Scotiabank Perú S.A.A. and Subsidiaries

Unaudited Consolidated Interim Financial Statements

September 30, 2019

(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 September 30, 2019, 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 nine-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.

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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying September 30, 2019 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

January 3, 2020

Countersigned by:

Caipo y Asociados

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

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Consolidated Statement of Financial Position

As of September 30, 2019 and December 31, 2018

In thousands of soles	*Note*	09.30.2019 (Unaudited)	12.31.2018
Assets			
Cash and due from banks	*6*		
Cash		1,298,202	1,151,651
Deposits with Central Reserve Bank of Peru		10,779,385	7,429,609
Deposits with local and foreign banks		344,069	276,848
Clearing		167,166	59,264
Restricted cash and due from banks and others		3,776,044	1,648,659
		16,364,866	**10,566,031**
Interbank funds		120,008	65,505
Investments at fair value through profit or loss and available-for-sale investments	*7*	5,425,845	4,485,614
Loan portfolio, net	*8*	50,042,390	47,348,086
Held-for-trading instruments	*9*	117,300	99,071
Accounts receivable, net	*10*	1,611,769	1,791,354
Investments in associates		75,544	69,098
Goodwill	*11*	570,664	570,664
Property, furniture and equipment, net	*12*	381,958	401,860
Intangible asset, net	*13*	361,838	20,657
Deferred tax asset, net	*28*	167,336	260,828
Other assets, net	*14*	672,990	1,194,173
Total assets		**75,912,508**	**66,872,941**
Contingent risks and commitments	*20*	71,820,699	49,367,329

In thousands of soles	*Note*	09.30.2019 (Unaudited)	12.31.2018
Liabilities			
Deposits and obligations with financial institutions	*15*		
Demand deposits		17,242,819	12,919,107
Savings deposits		10,022,475	9,662,806
Time deposits		19,179,225	16,565,637
Other obligations		688,716	803,543
		47,133,235	**39,951,093**
Interbank funds		125,009	438,233
Borrowings and debts	*16*	12,391,191	11,335,223
Held-for-trading instruments	*9*	95,483	86,161
Provisions and other liabilities	*17*	6,611,655	6,250,806
Total liabilities		**66,356,573**	**58,061,516**
Equity	*18*		
Share capital		6,763,271	6,122,946
Additional paid-in capital		394,463	394,463
Legal reserve		1,210,807	1,082,742
Unrealized earnings		42,701	(19,796)
Retained earnings		1,045,577	1,231,070
Equity attributable to owners of the entity		**9,456,819**	**8,811,425**
Non-controlling interests	*2*	**99,116**	**-**
Total equity		**9,555,935**	**8,811,425**
Total liabilities and equity		**75,912,508**	**66,872,941**
Contingent risks and commitments	*20*	71,820,699	49,367,329

The accompanying notes on pages 6 to 75 are part of these consolidated interim financial statements.

Scotiabank Perú S.A.A. and Subsidiaries
Consolidated Statement of Profit or Loss
For the nine-month periods ended September 30, 2019 and 2018

In thousands of soles	***Note***	**2019 (Unaudited)**	**2018 (Unaudited)**
Interest income	*21*	4,286,993	3,675,669
Interest expenses	*22*	(1,053,713)	(831,589)
Gross profit margin		**3,233,280**	**2,844,080**
Provisions for loan losses, net of recoveries	*8*	(1,125,856)	(903,283)
Net profit margin		**2,107,424**	**1,940,797**
Financial service income, net	*23*	501,826	470,823
Net profit margin of financial service income and expenses		**2,609,250**	**2,411,620**
Income from financial transactions	*24*	409,675	237,633
Operating margin		**3,018,925**	**2,649,253**
Administrative expenses	*25*	(1,434,198)	(1,258,892)
Depreciation of property, furniture and equipment	*12*	(44,575)	(45,392)
Amortization of intangible assets	*13*	(27,727)	(11,339)
Net operating margin		**1,512,425**	**1,333,630**
Net provisions for indirect loans losses, doubtful and other accounts receivable, realizable, repossessed and other assets		(51,479)	(43,001)
Operating income		**1,460,946**	**1,290,629**
Other income, net	*26*	5,434	35,494
Net profit before tax		**1,466,380**	**1,326,123**
Deferred tax	*28*	1,448	18,790
Current tax	*27.D*	(367,134)	(376,720)
Net profit		**1,100,694**	**968,193**
Attributable to:			
Owners of the entity		1,095,140	968,193
Non-controlling interests	*2*	5,554	-
		1,100,694	**968,193**

The accompanying notes on pages 6 to 75 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 nine-month periods ended September 30, 2019 and 2018

In thousands of soles	***Note***	**2019 (Unaudited)**	**2018 (Unaudited)**
Net profit		1,100,694	968,193
Other comprehensive income:			
Net unrealized profit (loss) on available-for-sale investments		69,715	(43,464)
Adjustment to other comprehensive income of associates		(10)	228
Cash flow hedges	*4.C*	(7,208)	2,030
Other comprehensive income, net of income tax		**62,497**	**(41,206)**
Total comprehensive income for the period		**1,163,191**	**926,987**
Attributable to:			
Owners of the entity		1,163,195	926,987
Non-controlling interests	*2*	(4)	-
		1,163,191	**926,987**

The accompanying notes on pages 6 to 75 are part of these consolidated interim financial statements.

