destined to compensation for time of services and to workers' pension funds and the launch of programs to grant credits to companies with a Government Guarantee (notes 4.V and 35.b).

C. Acquisition of subsidiary

On May 9, 2018, the Bank signed an agreement with Cencosud Perú S.A. to acquire 51% of shares of Banco Cencosud S.A., an entity engaged in credit and debit card issuance and management, incorporated in Peru. This acquisition was authorized by the SBS through SBS Resolution 754-2019, dated February 26, 2019. The acquisition date was March 1, 2019. Likewise, it includes an exclusive agreement for credit card management and provision of additional goods and services to the clients of Banco Cencosud Peru S.A. for a 15-year period. Accordingly, the Bank paid S/ 328,700 thousand equivalent to US$ 99,470 thousand. On February 26, 2019 the Bank paid S/ 327,921 thousand equivalent to US$ 99,216 thousand and obtained control. On August 23, 2019, it paid S/ 779 thousand equivalent to US$ 254 thousand.

As a result of this transaction, Banco Cencosud S.A. changed its corporate name to Caja Rural de Ahorro y Créditos CAT Perú S.A. and, according with the agreement, it is part of the Scotiabank Group from March 1, 2019.

Accordingly, the shareholders agreement is effective from March 1, 2019 and will be terminated at end on the agreement term (15 years) or upon the occurrence of any of the following events, whichever occurs first:

(i) The 15-year exclusive agreement is terminated by written agreement between both shareholders.

(ii) The agreement is terminated if Cencosud Perú S.A. exercises its option to purchase the Bank's shares in CRAC at fair value.

(iii) If Cencosud Perú S.A. does not exercise its option to purchase 51% of CRAC's shares, the Bank will have the right to acquire CRAC's accounts receivable at carrying amount for an amount equivalent to the outstanding debt held in the financial statements of the CRAC.

This acquisition was recorded applying the acquisition method, which requires to recognize the identifiable assets acquired at fair value, in accordance with IFRS 3 *Business Combinations*. According to an assessment, there were no differences between the carrying amount and the fair value of the identifiable assets. Subsequent to the recognition of intangible assets, the Scotiabank Group did not recognize any goodwill for this transaction.

For the ten months finishing on December 31, 2019, CRAC generated interest income for S/ 157,429 thousand and gains for S/ 9,630 thousand to the Scotiabank Group's profit or loss.

(a) Consideration transferred

In acquiring net assets of CRAC and signing the 15-year exclusive agreement between Cencosud Perú S.A. and the Bank for credit card management, the Bank paid S/ 328,700 thousand equivalent to US$ 99,470 thousand.

Net assets acquired include S/ 211,112 thousand corresponding to cash and due from banks. The Bank and CRAC were not parties to a contract and there was not pre-existing relationship between both financial institutions.

(b) Acquisition-related costs

The Bank incurred acquisition-related costs for S/ 864 thousand, out of which S/ 642 thousand correspond to legal fees, S/ 209 thousand to third party services and S/ 13 thousand to due diligence services. These costs have been recorded in' administrative expenses' in the consolidated statement of profit or loss.

(c) Identifiable assets acquired and liabilities assumed

The carrying amount of assets acquired and liabilities assumed was measured at the acquisition-date fair value, as follows:

In thousands of soles	***Note***	**03.01.2019**
Assets		
Cash and due from banks	*1.C(a)*	211,112
Loan portfolio, net		845,294
Provisions for loan losses	*8.b*	(65,058)
Accounts receivable		32,226
Furniture and equipment, net	*12*	4,136
Intangible assets, net	*13*	1,543
Deferred tax	*28*	4,195
Other assets		2,614
Liabilities		
Deposits		(645,092)
Other liabilities		(200,019)
Total identifiable assets acquired and liabilities assumed		**190,951**

Consequently, the Bank recognized intangible assets corresponding to the exclusive agreement and Cencosud brand name for S/ 326,302 thousand and S/ 4,149 thousand, and the corresponding deferred tax liability for S/ 99,136 thousand (notes 13 and 28).

The valuation techniques used to measure the fair value of identifiable intangible assets are the following:

The relief from royalty method to measure the fair value of the brand name. This method used to measure the fair value of the intangible asset is consistent with common practices within the measurement practices.

The dividend discount model to measure the shares transferred, less the value of the brand name, in order to obtain the fair value of the exclusive agreement. This method used to measure the fair value of the intangible asset is consistent with common practices within the measurement practices.

(d) *Allocation of consideration transferred and non-controlling interests*
As of the acquisition date, this allocation was as follows:

In thousands of soles	*Note*	03.01.2019
Consideration transferred	*1.C(a)*	328,700
Non-controlling interests		93,566
Total amount to allocate		**422,266**
Identifiable assets acquired and liabilities assumed	*1.C(c)*	(190,951)
Identifiable intangible assets	*1.C(c), 13*	(330,451)
Deferred tax liabilities	*28*	99,136
		(422,266)

The consideration paid by the Bank represents the 15-year exclusive agreement between the Bank and Cencosud Perú S.A. and, consequently, the credit card management during this period. Therefore, the Bank has recognized intangible assets which will be amortized on a straight-line basis over the agreement term.

The Bank has measured the components of non-controlling interests at the non-controlling interest's proportionate share (49%) of Cencosud Perú S.A. for S/ 93,566 thousand as of March 1, 2019.

D. Approval of the consolidated interim financial statements
The consolidated financial statements as of December 31, 2019 were approved by the Bank's management on February 17, 2020, by Board of Directors’ on February 26, 2020 and by the General Shareholders’ Meeting held on May 26, 2020. The consolidated interim financial statements as of March 31, 2020 were approved by the Bank's management on May 15, 2020.

2. Non-controlling Interests
The following table summarizes the financial reporting as of March 31, 2020 and 2019 of CRAC (non-controlling shareholder) before the eliminations required in preparing the consolidated interim financial statements:

In thousands of soles	03.31.2020	03.31.2019
Total assets	1,046,158	1,031,898
Total liabilities	(832,862)	(839,352)
Total assets, net	**213,296**	**192,546**
Net assets attributable to non-controlling interests 49%	**104,515**	**94,347**
Net profit	3,310	3,927
Other comprehensive income	153	-
Profit allocated to non-controlling interests 49%	**1,622**	**781**
Other comprehensive income allocated to non-controlling interests 49%	**75**	**-**

3. Basis for the Preparation of the Consolidated interim Financial Statements

A. Statement of compliance

The accompanying consolidated interim financial statements have been prepared based on the Scotiabank Group's accounting records and are presented in accordance with current regulations and accounting principles authorized by the SBS. In the absence of such applicable SBS regulations, the International Financial Reporting Standards (IFRS), made official in Peru by the Peruvian Accounting Board (CNC, for its Spanish acronym) are applied. Such standards comprise the Standards and Interpretations issued or adopted by the International Accounting Standards Board (IASB), which include the IFRSs, International Accounting Standards (IAS), and the Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), or the former Standing Interpretations Committee (SIC), adopted by the IASB and made official by the CNC for their application in Peru.

B. Basis of measurement

The consolidated interim financial statements have been prepared in accordance 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 (FVTPL) are measured at fair value; and
- Available-for-sale financial assets are measured at fair value.

C. Functional and presentation currency

These consolidated interim financial statements are presented in soles (S/) in accordance with SBS regulations, which is the Scotiabank Group's functional and presentation currency. The information presented in soles (S/) has been rounded to the nearest thousand (S/ 000), unless otherwise indicated.

D. Significant accounting estimates and criteria

In preparing these consolidated interim financial statements, management has used accounting estimates and criteria. The accounting estimates and criteria are reviewed on an ongoing basis and are based on historical experience, including the reasonable assumption of occurrence of future events depending on the circumstances. Actual results may differ from these estimates. In management's opinion, the estimates and assumptions used do not have significant risk as to produce a material adjustment to the balances of assets and liabilities in the short term.

Significant estimates related to the consolidated interim financial statements correspond to provision for loan losses, measurement of investments, estimated useful life and recoverable amount of property, furniture and equipment and intangible assets, impairment of goodwill, provision for realizable, received as payment and repossessed assets, estimated deferred tax recovery, provision for income tax, and fair value of derivative instruments. Accounting criteria are described in note 4.

4. Accounting Principles and Practices

Main accounting principles and practices used to prepare the Scotiabank Group's consolidated interim financial statements have been consistently applied in the previous period, unless otherwise indicated, and are the following:

A. Consolidation policies

The consolidated interim financial statements include the financial statements of entities that are part of the Scotiabank Group, described in note 1, after eliminating significant balances and transactions among the consolidated entities, and the gains and losses resulting from those transactions. All subsidiaries have been consolidated from their date of incorporation or acquisition.

Subsidiaries are all entities over which the Bank has control and is able to manage their financial and operating policies.

The accounting records of entities of the Scotiabank Group 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 8.58% and 8.53%, respectively, of the total Bank's assets before eliminations as of March 31, 2020 and December 31, 2019.

B. Financial instruments

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

Financial instruments are recognized on the date when they are originated and are classified as assets, liabilities, or equity instruments according to the contract that gave rise to the financial instrument. Interest, gains and losses generated by a financial instrument classified as an asset or a liability are recorded as income or expense in the consolidated statement of profit or loss. The payment to holders of financial instruments classified as equity is recorded directly in equity.

The Scotiabank Group classifies its financial instruments into one of the following categories established by IAS 39, which were determined in SBS Resolution 7033-2012: (i) financial assets and financial liabilities at FVTPL; (ii) loans and accounts receivable; (iii) available-for-sale investments; (iv) held-to-maturity investments; and (v) other financial liabilities. The Scotiabank Group determines the classification of financial instruments on initial recognition and on instrument-by-instrument basis.

The classification of financial instruments on initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are initially recognized at their fair value plus incremental costs related to the transaction that are directly attributable to the acquisition or issuance of the instrument, except for financial assets or financial liabilities measured at FVTPL.

Acquisitions or sales of financial assets that require assets' delivery within a period established by regulations or conventions in the market concerned are recognized at trade date.

Derecognition of financial assets and financial liabilities

i. Financial assets

A financial asset or, when applicable, a part of a financial asset or a part of a group of similar financial assets is derecognized when: (i) the rights to receive cash flows from the asset have expired; or (ii) the Scotiabank Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay total cash flows to a third party under a pass through agreement; and (iii) the Scotiabank Group has transferred substantially all risks and rewards of ownership of the financial asset, or the Scotiabank Group has neither transferred nor retained all risks and rewards of ownership of the financial asset, but has transferred control of the asset.

ii. Financial liabilities

A financial liability is derecognized when the obligation to pay is discharged, canceled or expires. When an existing financial liability is replaced by other of the same borrower in terms significantly different, or terms are significantly modified, such replacement or modification is treated as derecognition of the original liability and a new liability is recognized. The Scotiabank Group recognizes the difference between both of them in the profit or loss for the year.

Impairment of financial assets

The Scotiabank Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or group of financial assets is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset ("loss event"), and if such loss event had an impact on the expected future cash flows of the financial asset or the group of financial assets that can be estimated reliably. Evidence of impairment includes an indication that a borrower or group of borrowers is experiencing significant financial difficulties, default or delay in payments of principal and interest, probability that the entity will enter bankruptcy or other financial reorganization indicating that there is a significant decrease in expected future cash flows, such as changes in circumstances or economic conditions related to payment defaults.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position when management has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets and financial liabilities presented in the consolidated statement of financial position correspond to cash and due from banks, interbank funds, investments at FVTPL, available-for-sale investments, held-for-trading instruments, hedging instruments, loan portfolio, accounts receivable, other assets and liabilities, unless otherwise indicated in the note corresponding to assets or liabilities. Accounting policies on recognition and measurement of these items are disclosed in the corresponding accounting policies described in this note.

C. Derivative instruments

The SBS provides authorizations per type of derivate instrument and underlying asset, and may comprise more than one type of derivative instrument and underlying asset. Authorization schemes, measurement guidelines and accounting treatment for derivative instruments that financial institutions shall apply are established in SBS Resolution 1737-2006 "Regulation on Trading and Accounting of Derivative Instruments in Financial Institutions" and amendments, which include accounting criteria for held-for-trading and hedging instruments and embedded derivatives, which are consistent with IAS 39 *Financial Instruments: Recognition and Measurement.*

Held-for-trading instruments

Held-for-trading instruments are initially recognized in the consolidated statement of financial position at fair value. Subsequently, any change in fair value of such derivative generates an asset or liability in the consolidated statement of financial position, as applicable, and affects the profit or loss for the year.

In addition to their recording in the consolidated statement of financial position, the aforementioned derivative instruments are recorded in contingent accounts at par value translated to initial spot price.

Hedging instruments

A derivative instrument for hedging a specific risk is designated as hedging instrument if, at trade date, it is foreseen that changes in fair value or cash flows will be highly effective in offsetting changes in fair value or cash flows of the hedged item directly attributable to the risk hedged from the beginning. The latter shall be documented on the trade date of the derivative instrument and during the term of the hedging relationship. A hedge is considered to be highly effective if changes in fair value or cash flows of the hedged item and the hedging instrument are within a range from 80% to 125%.

For cash flow hedges, the effective portion of changes in fair value is recognized directly in equity in 'unrealized gains and losses' as a cash flow hedge reserve, net of tax effect. The ineffective portion of any gain or loss on the hedging instrument is recognized in the consolidated statement of profit or loss. The amounts recorded in equity are transferred to the consolidated statement of profit or loss in the periods in which the hedged item is recorded in the consolidated statement of profit or loss or when a forecast transaction occurs.

If the hedging instrument expires or is sold, terminated, or exercised, or the hedge no longer meets the hedge accounting criteria, the hedging relationship ceases prospectively and the balances recorded in equity are transferred to the consolidated statement of profit or loss within the effective term of the hedged item.

As indicated in note 9 (b), as of March 31, 2020 and December 31, 2019, the Scotiabank Group maintains cash flows hedging instruments with an underlying asset amounting to US$ 800,000 thousands, related to foreign debts, taken with Scotian Caribbean Treasury Limited, Bahamas.

D. Investments

The Scotiabank Group applies the recording and valuation criteria of investments in equity instruments established in SBS Resolution 7033-2012 "Regulation on Classification and Measurement of Investments of Financial Institutions", which is consistent with the classification and valuation criteria of IAS 39 *Financial Instruments: Recognition and Measurement*, except for investments in associates, which are not included in IAS 39, as detailed below:

i. Investments at FVTPL

Equity and debt instruments are classified as investments at FVTPL if they have been acquired principally to sell in the near term, or they are 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 investments are initially recognized on trade date, which is when the Scotiabank Group enters into contractual arrangements with counterparties to purchase investments and are normally derecognized when sold.

They are initially measured at fair value, excluding transaction costs, which are recognized in the consolidated statement of profit or loss. Subsequently, fair values are remeasured, and fluctuations arising from changes in fair value are recognized in the consolidated statement of profit or loss.

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

Investments at FVTPL that are pledged as collaterals 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 gains and losses from equity to the consolidated statement of profit or loss.

ii. Available-for-sale investments

Available-for-sale investments are all other instruments that are not classified as investments at FVTPL, held-to-maturity investments or investments in associates. Likewise, all instruments will be included in this category as required by the SBS.

Available-for-sale investments are initially recognized on trade date and measured at fair value plus costs that are directly attributable to the instrument's acquisition. They are subsequently remeasured at fair value, and resulting gains and losses are recognized in equity in 'unrealized gains and losses' until investments are either sold or realized, which is when gains or losses are recognized in the consolidated statement of profit or loss.

Amortized cost of debt instruments at fair value shall be remeasured using the effective interest method, and based on the resulting amortized cost, gains or losses from the changes in fair value shall be recognized.

If an available-for-sale investment is impaired, the accumulated loss (difference between the acquisition cost, net of payback and amortization, and the current fair value, less any impairment loss previously recognized in the consolidated statement of profit or loss and other comprehensive income) is reclassified from equity to the consolidated statement of profit or loss. Impairment of unlisted securities shall be the difference between the carrying amount and the present value of net expected future cash flows, discounted using current market rates for similar instruments.

As of October 2018, SBS Resolution 2610 -2018 became effective. It establishes amendments to the "Regulation on Classification and Measurement of Investments of Financial Institutions," which mainly focuses on the standard methodology to identify impairment of available-for-sale and held-to-maturity investments.

Assessment of debt instruments

- Weakening of financial position of the issuer and its economic group.
- Lower credit risk rating of the instrument or the issuer.
- Disappearance of an active market for the financial asset because of financial difficulties of the issuer.
- Observable data indicating that there has been a measurable decrease in the expected future cash flows from a group of financial assets with characteristics similar to the assessed instrument since initial recognition.
- Decline in fair value due to changes in laws.
- Significant decline in fair value below 40% of its amortized cost.
- Prolonged decline in fair value over the last 12 months, and cumulative decline in fair value in that period of more than 20%.

Assessment of equity instruments

- Lower credit risk rating of the issuer's debt instrument.
- Significant changes in the technological, market, economic or legal environment in which the issuer operates, which may have a negative impact on the investment recovery.
- Weakening in financial position or financial ratios of the issuer and its economic group.
- Disappearance of an active market for the financial asset because of financial difficulties of the issuer.
- Observable data indicating that there has been a measurable decrease in the expected future cash flows from a group of financial assets with characteristics similar to the assessed instrument since initial recognition.
- Decline in fair value due to changes in laws.

If at least two of the aforementioned situations are met, management shall consider impairment in each case.

Exchange gains or losses related to equity instruments are recognized in equity in 'unrealized gains and losses,' and those related to debt instruments are recognized in profit or loss for the year.

Interest income on available-for-sale investments is recognized using the effective interest method, calculated over the instrument's useful life. Premiums and discounts originated on the acquisition date are included in the calculation of effective interest rate. Dividends are recognized in the consolidated statement of profit or loss when the right to receive the payment has been established.

iii. Investments in associates

This caption comprises equity instruments acquired to have shareholder's interests and significant influence over the entities or institutions. It shall include the goodwill originated from the acquisition of such investments. Investments in associates are initially measured at fair value plus transactions costs that are directly attributable to the instrument's acquisition. They are subsequently measured using the equity method; this means, investment increases or decreases according to the recognition of the investor's proportionate interests in the investee at the measurement date.

When changes in associate's equity are due to items other than profit or loss for the year, these changes shall be recorded directly in equity. Dividends are recorded reducing the investment's carrying amount.

When management identifies that one or more investments in associates are impaired, said impairment shall correspond to the difference between the carrying amount and the recoverable amount of the investment, in accordance with IAS 36 *Impairment of Assets*. The carrying amount of the investment shall be reduced to its recoverable amount. Impairment loss shall be recognized in profit or loss for the year.

As of March 31, 2020 and December 31, 2019, the Scotiabank Group has not recognized impairment losses on investments.

Investments held by entities can be reclassified. Investments at FVTPL cannot be reclassified except for: (1) unlisted securities, which lack reliable estimated fair value, or (2) investments transferred through a repurchase agreement or pledged as collaterals, as indicated in paragraph (i) of this section. As of March 31,2020 and December 31, 2019, investments have not been reclassified into other categories.

E. Loans, classification and provisions for loan losses

Direct loans are recorded when fund expenditures are made in favor of clients. Indirect (contingent) loans are recorded when supporting documents are issued and may become direct loans in the event of making a payment to third parties. Likewise, any direct loans behind changes in payment terms due to financial difficulties of the debtor are considered as refinancing or restructuring.