Scotiabank Perú S.A.A. and Subsidiaries
Consolidated Statement of Changes in Equity
For the nine-month periods ended September 30, 2019 and 2018

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 equity	Non-controlling interest	Total equity
Balance as of December 31, 2017 (Audited)	563,453,942	5,634,538	394,463	960,640	23,591	1,175,383	8,188,615	-	8,188,615
Net profit	-	-	-	-	-	968,193	968,193	-	968,193
Other comprehensive income									
Net unrealized loss on available-for-sale investments	-	-	-	-	(43,464)	-	(43,464)	-	(43,464)
Cash flow hedges	-	-	-	-	2,030	-	2,030	-	2,030
Adjustment to other comprehensive income of associates	-	-	-	-	228	-	228	-	228
Total comprehensive income	**-**	**-**	**-**	**-**	**(41,206)**	**968,193**	**926,987**	**-**	**926,987**
Allocation to legal reserve	-	-	-	122,102	-	(122,102)	-	-	-
Dividend distribution	-	-	-	-	-	(610,510)	(610,510)	-	(610,510)
Capitalization of retained earnings	48,840,838	488,408	-	-	-	(488,408)	-	-	-
Other adjustments	-	-	-	-	-	20	20	-	20
Balance as of September 30, 2018 (Unaudited)	**612,294,780**	**6,122,946**	**394,463**	**1,082,742**	**(17,615)**	**922,576**	**8,505,112**	**-**	**8,505,112**
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	-	-	-	-	-	1,095,140	1,095,140	5,554	1,100,694
Other comprehensive income									
Net unrealized profit on available-for-sale investments	-	-	-	-	69,715	-	69,715	(4)	69,711
Cash flow hedges	-	-	-	-	(7,208)	-	(7,208)	-	(7,208)
Adjustment to other comprehensive income of associates	-	-	-	-	(10)	-	(10)	-	(10)
Total comprehensive income	**-**	**-**	**-**	**-**	**62,497**	**1,095,140**	**1,157,637**	**5,550**	**1,163,187**
Allocation to legal reserve	-	-	-	128,065	-	(128,065)	-	-	-
Dividend distribution	-	-	-	-	-	(512,260)	(512,260)	-	(512,260)
Capitalization of retained earnings	64,032,502	640,325	-	-	-	(640,325)	-	-	-
Acquisition of subsidiary	-	-	-	-	-	-	-	93,566	93,566
Other adjustments	-	-	-	-	-	17	17	-	17
Balance as of September 30, 2019 (Unaudited)	**676,327,282**	**6,763,271**	**394,463**	**1,210,807**	**42,701**	**1,045,577**	**9,456,819**	**99,116**	**9,555,935**

The accompanying notes on pages 6 to 75 are part of these consolidated interim financial statements.

Scotiabank Perú S.A.A. and Subsidiaries
Consolidated Statement of Cash Flows
For the nine-month periods ended September 30, 2019 and 2018

In thousands of soles	***Note***	**2019 (Unaudited)**	**2018 (Unaudited)**
Cash flows from operating activities			
Net profit		1,100,694	968,193
Adjustments to reconcile net profit to cash used in operating activities			
Provision for doubtful loans, net of recoveries	*8(d)*	1,125,856	903,283
Provision for realizable, repossessed and other assets, net		26,012	15,342
Provision for accounts receivable, net		13,697	11,186
Depreciation and amortization		72,302	56,332
Provision for fringe benefits		40,077	36,401
Provision for current and deferred income tax	*27.D*	365,686	357,930
Provision for contingent loans and country risk, net of recoveries		10,223	10,213
Other provisions, net of reversal		(14,926)	1,592
Gain (loss) on sale of property, furniture, and equipment		(6,024)	4,150
Gains on sale of realizable and repossessed assets		(3,509)	(5,742)
Net changes in assets and liabilities			
Loans		(3,073,058)	(5,077,419)
Investments at fair value through Profit or loss		80,687	435,193
Available-for-sale investments		(953,011)	1,805,566
Accounts receivable		177,760	163,847
Other assets		620,539	(413,908)
Non-subordinated financial liabilities		7,116,014	2,068,021
Accounts payable		(1,368,895)	(404,242)
Provisions and other liabilities		(696,750)	463,683
Net profit after net changes in assets, liabilities and adjustments		**4,633,374**	**1,399,621**
Income taxes paid		(246,797)	(181,909)
Net cash and cash equivalents from operating activities		**4,386,577**	**1,217,712**
Dividends received		4,491	5,079
Acquisition of property, furniture, and equipment	*12*	(61,116)	(56,317)
Acquisition of other financial assets		(2,596)	(4,412)
Acquisition of subsidiary, net of acquired cash	*1.C*	(117,588)	-
Sale of property, furniture, and equipment		11,422	90
Net cash and cash equivalents used in investing activities		**(165,387)**	**(55,560)**
Dividend paid		(512,260)	(610,510)
Net cash and cash equivalents used in financing activities		**(512,260)**	**(610,510)**
Net increase in cash and cash equivalents, before the effect of exchange rate fluctuations		3,708,930	551,642
Exchange rate fluctuations effect on cash and cash equivalents		**17,335**	**4,485**
Net increase in cash and cash equivalents		3,726,265	556,127
Cash and cash equivalents at beginning of period		**8,988,942**	**7,527,096**
Cash and cash equivalents at end of period		**12,715,207**	**8,083,223**
Transactions that do not represent cash flow			
Capitalization of retained earnings		640,325	488,408

The accompanying notes on pages 6 to 75 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 its capital stock as of September 30, 2019 and December 31, 2018. Up to May 31, 2019, the direct participation of BNS in the shareholding of the Bank was 2.32% and its indirect participation, through NW Holdings Ltd. (hereinafter NWH) and Scotia Perú Holdings S.A., (hereinafter SPH), was 55.32% and 40.41% in the shareholding, respectively.

On June 1, 2019, the increase in SPH's participation in the Bank's capital stock from 40.41% to 95.73% became effective as a result of the merger by absorption with NWH and Scotia South America S.A. (subsidiary of BNS). This transaction was approved by the General Meeting of Shareholders of SPH on June 11, 2018 and authorized by the Superintendencia de Banca, Seguros y Administradoras Privadas de Fondos de Pensiones (Banking, Insurance and Pension Plan Agency, hereinafter, the SBS) through SBS Resolution No. 1285-2019 on March 27, 2019. Also on June 26, 2019, BNS transferred its shareholding in the Bank of 2.32% to SPH. As a result of these transactions, as of September 30, 2019 SPH maintains 98.05% direct participation in the Bank's capital stock.

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

The Bank's registered office address is Av. Dionisio Derteano N° 102, San Isidro, Lima, Peru. As of September 30, 2019 and December 31, 2018, the Scotiabank Group performs its activities through a national network of 437 and 365 branches, respectively.

As of September 30, 2019 and December 31, 2018, the accompanying consolidated financial statements include the financial statements of the Bank and other companies of the consolidated group (hereinafter the Scotiabank Group), such as: CrediScotia Financiera S.A., (hereinafter CrediScotia) which is engaged in intermediation operations for the micro-business and consumer sectors; Servicios, Cobranzas e Inversiones S.A.C. (hereinafter SCI), which is engaged in collections and domicile verification, among other activities; Scotia Sociedad Agente de Bolsa S.A. (hereinafter SAB), which is engaged in intermediation activities in the Peruvian securities market; Scotia Fondos Sociedad Administradora de Fondos S.A. (hereinafter SAF), which is engaged in mutual funds management; Scotia Sociedad Titulizadora S.A., (hereinafter Titulizadora), which is engaged in the management of trusts as well; Caja Rural de Ahorro y Crédito CAT Perú S.A. (hereinafter CRAC), acquired on March 1, 2019 and dedicated to issuing and managing credit and debit cards; a special purpose entities called Fideicomiso CrediScotia-Dinero Electrónico for issuing electronic money; and finally; the Fideicomiso sobre Bienes Inmuebles – Depsa.

Below are the main balances of the Bank and other companies mentioned in the previous paragraphs as of September 30, 2019 and December 31, 2018 indicating the Bank's shareholding percentages, as well as relevant information in these regards:

In thousands of soles	Activity	Shareholding percentage	Assets	Liabilities	Equity
09.30.2019					
Scotiabank Perú S.A.A.	Banking	-	72,184,146	62,675,171	9,508,975
CrediScotia Financiera S.A.	Financing	100.00	5,158,323	4,140,668	1,017,655
Caja Rural de Ahorro y Crédito CAT Perú S.A.	Financing	51.00	1,002,722	800,444	202,278
Servicios, Cobranzas e Inversiones S.A.C.	Collection services	100.00	144,976	64,232	80,744
Scotia Fondos Sociedad Administradora de Fondos S.A.	Administration of mutual funds	100.00	88,757	8,656	80,101
Scotia Sociedad Agente de Bolsa S.A.	Stock market broker	100.00	44,414	1,610	42,804
Scotia Sociedad Titulizadora S.A.	Securitization	100.00	5,066	792	4,274
Fideicomiso sobre Bienes Inmuebles – Depsa	Special purpose entity	-	1,452	1,299	153
Fideicomiso CrediScotia-Dinero Electrónico	Special purpose entity	-	537	606	(69)
12.31.2018					
Scotiabank Perú S.A.A.	Banking	-	63,813,979	54,952,881	8,861,098
CrediScotia Financiera S.A.	Financing	100.00	4,896,069	3,924,551	971,518
Servicios, Cobranzas e Inversiones S.A.C.	Collection services	100.00	132,116	59,817	72,299
Scotia Fondos Sociedad Administradora de Fondos S.A.	Administration of mutual funds	100.00	70,465	2,421	68,044
Scotia Sociedad Agente de Bolsa S.A.	Stock market broker	100.00	44,081	1,757	42,324
Scotia Sociedad Titulizadora S.A.	Securitization	100.00	4,462	142	4,320
Fideicomiso sobre Bienes Inmuebles - Depsa	Special purpose entity	-	1,555	1,296	259
Fideicomiso CrediScotia-Dinero Electrónico	Special purpose entity	-	530	587	(57)

C. Acquisition of Subsidiary

On May 9, 2018, Scotiabank Peru S.A.A. signed an agreement with Cencosud Perú S.A. to acquire 51% of shares of Banco Cencosud S.A., an entity that offers credit cards in Perú. This acquisition was authorized by the SBS through SBS Resolution N° 754-2019 dated February 26, 2019. The effective date of purchase and payment of the transaction was March 1, 2019. The agreement includes the signing of an exclusivity agreement to manage the credit card business and provide additional products and services to Banco Cencosud S.A. customers for a period of 15 years.

In accordance with current regulation and 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. (CRAC). and, according with the signed contract, it is part of the Scotiabank Group as of March 1, 2019.

According to the contract, at the end of the 15th year, there are only three alternatives for this agreement:

(i) The original 15th year agreement ends, the entities are dissolved and if the two entities are in agreement, then another arrangement can be negotiated for a new fee and for a new term. At which time, the new arrangement will give rise to another separately identified contract based intangible asset.

(ii) The arrangement ends at the end of the 15th year, if Cencosud Perú S.A. were to exercise their call option to acquire the Bank's share interest in CRAC at fair value, at the end of the 15th year arrangement, the alliance will be dissolved.