Finance leases are recognized using the effective interest method, recording the amount of the outstanding lease payments as a loan. Corresponding financial income is recorded on an accrual basis in accordance with the lease arrangement terms. Initial direct costs are recognized immediately as expenses.

The Portfolio Risk Management's Debtor Rating and Assessment units are responsible for performing the loan portfolio assessment and rating on a permanent basis. Each debtor is rated in a credit risk rating according to the guidelines established by SBS Resolution 11356-2008 and amendments.

Rescheduling due to COVID-19
The Bank, after evaluation, may modify the contractual conditions of the several credit modalities, without those constituting a refinancing, insofar as the total term of these credits shouldn´t extend for more than (6) six months until May 31, 2020 and twelve (12) months since June 1, 2020 from original term, and that as of the date of the emergency declaration, the debtors are up to date with their payments.

In order to comply with the requirements of being up-to-date in its payments or not presenting arrears as of the date of declaration of national emergency (note 1.B), and only for the purposes of this national emergency, it should be considered a criterion that the loan has no more than 15 calendar days past due as of February 29, 2020.

The Bank may apply the accrual criteria for the accounting record of the interests associated with the retail loans that have been massively or individual rescheduled. In case these retail loans change to the past due accounting situation after the payment obligation is resumed according to the new schedule, the Bank must proceed to extort the uncollected accrued income, counting with six (6) months of term to make the return proportionally.

In the case of non-retail debtors with credits that have been massively rescheduled, the accounting record of the interests associated must be carried out by the criteria of what is received. If the reschedule is carried out as a result of individual analysis, the accrual criteria may be applied.

As of March 31, 2020, the Bank hasn´t recorded massive rescheduling, in that sense, there is no recognition of interest on loans under the perceived method.

Suspension of past due days counting
The counting of past due days of loans in default with more than 15 calendar days past due as of February 29, 2020, is suspended, likewise, the companies of the financial system may maintain the accounting situation of said loans, as long as the state of national emergency remain current. The number of past due days suspended as of February 29, 2020 must be considered for the loan classification process and for the requirement of regulatory provisions calculation during the months in which they remain suspended.

To date, the counting of past due days since February 29, 2020, and the corresponding accounting situation mentioned in the previous paragraph, are suspended until August 31, 2020.

Loan portfolio classification
The Bank and CrediScotia classify their loan portfolio as: Wholesale Banking (corporate, large-business and medium-business loans) and Retail Banking (small-business, micro-business, revolving, non-revolving and mortgage loans). CRAC only classifies its loan portfolio as Retail Banking. These classifications consider nature of the client (corporate, government or individual), purpose of loan, business size measured by revenue, debts, among other qualitative and quantitative indicators.

Credit risk rating
Credit risk rating established by the SBS are as follows: Standard, Potential Problems, Substandard, Doubtful, and Loss, which are assigned according to the guidelines established in SBS Resolution 11356-2008 and amendments.

For Wholesale Banking portfolio, the Bank and CrediScotia mainly consider debtor's ability to pay, cash flows, level of compliance with obligations, rating designated by other financial agencies, financial position, and management quality. For Retail Banking portfolio, including CRAC, rating is mainly based on the level of compliance with payment of loans, which is reflected in the delays and defaults, and in the rating assigned by financial agencies, if rating alignment is applicable. Retail Banking portfolio is classified through an automatic rating process. The Bank and CrediScotia have included in the automatic rating process those loans granted to wholesale debtors with loans amounting up to US$ 100 thousand.

Provisions for loan losses
According to current SBS regulations, the Bank and CrediScotia determine generic and specific provisions for loan losses. The generic provision is recorded in a preventive manner for debtors rated as "standard," which is calculated on its direct loans, credit risk equivalent of indirect loans and, additionally, a procyclical component is recorded when activated by the SBS. The specific provision is recorded for direct loans and credit risk equivalent of indirect loans of debtors rated in a risk rating higher than "standard."

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

	Description	CCF (%)
(i)	Confirmation of irrevocable letters of credit for up to one year, when the issuing bank is a tier 1 foreign financial institution.	20
(ii)	Issuance of letters of guarantee supporting obligations to do or not to do.	50
(iii)	Issuance of guarantees, import letters of credit and those not included in the previous items, as well as banker´s acceptance.	100
(iv)	Undisbursed, approved loans and unused credit lines.	-
(v)	Others not considered in the previous items.	100

Provision requirements are determined by considering the risk rating of the debtor, whether it is secured by collaterals, and depending on the type of collateral.

The Bank, CrediScotia and CRAC apply the following percentages to determine provisions for loan losses:

	%			
Risk rating	**No collateral**	**Preferred collateral**	**Readily liquidating preferred collateral**	**Self-liquidating preferred collateral**
Standard				
Corporate loans	0.70	0.70	0.70	0.70
Large-business loans	0.70	0.70	0.70	0.70
Medium-business loans	1.00	1.00	1.00	1.00
Small-business loans	1.00	1.00	1.00	1.00
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 problems	5.00	2.50	1.25	1.00
Substandard	25.00	12.50	6.25	1.00
Doubtful	60.00	30.00	15.00	1.00
Loss	100.00	60.00	30.00	1.00

(*) Including revolving and non-revolving loans.

Procyclical component

Percentages of procyclical component to calculate the provisions for direct loans and credit risk equivalent of indirect loans of debtors rated as "standard" are as follows:

Type of loan	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 loans	1.50
Non-revolving loans	1.00
Mortgage loans	0.40

Procyclical component of corporate, large-business and mortgage loans with self-liquidating preferred collaterals is 0.3%. Procyclical component of all other types of loans with self-liquidating preferred collaterals is 0% for the portion hedged by such collaterals.

Procyclical component of consumer loans with payroll deduction agreements is 0.25%.

According to the SBS, financial institutions shall establish a credit risk management system that allows reducing risks before and after loan granting, perform a continuous monitoring of loan portfolio in order to identify debtors with debts, including a regular assessment of control mechanisms used and corrective measures or required improvements, as appropriate. Entities that do not comply with SBS regulations shall, for provision purposes, calculate the credit risk equivalent by applying a 20% factor to the unused amount of revolving credit lines for micro-business, small-business and consumer loans. For the credit risk equivalent, provision rates established in the "Regulation on Debtor Rating" shall be applied.

In this regard, the amount of revolving credit lines used in the aforementioned calculation shall correspond to the last approved amount reported to the client.

Additionally, those entities that do not comply with SBS regulations shall establish an additional general provision of 1% on direct loan.

This provision will be applicable to direct consumer (revolving and non-revolving) loans and micro-business loans and/or small-business loans of the clients rated as "standard," as applicable.

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

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

The SBS has established that during the deactivation of the procyclical component, financial institutions cannot, under any circumstance, generate profits from the reversal of such provisions, which should only be used to determine mandatory provisions.

Provisions for direct loan losses are recorded deducting the balance from the corresponding asset (note 8), and provisions for indirect loan losses are recorded as a liability (note 17).

F. Intermediation services carried out by third parties

The SAB carries out intermediation services on behalf of third parties.

Transfer of funds made by clients for purchase/sale transactions in the stock market and over-the-counter market result in items of the consolidated statement of financial position only if they comply with asset's concept (accounts receivable) and liability's concept (accounts payable); otherwise, such balances are recorded in control accounts.

An account receivable or payable is only recognized if it has not yet been settled upon maturity or if the SAB, due to any operating issue, does not have the funds transferred by the third party. However, since it is a solvent entity, funds are hedged by the SAB with an amount equivalent to the acquisition of securities acquired through a loan that is regularized almost immediately.

Since the SAB only manages funds from third parties as a trustee, it cannot use these resources and there is a commitment to refund them to the third parties. These resources do not belong to the entity and are accounted in control accounts.

Unsettled transactions by CAVALI are recorded in suspense accounts, until corresponding collection or payment.

G. Property, furniture and equipment

Property, furniture and equipment are recorded at the historical acquisition cost, less accumulated depreciation and impairment losses. Expenses incurred subsequent to the acquisition of property, furniture and equipment are recognized as assets only when it is probable that future economic benefits associated with the asset will flow to the Scotiabank Group, and cost of assets can be measured reliably.

Repair and maintenance expenses are recorded in profit or loss of the year in which they are incurred. Work-in-progress and goods in-transit are recorded at acquisition cost. These assets are not depreciated until relevant assets are finished and/or received, and are in operating condition.

Depreciation is calculated based on the straight-line method to allocate the cost over the asset's estimated useful life as follows:

	Years
Property and premises	Between 30 and 10
Furniture, fixture and IT equipment	Between 10 and 2
Vehicles	5

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

H. Realizable, received as payment and repossessed assets

Realizable assets include assets acquired specifically to be granted as finance leases, which are initially recorded at acquisition cost. Also, realizable assets not granted as finance leases, including recovered assets, are recorded at the lower of its cost or market price.

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 loan losses, and are initially recorded at the lower of judicial, extrajudicial, recovery or estimated market price, or value of outstanding debt.

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

- Realizable assets, received as payment and repossessed assets are initially recorded at carrying amount and, simultaneously, a provision equivalent to 20% of the cost is recognized. If the net realizable value shown in the appraisal report demonstrates that the asset is impaired by a percentage higher than 20%, the required initial provision shall be recorded at an amount effectively impaired.

- As from the first month of asset's repossession or recovery, the Scotiabank Group records a monthly provision for personal property equivalent to 1/18 of the carrying amount of assets less the aforementioned initial provision. Regarding assets that have not been sold or leased within a one-year term and that do not have the extension established in the Banking Law, the provision shall be completed up to 100% of the value upon repossession or recovery less the provision for impairment loss upon maturity date.

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

  An impairment loss is recognized when the net realizable value is lower than the net carrying amount; accordingly, the carrying amount shall be reduced and the loss shall be recognized in the consolidated statement of profit or loss. If the net realizable value is higher than the net carrying amount, the higher value shall not be recognized.

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

I. Impairment of non-financial assets

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

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

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

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

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

J. Intangible assets

Intangible assets are mainly related to: (i) the exclusive agreement and brand name from the acquisition of the subsidiary, CRAC (note 1.C), which are amortized on a straight-line basis over 15 years (agreement term); and (ii) the acquisition and development of software, which are amortized on a straight-line basis over 3 years. Likewise, they include amortized costs from CrediScotia's business and are amortized during the contract term in which they are originated.

Software development and maintenance costs are recognized in profit or loss when they are incurred. However, costs that are directly related to a single and identifiable software, that are under management's control, and that will give future economic benefits higher than the asset's cost in a period exceeding one year are considered as intangible assets. Direct costs related to software development include personnel costs of the development team and a pro-rata of general expenses.

K. Goodwill

Goodwill is related to the higher value paid between the acquisition cost over the identifiable fair values of a subsidiary or an associate, and the acquisition of equity spin-off from Citibank del Perú S.A. (note 11).

Business acquisitions are recorded using the purchase accounting method. This means, measuring identifiable assets of the acquired entity at fair value. Any excess between the acquisition cost and the fair value of net identifiable assets is recognized as goodwill.

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

Goodwill has an indefinite useful life and the Scotiabank Group carries out a goodwill impairment testing annually or more frequently when there are sales or changes in circumstances indicating that goodwill balance might not be recoverable.

L. Securities, bonds and outstanding obligations

It comprises liabilities from the issuance of redeemable subordinated bonds and corporate bonds, which are measured at amortized cost using the effective interest method. Discounts granted or income generated during the loan disbursement are amortized during the instrument term.

Interest is recognized in profit or loss when accrued.

M. Provisions and contingencies

i. Provisions

A provision is recognized when the Scotiabank Group has a present legal or constructive obligation as a result of past events; 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 reporting period to reflect the best estimates as of the date of the consolidated statement of financial position.

Provision for length-of-service compensation (CTS, for its Spanish acronym) is calculated according to current regulation, on the total employees' indemnities and should be paid, in May and November annually, through deposits in authorized financial institutions as chosen by them. The calculation is made for the amount that should be paid as of the date of the consolidated statement of financial position and is included in 'provision for fringe benefits.' It is recognized in the consolidated statement of financial position in 'other liabilities.'

ii. Contingencies

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

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

N. Share capital

Common shares are classified as equity. Preference shares, if any, are recorded as other debt instruments. The difference between the redeemable amount of preference shares and the shares' par value is recorded in equity. Dividends on preference shares are recorded as liabilities and charged to profit or loss for the year. As of March 31, 2020 and December 31, 2019, the Scotiabank Group does not hold outstanding preference shares.

O. Income tax

Current tax is determined based on the taxable income and recorded independently according to tax law applicable to the Bank and each entity that is part of the Scotiabank Group (note 27).

Deferred tax is recorded using the liability method based on temporary differences derived from tax accounting of assets and liabilities, and their balances in the consolidated interim financial statements of each entity of the Scotiabank Group. Also, it is determined applying the current tax laws and tax rates as of the estimated date in which the deferred tax asset is realized or the deferred tax liability is settled (note 28).

Deferred tax assets and liabilities are recognized excluding the estimated date in which the temporary differences will disappear. Deferred tax assets are recognized only if it is probable that future tax benefits will be available against which the deferred tax asset can be used.

IFRIC 23 clarifies how to apply the recognition and measurement requirements of IAS 12 *Income Taxes* when there is uncertainty over income tax treatments assumed by the Scotiabank Group in determining income tax. Previously, the IFRIC clarified that the accounting treatment used when there is uncertainty over income tax treatments is under IAS 12 and not under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Likewise, IFRIC 23 explains how to recognize and measure current and deferred tax assets and liabilities when there is uncertainty over income tax treatments. An uncertain tax treatment is a tax treatment for which there is uncertainty over whether the Tax Authorities will accept the tax treatment. IFRIC 23 covers all aspects that may be affected by an uncertain tax treatment; this means, an uncertain tax treatment that may affect the determination of taxable profit (tax loss), tax bases, unused tax credits and tax rates (note 27).

P. Employees' profit sharing

The Scotiabank Group recognizes a liability and an expense for employees' profit sharing equivalent to 5% of taxable income determined in accordance with current tax law.

Q. Income and expense recognition

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

SBS Resolution 7036-2012 establishes that income from fees of indirect loans shall be recognized on an accrual basis during the term of such indirect loans. Likewise, fees and expenses for formalization of loans, as well as opening, analysis and assessment of direct and indirect loans, are recognized as profit or loss on an accrual basis within the contract term.

When management considers that there are reasonable uncertainties about the payment of the loan's principal, the Bank, CrediScotia and CRAC suspend the recognition of interest in profit or loss. Interest in suspense is recorded in suspense accounts and recognized as earned when collected. If management determines that the debtor's financial position has improved and uncertainty on principal recoverability is no longer present, interest is recorded on an accrual basis again.

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 profit or loss when declared.

Fees for intermediation services from securities acquisition and sale on the stock market are recorded in 'financial service income' when these transactions have been performed through generation and acceptance of transaction policies by clients.

Sales revenue from securities and their cost are recognized when all risks and rewards of ownership have been transferred and it is probable that economic benefits associated to the transaction will flow to the SAB. They are recorded in 'other income, net' in the consolidated statement of profit or loss. Dividends are recorded as profit or loss when declared.

Income from remuneration of fund returns managed by the SAF is calculated on a daily basis as an equity percentage of each fund.

Income from fees for redemption of shares is recognized as profit or loss when such redemption is carried out.

Fees for asset management services are recognized in profit or loss of the year in which the service is rendered and accrued.

Other income and expenses of the Scotiabank Group are recognized as earned or incurred in the period in which they are accrued.

R. Repurchase agreements

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

The Bank recognizes the cash received and a liability recorded in 'accounts payable' to refund such cash at maturity. Also, it will make the reclassification of securities subject to the transaction in accordance with SBS regulations. Accounting records of returns will depend on the agreements between the parties. The difference between the final amount and initial amount will be recognized as an expense against a liability within the transaction term using the effective interest method.

As of March 31,2020 and December 31, 2019, the Scotiabank Group performs repurchase agreements of securities and currencies (notes 6 and 17).

S. Consolidated statement of cash flows

For presentation purposes on this consolidated interim financial statement, as of March 31, 2020 and 2019, the balances of 'cash and due from banks' and 'interbank funds' of assets were considered as cash and cash equivalents, except for the restricted cash and due from banks for compliance with repurchase agreements with BCRP and reserve funds for compliance with contractual commitments with foreign financial institutions (note 6.C).

T. Trust funds

Assets and income from trust fund transactions, where there is a liability to return the assets to the clients, and the Bank and Titulizadora act as trustees, are not included in the consolidated financial statements since they belong to neither the Bank nor Titulizadora. They are recorded in suspense accounts for corresponding control. Fees for those activities are included in ‘financial service income’ (note 23).

U. Foreign currency transactions and balances

Foreign currency transactions are those transactions carried out in a currency other than the sol. Foreign currency transactions are translated into sol using current exchange rates established by the SBS at transaction date (note 5). Exchange gains or losses resulting from the payment of such transactions and from the translation of monetary assets and liabilities stated in foreign currency at exchange rates ruling at the end of the reporting period are recognized in the consolidated statement of profit or loss.

V. New accounting pronouncements

i. New accounting pronouncements not early adopted

The following new standards, amendments and interpretations have been issued or adapted by the IASB but are effective for annual periods beginning on or after January 1, 2021. However, the Bank has not adopted them in preparing these consolidated financial statements since the Scotiabank Group does not plan to early adopt such standards. Those that might be relevant to the Scotiabank Group are detailed below.

New IFRSs, amendments and interpretations	Effective date
Classification of Liabilities as Current or Non-current (Amendments to IAS 1).	Annual periods beginning on or after January 1, 2022.
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures).	Available for optional adoption/ effective date deferred indefinitely.

ii. Resolutions and regulations issued by the CNC and the Peruvian Securities Market Regulator (SMV) concerning the approval and adoption of IFRSs in Peru

As of the date of the consolidated interim financial statements, the SMV through:

- Resolution No. 050-2020-SMV/02 issued June 3, 2020, made official to approve the standard for the calls and celebrations of general shareholders' meetings and assemblies of non-face holders.

- Circular No. 143-2020-SMV / 11.1 issued on May 27, 2020, made official for issuers with securities registered in the Public Registry of Securities Markets, emphasize certain qualitative factors when preparing the financial statements under International Standards of Financial Information – IFRS.

- Resolution No. 00033-2020-SMV/02 issued March 21, 2020, (i) Extend until July 31, 2020, the deadline established for the presentation of audited individual or separate financial information and annual report for the year 2019. (ii) Extend until August 31, 2020, the deadline for the submission of individual or separate interim financial information to March 31, 2020. (iii) The deadline is extended until September 15, 2020 for the presentation of the consolidated financial statements of the matrix of the referred supervised subjects, corresponding to March 31, 2020. (iv) To extend, until September 30, 2020, the deadline established for the presentation of the update reports of the risk classifications granted by the risk classification companies, which are prepared using the audited annual financial information for the 2019 financial year. (v) Extend, until October 31, 2020, the deadline for the presentation of the information required by the Indirect Property, Linking and Economic Groups Regulations.

As of the date of the consolidated interim financial statements, the CNC through:

- Resolution 001-2020-EF / 30, issued July 17, 2020, made official the amendments to IAS 1 - Presentation of Financial Statements and the Complete Set of International Financial Reporting Standards version 2020 that includes the Conceptual Framework for the Financial Information and the Amendment to IFRS 16 - Leases (Rent reductions related to Covid-19).