(iii) The arrangement ends at the end of the 15th year. If Cencosud Perú S.A. does not exercise the call option to acquire the 51% of CRAC (which is the second option described above), the Bank will have the right to acquire CRAC receivables at book value for an amount equivalent to the outstanding balance of CRAC debt with the Bank.

This acquisition was recorded using the purchase method, by which the identifiable assets of the acquired company was recognized at fair value. As required by IFRS 3 "Business Combination" as of the acquisition date, no excesses have been found between the acquisition cost and the fair values of the identifiable net assets, so no goodwill has been recognized for this transaction.

The book value of the acquired assets and assumed liabilities in this transaction has been estimated as their fair value.

(a) Consideration transferred

For the acquisition of the net assets of CRAC and the 15th year partnership arrangement between Cencosud Perú S.A. and the Bank to manage the credit card business, the Bank paid US$ 99,470 thousand equivalent to S/ 328,700 thousand.

Net assets acquired included 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 entities.

(b) Acquisition-related costs

From a total acquisition-related costs by S/ 864 thousand, S/ 642 thousand were related to legal fees, S/ 209 thousand to third party and S/ 13 thousand to taxes due diligences. These costs have been recorded as administrative expenses.

(c) Identifiable assets acquired and liabilities assumed

The book value of acquired assets and assumed liabilities was estimated as their corresponding fair value and were composed as follows as of the acquisition date:

In thousands of soles	***Note***	**2019**
Assets:		
Cash and due from banks	*1.C*	211,112
Loan portfolio, net		845,294
Provisions for loan losses	*8.C*	(65,058)
Account receivable		32,226
Furniture and equipment, net	*12*	4,136
Intangible asset, net	*13*	1,543
Deferred tax	*28*	4,195
Other assets		2,614
Liabilities:		
Deposits		(645,092)
Other liabilities		(200,019)
Total identifiable net assets acquired, and liabilities assumed		**190,951**

Also, the analysis of the transaction resulted in the recognition of S/ 330,451 thousand of intangible assets for the “Exclusivity agreement” and “Cencosud Brand” and its corresponding deferred tax liability by S/ 99,136 thousand. (notes 13 and 28).

(d) Allocation of consideration transferred and Non-Controlling interest

As of the acquisition date this allocation was as follows:

In thousands of soles	***Note***	**2019**
Consideration transferred	*1.C(a)*	328,700
Non-Controlling Interest		93,566
Total amount to allocate		**422,266**
Identifiable assets acquired and liabilities assumed	*1.C(c)*	(190,951)
Identifiable Intangibles	*1.C(c), 13*	(330,451)
Deferred income taxes	*28*	99,136
		(422,266)

Consideration paid by the Bank essentially represents the 15 years exclusivity agreement between Cencosud Perú S.A. and the Bank and, in consequence, the administration of the credit cards business during this period; hence the Bank has recognized and intangible asset which will be fully amortizable during 15 years and has been valued based on expected benefits applying the 51% of the Bank’s participation in the acquired business.

Valuation of the non-controlling interest has been estimated using the option based on the non-controlling shareholder´s (Cencosud Perú S.A.) proportional participation (49%) and amounted to S/ 93,566 thousand as of March 1,2019.

D. Approval of consolidated interim financial statements

The consolidated interim financial statements as of September 30, 2019 were approved by the Bank's management on November 15, 2019. The consolidated interim financial statements as of December 31, 2018 were approved by the Annual General Meeting of Shareholders held on March 25, 2019.

2. Non-controlling interests

As of September 30, 2019, the following table summarises the information relating to subsidiary CRAC that have material Non-controlling interest (NCI), before any intra-group eliminations.

In thousand of soles	**CRAC**
September 30, 2019	
Total assets	1,002,722
Total liabilities	(800,444)
Total net assets	**202,278**
Net assets attributable to NCI 49%	**99,116**
Net Profit	11,335
Other Comprehensive Income	(9)
Profit allocated to NCI 49%	**5,554**
OCI allocated to NCI 49%	**(4)**

3. Basis for the Preparation of 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 legal regulation and accounting principles authorized by the SBS. In the absence of such applicable SBS standards, the International Financial Reporting Standards (IFRS), made official in Peru by the Peruvian Accounting Board (CNC) are applied. Such standards comprise the Standards and Interpretations issued or adopted by the International Accounting Standards Board (IASB), which include the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), and the Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), or the former Standing Interpretations Committee (SIC), adopted by the IASB and made official by the 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 are measured at fair value.
- 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/) been rounded to the nearest thousand (S/ 000), except as 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 applied 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 doubtful loans, valuation of investments, estimated useful life and recoverable amount of property, furniture, and equipment, intangible assets, impairment of goodwill, provision for realizable assets, received as payment and repossessed assets, exclusivity intangible, estimate of the deferred sales tax recovery, provision for income tax, and the fair value of derivative instruments. Accounting criteria is 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 previous period, unless otherwise indicated, are the following:

A. Consolidation policies

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

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

The accounting records of 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 8.20% and 7.47%, respectively, of the total Bank's assets before eliminations as of September 30, 2019 and December 31, 2018. As of September 30, 2019, there is a non-controlling interest resulting from the consolidation process (as of December 31, there is no non-controlling interest).

B. Financial instruments

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

Financial instruments are recognized on the date when they are originated and are classified as assets, liabilities or equity instruments according to the substance of the contract. Interest, gains and losses generated by a financial instrument, whether classified as an asset or 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 in one of the following categories defined by IAS 39, which were determined in SBS Resolution 7033-2012: (i) financial assets and 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 in the case of financial assets or liabilities held at FVTPL.

Acquisitions or sales of financial assets that require asset's provision within a period established according to market regulations or conventions (regular market terms) are recognized at trade date.