- Resolution 001-2019-EF/30, issued January 11, 2019, made official amendments to *References to the Conceptual Framework in IFRSs* and amendments to IFRS 3 *Business Combinations*, IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates, and Errors*.

Clarifications to the application of IFRS 16 Leases
Likewise, through Official Letter 467-2019-SBS, dated January 7, 2019, the SBS stated that IFRS 16 *Leases* shall not be applied to supervised entities until the corresponding provisions are established; therefore, supervised entities shall continue to apply IAS 17 *Leases*.

IFRIC 23: Uncertainty over income tax treatments
The Scotiabank Group has applied IFRIC 23 *Uncertainty over Income Tax Treatments* from January 1, 2019, assessing all uncertain tax treatments. As a result of the assessment, the Scotiabank Group determined that it is not required to recognize any provision for future events as of March 31, 2020 and December 31, 2019.

As indicated in note 3.A, the standards and interpretations described in i) and ii) will only be applicable to the Bank, CrediScotia and CRAC in the absence of applicable SBS regulations for situations not included in the Accounting Manual. Management has not determined their effect on the preparation of its consolidated interim financial statements since those standards have not been adopted by the SBS.

iii. IFRSs issued by the IASB for annual periods beginning on or after January 1, 2020

- Amendments to References to Conceptual Framework in IFRS Standards.

- Definition of a Business (Amendments to IFRS 3).

- Definition of Material (Amendments to IAS 1 and IAS 8).

As of the date of this report, the Management has not determined their effect on the preparation of its consolidated interim financial statements and the statements since those standards have not been adopted by the SBS as of March 31, 2020.

iv. Main pronouncements issued by the SBS in 2020

As is indicated un note 1.B., during the national emergency period, the SBS in coordination with the Perú´s Central Bank (BRCP) and the Economic and Finance Ministry (MEF) issued different rules to mitigate the impact of non-compliance with of debtors´ obligations due to limiting to move within and outside the national territory, and the shutdown of certain economic sectors. Following, a summary of the main resolutions and official letters issued:

- SBS Multiple Official Letter N° 10997-2020, dated March 16, 2020, establishes that it is feasible to apply Multiple Official Letter 5345-2010 to make modifications to the customers' loan agreements, and not consider them as refinancing; specifying that in these cases it is required that the debtors are not showing arrears at the time of the declaration of heirs; effective March 17, 2020. Supplementary official letters related with this modification and other facilities were issued as follows:

  - Multiple Official Letters N° 11150-2020, dated March 16, 2020, Credit conditions may be modified without contacting the client, without constituting a refinance (or deterioration in the credit rating), provided that the total term of the credits does not it is extended for more than 6 months of the original term, and that the debtors are up to date in their payments to the emergency declaration; effective March 17, 2020.

  - Multiple Official Letter N° 11170-2020, dated March 20, 2020, establishes that to apply those modifications and not consider as a refinance loan, a customer should be up to date in their payments; it means to have no more than 15 calendar days past due as of February 29, 2020. For those customers with more than 15 calendar days past due as of February 29, 2020, the counting of the days past due reported to February 29, 2020 must be suspended while the emergency period is in place. This letter also establishes that in the event that retail loans change to past due status after the payment obligation of the new schedule due, the company must reverse the uncollected accrued interest, having a 6-month period to make that reverse in a proportional period; effective March 21, 2020.

  - Multiple Official Letter No. 12679-2020-SBS dated May 5, 2020, Supplementary Prudential Measures Related to the National State of Emergency:

    (i) The first time to modify the contractual conditions of credit agreements until May 31, 2020, only if the conditions indicated in the SBS Multiple Official Letter N° 11170-2020-SBS comply.

    (ii) In relation to the proportional reverse of the uncollected accrued income, referred in the SBS Multiple Official Letter N° 11170-2020-SBS, this letter specifies that it is applicable only to the first-time retail loans change to the accounting situation to past due after the payment obligation to according to the new schedule. Likewise, it is specified it only be applied to credits that become past due until March 31, 2021.

- Multiple Official Letter No. 13195-2020, dated May 8, 2020. In a preventive and responsible manner, the financial system entities should make the best effort to permanently assess the possibilities of recovery of rescheduled operations, also should record necessary voluntary provisions that allow them to face the increases in risk in such portfolios, at the time they materialize; effective May 9, 2020.

- SBS Multiple Official Letter No. 13805-2020-SBS dated May 29, 2020 Supplementary Prudential Measures Related to the National State of Emergency (SD No. 044-2020-PCM):

  (i) Entities will be able to carry out for the first time the unilateral modification of the contractual conditions of retail and medium-sized portfolios as long as they have been up to date in their payments on the date of the emergency declaration, or that they have reported a maximum of 15 calendar days past due as of February 29, 2020.

  (ii) The total term of the credits subject to the modifications of the contractual conditions, may not be extended for more than twelve (12) months of the original term. The extension of the schedule may be applicable to all credits that have been subject to modification, since the issuance of Multiple Official Letter No. 11150-2020-SBS.

  (iii) For contractual modifications made from now on, and only for the purposes of this national emergency, the credit shall be a maximum of 30 calendar days past due at the time of the modification to be in compliance with the requirement of being up current or not showing arrears as of the date of the contractual modifications.

  (iv) As of June 1, 2020, in the case of new contractual modifications of revolving credits by credit cards, an extension or grace period for the minimum payment, do not proceed, such modifications must consider the total debt in a new schedule to be able to be framed in the dispositions of the present Official Letter.

  (v) In the case of credits that as of February 29, 2020 had more than 15 and up to 60 days of delay, such suspension of past due days counting will continue until the end of the following month in which the declaration of state of emergency is lifted.

(vi) Financial institutions must submit to the SBS, until July 31, 2020, the Credit Risk Management Plan with the minimum aspects indicated in Annex No. 1, duly approved by the Board of Directors. This plan aims to ensure that Financial institutions determine the possibilities of recovery of their different portfolios and the risk of default of their credit operations. This, in order to identify strategies to manage the potential impaired portfolio, which should include the creation of voluntary provisions, as well as equity strengthening actions (such as capitalization of profits, contributions, among other necessary action). The progress of the Plan should be reported to the Board, at least once a month; also, the report and certification of the Board agreement should be submitted to the SBS within 5 calendar days after the Board session has taken place.

- Multiple Official Letter No. 14355-2020-SBS dated Jun 9, 2020, Supplementary Prudential Measures Related to the National State of Emergency (SD No. 044-2020-PCM): The SBS extends the application of item (iv) above to July 1, 2020.

- Multiple Official Letter No. 15944-2020-SBS dated Jun 9, 2020, Supplementary Prudential Measures Related to suspension of the counting of past due days of applicable to those credits that presented more than 15 calendar days of delay to February 29, 2020. As of to date this counting is suspended until August 31, 2020.

▪ SBS Multiple Official Letter N° 11148-2020, dated March 16, 2020, establishes the temporary non-application of the limits of liquidity coverage ratios in national and foreign currency, effective March 17, 2020.

▪ SBS Multiple Official Letter No. 12791-2020 dated May 8, 2020, Details on the accounting of repo with credit portfolio operations with the BCRP, effective May 9, 2020.

▪ SBS Multiple Official Letter No. 13206-2020, dated May 19, 2020 and SBS Resolution No. 1315-2020, dated April 28, 2020: Details about the MYPE Business Support Fund (FAE-MYPE) which aims to guarantee the credits of the MYPE in the face of the impact of Covid-19, effective April and May 20, 2020.

▪ SBS Multiple Official Letter N° 11999-2020 dated April 22, 2020, and SBS Resolution No. 1314-2020, dated April 27, 2020: Details on the "REACTIVA PERU" Program to ensure continuity in the payment chain in the face of the impact of Covid-19, effective April 2020.

▪ SBS Resolution No. 1264-2020, dated March 26, 2020, establishes that the credit weighting factor is not increased by extension of the term of non-revolving consumer loans and rescheduled mortgages; also empowers the use additional regulatory capital requirement by economic cycle, effective March 27, 2020.

5. Foreign Currency Balances

The consolidated statement of financial position includes balances of foreign currency transactions, mainly in U.S. dollars (US$), which are recorded in soles (S/) at the exchange rate established by the SBS. As of March 31,2020 and December 31, 2019, the exchange rate was US$1 = S/ 3.437 and S/ 3.314, respectively.

Local foreign currency transactions and foreign trade transactions referred to the concepts authorized by the BCRP are channeled through a free banking system. As of March 31, 2020, buy and sell exchange rates used were US$ 1 = S/ 3.437 and US$ 1 = S/ 3.442, respectively (US$ 1 = S/ 3.311 buy and US$ 1 = S/ 3.317 sell as of December 31, 2019).

As of March 31,2020 and December 31, 2019, foreign currency balances stated in thousands of U.S. dollars and other currencies are summarized as follows:

	03.31.2020			12.31.2019		
In thousands	**U.S. dollars**	**Other currencies**	**Total**	**U.S. dollars**	**Other currencies**	**Total**
Assets						
Cash and due from banks	3,567,875	20,375	3,588,250	4,065,063	5,956	4,071,019
Investments at fair value through profit or loss and available-for-sale investments	841	-	841	896	-	896
Loan portfolio, net	4,027,004	-	4,027,004	4,150,986	-	4,150,986
Held-for-trading and hedging instruments	21,575	-	21,575	5,236	-	5,236
Accounts receivable, net	18,758	-	18,758	17,474	-	17,474
Other assets, net	93,889	1,803	95,692	30,775	5,552	36,327
	7,729,942	**22,178**	**7,752,120**	**8,270,430**	**11,508**	**8,281,938**
Liabilities						
Deposits and obligations and other obligations	4,907,017	33,931	4,940,948	4,868,131	31,306	4,899,437
Borrowings and debts	3,202,140	-	3,202,140	3,195,709	-	3,195,709
Held-for-trading and hedging instruments	29,468	-	29,468	1,452	-	1,452
Other liabilities	88,640	4,150	92,790	90,766	7,214	97,980
	8,227,265	**38,081**	**8,265,346**	**8,156,058**	**38,520**	**8,194,578**
Net (liability) asset position in the consolidated statement of financial position	**(497,323)**	**(15,903)**	**(513,226)**	**114,372**	**(27,012)**	**87,360**
Derivative transactions	**1,640**	**16,527**	**18,167**	**(162,321)**	**28,079**	**(134,242)**

During the three-month period ended in March 31, 2020 and 2019, the Scotiabank Group recorded net exchange gains on foreign amounting to S/ 46,822 thousand and S/ 80,907 thousand, respectively, in 'Income from financial transactions' in the consolidated statement of profit or loss (note 24).

As of March 31, 2020, the Scotiabank Group has contingent foreign currency transactions for S/ 56,260,712 thousand equivalent to US$ 16,978,331 thousand (S/ 56,184,012 thousand equivalent to US$ 16,953,509 thousand as of December 31, 2019).

6. Cash and Due from Banks

This caption comprises the following:

In thousands of soles	**03.31.2020**	**12.31.2019**
Cash (a)	1,298,400	1,413,879
BCRP (a)	9,138,628	9,657,121
Local banks and other financial institutions (b)	39,354	80,292
Foreign banks and other financial institutions (b)	217,394	78,330
Clearing	19,969	28,452
Restricted cash and due from banks (c)	3,925,743	3,813,916
Other cash and due from banks	157	217
	14,639,645	**15,072,207**

(a) As of March 31, 2020, funds held in cash and deposits with BCRP include US$ 1,795,443 thousand and S/ 1,072,301 thousand (US$ 2,824,482 thousand and S/ 1,373,189 thousand as of December 31, 2019), which are intended for hedging the reserve requirement that the Bank, CrediScotia and CRAC shall hold for deposits and obligations according to the limits established by current regulation. These funds are deposited with BCRP and in the financial institutions' vaults.

Cash reserves held at BCRP do not accrue interest, except for the amount in local and foreign currency that exceeded the minimum cash reserve. As of March 31, 2020, the excess of the minimum cash reserve in local and foreign currency accrued interest at an annual effective interest rate of 1.50% and 0.43% (in foreign local and currency, annual effective interest rate of 2.14% and 1.25% as of December 31, 2019). Accrued interest on the excess in local and foreign currency as of March 31, 2020 amounts to S/ 199 thousand and US$ 2,976 thousand (US$ 5,732 thousand as of March 31,2019).

As of March 31, 2020, balance in the BCRP includes 'overnight' transactions for US$ 585,000 thousand and S/ 1,095,000 thousand, which accrued interest at a nominal annual rate of 0.17% and 0.25%, respectively (US$ 67,800 thousand and S/ 45,000 thousand at a nominal annual rate of 1.57% and 1.00%, respectively, as of December 31, 2019).

(b) Deposits with local and foreign banks mainly correspond to balances in soles and U.S. dollars, and lower amounts in other currencies. They have free withdrawal option and accrue interest at market rates. As of March 31, 2020, deposits with foreign banks comprise deposits held at the Bank of Nova Scotia for US$ 2 thousand and CAN$ 2,927 thousand (US$ 2 thousand and CAN$ 138 thousand as of December 31, 2019).

As of March 31,2020 and December 31,2019, the Scotiabank Group concentrates 93% and 83% of its deposits in three foreign financial institutions.

(c) As of March 31, 2020, restricted cash and due from banks comprises: i) reserve funds for compliance with repurchase commitments with BCRP for US$ 1,095,519 thousand (note 17.a) (US$ 1,148,970 thousand as of December 31, 2019); ii) reserve funds for compliance with contractual commitments with foreign financial institutions for US$ 44,823 thousand (As of December 31, 2019, there was no reserve fund for the fulfillment of contractual commitments with foreign financial entities); iii) guarantee funds for treasury transactions for US$ 38 thousand and S/ 1 thousand (US$ 38 thousand and S/ 1 thousand as of December 31, 2019); iv) guarantee funds for lawsuits against the Bank for US$ 261 thousand and S/ 983 thousand (US$ 261 thousand and S/ 983 thousand as of December 31, 2019); and v) other restrictions for US$ 886 thousand and S/ 1,333 thousand (US$ 866 thousand and S/ 1,320 as of December 31, 2019).

(d) During the three-month period ended March 31, 2020 and 2019, interest income from cash and due from banks amounted to S/ 17,432 thousand and S/ 37,211 thousand, respectively. It is recorded in 'interest income' in the consolidated statement of profit or loss (note 21).

7. Investments at Fair Value Through Profit or Loss and Available-for-Sale Investments

This caption comprises the following:

In thousands of soles	**03.31.2020**	**12.31.2019**
Investments at fair value through profit or loss		
Peruvian treasury bonds (a)	204,407	378,740
Corporate bonds (b)	5,983	26,987
Interests in mutual funds (c)	11,425	11,637
	221,815	**417,364**
Available-for-sale investments		
BCRP certificates of deposit (d)	3,473,879	3,460,672
Peruvian treasury bonds (a)	3,404,736	2,525,823
Unlisted securities	7,443	7,411
Listed securities	789	816
Other interests, net	18	18
	6,886,865	**5,994,740**
Total investments at fair value through profit or loss and available-for-sale investments	**7,108,680**	**6,412,104**

(a) Peruvian treasury bonds correspond to sovereign bonds issued in local currency by the Ministry of Economy and Finance of Peru and represent internal public debt instruments of the Republic of Peru. As of March 31, 2020, these bonds accrue interest at annual rates ranging from 2.15% to 5.90% (from 2.29% to 5.22% as of December 31, 2019) with maturities between August 2020 and February 2055 (between September 2023 and February 2042 as of December 31, 2019).

(b) The balance corresponds to corporate bonds issued in local currency by the Mi Vivienda Fund. As of March 31, 2020, these bonds accrue interest at an annual rate of 3.87% (4.06% as of December 31, 2019) and mature in February 2024 (settled in February 2024).

(c) As of March 31, 2020, the Scotiabank Group holds interests in mutual funds in local and foreign currency for S/ 9,841 thousand and US$ 461 thousand, respectively (S/ 9,928 thousand and US$ 516 thousand as of December 31, 2019).

(d) BCRP certificates of deposit are freely negotiable securities in local currency. They are acquired through BCRP public bids and traded in the Peruvian secondary market. As of March 31, 2020, these certificates accrue interest based on the BCRP reference rate ranging from 2.09% to 2.76% annually (from 2.10% to 3.12% annually as of December 31, 2019) with maturities between July 2020 and January 2023 (between January 2020 and August 2021 as of December 31, 2019). Likewise, as of March 31, 2020, the Bank holds negotiable certificates of deposits issued by the BCRP, which cannot be withdrawn since they are granted in repurchase agreements for S/ 2,245,895 thousand (note 17) (S/ 2,421,424 thousand as of December 31, 2019).

(e) During the three-month period ended in March 31, 2020 and 2019, the accrued interest on investments managed by the Scotiabank Group amounted to S/ 51,535 thousand and S/ 42,501 thousand, respectively. It is recorded as 'interest income' in the consolidated statement of profit or loss (note 21). Likewise, as of March 31, 2020 and 2019, the Scotiabank Group generated net gains on sale of available-for-sale investments for S/ 24,547 thousand and S/ 15,890 thousand, respectively (note 24).

As indicated in note 18.F, as of March 31, 2020, the Scotiabank Group generated unrealized loss on measurement of available-for-sale investments for S/ 6,615 thousand (unrealized gains for S/ 47,777 thousand as of December 31, 2019).

As of March 31,2020 and December 31, 2019, maturities of Investments at Fair Value Through Profit or Loss and Available-for-Sale Investments are the following:

In thousands of soles	**03.31.2020**	**12.31.2019**
Up to 3 months	158,713	302,333
From 3 to 12 months	2,451,597	1,799,979
More than 1 year	4,498,370	4,309,792
	7,108,680	**6,412,104**

8. Loan Portfolio, Net

This caption comprises the following:

In thousands of soles	***Note***	**03.31.2020**		**12.31.2019**	
Direct loans (a)					
Current loans					
Loans		34,050,546	62%	33,096,980	61%
Mortgage loans		6,979,402	13%	6,919,265	13%
Credit cards		5,432,898	10%	5,453,015	10%
Finance lease		3,437,234	6%	3,526,413	7%
Factoring		764,713	1%	1,065,402	2%
Discounts		602,331	1%	732,684	1%
Overdrafts and advances in checking accounts		154,646	-	75,986	-
Refinanced loans		954,832	2%	955,922	2%
Restructured loans		-	-	376	-
Past-due loans		1,109,672	2%	989,739	2%
Lawsuit loans		1,112,909	2%	1,027,948	2%
		54,599,183	**100%**	**53,843,730**	**100%**
Plus (less)					
Accrued interest on current loans		435,261	-	374,994	-
Non-accrued interest		(15,811)	-	(16,452)	-
Provision for loan losses		(3,191,180)	-	(2,912,916)	-
		51,827,453	**-**	**51,289,356**	**-**
Indirect loans	***20***	**9,535,783**	**-**	**9,481,073**	**-**

As of March 31,2020 and December 31, 2019, 51% of the loan portfolio (direct and indirect loans) was concentrated in 694 and 740 clients, respectively.