Derecognition of financial assets and liabilities

i. Financial assets

A financial asset (or when applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognized when: (i) the rights to receive cash flows from the asset have expire; or (ii) the Scotiabank Group has transferred its rights to receive cash flows from the assets, 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 existent financial liability is replaced by other of the same borrower in terms significantly different, or terms are significantly modified, such replacement or modification is treated as a derecognition of the original liability and a new liability is recognized. The Scotiabank Group recognized the difference between both of them in the profit or loss of 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. The evidence of impairment can be an indication that a borrower or group of borrowers are experiencing significant financial difficulties, defaults or delays in payments of interest or principal, the probability that the company will enter bankruptcy, restructuring or other legal and financial reorganization in which it is shown that there is a significant decrease in expected future cash flows such as changes in circumstances or economic conditions related to payments defaults.

Offsetting financial instruments
Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position, when, and only when: a current legal right to offset the amounts exists, and there is an intention either to settle them on a net basis or to realize the asset, and settle the liability simultaneously.

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

C. Derivative financial 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, valuation guidelines and accounting treatment for derivative instruments that financial institutions shall apply are established in SBS Resolution 1737-2006 *Regulation for Trading and Accounting of Derivative Products in Financial System Companies* and its amendments which include accounting criteria for held-for-trading, hedging and embedded derivative operations which are consistent with to IAS 39 *Financial Instruments: Recognition and Measurement.*

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

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

Hedging instruments
A derivative instrument for economic hedge of a specific risk are designated as hedging instruments 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 from the inception of trading of the derivative instrument and during the hedge term. 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 expected to range from 80% to 125%.

For cash flow hedges, the effective portion of changes in fair value is recognized directly in equity in caption 'unrealized gains and losses' as a cash flow hedge reserve, net of its tax effect. The ineffective portion of any gain or loss of 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 forecasted 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 of September 30, 2019, the Scotiabank Group maintains cash flow hedging instruments with an underlying asset amounting to US$ 600,000 thousands, related to foreign debts, taken with Scotiabank Caribbean Treasury Limited, Bahamas. As of December 31, 2018, maintained a cash flow hedging instrument with an underlying asset amounted to US$ 70,000 thousand, which was related to the acquisition of subsidiary referred in note 1.C., and expired in March 1, 2019.

D. Investments

The Scotiabank Group applies the recording and valuation criteria of investments established in SBS Resolution 7033-2012 *Regulations for C*lassification and Valuation of Investments of Financial System Companies, 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 include in the scope of IAS 39, as detailed below:

i. Investments at FVTPL

Debt securities and equity shares 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, when the Scotiabank Group enters into contractual arrangements with counterparties to purchase investments, and are normally derecognized when sold.

Measurement is initially made at fair value excluding transaction costs, which are recognized in the consolidated statement of profit or loss. Subsequently, fair values are re-measured, and fluctuations arising from changes in fair value are recognized in the consolidated interim statement of profit or loss.

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

Investment at FVTPL that are given 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 or losses from equity to the consolidated statement of profit or loss.

ii. Available-for-sale investments

Available-for-sale investments are all other securities that are not classified as investments at FVTPL, held-to-maturity investments and investments in associates. Likewise, investment instruments will be included in this category when 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 gains and losses therein are recognized in equity in the 'unrealized earnings' account until the 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 securities at fair value shall be remeasured applying the effective interest method, and based on the resulting amortized cost, gains and losses from the variation in the 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 previously recognized in the consolidated statement of profit or loss and other comprehensive income) is removed from equity and recognized in 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.

Until September 30, 2018, SBS Resolution 7033-2012 established a standard methodology to identify impairment of available-for-sale investments, which included two screenings. The first one had two conditions: i) significant decline in fair value below 50% of cost or, ii) prolonged decline in fair value over the last 12 months, and accumulated fall in fair value in that period is at least of 20%. In the event of meeting any of these two conditions, it was evaluated if these conditions were justified at least concerning two of the qualitative aspects of the issuer indicated in the second screening of such resolution.

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

Assessment of debt instruments

- Weakening in financial position of the issuer and its economic group.
- Lower credit risk rating of the instrument or the issuer.
- Interruption of transactions or interruption of an active market for the financial asset due to financial difficulties of the issuer.
- Observed inputs indicate that, on initial recognition of a group of financial assets with similar characteristics to the assessed instrument, there is a measurable decline in expected future cash flows.
- Decline in value due to regulatory changes.
- Significant decline in fair value below 40% of its amortized cost.
- Prolonged decline in fair value over the last 12 months, and accumulated fall in fair value in that period is at least 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.
- Interruption of transactions or interruption of an active market for the financial asset due to financial difficulties of the issuer.
- Observed inputs indicate that, on initial recognition of a group of financial assets with characteristics similar to the assessed instrument, there is a measurable decline in expected future cash flows.
- Decline in value due to regulatory changes.

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

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

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

iii. Investments in associates

It comprises equity instruments acquired to have shareholder’s equity and significant influence over entities and 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 their instruments acquisition. They are subsequently measured applying the equity participation method, this means, investment increases or decreases upon recognition of the share corresponding to investee’s equity at measurement date.

When changes in associate’s equity are due to concepts other than the profit or loss of the year; these changes shall be accounted directly in equity. Dividends are recorded reducing the investments carrying amount.

Investment instruments held by entities can be reclassified. Investment instruments at FVTPL cannot be reclassified except for (1) unlisted equity securities, which lack of reliable estimate fair value, or (2) investment instruments transferred through a repurchase agreement or given as collaterals, as indicated in point (i) of this section. During the nine month period ended in September 30, 2019 and during the year 2018, investment instruments have not been reclassified into other categories.