The loan portfolio (direct and indirect loans) is mainly secured by collaterals received from clients, which mainly comprise mortgages, chattel mortgages and commercial pledges, third-party letters of guarantees and securities. The value of these mortgages and pledges is determined based on net realizable value in the market less costs to sell, according to SBS regulations.

As indicated in note 4.E and note 35, as of March 15, 2020, the Peruvian Government, through Supreme Decree No. 044-2020, decreed a State of National Emergency and Mandatory Social Isolation as consequence of the COVID-19 outbreak. In this sense, the Bank, CrediScotia and CRAC carried out the following loan rescheduling:

As of March 31, 2020, the Bank, CrediScotia and CRAC have rescheduled loans for a balance of S/ 4,289,817 thousand, S/ 495,588 thousand and S/ 17,198 thousand, respectively.

As of March 31, 2020, the Bank, CrediScotia generated interest income for rescheduled loans of S/ 27,387 thousand and S/ 13,190 thousand, respectively. CRAC did not generate rescheduled loans income due that these rescheduled loans were assigned an interest rate zero on the month March.

Annual interest rates are regulated by the market and may be determined at the discretion of the Bank, CrediScotia and CRAC. As of March 31, 2020 and December 31, 2019, effective interest rates of main assets were the following:

	03.31.2020		**12.31.2019**	
%	**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	3.91 - 49.42	1.83 - 26.37	4.31 - 45.31	2.93 - 24.31
Consumer loans	14.26 - 64.02	8.03 - 41.44	8.19 - 66.26	7.26 - 41.53

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

(a) As of March 31,2020 and December 31, 2019 according to current SBS regulations, the credit risk rating of loan portfolio of the Bank, CrediScotia and CRAC is as follows:

	03.31.2020				12.31.2019			
In thousands of soles	**Number of debtors**	**Direct**	**Indirect**	**Total**	**Number of debtors**	**Direct**	**Indirect**	**Total**
Risk rating								
Standard	1,651,426	49,217,726	9,277,519	58,495,245	1,707,034	49,103,822	9,197,835	58,301,657
Potential problems	116,971	1,909,713	149,325	2,059,038	53,527	1,323,177	165,845	1,489,022
Substandard	50,591	616,415	79,189	695,604	48,543	594,492	87,045	681,537
Doubtful	91,583	1,084,698	5,567	1,090,265	90,705	1,082,347	5,842	1,088,189
Loss	57,776	1,770,631	24,183	1,794,814	57,758	1,739,892	24,506	1,764,398
	1,968,347	**54,599,183**	**9,535,783**	**64,134,966**	**1,957,567**	**53,843,730**	**9,481,073**	**63,324,803**

As indicated in note 3E, since February 29, 2020, the counting of past due days of default credits has been suspended. The classification of loan portfolio by risk category as of March 31, 2020 has considered these suspended past due days.

(b) Movement in the provision for direct loan losses is as follows:

In thousands of soles	*Note*	Specific	Generic	Total
Balance as of January 1, 2019		1,995,314	632,252	2,627,566
Additions charged to profit or loss		794,818	137,719	932,537
Acquisition of subsidiary	*1.C*	58,195	6,863	65,058
Recovery of provisions		(489,862)	(118,486)	(608,348)
Transfer of provisions and others		1,540	(1,488)	52
Write-off and forgiveness		(328,690)	-	(328,690)
Exchange difference		(7,821)	(2,428)	(10,249)
Balance as of March 31, 2019		**2,023,494**	**654,432**	**2,677,926**
Balances as of January 1, 2020		2,224,539	688,377	2,912,916
Additions charged to profit or loss		834,495	343,336	1,177,831
Recovery of provisions		(552,004)	(137,526)	(689,530)
Transfer of provisions and others		712	(391)	321
Write-off and forgiveness		(232,267)	-	(232,267)
Exchange difference		16,618	5,291	21,909
Balance as of March 31, 2020		**2,292,093**	**899,087**	**3,191,180**

(c) Provision for loan losses, net, as shown in the consolidated statement of profit or loss is as follows:

In thousands of soles	03.31.2020	03.31.2019
Provisions for loan losses	(1,177,831)	(932,537)
Recovery of provisions	689,530	608,348
Income from recovery of loan portfolio	21,238	18,330
Provision for loan losses, net of recoveries	**(467,063)**	**(305,859)**

The Bank, CrediScotia and CRAC record legal provisions for their loan portfolio according to the policy described in note 4.E. They also record voluntary provisions for loan losses included in the generic provision. As of March 31,2020 voluntary provisions of the Bank CrediScotia and CRAC amount to S/ 327,042 thousand and As of December 31, 2019, voluntary provisions of the Bank CrediScotia amount to S/ 115,753 thousand.

As of March 31, 2020, the Scotiabank Group's provision related to exchange rate risk amounts to S/ 2,265 thousand (S/ 2,944 thousand as of December 31, 2019).

As indicated in note 4.E, from November 2014, the procyclical component for provision calculation was deactivated. As of March 31, 2020, the Scotiabank Group did not apply the procyclical component to record specific provisions. As of March 31, 2020, the Bank and CrediScotia have a balance of S/ 42,808 thousand (procyclical component for S/ 41,646 thousand to record specific provisions was applied as of December 31, 2019).

(d) As of March 31,2020 and December 31,2019, maturities of direct loans are as follows:

	03.31.2020			12.31.2019		
In thousands of soles	**Local currency**	**Foreign currency**	**Total**	**Local currency**	**Foreign currency**	**Total**
Up to 1 month	2,986,119	1,948,096	4,934,215	2,923,394	2,015,221	4,938,615
From 1 to 3 months	3,901,117	2,523,747	6,424,864	3,777,028	2,941,561	6,718,589
From 3 to 6 months	3,702,851	2,208,353	5,911,204	3,648,463	1,362,480	5,010,943
From 6 to 12 months	5,641,932	1,228,764	6,870,696	5,112,787	1,451,417	6,564,204
More than 1 year	22,600,092	6,070,792	28,670,884	22,813,461	6,155,225	28,968,686
Past-due loans and lawsuit loans	1,751,615	470,966	2,222,581	1,578,677	439,010	2,017,687
Less: Accrued interest	(360,776)	(74,485)	(435,261)	(304,837)	(70,157)	(374,994)
	40,222,950	**14,376,233**	**54,599,183**	**39,548,973**	**14,294,757**	**53,843,730**

9. Held-for-Trading and Hedging Instruments

The Bank holds foreign-exchange forward contracts, cross-currency swaps and interest rate swaps. As of March 31,2020 and December 31, 2019, fair value of held-for-trading instruments and hedging instruments has generated accounts receivable and payable as follows:

	03.31.2020		12.31.2019	
In thousands of soles	**Accounts receivable**	**Accounts payable**	**Accounts receivable**	**Accounts payable**
Held-for-trading instruments (a)				
Foreign-exchange forward contracts	209,779	69,985	125,093	107,256
Interest rate swaps	74,153	62,515	14,661	3,451
Cross-currency swaps	32,618	67,073	15,701	17,633
	316,550	**199,573**	**155,455**	**128,340**
Hedging instruments (b)				
Interest rate swaps	-	38,766	2,693	1,361
	-	**38,766**	**2,693**	**1,361**
Held-for-trading and hedging instruments	**316,550**	**238,339**	**158,148**	**129,701**

(a) During the three-month ended in March 31, 2020 and 2019, held-for-trading instruments generated a gain net for S/ 25,324 thousand and a loss net for S/ 6,911 thousand, respectively (note 24).

(b) As of March 31, 2020 and December 31, 2019, the Bank holds hedging instruments in cash flow hedges for a par value of US$ 800,000 thousand, related to foreign loans acquired with its related party, Scotiabank Caribbean Treasury Limited, Bahamas. As of December 31, 2019, such hedging instruments generated loss for S/ 39,107 thousand, which was recorded in 'other comprehensive income' in the consolidated statement of changes in equity.

As of March 31, 2019, the Bank didn’t holds hedging instruments in cash flow hedges.

10. Accounts Receivable, Net

This caption comprises the following:

In thousands of soles	03.31.2020	12.31.2019
Financial instruments		
Sale of investments (a)	109,127	142,224
Fees receivable	24,032	24,282
Collection services	19,753	23,356
Payments on behalf of thirds parties, net	17,836	17,957
Sales of goods and services, trust, net	11,379	11,359
Advances to personnel	7,839	7,496
Accounts receivable from third parties	228	222
Other accounts receivable, net (b)	211,950	206,823
	402,144	**433,719**
Non-financial instruments		
Tax claims (c)	722,021	722,021
	1,124,165	**1,155,740**

(a) The balance as of March 31, 2020 and December 31, 2019, corresponds to accounts receivable generated from sales of sovereign bonds on the last day of the month, which are settled during the first days of the following month and are mainly related to: i) sale of sovereign bonds for S/ 73,327 thousand and S/ 41,297 thousand; and ii) short sale of sovereign bonds for S/ 35,800 thousand and S/ 100,927 thousand, respectively.

(b) As of March 31, 2020, other accounts receivable mainly include: i) unsettled transactions with debit and credit cards for S/ 44,007 thousand (S/ 77,560 thousand as of December 31, 2019); ii) finance leases for S/ 37,119 thousand (S/ 32,438 thousand as of December 31, 2019); iii) refund of travel expenses for S/ 4,895 thousand (S/ 2,665 thousand as of December 31, 2019); and iv) other accounts receivable for S/ 125,929 thousand (S/ 91,617 thousand as of December 31, 2019).

(c) Tax claims comprise tax proceedings with the Tax Authorities. As of March 31, 2020 and December 31, 2019, they mainly comprise: i) S/ 230,095 thousand for payments made by the Bank protest referred to the Temporary Tax on Net Assets (ITAN) of the fiscal years 2005 and 2006, which were challenged in courts by the Bank as they are considered undue payments and shall be offset under with the income tax and other tax credits; ii) S/ 20,666 thousand for income tax paid in excess by CrediScotia for the years 2010, 2011, 2012 and 2013; and iii) S/ 25,760 thousand for the tax proceeding of the year 2013. It is the opinion of management and its legal advisors that these amounts will be refunded upon the favorable resolution of the case.

Also, as of March 31, 2020 and December 31, 2019, this account receivable, net of corresponding provision for impairment loss on account receivable, includes tax claims for S/ 433,815 thousand, which are related to payments made under protest due to a resolution issued by the Tax Authorities. The latter was challenged in courts by the Bank. It is the opinion of management and its legal advisors that these amounts will be refunded to the Bank upon the favorable resolution of the case.

11. Goodwill

It corresponds to the goodwill determined on the acquisition of investments in equity instruments made by the Bank. As of March 31, 2020 and December 31, 2019, goodwill amounts to S/ 570,664 thousand, which mainly includes: i) goodwill from the purchase of 100% of the share capital of Banco de Trabajo S.A., currently CrediScotia, which amounts to S/ 278,818 thousand; ii) goodwill from the acquisition of the retail and consumer banking of Citibank del Perú, which amounts to S/ 287,074 thousand; and iii) goodwill from the acquisition of Unibanca's shares, which amounts to S/ 4,772 thousand.

According to SBS regulations, goodwill has been assessed by management on an annual basis. The latter determined that there is no impairment as of March 31, 2020 and December 31, 2019.

12. Property, Furniture and Equipment, Net

This caption comprises the following:

In thousands of soles	**Land**	**Property and premises**	**Furniture, fixture and IT equipment**	**Vehicles**	**Goods in-transit and work-in-progress**	**Balances as of 03.31.2020**	**Balances as of 03.31.2019**
Cost							
Balance as of January 1	131,572	778,879	460,996	3,277	24,147	1,398,871	1,393,176
Additions	-	1,228	1,561	-	10,108	12,897	10,761
Sales	-	(1,528)	(11,781)	-	-	(13,309)	(2,955)
Acquisition of subsidiary (b)	-	-	-	-	-	-	26,506
Transfers	-	971	3,382	-	(4,209)	144	(21,136)
Disposals and others	-	-	(8)	-	-	(8)	-
Total cost	**131,572**	**779,550**	**454,150**	**3,277**	**30,046**	**1,398,595**	**1,406,352**
Accumulated depreciation							
Balance as of January 1	-	645,003	388,758	2,683	-	1,036,444	991,316
Additions	-	5,418	6,425	30	-	11,873	14,646
Sales	-	(401)	(10,422)	-	-	(10,823)	(2,357)
Acquisition of subsidiary (b)	-	-	-	-	-	-	22,370
Disposals and others	-	-	(6)	-	-	(6)	3
Total depreciation	**-**	**650,020**	**384,755**	**2,713**	**-**	**1,037,488**	**1,025,978**
Net carrying amount	**131,572**	**129,530**	**69,395**	**564**	**30,046**	**361,107**	**380,374**

(a) According to current regulations, the Bank, CrediScotia and CRAC cannot pledge as collateral the assets that are part of their property, furniture and equipment, except for those acquired through the issuance of lease bonds to carry out finance leases.

(b) It corresponds to the acquisition of CRAC's premises and equipment, dated March 1, 2019 (note 1.C (c)).

13. Intangible Assets, Net

This caption comprises the following:

In thousands of soles	Software and others	Work-in-progress	Lease premium	Other intangible assets	Exclusive agreement (a)	Cencosud brand name (a)	Balances as of 03.31.2020	Balances as of 03.31.2019
Cost								
Balance as of January 1	337,501	42,947	9,495	23,651	326,302	4,149	744,045	300,586
Additions	10,906	-	-	-	-	-	10,906	232,960
Transfers	3,157	(3,157)	-	-	-	-	-	21,140
Acquisition of subsidiary (b)	-	-	-	-	-	-	-	22,469
Disposals and others	-	-	-	-	-	-	-	(323)
Total cost	**351,564**	**39,790**	**9,495**	**23,651**	**326,302**	**4,149**	**754,951**	**576,832**
Accumulated amortization								
Balance as of January 1	295,443	-	3,486	22,428	18,128	231	339,716	279,929
Additions	6,311	-	219	59	5,405	102	12,096	5,381
Acquisition of subsidiary (b)	-	-	-	-	-	-	-	20,926
Disposals and others	-	-	-	-	-	-	-	(321)
Total amortization	**301,754**	**-**	**3,705**	**22,487**	**23,533**	**333**	**351,812**	**305,915**
Net carrying amount	**49,810**	**39,790**	**5,790**	**1,164**	**302,769**	**3,816**	**403,139**	**270,917**

(a) It includes identifiable intangible assets such as, exclusive agreement and Cencosud brand name as a result of the acquisition of CRAC on March 1, 2019 (note 1.C).

(b) It corresponds to the acquisition of CRAC's software and other intangible assets, dated March 1, 2019 (note 1.C (c)).

14. Other Assets, Net

This caption comprises the following:

In thousands of soles	03.31.2020	12.31.2019
Financial instruments		
Transactions in progress (a)	649,433	316,627
	649,433	**316,627**
Non-financial instruments		
Prepaid expenses (b)	177,702	171,458
Realizable and repossessed assets, net of accumulated depreciation and provision for impairment loss for S/ 187,846 thousand (S/ 182,255 thousand in 2019)	82,161	89,167
Tax credit	83,737	17,237
Others	7,865	7,942
	351,465	**285,804**
	1,000,898	**602,431**

(a) Transactions in progress are mainly those carried out during the last days of the month and are reclassified in the following month to their final accounts in the consolidated statement of financial position. These transactions do not have an impact on the Scotiabank Group's profit or loss. As of March 31, 2020, they mainly include treasury transactions and invoices-in-transit for S/ 617,556 thousand and S/ 23,232 thousand, respectively (S/ 299,767 thousand and S/ 4,679 thousand, respectively, as of December 31, 2019).

(b) As of March 31, 2020, prepaid expenses mainly include: i) deferred loan origination costs related to fees paid to the external sales force for S/ 127,335 thousand (S/ 123,876 thousand as of December 31, 2019); ii) prepaid fees for loans received for S/ 6,758 thousand (S/ 6,858 thousand as of December 31, 2019); iii) prepaid leases for S/ 3,280 thousand (S/ 3,463 thousand as of December 31, 2019); and iv) advertising and marketing services for S/ 1,336 thousand (S/ 1,192 thousand as of December 31, 2019), among others.

15. Deposits and Obligations with Financial Institutions

This caption comprises the following:

In thousands of soles	03.31.2020		12.31.2019	
Corporate clients	22,990,352	49%	20,332,538	45%
Individuals	17,578,737	37%	16,896,734	38%
Non-profit entities	4,524,128	10%	5,360,724	12%
Others	1,942,813	4%	2,172,896	5%
	47,036,030	**100%**	**44,762,892**	**100%**

As of March 31,2020 and December 31, 2019, deposits and other obligations in U.S. dollars represent 36% of total amount, respectively. As of March 31, 2020, deposits include accounts pledged in favor of the Bank and CrediScotia for credit transactions for S/ 441,507 thousand and US$ 134,653 thousand (S/ 453,136 thousand and US$ 131,721 thousand as of December 31, 2019).

As of March 31,2020 and December 31, 2019, total deposits and obligations from individuals and non-profit entities amount to S/ 11,674,744 thousand and S/ 11,676,411 thousand, respectively, are secured by the Peruvian Deposit Insurance Fund according to current regulations.

According to article 4 of SBS Resolution 0657-99, deposits secured by the Peruvian Deposit Insurance Fund are the following:

(a) registered deposits, under any modality, from individuals and private non-profit entities.
(b) accrued interest on the aforementioned deposits as from their respective opening dates or their last renewal dates; and
(c) demand deposits corresponding to other legal entities.

As of March 31, 2020, the maximum amount covered for each individual amounted to S/ 100 thousand (S/ 101 thousand as of December 31, 2019).

The Bank, CrediScotia and CRAC freely establish interest rates for its liability transactions based on demand and supply, and type of deposit. As of March 31,2020 and December 31, 2019, effective rates of main liabilities ranged as follows:

	03.31.2020		12.31.2019	
%	**Local currency**	**Foreign currency**	**Local currency**	**Foreign currency**
Savings accounts	0.93 - 1.74	0.20 - 0.23	0.94 - 2.12	0.22 - 0.24
Time deposits	2.51 - 5.31	0.24 - 1.88	2.81 - 5.39	0.20 - 2.06
Bank certificates	-	0.18 - 0.44	-	0.18 - 0.45
Length-of-service compensation deposits	3.21 - 5.88	1.15 - 1.58	3.22 - 6.29	1.15 - 1.58

As of March 31,2020 and December 31,2019, maturities of time deposits of clients and financial institutions were as follows:

	03.31.2020			12.31.2019		
In thousands of soles	**Local currency**	**Foreign currency**	**Total**	**Local currency**	**Foreign currency**	**Total**
Up to 1 month	2,754,793	2,671,877	5,426,670	3,188,173	2,638,725	5,826,898
From 1 to 3 months	2,084,365	657,217	2,741,582	2,570,451	677,710	3,248,161
From 3 to 6 months	1,708,944	579,128	2,288,072	1,006,444	702,120	1,708,564
From 6 to 12 months	2,453,834	866,212	3,320,046	2,479,365	765,699	3,245,064
More than 1 year	1,390,553	587,696	1,978,249	1,671,812	591,781	2,263,593
	10,392,489	**5,362,130**	**15,754,619**	**10,916,245**	**5,376,035**	**16,292,280**
Interest	**110,131**	**17,156**	**127,287**	**121,344**	**17,262**	**138,606**
	10,502,620	**5,379,286**	**15,881,906**	**11,037,589**	**5,393,297**	**16,430,886**

Demand deposits, savings deposits and length-of-service compensation deposits have no contractual maturities.

16. Borrowings and Debts

This caption comprises the following:

In thousands of soles	**03.31.2020**	**12.31.2019**
Borrowings and debts		
Obligations in the country		
COFIDE (a)	1,113,872	1,109,728
Ordinary loans from abroad		
Related banks (b)	5,842,900	5,793,800
Other banks (c)	3,788,885	3,541,728
	10,745,657	**10,445,256**
Interest payable	38,377	25,251
	10,784,034	**10,470,507**
Securities and obligations (d)	2,282,137	2,210,367
	13,066,171	**12,680,874**

(a) The credit lines of Corporación Financiera de Desarrollo S.A. (COFIDE) in the Bank and CrediScotia correspond to resources obtained for loans granting, mainly for mortgage loan financing programs of MiVivienda Fund, which accrue a fixed interest rate adjusted to the VAC index.

As of March 31,2020 and December 31, 2019, the Bank and CrediScotia hold obligations with COFIDE for S/ 553,577 thousand and S/ 550,437 thousand, respectively, which are guaranteed by a mortgage loan portfolio, as follows:

		03.31.2020		**12.31.2019**	
In thousands of	**Currency**	**Net loans**	**Backed debt**	**Net loans**	**Backed debt**
Detail					
Mortgage loans - MiVivienda Fund (*)	Soles	846,539	523,637	844,347	518,727
Mortgage loans - MiVivienda Fund (*)	U.S. dollars	10,441	8,911	11,162	9,566

(*) The Bank and CrediScotia entered into specific loan arrangements, which have standard terms of compliance on certain operating issues that, in management's opinion, have been met.

Likewise, as of March 31, 2020, the Bank entered into agreements to channel resources with COFIDE for S/ 560,295 thousand (S/ 559,291 thousand as of December 31, 2019). Said resources will be used to fund corporate and medium-business loans.

(b) As of March 31, 2020, ordinary loans with related banks include debts payable to Scotiabank Ltd. Bahamas for US$ 1,700,000 thousand, which accrue interest at annual rates ranging from 2.39% to 3.26% with maturities between April 2020 and January 2022 (US$ 1,700,000 thousand as of December 31, 2019, which accrue interest at annual rates ranging from 1.88% to 2.50% with maturities between April 2020 and January 2022).

These borrowings do not have collaterals nor compliance covenants.

(c) As of March 31, 2020, the Bank holds borrowings and debts with other foreign banks for US$ 1,060,193 thousand (US$ 1,059,664 thousand as of December 31, 2019), which accrue interest at annual rates ranging from 2.13% to 3.03% (2.13% to 3.03% as of December 31, 2019). These transactions contain standard terms of compliance with financial ratios and, in management's opinion, those terms do not affect the Bank's business and are being met.

As of March 31,2020 and December 31, 2019, maturities of borrowings from banks and other financial institutions were as follows:

In thousands of soles	**03.31.2020**	**12.31.2019**
Up to 1 month	1,224,344	570,077
From 1 to 3 months	1,941,784	1,004,992
From 3 to 6 months	947,111	1,857,388
From 6 to 12 months	1,927,178	1,793,195
More than 1 year	4,743,616	5,244,855
	10,784,033	**10,470,507**

(d) As of March 31,2020 and December 31, 2019, securities and bonds are as follows:

In thousands of soles	**Annual interest**	**Maturity**	**03.31.2020**	**12.31.2019**
Issuance				
Redeemable subordinated bonds				
1st Issuance, single series (i)	4.50%	2027	1,374,800	1,325,600
1st Issuance A – 1st Program - SBP (ii)	7.34%	2025	535,560	535,560
1st Issuance A – 1st Program - CSF (iii)	7.41%	2027	130,000	130,000
			2,040,360	**1,991,160**
Corporate bonds (iv)				
1st Issuance A – 3rd Program	4.56%	2021	104,790	104,790
			104,790	**104,790**
Negotiable certificates of deposits			98,873	99,102
			98,873	**99,102**
			2,244,023	**2,195,052**
Interest payable and obligations			38,114	15,315
			2,282,137	**2,210,367**

i. In December 2012, the Bank issued subordinated bonds for US$ 400,000 thousand, which under SBS Resolution 8093-2012, qualify as tier 2 capital. These bonds mature in December 2027 and accrue interest at an annual fixed rate of 4.500% during the first ten years; from the eleventh year, they will accrue interest at a variable LIBOR rate of 3-month 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 management's opinion, do not affect the Bank's business and are being met.

ii. Through SBS Resolution 2315-2015, dated April 24, 2015, authorized the issuance of the Scotiabank Peru's First Subordinated Bonds Program up to US$ 400,000 thousand or the equivalent in soles. These bonds qualify as a tier 2 capital. In May 2015, the Bank issued 53,556 subordinated bonds in local currency with a par value of S/ 10,000 each and a 10-year term from the issuance date. These bonds accrue an annual interest rate of 7.34375% to be paid each semester. This issue was private and held in the local market.

iii. In July 2012, CrediScotia issued subordinated bonds for S/ 130,000 thousand which, under SBS Resolution 4873-2012, qualify as tier 2 capital. These bonds accrue interest at an annual fixed rate of 7.41% with maturity in July 2027 and have put option from the tenth year if the terms and conditions of such issuance are met. The proceeds were exclusively destined to fund credit transactions.

iv. It corresponds to the issuance of corporate bonds with terms of approximately one year. The proceeds were exclusively destined to credit operations financing.

Subordinated bonds issued by the Bank do not have specific collateral; however, they have a general guarantee on the equity of those entities.

As of March 31,2020 and December 31, 2019, the maturities of issued securities are as follows:

In thousands of soles	**03.31.2020**	**12.31.2019**
Up to 3 months	32,413	7,011
From 3 to 6 months	1,062	6,270
From 6 to 12 months	102,551	99,847
More than 1 year	2,146,111	2,097,239
	2,282,137	**2,210,367**

(e) During the three-month period ended March 31, 2020 and 2019, interest expenses on borrowings and debts of the Scotiabank Group amount to S/ 105,295 thousand and S/ 110,780 thousand, respectively (note 22).

17. Provisions and Other Liabilities

This caption comprises the following:

In thousands of soles	**03.31.2020**	**12.31.2019**
Accounts payable		
Repurchase agreements (a)	5,952,013	7,031,071
Other accounts payable	450,303	411,047
Short sale	39,049	80,545
Vacations, remunerations and profit sharing payable	53,662	44,604
	6,495,027	**7,567,267**
Provisions		
Provisions for litigations and legal claims (b)	36,628	36,086
Provisions for various contingencies (c)	60,919	60,123
Provision for indirect loan losses and country risk	115,452	119,865
Other provisions (d)	88,518	115,250
	301,517	**331,324**
Other liabilities		
Transactions in progress (e)	468,452	502,668
Deferred income (f)	80,994	79,490
	549,446	**582,158**
	7,345,990	**8,480,749**

(a) Corresponds to balance of obligations for foreign currency repurchase agreements and repurchase agreements with the BCRP (notes 6(c) and 7(d)). As of March 31, 2020, these transactions accrued interest ranging from 1.75% to 3.28% (2.25% to 4.45% as of December 31, 2019). Likewise, as of March 31, 2020, the maturities of these transactions fluctuate between April 2020 and March 2021(between January 2020 and July 2020 as of December 31, 2019).

(b) As of March 31,2020 and December 31, 2019, the Scotiabank Group has legal actions underway, which are related to civil and labor claims, among others. These legal actions resulted from activities and transactions performed during the normal course of business of each entity of the Scotiabank Group. Management does not consider that they will have a significant impact on business or profit or loss.

(c) As of March 31, 2020, this account mainly comprises reversals or recoveries of provisions recorded in previous years against equity accounts for S/ 60,919 thousand (S/ 65,612 thousand as of December 31, 2019), which according to SBS Official Letter 23797-2003, shall be reclassified to deficits in other asset accounts of the Bank.

(d) As of March 31, 2020, the balance of other provisions mainly includes: i) provisions for personnel expenses for S/ 57,323 thousand (S/ 83,619 thousand as of December 31, 2019); ii) provisions for marketing campaigns of liability products for S/ 5,572 thousand (S/ 5,502 thousand as of December 31, 2019); and iii) provisions related to credit and debit card transactions for S/ 24,114 thousand (S/ 24,114 thousand as of December 31, 2019).

(e) Transactions in progress are mainly those carried out during the last days of the month and are reclassified in the following month to their final accounts of the consolidated statement of financial position. These transactions do not affect the Scotiabank Group's profit or loss. As of March 31, 2020, liability transactions in progress mainly include: i) S/ 333,672 thousand for treasury transactions (S/ 317,888 thousand as of December 31, 2019); ii) S/ 72,222 thousand for credit card transactions (S/ 79,335 thousand as of December 31, 2019); and iii) S/ 13,627 thousand for client deposits in transit (S/ 27,847 thousand as of December 31, 2019).

(f) As of March 31, 2020, it mainly includes income for (i) S/ 43,096 thousand for exclusive right fees; (ii) S/ 23,430 thousand for indirect loan fees; and S/ 12,182 thousand for structuring and trust service fees, which are recorded in the Scotiabank Group's profit or loss during the term of the contract that originates them. As of December 31, 2019, the balance included S/ 43,502 thousand for exclusive right fees; S/ 20,573 thousand for indirect loan fees and S/ 14,691 thousand for structuring and trust service fees.

18. Equity

A. General

The regulatory capital of the Bank, CrediScotia and CRAC is determined in accordance with the Banking Law and is used to calculate legal limits and restrictions applicable to financial institutions in Peru. As of March 31, 2020, the regulatory capital of such entities amounts to S/ 9,803,634 thousand, S/ 1,019,771 thousand and S/ 223,920 thousand, respectively (S/ 9,400,512 thousand; S/ 1,019,288 thousand and S/ 217,256 thousand for the Bank; CrediScotia and CRAC, respectively, as of December 31, 2019).

As of March 31, 2020, credit risk weighted assets and indirect loans determined by the Bank, CrediScotia and CRAC, according to the regulation applicable to financial institutions, amount to S/ 61,506,458 thousand, S/ 5,310,007 thousand and S/ 1,411,323 thousand, respectively (S/ 60,096,086 thousand; S/ 5,286,982 thousand and S/ 1,270,067 thousand for the Bank, Crediscotia and CRAC, respectively, as of December 31, 2019).

At a Board of Directors meeting held March 31, 2020 and in exercise of the power conferred by the Shareholders’ Meeting on March 25, 2019, approved the commitment to capitalize results for the year 2019 for S/ 148,081 thousand.

General Shareholders' Meeting held March 25, 2019, conferred authority to the Board of Directors to commit on capitalizations of 2019 profits, with the purpose that these can be included in the calculation of the Bank’s regulatory capital. In this regard, in August and November 2019, the Board of Directors approved the commitment to capitalize the 2019 profits for S/ 504,000 thousand and S/ 300,000 thousand, respectively.

As of March 31, 2020 and December 31, 2019, 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 indirect loans, 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 credit risk weighted assets and indirect loans. As of March 31, 2020, the regulatory capital of the Bank, CrediScotia and CRAC represents 14.67%, 17.48% and 15.87% respectively, of the minimum capital requirements per market, operational and credit risk (14.45%; 17.62% and 17.11% for the Bank; Crediscotia and CRAC, respectively as of December 31, 2019).

SBS Resolution 2115-2009, approved the "Regulation on the Regulatory Capital Requirement for Operational Risk." As of March 31,2020 and December 31, 2019, the Bank and CrediScotia have applied the alternative standard method for the calculation of the regulatory capital requirement for operational risk. According to Official Letter 17024-2016-SBS and 17016-2016-SBS, the Bank and CrediScotia shall use the alternative standard method for the calculation of the regulatory capital requirement, which shall be equivalent to 50% of the difference between the requirements calculated using the basic indicator method and the alternative standard method, from April 2017 to March 2018. SBS Resolution 1889-2018, issued May 9, 2018, extended the application period until September 2019. SBS Resolutions 1889-2018 and 1890-2018, issued May 9, 2018, extended the application period for the Bank and CrediScotia until September 2019.

SBS Resolutions 4941-2019 and 4942-2019, issued October 23, 2019, extended the application period of the alternative standard method for the Bank and CrediScotia until September 2021.

In the case of the CRAC, the basic indicator approach is applied.

Finally, SBS Resolution 8425-2011 and its amendments approved the method 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, and v) other risks. As of March 31, 2020, additional regulatory capital of the Bank, CrediScotia and CRAC amounted to S/ 1,334,834 thousand, S/ 90,293 thousand and S/ 42,639 thousand, respectively (S/ 1,303,310 thousand; S/ 162,517 thousand and S/ 44,476 thousand for the Bank; CrediScotia and CRAC, respectively, as of December 31, 2019).

B. Share capital

As of March 31,2020 and December 31, 2019, the Bank's authorized, subscribed and paid-in share capital comprise 676,327,282 common shares. All shares have voting rights and a par value of S/ 10.00 each. As of March 31,2020 and December 31, 2019, the quotation value of common shares of the Bank was S/ 24.00 and S/ 32.45 per share, respectively.

Pursuant to the delegation conferred by the General Shareholders' Meeting, held March 25, 2019, the Board of Directors approved the increase in share capital arising from the capitalization of 2018 retained earnings for S/ 640,325 thousand. As a result from the capitalization, the share capital increased to S/ 6,763,271 thousand represented by 676,327,282 common shares with a par value of S/ 10.00 each as of March 31, 2020 and December 31, 2019.

Shareholding on the Bank's share capital as of March 31, 2020 and December 31, 2019, is as follows:

	03.31.2020		12.31.2019	
%	**Number of shareholders**	**%**	**Number of shareholders**	**%**
From 0.01 to 1	1,343	1.95	1,347	1.95
From 50.01 to 100	1	98.05	1	98.05
	1,344	**100.00**	**1,348**	**100.00**

Under the Banking Law, as of March 31, 2020, the share capital is required to reach the minimum amount of S/ 27,467 thousand (S/ 27,485 thousand as of December 31, 2019), at a constant value. This amount is annually updated at the end of each fiscal year, based on the wholesale price index (WPI), as published by the National Institute of Statistics.

C. Additional paid-in capital

This caption comprises the following:

In thousands of soles	**03.31.2020**	**12.31.2019**
Issuance premium	393,159	393,159
Gain on treasury shares	1,304	1,304
	394,463	**394,463**

As of March 31,2020 and December 31, 2019, the Bank holds 212 treasury shares.

D. Legal reserve

In accordance with the Banking Law, the Bank is required to have a legal reserve of at least 35% of its share capital. This reserve is created by an annual transfer of not less than 10% of profit after tax, and supersedes the reserve referred to in the Banking Law. 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.

On March 31, 2020, an amount of S/ 146,474 thousand corresponding to 10% of the net profit for the year 2019 was applied to the legal reserve. On March 25, 2019, it was decided to apply to the legal reserve an amount of S/ 128,065 thousand, corresponding to 10% of the net profit for the year 2018.

E. Retained earnings

General Shareholders' Meeting, held on March 25, 2019, approved the distribution of 2018 net profit for S/ 1,280,650 thousand, as follows:

i Allocate S/ 512,260 thousand to pay cash dividends. Such payment was made in May 2019.

ii Allocate 10% of net profit, amounting to S/ 128,065 thousand, to increase the legal reserve.

iii Hold the remaining balance, amounting to S/ 640,325 thousand, in 'retained earnings.

General Shareholders' Meeting, held on May 26, 2020, approved the distribution of 2019 profit for S/ 1,464,740 (see Note 35).

F. Other comprehensive income

As of March 31,2020 and December 31, 2019, it mainly includes unrealized gains and losses on available-for-sale investments, hedging instruments and interests in other comprehensive income of associates, net of deferred tax effect.

Movement in the Bank's unrealized losses and gains for the three-month ended 2020 and 2019, net of deferred tax, was as follows:

In thousands of soles	***Note***	**03.31.2020**	**03.31.2019**
Balance as of January 1		13,105	(19,796)
Net unrealized (loss) gain on available-for-sale investments	*7*	(6,615)	47,777
Unrealized loss on associates		(12)	(11)
Cash flow hedges		(39,676)	(4,795)
		(33,198)	**23,175**

19. Contingencies

The Scotiabank Group has several pending legal claims related to its ongoing activities. It is the opinion of management and its legal advisors that these claims will not result in liabilities additional to those recorded by the Scotiabank Group. Therefore, management considers that no additional provision is necessary for these contingencies (note 17.b).

20. Contingent Risks and Commitments

In the normal course of business, the Bank, CrediScotia and CRAC perform contingent transactions under off-consolidated statement of financial position (contingent assets). These transactions expose the Bank, CrediScotia and CRAC to additional credit risks, beyond the amounts recorded in the consolidated statement of financial position. Credit risk for contingent transactions are recorded in suspense accounts in the consolidated statement of financial position and it is related to the probability that one of the participants of the respective contract does not meet the agreed upon terms.

The related contracts consider the amounts that the Bank, CrediScotia and CRAC would assume for credit losses on contingent transactions. The Bank, CrediScotia and CRAC apply similar credit policies when assessing and granting direct loans and indirect loans.

Many of the indirect loans are expected to expire without any withdraw required. The total amounts do not necessarily represent future cash outflows for the Bank, CrediScotia, and CRAC. Also, documentary credits, such as letters of credit issued, guarantees and letters of guarantee are contingent commitments issued by the Bank and CrediScotia to guarantee a client’s obligation before a third party.