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 until reaching its recoverable value. Impairment loss shall be recognized in profit or loss of the year.

During the nine month period ended in September 30, 2019 and during the year 2018, the Scotiabank Group has not recognized impairment losses on investment instruments.

E. Loans, classification and provision for doubtful loans losses

Direct loans are recorded when fund expenditures are made in favor of clients. Indirect loans (contingent) 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 loan behind changes in payment conditions due to constrains on debtors' ability to pay are considered as refinancing or restructuring.

Finance leases are recognized using the effective interest rate method, recording the amount of the receivable installments as loans. Corresponding finance income is recorded on an accrual basis in accordance with the lease agreement 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 the SBS Resolution 11356-2008 and its amendments.

Loan portfolio classification

The Bank and CrediScotia classify their loan portfolio as: Wholesale Banking (medium-business, additionally the Bank has a corporate portfolio and large business) and Retail Banking (small-business, micro business, revolving, non-revolving and mortgage loans). CRAC classify only 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

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

For the Wholesale Banking portfolio, the Bank and CrediScotia mainly debtor's ability to pay, cash flow, level of compliance with obligations, rating designated by other financial agencies, financial position, and management quality. For Retail Banking portfolio, which include CRAC rating is mainly based on the level of compliance with payment of loans, which is reflected by delay days on their 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 to US$ 100 thousand.

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

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

	Description	CCF (%)
(i)	Confirmations 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 unused credit lines.	-
(v)	Others not considered above in the previous items.	100

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

The Bank, 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 exposure of indirect loans for 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 covered by such collaterals.

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

According to the SBS, financial institutions shall establish an overindebtedness 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 overindebtedness 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 exposure equivalent by applying a 20% factor to the unused amount of revolving credit lines for micro-business, small-business and consumer loans. Regarding the exposure equivalent to credit risk, provision rates established in the "Regulation for Debtor Rating" shall apply.

In this regard, the amount of revolving credit line 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 generic provision of 1% on direct loan. This provision will be applicable to direct consumer (revolving and non-revolving) loans and/or 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. As of 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 loans is recorded deducting the balance from the corresponding asset (note 8), and provision for indirect loans is 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 the consolidated statement of financial position items 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 when it has not yet been settled upon maturity or if the SAB, due to any operating cause, does not have the funds transferred by the third party. However, since it is a solvent entity, funds are covered 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, cannot use these resources and there is a commitment to return them to the third parties; these resources do not belong to the entity and are accounted in control accounts.

Unsettled transactions by Bolsa de Valores de Lima S.A. are recorded in suspense accounts, until corresponding collection or payment.

G. Property, furniture and equipment

The property, furniture, and equipment are recorded at the historical acquisition cost, less accumulated depreciation and impairment losses. Expenditures incurred after 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 costs 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 facilities	Between 30 and 5
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 assets, received as payment, 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 accounted at the lower of its cost or market value.

Realizable assets, received as payment, and repossessed assets (note 13) are regulated by SBS Resolution 1535-2005. This caption mainly includes property, plant, and equipment received as payment for doubtful loans, and are initially recorded at the lower of judicial, extrajudicial, recovery or estimated market value, or value of outstanding debt.

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

- Realizable assets, received as payment and repossessed assets are initially recorded at 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 upon maturity date.

- A provision shall be recorded for real estate that has not been sold or leased within 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 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 in the carrying amount.

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 a long-lived assets might not be recoverable, management reviews at each consolidated statement of financial position date 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 its 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 it is fair value less costs to sell and its value in use.

Fair value less selling cost 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 units) from continuing use that are largely independent of the cash inflows of other assets.

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

J. Intangible assets

Intangible assets are mainly related to the acquisition and development cost of software included in other assets and are amortized using the straight-line method over an average 3-year period. Likewise, they include amortized costs coming from CrediScotia's business and are amortized during the contract term in which they are originated.

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

Exclusivity intangible is related with the acquisition of CRAC, has been recognized as a result of the 15 – years partnership agreement subscribed with Cencosud Perú S.A (Note 1.C). This intangible asset will be amortized on a straight line basis over the 15 years term.

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, recognizing 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 rate method. Discounts granted or income generated during the loan disbursement are amortized during the instruments' maturity term.

Interest is recognized in profit or loss when accrued.

M. Provisions and contingencies

i. Provisions

Provisions are recognized when the Scotiabank Group has a present obligation either legal or constructive, 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 period to reflect the best estimates as of the date of the consolidated statement of financial position.

Provision for length of service legal compensation (CTS) is calculated according to current legislation, on the total employees' indemnities and should be paid, in May and November annually, through deposits in authorized financial institutions as chosen by them. Calculation is made for the amount that should have to be paid as at the date of the consolidated statement of financial position and it is included in '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 the notes to the consolidated interim financial statements, unless the possibility of an outflow of economic resources 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. Preferred shares, if any, are recorded as other debt instruments. The difference between the redeemable amounts of preference shares and the shares' par value being recorded in equity. Dividends on preference shares are recorded as liabilities and charged to profit or loss of the period. As of September 30, 2019 and December 31, 2018, the Scotiabank Group does not hold outstanding preference shares.

O. 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 with the clients. Commissions for banking services are recognized as profit or loss when earned.

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

When management considers that there are reasonable doubts about the collectability of the loan's principal, the Bank and CrediScotia 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 that 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.

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

Sales revenue from securities and its 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.

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

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

Commissions 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.

P. Income tax

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

Deferred income tax is recorded using the liability method based on temporary differences derived from tax accounting of assets and liabilities, and their balances in the financial statements of each entity of the Scotiabank Group. Also, it is determined applying the current legislation 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 income 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.

Q. 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 legislation.

R. Repurchase agreements

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

The Scotiabank Group recognizes the cash received and liability to return 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. Difference between the final amount and initial amount will be recognized as an expense against liability within the transaction term applying the effective interest rate method.

As of September 30, 2019 and December 31, 2018, the Bank 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 September 30, 2019 and 2018, 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 foreign currency repurchase commitments 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 trustee, are not included in the consolidated interim financial statements since they belong to neither the Bank nor Titulizadora, and are recorded in suspense accounts for corresponding control. Commissions 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 exchange rates established by the SBS at transaction date (note 5). Foreign exchange gains or losses resulting from the payment of such transactions and from the translation of monetary assets and liabilities stated in foreign currency at exchange rates ruling at the end of the 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 International Accounting Standards Board - IASB, but are effective for annual periods beginning on or after January 1, 2020, and the Bank has not adopted them in preparing these consolidated interim financial statements. Those that might be relevant to Scotiabank Group are detailed below. Scotiabank Group do not plan to early adopt these standards.

New IFRS, amendments and interpretations	Effective date
Amendments to *References to the Conceptual Framework in IFRSs.*	For annual periods beginning on or after January 1, 2020.
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).	Effective date was indefinitely deferred.

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

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

The resolutions' application is according to the effective date of each specific standard, except for IFRS 15, whose effective date was deferred by the CNC until January 1, 2019, through Resolution 005-2017 EF/30.

As indicated in note 2.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. 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 estimate are established; therefore, supervised entities shall continue to apply IAS 17 *Leases*.

As the date of this report, Scotiabank Group are evaluating the effects on the preparation of this financial statements that may arise from the application of IFRIC 23 Uncertainty over Income Tax Treatments.

iii. Main standards and interpretation issued by the SBS in 2019

- Through SBS Resolution 2405-2019, dated May 31, 2019, the SBS amended the "Chapter V of the Accounting Manual and Regulation of External Audit ", effective June 1, 2019.
- Through SBS Resolution 1884-2019, dated May 5, 2019, the SBS amended the "Regulation for Market Risk Management and modify the Accounting Manual for the Companies of the Financial System", effective June 6, 2019.
- Through SBS Resolution 682-2019, dated February 20, 2019, the SBS amended the "Regulation for Liquidity Risk Management and the Accounting Manual for Companies of the Financial System.", effective March 1, 2019.

5. Foreign Currency Balances

The consolidated statement of financial position includes balances of foreign currency transactions, mainly in U.S. dollars (US$), which are recorded in soles (S/) at the exchange rate established by the SBS. As of September 30, 2019 and December 31, 2018, the exchange rate was US$ 1 = S/ 3.383 and S/ 3.373, respectively.

Foreign currency transactions in the country and international trade transactions referred to the concepts authorized by Banco Central de Reserva del Perú (BCRP) are channeled through a free banking system. As of September 30, 2019, buy and sell exchange rates used were US$ 1 = S/ 3.382 and US$ 1 = S/ 3.385, respectively (US$ 1 = S/ 3.369 buy and US$ 1 = S/ 3.379 sell, as of December 31, 2018).

As of September 30, 2019 and December 31, 2018, foreign currency balances stated in thousands of U.S. dollars and other currencies are summarized as follows:

	09.30.2019			12.31.2018		
In thousands of US$	**US dollars**	**Other currencies**	**Total**	**US dollars**	**Other currencies**	**Total**
Assets						
Cash and due from banks	4,492,196	11,909	4,504,105	2,758,023	12,528	2,770,551
Investments at FVTPL and available-for-sale investments	890	-	890	876	-	876
Loan portfolio, net	4,229,337	-	4,229,337	4,265,796	-	4,265,796
Held-for-trading instruments	4,716	-	4,716	1,504	-	1,504
Accounts receivable, net	16,377	-	16,377	20,779	-	20,779
Other assets, net	31,008	1,225	32,233	125,762	186	125,948
	8,774,524	**13,134**	**8,787,658**	**7,172,740**	**12,714**	**7,185,454**
Liabilities						
Deposits and obligations and other obligations	5,342,163	30,438	5,372,601	4,168,786	28,233	4,197,019
Borrowings and debts	3,163,684	-	3,163,684	2,863,151	-	2,863,151
Held-for-trading instruments	2,461	-	2,461	3,202	-	3,202
Other liabilities	115,694	6,755	122,449	119,115	3,905	123,020
	8,624,002	**37,193**	**8,661,195**	**7,154,254**	**32,138**	**7,186,392**
Net asset (liability) position in the consolidated statement of financial position	**150,522**	**(24,059)**	**126,463**	**18,486**	**(19,424)**	**(938)**
Derivative transactions	**(255,610)**	**25,044**	**(230,566)**	**(104,527)**	**21,760**	**(82,767)**

During the nine month period ended in September 30, 2019 and 2018, the Scotiabank Group recorded net gains on foreign exchange amounting to S/ 248,219 thousand and S/ 171,951 thousand, respectively in 'Income from financial transactions' in the consolidated statement of profit or loss (note 24).

As of September 30, 2019, the Scotiabank Group has contingent foreign currency transactions amounting to US$ 17,041,704 thousand equivalent to S/ 54,652,084 thousand (US$ 11,334,227 thousand, equivalent to S/ 38,230,347 thousand as of December 31, 2018).