As of March 31,2020 and December 31, 2019, the contingent accounts comprise the following:

In thousands of soles	***Note***	**03.31.2020**	**12.31.2019**
Indirect loans:	*8*		
Guarantees and letters of guarantee		8,663,716	8,669,592
Issued letters of credit		738,241	710,585
Outstanding bank acceptances		133,826	100,896
		9,535,783	**9,481,073**
Unused credit lines		45,836,259	43,814,950
Derivative instruments		18,656,398	17,062,366
		74,028,440	**70,358,389**

21. Interest Income

This caption comprises the following:

In thousands of soles	*Note*	03.31.2020	03.31.2019
Direct loan portfolio		1,419,008	1,256,294
Available-for-sale investments	*7.e*	47,005	41,509
Cash and due from banks	*6.d*	17,432	37,211
Investments at fair value through profit or loss	*7.e*	4,530	992
Profit or loss from hedging instruments		1,471	-
Interbank funds		410	1,317
Other finance income		582	1,115
		1,490,438	**1,338,438**

22. Interest Expenses

This caption comprises the following:

In thousands of soles	*Note*	03.31.2020	03.31.2019
Deposits and obligations		185,148	192,492
Borrowings and debts	*16(e)*	105,295	110,780
Repurchase agreements		27,523	18,404
Fees for borrowings and debts		5,573	3,509
Interbank funds		1,681	1,115
Deposits with financial institutions		2,030	2,564
		327,250	**328,864**

23. Financial Service Income, Net

This caption comprises the following:

In thousands of soles	03.31.2020	03.31.2019
Income:		
Income from fees for collections services	76,456	61,930
Other income and fees for banking services	39,429	45,089
Income from services and maintenance of liability transactions and transfer fees	21,057	22,219
Income from recovery of loan portfolio	12,800	16,481
Income from structuring and management services	12,658	7,914
Income from remunerations of mutual funds and redemption fees	15,127	12,427
Income from teleprocessing services	4,759	9,196
Income from fees and intermediation services	1,838	1,513
Other income	93,470	87,173
	277,594	**263,942**
Expenses		
Credit/debit card expenses	(37,140)	(34,246)
Deposit insurance fund premiums	(12,070)	(12,331)
Insurance services expenses	(1,468)	(1,712)
Other expenses	(65,498)	(64,266)
	(116,176)	**(112,555)**
	161,418	**151,387**

24. Income from Financial Transactions

This caption comprises the following:

In thousands of soles	*Note*	03.31.2020	03.31.2019
Net gain on foreign exchange	*5*	46,822	80,907
Gain on sale of available-for-sale investments	*7*	24,547	15,890
Net gain (loss) on measurement of held-for-trading instruments	*9*	25,324	(6,911)
Net gain (loss) on sale and measurement of investments at fair value through profit or loss		10,335	2,560
Gain on interests		5,327	3,551
Dividends received from available-for-sale investments		-	4
Others, net		26	15
		112,381	**96,016**

25. Administrative Expenses

This caption comprises the following:

In thousands of soles	03.31.2020	03.31.2019
Personnel and board of directors' expenses	252,698	246,190
Third party services expenses	225,136	197,047
Taxes and contributions	21,852	20,047
	499,686	**463,284**

26. Other Income, Net

This caption comprises the following:

In thousands of soles	03.31.2020	03.31.2019
Sale of non-financial services	2,102	5,025
Gain on sale of realizable and repossessed assets	896	1,067
Lease of own assets	656	367
Reimbursements and recoveries	556	110
Loss on sale of property, furniture and equipment	(261)	(595)
Other expenses, net	(4,235)	(5,575)
	(286)	**399**

27. Tax Matters

Consolidated

A. Income tax is determined on an individual basis and not on a consolidated basis. According to the tax law in force in Peru, income tax is settled based on statutory consolidated interim financial statements and additions, deductions and tax losses established.

Income tax regime

B. The Scotiabank Group is subject to the Peruvian tax regime. As of March 31,2020 and December 31, 2019, the corporate income tax is calculated on the basis of the net taxable income determined by the Scotiabank Group at a rate of 29.5%.

On May 24, 2012, the CRAC entered into a legal stability agreement with the Peruvian Government in accordance with Title II of Legislative Decree 662, Chapter I, Title V of Legislative Decree 757 and Law 27342. The agreement is effective for ten years following its execution. Consequently, the 2019 income tax rate is 30%.

The income tax rate applicable to dividend distribution and any other form of profit distribution amounts to 5%, in the case of profits generated and distributed since January 1, 2017 onwards.

It shall be presumed that the dividend distribution or any other form of profit distribution correspond to the retained earnings or other items that could generate older taxable dividends.

C. In accordance with current Peruvian tax lawn, non-domiciled individuals only pay taxes for their Peruvian source income. In general terms, revenue obtained by non-domiciled individuals from the services rendered in the country shall be subject to a 30% income tax on gross income, provided that no double tax treaties are applicable. In this regard, currently Peru has entered into double tax treaties with the Andean Community, Chile, Canada, Brazil, Portugal, Switzerland, Mexico and South Korea.

Concerning the technical assistance or digital services rendered by non-domiciled individuals to domiciled individuals, regardless of the place where the service is rendered, they shall be subject to a 15% and 30% income tax rate on gross income, respectively, provided that no double tax treaties are applicable. Technical assistance will be subject to a 15% rate, provided that Income Tax Law requirements are met. As noted above, retention rate in these situations may vary or retention may not be applicable if provisions of current double tax treaties are applied.

Income tax determination

D. The Scotiabank Group computed its tax base for the years ended March 31, 2020 and December 31, 2019 and determined income tax for S/ 145,861 thousand and S/ 129,461 thousand, respectively.

The Scotiabank Group's current tax has been determined as of March 31, 2020 and 2019 as follows:

In thousands of soles	**03.31.2020**	**03.31.2019**
Scotiabank Perú S.A.A.	92,884	101,573
CrediScotia Financiera S.A.	40,268	24,250
CRAC CAT Perú S.A.	6,833	457
Scotia Fondos Sociedad Administradora de Fondos S.A.	3,671	2,691
Servicios, Cobranzas e Inversiones S.A.C.	1,619	590
Scotia Sociedad Agente de Bolsa S.A.	420	53
Scotia Sociedad Titulizadora S.A.	165	27
	145,860	**129,641**

Income tax expense comprises the following:

In thousands of soles	**03.31.2020**	**03.31.2019**
Current tax		
Current year	143,979	127,036
Previous year adjustment	1,881	2,605
	145,860	**129,641**
Deferred tax	(36,171)	(6,580)
Net income tax expense	**109,689**	**123,061**

The reconciliation of the tax rate to the effective tax rate is as follows:

In thousands of soles	03.31.2020		03.31.2019	
Net profit before tax	**440,195**	**100.00%**	**449,272**	**100.00%**
Income tax (theoretical)	129,858	29.5%	132,535	29.5%
Tax effect on additions and deductions				
Permanent differences	(17,997)	(4.09)%	(16,567)	(3.69)%
Previous year deferred tax adjustment	(4,052)	(0.92)%	4,488	1.00%
Previous year income tax adjustment	1,880	0.43%	2,605	0.58%
Current and deferred tax recorded as per effective rate	**109,689**	**24.92%**	**123,061**	**27.39%**

Income tax exemptions and exceptions

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

Emergency Decree 005-2019 extended the exemption until December 31, 2022 and included new assumptions that shall also be exempted: i) debt instruments; ii) certificates of participation in mutual funds of investment in securities; iii) certificates of participation in real estate investment (FIRBI, for its Spanish acronym) and certificates of participation in real estate trusts (FIBRA, for its Spanish acronym); and iv) negotiable invoices.

The aforementioned exemption will be applicable whenever certain requirements concur.

Temporary tax on net assets

F. The Scotiabank Group is subject to Temporary Tax on Net Assets whose tax base is composed of the prior period adjusted net asset value less depreciations, amortizations, legal cash reserve, and specific provisions for credit risk. The tax rate is 0.4% for years 2020 and 2019 and is applied to the amount of net assets exceeding S/ 1 million. It may be paid in cash or in nine consecutive monthly installments. The amount paid may be used as a credit against payments on account of Income Tax Law for taxable periods from March to December of the fiscal period for which the tax was paid until maturity date of each of the payments on account, and against the payment for regularization of income tax of the corresponding taxable period. In the event a remaining balance is not applied, its refund could be requested.

Tax on financial transactions

G. Tax on financial transactions until the fiscal period 2020 is fix at the rate of 0.005%. This tax is applied on debits and credits in bank accounts or movements in funds made through the financial system, unless the account is tax-exempt.

Transfer pricing

H. In determining the income tax, transfer pricing with related parties and entities domiciled in territories with low or zero taxation shall be supported with documents and information on the valuation techniques and the criteria used for their determination. Until fiscal year 2016, the formal obligations of Transfer Pricing were the presentation of a transfer pricing sworn statement and a technical study.

Through Legislative Decree 1312, published December 31, 2016 and effective January 1, 2017, the following formal obligations were established to replace the former ones: (i) presentation of a Local File (if accrued income exceeds 2,300 tax units (UIT, for its Spanish acronym)), (ii) presentation of a Master File (if accrued income of the group exceeds 20,000 UIT) and (iii) presentation of a Country-by-Country Reporting (if previous year (2017) combined accrued revenues of the multinational group's Parent Company exceeds S/ 2,700,000,000 o € 750,000,000. The latter two files are required for transactions corresponding to year 2017 onwards.

According to Tax Authorities' Resolution 014-2018-SUNAT, published January 18, 2019, the Electronic Form 3560 was approved for presentation of the Local File, establishing the deadlines for its presentation and the content and format that should be therein included.

The deadline for the presentation of the Local File for the year 2019 will be June 2020, in accordance with the maturity schedule for tax period of May, published by the Tax Authorities. The local file for the year 2019 was presented as of June 11, 2020.

The content and format of the Local File are stated in the Appendixes I, II, III and IV of the Tax Authorities' Resolution 014-2018-SUNAT.

Likewise, Legislative Decree 1312 also established that intra-group services with low added value shall not have a margin greater than 5% of their costs. Concerning the services rendered between related parties, taxpayers must comply with the benefit test and provide the documentation and information under specific conditions for the deduction of costs or expenses.

Legislative Decree 1116 established that Transfer Pricing Standards are not applicable for sales tax.

Tax assessment by Tax Authorities

I. The Tax Authorities are entitled to audit and, if applicable, to correct the income tax calculated by the Scotiabank Group within the four years following the year of the tax return filing. The Scotiabank Group's income tax and sales tax returns for the years 2014 through 2019 are open for review by the Peruvian Tax Authorities.

As of the date of this report, the Tax Authorities completed the review on corporate income tax. Therefore, any major tax, surcharges and sanctions that might arise from eventual tax audits would be applied to non-domiciled income tax returns and transfer pricing for period 2013.

The Scotiabank Group's income tax returns that are open for review by the Tax Authorities are as follows:

In thousands of soles	**Tax returns subject to audit**	**Tax returns under audit**
Scotiabank Perú S.A.A.	From 2016 to 2019	2014 - 2015
CrediScotia Financiera S.A.	From 2012, 2015 to 2019	-
Servicios, Cobranzas e Inversiones S.A.	From 2015 to 2019	2016
Scotia Fondos Sociedad Administradora de Fondos Mutuos S.A.	From 2015 to 2019	-
Scotia Sociedad Agente de Bolsa S.A.	From 2015 to 2019	-
Scotia Sociedad Titulizadora S.A.	From 2015 to 2019	-
Caja Rural de Ahorro y Crédito CAT Perú S.A.	From 2015 to 2019	2014
Fideicomiso sobre Bienes Inmuebles – Depsa	From 2015 to 2019	-

Concerning tax returns for fiscal years 2006 through 2010 and 2013, the Tax Authorities issued various Tax Assessment and Fine Resolutions on the determination of corporate income tax for said years, which were challenged. The Bank filed an appeal which is pending resolution.

Concerning CrediScotia, the Tax Authorities have completed the audits for fiscal years 2008, 2009, 2010 and 2011, issuing Tax Assessment and Fine Resolutions on the determination of income tax for such years, which were challenged by CrediScotia. In relation to the results from the tax assessment of the aforementioned fiscal years, CrediScotia has filed an appeal for the received actions related to the Income Tax of those years.

Concerning the CRAC, 2012 was audited by the Tax Authorities. The CRAC filed an appeal before the Tax Court in 2017. In 2016, the Tax Authorities concluded the tax assessment of year 2013 and did not generate any significant contingencies. Currently, the Tax Authorities is carrying out the tax assessment of year 2014. The income tax returns for the years 2015 through 2019 are open for review by the Tax Authorities.

It is the opinion of management and its legal advisors that these tax proceedings and the periods pending assessment will not generate significant liabilities that may impact on the Scotiabank Group's profit or loss according to IFRIC 23. This position is maintained up to March 31st, 2020.

Due to the possibility of various interpretations of the current regulations by the Tax Authorities, it is not possible to determine, to date, whether a future tax audit will result or not in liabilities for the Scotiabank Group of the period in which they are recognized. However, it is the opinion of management and its legal advisors that any possible additional settlement of taxes would not be significant for the Scotiabank Group's consolidated interim financial statements as of March 31. 2020 and December 31, 2019. Up to March 31st, 2020, Scotiabank's group has the same opinion about that any additional settlement won't be significant for the Group.

Tax regime applicable to Value Added Tax (VAT)

J. Legislative Decree 1347, published January 7, 2017 and effective July 1, 2017, established the possible reduction of one percentage point in the sales tax, provided that the goal of annual sales tax collection as of May 31, 2017 is reached, net of internal refunds of 7.2% of gross domestic product. In other words, if the aforementioned condition is met, the sales tax rate (including the municipal tax) will be reduced from 18% to 17%.

However, the estimated collection goal was not met at the end of the term, so the sales tax rate shall be held at 18%.

Major amendments to tax laws effective for periods beginning on January 1, 2019

K. New regulatory concept of accrual: Legislative Decree1425 introduced the definition of "legal accrual" for income tax purposes, stating that: a) income for transfer of goods occurs when i) control has been transferred (in accordance with IFRS 15); or ii) risk has been transferred to the acquirer (Risk Theory set out in the Civil Code), whichever occurs first; and b) income for service provision occurs when realization level of the service provided has been established.

The new legal accrual concept is applicable to lessees when determining the tax treatment of the expense associated with lease agreements regulated by IFRS 16 (e.g. operating leases for tax purposes).

This concept will not be applicable for those entities accruing income or expenses for income tax purposes in accordance with tax provisions establishing a special (sector) accrual system.

L. Thin capitalization: Beginning 2019 and until December 31, 2020, the finance cost generated by debts of independent and related parties is subject to the thin capitalization limit of 3:1 debt-to-equity ratio, which is calculated at the end of the prior period. Beginning January 1, 2021, finance cost will be deductible up to 30% of the tax-EBITDA (Net Income – Loss Compensation + Net Interest + Depreciation + Amortization) of the prior period. There are some exemptions regarding this 30% limit for banks, taxpayers whose income is lower than 2,500 UIT, infrastructure, public services, among others.

M. Deduction of expenses or costs incurred in operations with non-domiciled individuals: Legislative Decree 1369 requires that costs and/or expenses (including outbound interest) incurred with non-domiciled individuals must be paid effectively to be deducted in the year they were incurred. Otherwise, its impact on the determination of net income will be deducted in the year they are actually paid and the corresponding withholding will be applied.

The aforementioned standard abolished the obligation to pay the amount equivalent to the withholding on the amount recorded as cost and/or expense.

N. Indirect loans: As of January 1, 2019, under certain requirements, domiciled entities receiving foreign inbound dividends may deduct as direct loan the Income Tax that would have been levied on the foreign dividends and the Corporate Income Tax (indirect loan) paid by the tier 1 and tier 2 non-domiciled entity (provided they are in the same jurisdiction) that would have distributed the dividends from abroad.

Measures to implement the General Anti-avoidance Rule provided in the Regulation XVI of Tax Code

O. Legislative Decree 1422 sets up the procedure to implement the General Anti-avoidance Rule, mainly stating that: (i) it is applicable only in final audit procedures in which acts, events or situations that occurred since July 19, 2012, are reviewed; (ii) it is applicable only if there is a favorable opinion from a review committee composed of Tax Authorities' officers (such opinion is not appealable); and (iii) final audit procedures, in which the General Anti-avoidance Rule is applicable, are not subject to a one (01) year term to request information from the audited parties.

Supreme Decree 145-2019-EF, dated May 6, 2019 and published on the official daily newspaper of Peru "El Peruano," approves all the formal and substantial parameters for the application of the Anti-avoidance Rule provided in the Regulation XVI of Tax Code. Consequently, the requirement to end the suspension of the application for such rule, established by Law 30230, is deemed as complied with.

Likewise, the Tax Authorities' Audit Procedure Regulation has been adapted for such purposes.

Information related to ultimate beneficiaries

P. In line with the regulations to strengthen the fight against tax evasion and avoidance, as well as against money laundering and terrorism financing, as of August 3, 2018, provisions introduced by Legislative Decree 1372 are currently in force. The aforementioned Decree requires the presentation of information related to ultimate beneficiaries to the competent authorities through a sworn statement of the ultimate beneficiaries. Such statement shall disclose the names of the natural persons that effectively retain ownership or control. Thus, it is mandatory to report the following: (i) identification of the ultimate beneficiaries; (ii) chain of title with its respective supporting documents; and (iii) identification of third parties that have such information, if applicable. Also, it states that the information related to the identification of the ultimate beneficiaries of legal persons and legal entities provided to the competent authorities within the framework of these regulations neither violates professional secrecy nor is subject to restrictions on the disclosure of information arising from secrecy requirements under contracts or any regulatory provision.

Lastly, if the informative sworn statement with the information related to the ultimate beneficiaries is not presented, the legal representatives of the entity that failed to comply with the presentation of such statement shall assume the joint and several liability.

Indirect transfer of shares

Q. From January 1, 2019, an anti-avoidance measure is included to prevent the split of transactions, which allows indirect transfer of shares of entities domiciled in Peru.

In order to determine if, within a 12-month period, the transfer of 10% or more of the Peruvian Company's capital has been executed, transfers of the analyzed individual and transfers to its related parties shall be considered, whether transfers are executed by one or several (simultaneous or successive) transactions. The relationship shall be set up in accordance with the provisions of section b) of Article 32-A of Income Tax Law.

Likewise, regardless of compliance with the provisions of the Income Tax Law, an indirect taxable transfer shall always be established when, over any 12-month period, the total amount of transferred shares of the Peruvian legal person is equal to or greater than 40,000 UIT.

Lastly, from January 1, 2019, when the transferor is a non-domiciled legal person that has a branch office or any permanent establishment in Peru with allocated equity, the latter is considered a jointly liable party. Thus, the latter is required to provide information, among others, regarding the transferred shares or interests of the non-domiciled legal person.

Finally, as of April 22, 2020, the discounted cash flow valuation method was introduced to determine the market value of the shares or participations representing the capital of entities domiciled in the country of which the entity owns and of the shares or participations representative of the capital of the non-domiciled entity.

Joint and several liability of legal representatives and directors

R. From September 14, 2018, through Legislative Decree 1422, when an audited individual is subject to the General Anti-Avoidance Rule, there is joint and several liability of legal representatives due to fraud, gross negligence or misuse of powers, unless proven otherwise. The aforementioned joint and several liability shall be attributed to such representatives provided that they collaborated with the design or approval or execution of acts, situations or economic relationships with an avoidance purpose.

Such regulation also involves the members of the Board of Directors, since it is stated that these individuals are responsible for setting the tax strategy of the entities where they are directors. Thus, the latter are responsible for determining whether to approve the acts, situations or economic relationships carried out within the tax planning framework, and finally they shall not delegate such liability.

Lastly, members of the domiciled entities' Board of Directors were granted a term, with maturity on March 29, 2019, to verify or modify the acts, situations or economic relationships carried out within the tax planning framework and implemented from September 14, 2018, that are effective to date.

Considering such term established for compliance with such formal obligation, the aforementioned joint and several liability attributable to legal representatives and directors, and the absence of a definition of "tax planning," it will be crucial to review any act, situation or economic relationship that has: (i) increased tax allocation; and/or (ii) generated a lower payment of taxes for the aforementioned periods, in order to avoid the attribution of joint and several liability, both administratively and punitively, depending on the supervisory agent criterion. The latter, in case the Bank to be audited by the Tax Authorities is subject to the General Anti-Avoidance Rule.

Major amendments to tax laws by the context COVID-19

S. The Annual statement of income tax & the temporary tax on net assets: Extension until the end of June and beginning of July of the declaration and payment of Income Tax 2019; and the temporary tax on net assets 2020. This applies to companies and individuals with net income for 2019 below 5 thousand UIT [1] (PEN 21 MM), so it only applies to Scotia Sociedad Titulizadora (SST).

T. Suspension or modification of payments on account from the months of April to July 2020: It is allowed to suspend payments on account from the months of April to July, when the income of the month in 2020 has decreased by more than 30% compared to the same month in 2019.

When the income for the month in 2020 has decreased by up to 30% compared to the same month in 2019, the payment on account the month 2020 is modified by applying the factor 0.5846, the resulting amount being the one that will correspond to pay for that month.

This applies to all the companies in the group, with the exception of CRAC.

U. Refund of detractions (SPOT): It can be required the refund of the accumulate balance up to March 15, 2020 on the detractions account. Applies to the enterprises that have accumulate balance.

V. Postponed tax duties: Extension of various tax duties, such as filing the monthly account statement from February to June 2020, the purchase and sales registry from February to June 2020, and the annual books and records. This applies to companies and individuals with net income for 2019 below PEN 21 MM, so it only applies to Scotia Sociedad Titulizadora (SST).

28. Deferred Tax

Deferred tax assets have been calculated applying the liability method per entity (note 4.P). The consolidated deferred tax asset as of March 31, 2020 and December 31, 2019 is mainly comprises:

In thousands of soles	Balances as of 01.01.2019	(Debit) credit profit or loss	Additions from the acquisition of subsidiary	Balances as of 03.31.19	Balances as of 01.01.2020	(Debit) credit profit or loss	Balances as of 31.03.2020
Generic provision for direct/indirect loans	219,953	1,893	2,087	223,933	239,209	58,338	297,547
Provision for accounts receivable	30,660	-	-	30,660	31,634	(3,666)	27,968
Provision for vacations	7,653	8,102	523	16,278	6,193	(299)	5,894
Provision for repossessed assets	16,632	3,341	-	19,973	25,742	1,706	27,448
Finance lease operations, net	431	(1)	-	430	135	-	135
Provision for credit and debit card rewards	5,273	278	-	5,551	5,273	-	5,273
Investment in subsidiaries	940	-	-	940	940	-	940
Intangible assets	(938)	(3,762)	18	(4,682)	(101,415)	2,270	(99,145)
Adjustment for difference in exchange of SUNAT and SBS	(14,585)	(3,241)	-	(17,826)	(28,099)	(21,312)	(49,411)
Sales commissions	(25,137)	219	-	(24,919)	(29,187)	(544)	(29,731)
Written - off portfolio	9,020	-	-	9,020	9,020	-	9,020
Others	10,926	(249)	1,567	12,244	10,068	(322)	9,746
Deferred tax assets, net	**260,828**	**6,580**	**4,195**	**271,603**	**169,513**	**36,171**	**205,684**

29. Employees’ Profit Sharing

According to Legislative Decree 677, bank’s employees are entitled to a profit-sharing plan computed at 5% of the net profit, similarly to employees of the entities part of the Scotiabank Group. This profit sharing is considered as a deductible expense for income tax calculation purposes. As of March 31,2020 and 2019, legal employees' profit sharing was determined for S/ 25,672 thousand and S/ 22,822 thousand, respectively, included in 'administrative expenses' in the consolidated statement of profit or loss.

30. Trust Fund Activities

The Scotiabank Group offers structuring and management services of trust operations and trust fees and is in charge of the preparation of agreements related to these operations. Assets held in trust are not included in the consolidated interim financial statements. The Scotiabank Group is responsible for the appropriate management of these trusts based on the limits established by applicable laws and the respective agreement. As of March 31, 2020, the allocated value of assets in trusts and trust fees amounts to S/ 5,394,408 thousand (S/ 5,380,636 thousand as of December 31, 2019).

31. Related Party Transactions

As of March 31,2020 and December 31, 2019, the consolidated interim financial statements include related party transactions, which, under IAS 24, comprise the Parent Company, related parties, associates, other related parties, and the Bank's directors and key management. All related party transactions are conducted in accordance with market conditions applicable to non-related third parties.

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

In thousands of soles	03.31.2020 Parent Company	03.31.2020 Related parties (i)	03.31.2020 Associates	03.31.2020 Key personnel & directors	03.31.2020 Total	12.31.2019 Parent Company	12.31.2019 Related parties (i)	12.31.2019 Associates	12.31.2019 Key personnel & directors	12.31.2019 Total
Assets										
Cash and due from banks	-	161,200	-	-	161,200	-	360	-	-	360
Loan portfolio, net	-	642,870	6,416	23,434	672,720	-	466,518	6,838	25,231	498,587
Held-for-trading and hedging instruments	-	121,672	-	-	121,672	-	108,979	-	-	108,979
Other assets, net	3	35,434	91,742	144	127,323	-	57,963	95,251	114	153,328
Total assets	**3**	**961,176**	**98,158**	**23,578**	**1,082,915**	**-**	**633,820**	**102,089**	**25,345**	**761,254**
Liabilities										
Deposits and obligations with financial institutions	2,165,328	307,002	18,430	27,566	2,518,326	2,165,253	791,903	16,770	27,809	3,001,735
Borrowings and debts	234,450	5,858,269	-	-	6,092,719	230,252	5,646,090	-	-	5,876,342
Held-for-trading and hedging instruments	-	120,655	-	-	120,655	-	27,939	-	-	27,939
Provisions and other liabilities	-	63,010	696	19	63,725	-	47,289	10,431	27	57,747
Total liabilities	**2,399,778**	**6,348,936**	**19,126**	**27,585**	**8,795,425**	**2,395,505**	**6,513,221**	**27,201**	**27,836**	**8,963,763**
Off-balance sheet accounts										
Indirect loans	-	508,621	53,231	-	561,852	-	496,879	47,396	-	544,275
Derivative instruments	-	9,553,593	-	-	9,553,593	-	8,290,576	-	-	8,290,576

(i) Related parties include balances and transactions with other related parties in accordance with IAS 24.

B. Consolidated Statement of Profit or Loss arising from related party transactions were as follows:

In thousands of soles	03.31.2020 Parent Company	03.31.2020 Related parties (i)	03.31.2020 Associates	03.31.2020 Key personnel & Directors	03.31.2020 Total	03.31.2019 Parent Company	03.31.2019 Related parties (i)	03.31.2019 Associates	03.31.2019 Key personnel & directors	03.31.2019 Total
Interest income	-	7,621	73	426	8,120	-	8,478	94	361	8,933
Interest expenses	(5,245)	(37,917)	(103)	(195)	(43,460)	(5,027)	(39,739)	(33)	(147)	(44,946)
	(5,245)	**(30,296)**	**(30)**	**231**	**(35,340)**	**(5,027)**	**(31,261)**	**61**	**214**	**(36,013)**
Financial service income	4	1,353	273	53	1,683	3	1,826	173	51	2,053
Financial services expense	-	(9)	(3,996)	(5)	(4,010)	-	(18)	(4,800)	(5)	(4,823)
	4	**1,344**	**(3,723)**	**48**	**(2,327)**	**3**	**1,808**	**(4,627)**	**46**	**(2,770)**
Net income from financial transactions	-	(85,770)	5,327	-	(80,443)	-	16,761	3,551	-	20,312
Administrative expenses (ii)	-	(3,659)	(233)	(16)	(3,908)	-	(2,452)	(72)	(14)	(2,538)
Other income, net	-	23	-	-	23	-	2	-	-	2
Net profit	**(5,241)**	**(118,358)**	**1,341**	**263**	**(121,995)**	**(5,024)**	**(15,142)**	**(1,087)**	**246**	**(21,007)**

(i) Related parties include balances and transactions with other related parties in accordance with IAS 24.

(ii) Excluding personnel expenses.

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

In thousands of soles	**03.31.2020**	**03.31.2019**
Remuneration to key personnel	9,754	8,745
Remuneration to members of the Board of Directors	378	506
	10,132	**9,251**

As of March 31,2020 and 2019, the remuneration pending to pay key personnel amounted to S/ 4,227 thousand and S/ 7,224 thousand, respectively.

32. Classification of Financial Instruments

Management classifies its financial assets and financial liabilities into categories as described in note 4.B. As of March 31,2020, and December 31, financial assets and financial liabilities are classified as follows:

		03.31.2020						
				Available-for-sale investments				
In thousands of soles	*Note*	At fair value through profit or loss	Loans and items receivable	At amortized cost (a)	At fair value	Liabilities at amortized cost	Other liabilities (b)	Total
Assets								
Cash and due from banks	6	-	14,639,645	-	-	-	-	14,639,645
Interbank funds		-	225,508	-	-	-	-	225,508
Investments at fair value through profit or loss								
Equity instruments	7	11,425	-	-	-	-	-	11,425
Debt instruments	7	210,390	-	-	-	-	-	210,390
Available-for-sale investments								
Equity instruments	7	-	-	7,443	807	-	-	8,250
Debt instruments	7	-	-	-	6,878,615	-	-	6,878,615
Loan portfolio	8	-	51,827,453	-	-	-	-	51,827,453
Held-for-trading and hedging instruments	9	316,550	-	-	-	-	-	316,550
Accounts receivable	10	-	386,264	-	-	-	-	386,264
Other assets	14	-	649,433	-	-	-	-	649,433
		538,365	**67,728,303**	**7,443**	**6,879,422**	**-**	**-**	**75,153,533**
Liabilities								
Deposits and obligations and other obligations	15	-	-	-	-	-	46,703,147	46,703,147
Interbank funds		-	-	-	-	-	-	-
Deposits with financial institutions and international financial institutions	15	-	-	-	-	-	332,883	332,883
Borrowings and debts	16	-	-	-	-	13,066,171	-	13,066,171
Held-for-trading and hedging instruments	9	238,339	-	-	-	-	-	238,339
Accounts payable		-	-	-	-	-	6,402,935	6,402,935
Other liabilities	17	-	-	-	-	-	468,452	468,452
		238,339	**-**	**-**	**-**	**13,066,171**	**53,907,417**	**67,211,927**

(a) It includes financial assets measured at cost.
(b) It includes financial liabilities whose fair value correspond to carrying amounts in accordance with Official Letter 43078-2014-SBS and Official Letter 1575-2014-SBS.
(c) It includes unlisted securities (note 7).

		12.31.2019						
				Available-for-sale investments				
In thousands of soles	***Nota***	**At fair value through profit or loss**	**Loans and items receivable**	**At amortized cost (a)**	**At fair value**	**Liabilities at amortized cost**	**Other liabilities (b)**	**Total**
Assets								
Cash and due from banks	*6*	-	15,072,207	-	-	-	-	15,072,207
Interbank funds		-	38,002	-	-	-	-	38,002
Investments at fair value through profit or loss								
Equity instruments	*7*	11,637	-	-	-	-	-	11,637
Debt instruments	*7*	405,727	-	-	-	-	-	405,727
Available-for-sale investments								
Equity instruments	*7*	-	-	7,411	834	-	-	8,245
Debt instruments	*7*	-	-	-	5,986,495	-	-	5,986,495
Loan portfolio	*8*	-	51,289,356	-	-	-	-	51,289,356
Held-for-trading and hedging instruments	*9*	158,148	-	-	-	-	-	158,148
Accounts receivable	*10*	-	433,719	-	-	-	-	433,719
Other assets	*14*	-	316,627	-	-	-	-	316,627
		575,512	**67,149,911**	**7,411**	**5,987,329**	**-**	**-**	**73,720,163**
Liabilities								
Deposits and obligations and other obligations	*15*	-	-	-	-	-	44,403,552	44,403,552
Interbank funds		-	-	-	-	-	362,422	362,422
Deposits with financial institutions and international financial institutions	*15*	-	-	-	-	-	359,341	359,341
Borrowings and debts	*16*	-	-	-	-	12,680,874	-	12,680,874
Held-for-trading and hedging instruments	*9*	129,701	-	-	-	-	-	129,701
Accounts payable		-	-	-	-	-	7,533,827	7,533,827
Other liabilities	*17*	-	-	-	-	-	502,668	502,668
		129,701	**-**	**-**	**-**	**12,680,874**	**53,161,810**	**65,972,385**

(a) It includes financial assets measured at cost.

(b) It includes financial liabilities whose fair value correspond to carrying amounts in accordance with Official Letter 43078-2014-SBS and Official Letter 1575-2014-SBS.

(c) It includes unlisted securities (note 7).

33. Financial Risk Management

The Scotiabank Group has a strong risk culture throughout the entire entity. Risk management is a responsibility shared by all employees, being a main element the risk diversification across different lines of business, products and industries.

It comprises the management of the following main risks:

A. Credit risk: It is the risk of loss due to debtors, counterparties or third parties' incapacity or weakness of compliance with their contractual obligations.

B. Market risk: It is the risk of loss in on-balance or off-balance sheet positions arising from changes in the market conditions variations. It generally includes the following types of risk: exchange rate, interest on fair value, price, among other risks.

C. Liquidity risk: It is the risk of loss due to noncompliance with borrowing requirements and applications of funds arising from cash flow mismatches.

D. Operational risk: It is the direct or indirect risk of loss to which Group Scotiabank are exposed due to external events, human error or deficiencies or failures in processes, procedures, systems or controls. This operational risk includes legal risk but excludes the strategic and reputational risks.

Current risk management allows identification, measurement and evaluation of the return on risk, seeking to obtain greater value to shareholders. In order to ensure that strategic objectives are met, risk management is governed by the Risk Appetite Framework approved by the entity, 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 the Scotiabank Group is exposed, determining the amount and types of risks faced by the Bank.

For proper risk management, the Scotiabank Group has a series of fundamentals, such as (i) adequate corporate governance, (ii) aligned and updated risk policies and limits, and (iii) risk monitoring.

i. Adequate corporate governance

The bodies supporting corporate governance are:

Board of Directors

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

Executive committees

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

Senior Vice President of Risk

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

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

ii. 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 and Parent Company requirements, 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.

iii. 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 risks

- ***Life cycle: admission, monitoring and collection***

  The Risk Units are responsible for designing and implementing strategies and policies to achieve a credit portfolio in accordance with the parameters of credit quality and Risk Appetite.

  Credit adjudication units admit and assess credit proposals from different business segments, with different levels of delegation granted to other teams for their approval, from a risk (measured based on a rating or scoring) versus profitability perspective. Also, for portfolio managing purposes, the loans are monitored in order to minimize future losses. For collection management, these clients 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 Special Account Management Unit, as per policies and red flags, resulting from the monitoring of the portfolio. For Retail portfolio, risk-based strategies (score) are established to optimize available resources for collection seeking to reach greater effectiveness.

- ***Credit risk mitigation - collaterals***

  The Scotiabank Group 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 collaterals but for the debtor’s repayment ability. Even though collaterals 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 remeasured valuations, which are held regularly and consider market fluctuations. Such valuations are performed by qualified independent experts; which 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, value and fluctuations of the collaterals are conducted by the Scotiabank Group; and, 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, levies on the business assets, such as inventory, premises and accounts receivable, and levies on financial instruments such as debt instruments and equity securities.

Additionally, the Scotiabank Group classifies collaterals as established in SBS Resolution 11356 - 2008 "*Regulation for Debtor's Assessment and Rating and Provision Requirement*, as follows:

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

▪ ***Credit rating***

For Corporate and Commercial loans, the Scotiabank Group uses the Advanced Internal Rating (AIRB); based on this internal rating, it assigns the limits of credit autonomy.

For Retail banking, 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 one.

Additionally, to these ratings, regulatory debtors' credit rating is used, which determines the provision requirement of clients.

▪ ***Debtor's regulatory credit rating***

The debtor regulatory credit rating is conducted in accordance with criteria and parameters established by SBS through SBS Resolution 11356 - 2008 "*Regulation for Debtor's Assessment and Rating and Provision Requirement*", which establishes five categories to classify debtors of: Wholesale loan portfolio (corporate, large- and medium-business loans) and Retail loan portfolios (small-business loans, Micro-business loans, consumer and mortgage):

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

- ***Loan portfolio impairment loss***
  As of March 31,2020 and December 31, 2019, based on SBS Resolution 7036-2012, the Bank and CrediScotia have classified impaired and not impaired loans considering the following criteria:

  - Neither past due nor impaired loans
    It comprises those direct loans that currently do not have characteristics of default and relate to client's loans rated as 'standard' or 'potential problems'.

  - Past due but not impaired loan
    It comprises past due client's loans with risk category rated as 'standard' or 'potential problems'.

  - Impaired loans
    Retail banking comprise loans rated as 'substandard', 'doubtful' or 'loss', and the refinanced, restructured and lawsuit loans.

    For wholesale portfolio, it comprises client's loans overdue 90 days or more, with risk rated as 'substandard', 'doubtful' or 'loss', and the refinanced, restructured and lawsuit loans.

B. Market risk

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

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

  All foreign exchange positions are managed by Treasury. Accordingly, the exchange rate 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 shown below, separately for trading and non-trading portfolios.

- ***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 is the estimated loss that will arise on the portfolio over the holding period or specific time horizon, due to an adverse market movement with a probability determined by the confidence level, under normal market conditions. The VaR model used by the Scotiabank Group is a Historical Simulation approach at a 99% 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 various 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 liquid assets or in situations in which there is severe general market illiquidity.

- A 99% confidence level does not reflect losses that may occur beyond this level. Even within the model used, there is a 1% probability that losses could exceed the VaR.

- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.

- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.

- The VaR measure depends upon the Scotiabank Group's position and the market prices volatility. The VaR of a static position reduces if market price volatility declines and vice versa.

The Scotiabank Group uses VaR limits for total market risk and interest rate and foreign exchange risks. The overall structure of VaR limits is subject to ALCO's approval 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 its limits with other position and sensitivity limits structures. In addition, a wide range of stress tests is used to model the financial impact of different trading portfolio scenarios. Management determines hypothetical scenarios considering potential macroeconomic events (such as long-term market illiquidity periods, reduced currency convertibility, natural disasters and other catastrophes). The ALCO reviews the analysis of these scenarios.

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

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

▪ ***Exposure to market risks – Non-trading portfolio***
Main risk to which non-trading portfolios are exposed is the risk of loss due to future cash flows or financial instruments fair value because of a change in market interest rates. Interest rate risk is managed through monitoring interest mismatch and establishing limits by currency for each term. ALCO monitors compliance of these limits and is assisted by Market Risk unit.

Equity price risk is subject to periodical monitoring by the Board of Directors, through the Risk Management Committee, but is not significant related to the Scotiabank Group's income and financial position.

The effect of structural positions in foreign currency is managed from the Trading unit within its current position limits per currency.

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

Interest rate risk
It comprises the risk of loss due to changes in interest rates. The Scotiabank Group, through Treasury, actively manages interest rate risk exposure in order to improve the net interest income according to established risk tolerance policies.

Market risk arising from financing and investment activities are identified, managed, and controlled as part of the Scotiabank Group's assets and liabilities management process, specially liquidity and interest rate risks. The sensitivity analysis evaluates the effect on income and on equity value, changes in interest rates, both positive and negative parallel movements, as well as non-parallel changes.

Gap analysis is used to assess the sensitivity of repricing mismatches in non-trading portfolio. Under gap analysis, assets, liabilities and other positions off-consolidated statement of financial position are distributed within repricing dates. Financial instruments with a contractual maturity date and the next repricing date. Financial instruments without contractual maturity are assigned an interest rate gap based on observed historical client's behavior.

Interest rate risks in the non-trading portfolios are mainly arise from terms and currency mismatches of the loan portfolio. 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's document, which aims to keep under control the risk of the net interest income, as well as the equity value.

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 exchange rate risk, as well as the results of measurement tools, use of limits and interest rate risk stress tests, among other issues related to market risk management in compliance with regulatory provisions of the Parent Company and the Scotiabank Group.

Mismatch gap analysis, sensitivity analysis, and alternative simulations and stress testing are used in this management process for monitoring and planning purposes.

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

EVAR: This indicator 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.

EaR: This indicator measures the percentage of regulatory capital exposed to interest rate risk as a result of mismatches accumulated up to one year.

These methodologies have been determined by the SBS.

Earnings at Risks (EaR) Equity Value at Risk (EVAR) and indicators are focused on the potential changes interest rate on value generation, specifically through the profit margin, and the equity value of the Bank and CrediScotia.

Exchange rate risk
It comprises the risk of loss due to adverse change rates of currencies in which the Scotiabank Group negotiates. This risk is managed by the Trading Unit.

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

Market risks associated with this management are conducted within internal limits of net position, VaR and stress tests based on market variables. The consistency of these results is validated through periodical backtesting analysis, which compares actual gains or losses with those obtained through the model.

Management calculates the VaR using historical simulation based on 300 days of market data to measure the estimated maximum loss from changes in the exchange rate, considering as variables the net asset position in foreign currency and exchange rate volatility. As of March 31, 2020 and December 31, 2019, the net liabilities and assets in the consolidated statement of financial position in foreign currency amounted to US$ 513,226 thousand and US$ 87,360 thousand, respectively (note 5).

As of March 31, 2020, global position of overbought in the Bank amounted to S/ 49,491 thousand (S/ 166,740 thousand as of December 31, 2019).

Investment portfolio risk
The own investment portfolio and trading portfolio are managed by the Scotiabank Group in 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, and administered within approved policies and limits: limits per type and terms of investment. On the other hand, trading portfolio is acquired with the intention of short-term profit-taking, arising from fluctuations prices.

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

C. Liquidity risk
Liquidity risk is the risk of being unable to meet in the short-term financial obligations; therefore, the Bank is forced to incur in debt or sell assets in unusually unfavorable conditions.

The Scotiabank Group's 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 the Scotiabank Group. The key elements of the liquidity strategy are as follows:

- Maintaining a diversified funding base, which consists in client's deposits (both retail and corporate), wholesale banking 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 their assets are available as potential collateral for obtaining funding.
- Carrying out stress testing of the liquidity position.

Regular liquidity stress tests are 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. long-term market illiquidity, reduced liquidity of currencies, natural disasters or other catastrophes).

Treasury management's 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 March 31, 2020, the Bank's ratios in local and foreign currencies were 26.35% and 37.85%, respectively (19.22% and 44.33%, respectively as of December 31, 2019).

In the case of CrediScotia, this relation between liquid assets and short-term liabilities shall be greater than 10% and 25%, in the case of local and foreign currency, respectively, given the level of deposits of CrediScotia. As of March 31, 2020, CrediScotia ratios in local and foreign currencies were 20.36% and 110.27%, respectively (19.18% and 124.95%, respectively as of December 31, 2019).

The CRAC shall hold local and foreign currency ratios of 8% and 20%, respectively. In this regard, it held adequate levels of 29.92% in local currency and 276.66% in foreign currency (32.00% in local currency and 371.43% in foreign currency at the closing of year 2019).

Liquidity Coverage Ratio (LCR) is an indicator of liquidity level in a hypothetical stress scenario. It indicates if the entity has sufficient liquidity to withstand liquidity disruptions for up to 30 days, without the need of turning to the market for founds.

As of March 31, 2020, the minimum amount required by the regulator was 90% and the Bank presented comfortable levels of liquidity reaching 124.33% in local currency and 128.42% in foreign currency (117.07% in local currency and 117.29% in foreign currency as of December 31, 2019); in the case of CrediScotia, presented comfortable levels of liquidity reaching 123.25% in local currency and 136 .35% in foreign currency (109.9% in local currency and 113.7%, in foreign currency as of December 31, 2019) and The CRAC presented comfortable levels of liquidity reaching 133.64% in local currency and 411.83% in foreign currency (133.72% in local currency and 222.48% in foreign currency as of December 31, 2019).

D. Operational risk

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

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

Operational risk appetite

During the three month period ended in March 31, 2020 and 2019 operational risk appetite was determined based on limits of losses for operational risk at the level of the entire Scotiabank Group, which was in turn distributed at the level of the companies that compose it, among them, the Bank and CrediScotia. Likewise, a distribution of this loss limit was made to the main Vice Chairs of the Bank and first-line Management of CrediScotia. These loss limits also are included within the balance scorecards of each management areas indicated above.

During the three-month period ended in March 31, 2020 and 2019, the development of operational risk management methodologies for the Scotiabank Group have continued in order to incorporate aspects to strengthen management.

Main methodologies are the following:

(a) Operational risk event methodology.
(b) Key risk Indicators – (KRIs) methodology.
(c) Business Continuity Management – BCM- methodology.
(d) Operational Risk and Controls Assessment methodology
(e) New initiatives risk assessment and/or significant changes.
(f) Third Party Risk Management, among others.

(a) Operational risk event methodology

A key component of risk measurement is measuring the size and scope of the Bank’s Operational Risk exposure. The collection and analysis of internal event data, including actual and potential operational losses and gains, as well as near misses provides meaningful information for measuring:

- The Bank’s exposure to Operational Risk through aggregating and monitoring operational risk events over time, and

- The overall effectiveness of the operational controls environment. While Business lines are responsible for capturing and ensuring the integrity of internal operational risk event data through segregation of duties and verification controls, this responsibility is typically facilitated through centralized functions in the Business Lines.

Scotiabank Group's results reports were periodically presented to the Global Operational Risk of the Parent Company, Operational Risk Committee, Risk Control Committee, Board of Directors of the Bank, as well as the first-line Vice Chairs and Management of the Bank and CrediScotia.

(b) KRI methodology

KRI methodology is a measure to report on potential risks, current status or trend of operational risk exposures.

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

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

During the three-month period ended in March 31, 2020 and 2019, the activities developed within the methodology were:

- Monitoring of the 101 executive risk indicators, in case where the accepted risk levels were exceeded, they generated the implementation of action plans and corrective measures.
- Indicators were analyzed, and if necessary, their accepted risk levels (risk thresholds) were assessed with the business owners/managers per appetite levels: acceptable (green), with potential risk (amber), critical (red).
- Following-up and monitoring of the action plans derived from the Risk Indicators methodology was carried out.
- Mapping indicators for types of loss events and risk categories defined for the Bank.

(c) Business Continuity Management – BCM

The Bank and CrediScotia have 85 and 17 current and deployed Business Continuity Plans (BCPs) in its Vice chairs and/or main management areas, subsidiaries and special agencies.

In March and October 2019, face-to-face trainings and workshops were carried out for business continuity planners. The objective of these trainings was to strengthen the Business Continuity culture in the company and also to assist them in the process of updating and executing annual tests of their Business Continuity Plans (BCPs).

To date, Business Continuity Management is part of the Bank's general induction program.

The process of updating the Business Continuity plans was carried out in a massive way, meeting the Scorecard of April and October of 2019. The business units updated their plan strategy, BIA analysis and guide to pandemic. They also performed corresponding tests (Walkthrough exercise, call chain test, quarterly review of the call chain and the complete simulation test at the alternate site).

The Scotiabank Group has an alternate site to support their most critical processes; which remains ready and operational 24 hours a day, 7 days a week providing support to the most sensitive processes. To date, there are 103 physical working positions. During the fourth quarter of 2019, simulation tests of continuity plans TYPE I and II (containing critical process sensitive to the time) were favorably completed. The objective of these tests is to ensure the proper functioning of the working positions in case these were required due to a contingency, disaster or emergency.

In January, September and December we executed three tests of the Crisis Management Plan. The scenarios of the exercises were fire, Cyber attack and Earthquake in Lima of 8.5 degrees with tsunami. The organizational structure for crisis management led by the Local Incident Management Team (LIMT) became operative from the Emergency Operations Center; and the OPERA Plan (protocols for action in the face of crisis) was deployed.

(d) Operational Risk and Controls Assessment methodology: Risk Control Self-Assessment and RCSA

The risk and control self-assessment matrix is the local for identification and assessment of operational risks of products and support areas.

To complement this, the RCSA tool is being used to report operational risks to the Parent Company.

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

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

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

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

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

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

During the three month period ended in March 31, 2020 and 2019, methodological improvements were incorporated in order to strengthen the risk assessment program and local controls.

Also, five comprehensive risk assessments of the entities conforming the Scotiabank Group were conducted as part of the Parent Company corporate methodology (RCSA).

(e) Risk assessment methodology of new initiatives and/or significant changes, among others

i. Scotiabank Group has established policies for comprehensive risk assessment of new initiatives; these policies describe the general principles applicable to the review, approval and implementation of new products and services within the Bank. The principles are intended to provide guidance to Business Lines in the development of processes and guidelines of risk assessment to be integrated into the policies and procedures on new products. All new products or major change in the business, operational or system environment shall have a comprehensive risk assessment prior to its development, and it shall be updated after its implementation.

ii. In order for an initiative to be approved, it is required that the initiative has a risk self-assessment conducted by the Leader or Sponsor, being the Operational and Technological Risk Unit the responsible for contrasting / challenging the results and other control functions such as Compliance and Legal Advisory units, among others.

iii. Operational & IT Risk Committee provides oversight to ensure that all Business Lines implement principles and conduct products risk assessments consistently.

iv. The Operational Risk Unit also provides advice to the owner of the initiative during the Integral Risk Assessment process.

(f) Third Party Risk Management

Scotiabank has a corporate policy and program of Third-Party Risk Management. The Bank recognizes that an effective and integrated approach to operate the risk management process is essential to achieve good risk management practices with third parties. It also seeks to guarantee the identification, measurement and management of risks with third parties, reducing the potential risk of contracting third parties that provide services for the Scotiabank group.

(g) Training and awareness

During the three-month period ended in March 31, 2020 and 2019, training on Operational Risk. IT & Cyber Risk, and Business Continuity has been provided to personnel of agencies, business officers, specialized units (including control functions).

34. Fair Value

The table below shows a comparison between carrying amounts and fair values of the Scotiabank Group's financial instruments per item in the consolidated statement of financial position as of March 31, 2020 and December 31, 2019:

	Carrying amount		Fair Value	
In thousands of soles	**03.31.2020**	**12.31.2019**	**03.31.2020**	**12.31.2019**
Assets				
Cash and due from banks	14,639,645	15,072,207	14,639,645	15,072,207
Interbank funds	225,508	38,002	225,508	38,002
Investments at fair value through profit or loss				
Equity instruments	11,425	11,637	11,425	11,637
Debt instruments	210,390	405,727	210,351	405,727
Available-for-sale investments				
Equity instruments	8,249	8,245	8,249	8,245
Debt instruments	6,878,615	5,986,495	6,774,852	5,986,495
Loan portfolio	51,827,453	51,289,356	51,827,453	51,289,356
Held-for-trading and hedging instruments	316,550	158,148	316,550	158,148
Accounts receivable	386,264	433,719	386,264	433,719
Other assets	649,433	316,627	649,433	316,627
	75,153,532	**73,720,163**	**75,049,730**	**73,720,163**

	Carrying amount		Fair Value	
In thousands of soles	**03.31.2020**	**12.31.2019**	**03.31.2020**	**12.31.2019**
Liabilities				
Deposits and obligations	46,703,147	44,403,552	46,703,147	44,403,552
Interbank funds	-	362,422	-	362,422
Deposits with financial institutions and international financial institutions	332,883	359,341	332,883	359,341
Borrowings and debts	13,066,171	12,680,874	13,220,295	13,508,115
Held-for-trading and hedging instruments	238,339	129,701	238,339	129,701
Accounts payable	6,402,935	7,533,827	6,364,581	7,536,771
Other liabilities	468,452	502,668	468,452	502,668
	67,211,927	**65,972,385**	**67,327,697**	**66,802,570**

Fair value 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, on the assumption that the entity is a going concern.

The best evidence of the fair value of a financial instrument traded in a liquid and active market is the quoted price.

If the quoted price is not available or may not be a reliable fair value of a financial instrument, its fair value could be measured based on the quoted price of similar instruments, using the discounted cash flow method or other valuation techniques. Since these techniques are based on subjective factors and, in some cases, on inexact factors, any change in them or in the valuation technique used could have a material effect on the fair values of financial instruments. Even though management has used its best judgment in measuring the fair value of these financial instruments, a fair value is not an indication of net realizable value or liquidation value.

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

i. Cash due from banks and interbank funds represent cash and short-term deposits that are not considered to be a significant credit risk.
ii. Investments at fair value through profit or loss for financial intermediation are recorded at their estimated market price.
iii. Available-for-sale investments are generally listed or have a market price through future discounted cash flows.
iv. Market prices of loan portfolio are the same as the carrying amount.
v. Market prices of deposits and obligations are the same as the carrying amount.
vi. Debts to banks and correspondent banks accrue interest at fixed and variable rates and have short and long-term maturities. The fair value of these financial instruments has been measured using discounted cash flows considering the funding curve.
vii. Securities, bonds and obligations issued accrue interest at fixed rates. The fair value of these financial instruments has been measured using discounted cash flows considering the same methodology of item (f).
viii. Forward contracts are recorded at estimated market value; therefore there are no differences with their corresponding fair values.

Consequently, as of March 31, 2020 and December 31, 2019, fair values or estimated market prices of financial instruments do not differ significantly from their corresponding carrying amount.

Fair value hierarchy
The Scotiabank Group classifies financial instruments measured at fair value based on their hierarchy or valuation techniques used. This classification has three levels as described below:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Significant inputs with material effect on fair value measurement that are directly or indirectly observable in the market.

Level 3: Unobservable inputs in the market.

The table below shows the valuation levels applied as of March 31, 2020 and December 31, 2019, to determine the fair value of financial instruments:

In thousands of soles	**Level 1**	**Level 2**	**Level 3**	**Total**
2020				
Assets				
Investments at fair value through profit or loss				
Equity instruments	-	11,425	-	11,425
Debt instruments	-	210,390	-	210,390
Available-for-sale investments				
Equity instruments	789	18	7,443	8,250
Debt instruments	-	6,878,615	-	6,878,615
Held-for-trading and hedging instruments	-	316,550	-	316,550
	789	**7,416,998**	**7,443**	**7,425,230**
Liabilities				
Held-for-trading and hedging instruments	-	238,339	-	238,339
	-	**238,339**	**-**	**238,339**
2019				
Assets				
Investments at fair value through profit or loss				
Equity instruments	-	11,637	-	11,637
Debt instruments	-	405,727	-	405,727
Available-for-sale investments				
Equity instruments	816	18	7,411	8,245
Debt instruments	-	5,986,495	-	5,986,495
Held-for-trading instruments	-	158,148	-	158,148
	816	**6,562,025**	**7,411**	**6,570,252**
Liabilities				
Held-for-trading instruments	-	129,701	-	129,701
	-	**129,701**	**-**	**129,701**

35. Subsequent Events

(a) Annual Bank´s Shareholders Meeting
On May 26th, 2020, the annual Bank's Shareholders obligatory Meeting was held, approved the distribution of 2019 net profit for S/ 1,464,740 thousand, as follows:

i. Allocate 10% of net profit, amounting to S/ 146,474 thousand, to increase the legal reserve.

ii. Capitalize a total of S/ 1,077,081 thousand and hold old the remaining balance, amounting to S/ 241,285 thousand, in 'retained earnings.

(b) Loans with government guarantees
In April 2020, the Ministry of Economy and Finance launched the following programs to face the economic crisis as a result of the state of national emergency due to COVID-19:

i. REACTIVA PERÚ Program
Government guarantee to finance the replacement of the working capital funds of companies that face payments and short-term obligations with their workers and suppliers of goods and services as a result of the spread of COVID-19 in the national territory. The mechanism consists of granting the guarantee of the Government to the entities of the local financial system which lend loans in local currency to customers that apply to this program.

The credits lend under this program have a term of 36 months, including a 12-month grace period. The interest generated during the grace period must not be capitalized and will be charged in a straight-line basis during the remaining term from month 13. Interest rates are established through the auction method.

The guarantees cover between 80% and 98% of the loans, depending on the amount of the loan, if the financial entities comply with the requirements of the Program. The funds of this Program are auctioned by the Peru´s Central Bank (hereinafter the BCRP), for the equivalent of the guaranteed amount, hence a repo of loan portfolio, represented in securities, and the immediate repurchase agreement is required. The cost of funds provided by the BCRP is 0.5%.

The guarantees related to this Program have a risk weighted average factor of 0% because it corresponds to a coverage provided by the Government. In case the credits granted under this Program become default, and the entity decides to honor the guarantee, the Peruvian State, through COFIDE, will pay the credit to the BCRP and will subrogate such credit in favor of the Bank. Subsequently, the Bank will continue with the collection efforts and must pay COFIDE, according to the coverage ratio of the loan. As of June 30, 2020, the total loans under the REACTIVA PERU Program amounted to S/ 3,108,062 thousand and have an average coverage of 94%.

ii. Fondo de Apoyo Empresarial – FAE I and II
Focused on guarantee replacement of working capital funds, and rescheduled, restructuring and refinancing loans, of micro-business segment customers, which are lend by the entities of the local financial system.

The guarantees related to these Programs will have a weighted average factor of 0% because it corresponds to coverage provided by the Government through Corporación Financiera de Desarrollo (COFIDE). In case the credits granted under this Program become default, and the entity decided to honor the guarantee, COFIDE will pay the granted amount; subsequently, the entity will continue with the collection efforts and must pay COFIDE, according to the coverage ratio of the loan. As of June 30, 2020, the Financiera has reported loans under FAE I and II Programs for a total of S/ 208,707 thousand and S/ 21,585 thousand, respectively.

(c) On July 29, 2020 CRAC changed its name to Caja Rural de Ahorro y Crédito Cencosud Scotia Perú S.A.

(d) Impact of COVID 19 in interim financial statements

The national emergency period, compulsory social isolation and the shutdown of certain economic sectors has generated an economic crisis which has also affected the performance of the Bank and Subsidiaries. The net profit for the six months period from January to June 2020 amounted to S/ 365,137 thousand which represents a decrease of 46% in comparison with the same period in 2019. The main variations were as follows:

In thousands of soles	**06.30.2020 (Unaudited)**	**06.30.2019 (Unaudited)**
Gross profit margin	**2,282,525**	**2,093,933**
Provision for loan losses, net of recoveries	(1,276,472)	(730,132)
Net profit margin	**1,006,053**	**1,363,801**
Financial service income, net	235,115	331,742
Net profit margin of financial service income and expenses	**1,241,168**	**1,695,543**
Income from financial transactions	214,404	244,338
Operating margin	**1,455,572**	**1,939,881**
Administrative expenses	(922,552)	(941,892)
Depreciation and amortization	48,914	44,050
Net operating margin	**484,106**	**953,939**
Other income, net	4,484	4,234
Net profit before tax	**473,443**	**919,062**
Deferred tax	285,932	23,379
Current tax	(394,238)	(261,860)
Net profit	**365,137**	**680,581**
Profit or loss attributable to:		
Shareholders of Scotiabank Perú S.A.A.	366,220	678,513
Non-controlling interests	(1,083)	2,068
	365,137	**680,581**

The net profit for the period January to June 2020 is lower than in comparison with the same period in 2019, due to higher provisions and lower income from commissions, partially offset by lower administrative expenses and lower financial services expenses.