6. Cash and Due from Banks

This caption comprises the following:

In thousands of soles	**09.30.2019**	**12.31.2018**
Cash (a)	1,298,202	1,151,651
Deposits with BCRP (a)	10,779,385	7,429,609
Local banks and other financial institutions(b)	27,383	32,825
Foreign banks and other financial institutions (b)	316,686	244,023
Clearing	167,166	59,264
Restricted cash and due from banks (c)	3,775,948	1,648,572
Other cash and due from banks	96	87
	16,364,866	**10,566,031**

(a) As of September 30, 2019, funds held in cash and deposits with BCRP include US$ 1,770,856 thousand and S/ 912,094 thousand (US$ 2,106,394 thousand and S/ 946,416 thousand as of December 31, 2018), which are intended for covering reserve requirement that the Bank, CrediScotia and CRAC shall held for deposits and obligations according to the limits established by current legislation. These funds are deposited at BCRP and in the financial entities' vaults.

Cash reserves held at BCRP do not accrue interest, except for the amount in local and foreign currency amount that exceeded the minimum cash reserve. As of September 30, 2019, the excess of the minimum cash reserve in national currency and foreign currency accrued interest at an annual effective rate of 2.17% and 1.54%, respectively. Accrued interest on the excess in local currency and in foreign currency as of September 30, 2019 amounts to S/ 698 thousand and US$ 17,920 thousand (US$ 4,705 thousand as of September 30, 2018).

As of September 30, 2019, balance in BCRP comprise ‘overnight’ transactions for US$ 1,502,900 thousand and S/ 100,000 thousand; which accrued interest at a nominal annual rate of 2.07% and 1.25%, respectively (overnight operations of US$ 96,700 thousand and S/ 186,500 thousand as of December 31, 2018 at annual nominal rates of 2.43% and 1.50%, respectively).

(b) Deposits in 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 September 30, 2019, deposits with foreign banks, comprise deposits held at the Bank of Nova Scotia for US$ 1 thousand and CAD$ 4,760 thousand (US$ 2,350 thousand and CAD$ 2,894 thousand as of December 31, 2018).

As of September 30, 2019 and December 31, 2018, the Scotiabank Group concentrate 77% and 75% of its deposits with foreign banks in three financial institutions, respectively.

(c) As of September 30, 2019, restricted cash and due from banks comprises: i) reserve funds for compliance with foreign currency repurchase commitments with BCRP for US$ 1,114,297 thousand, (US$ 478,683 thousand, respectively as of December 31, 2018); (note 17(a)) ii) reserve funds for compliance with contractual commitments with foreign financial institutions for US$ 8,300 thousand as of December 31, 2018, iii) guarantee funds for treasury transactions for US$ 38 thousand and S/ 2 thousand (US$ 38 thousand and S/ 2 thousand as of December 31, 2018); iv) guarantee funds for lawsuits against the Bank for US$ 264 thousand and S/ 952 thousand (US$ 263 thousand and S/ 952 thousand as of December 31, 2018); and v) other restrictions for US$ 885 thousand and S/ 1,317 thousand (US$ 866 thousand and S/ 1,089 thousand as of December 31, 2018).

(d) During the nine month period ended in September 30, 2019 and 2018, interest income from cash and due from banks amounted to S/ 130,267 thousand and S/ 32,674 thousand, respectively, and is recorded as interest income in the consolidated statement of profit or loss (note 21).

7. Investments at FVTPL and Available-For-Sale Investments

This caption comprises the following:

In thousands of soles	**09.30.2019**	**12.31.2018**
Investments at FVTPL		
Peruvian Treasury Bonds (a)	190,424	270,534
Interest on mutual funds (b)	11,543	11,143
Corporate bonds (c)	1,209	2,186
	203,176	**283,863**
Available-for-sale investments		
BCRP certificates of deposit (d)	2,815,609	2,488,426
Peruvian Treasury Bonds (a)	2,398,792	1,705,231
Unlisted securities	7,434	7,428
Listed securities	816	648
Other interests, net	18	18
	5,222,669	**4,201,751**
Total investments at FVTPL and available-for-sale investments	**5,425,845**	**4,485,614**

(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 securities of the Republic of Peru. As of September 30, 2019, these bonds accrue interest at annual rates ranging from 2.36% to 6.00% (from 3.17% to 6.22% as of December 31, 2018), with maturities between August 2020 and February 2055 (between August 2020 and August 2037 as of December 31, 2018).

(b) As of September 30, 2019, the Scotiabank Group holds mutual fund investment shares in local and foreign currency for S/ 9,817 thousand and US$ 510 thousand, respectively (S/ 9,443 thousand and US$ 504 thousand as of December 31, 2018).

(c) The Corporate bonds correspond to those issued by the Mi Vivienda Fund in local currency. As of September 30, 2019, such bonds accrue annual interest of 4.69% and mature in February 2024 (annual interest of 5.18% as of December 31, 2018 and were liquidated in February 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 September 30, 2019, these certificates accrue interest based on the BCRP reference rate which ranged from 2.22% to 3.12% annually (from 2.55% to 3.12% annually as of December 31, 2018), with maturities between November 2019 and August 2021 (between January 2019 and June 2020 as of December 31, 2018). Likewise, as of September 30, 2019, the Bank holds negotiable certificates of deposits issued by BCRP, which cannot be withdrawn since they are granted in repurchase agreements for S/ 714,997 thousand (note 17(a)) (S/ 1,299,331 thousand as of December 31, 2018).

During the nine month period ended in September 30, 2019 and 2018, the accrued interest on investments managed by the Scotiabank Group amounted to S/ 128,828 thousand and S/ 100,824 thousand, respectively, and it is recorded as 'interest income' in the consolidated interim statement of profit or loss (note 21).

As of September 30, 2019 and December 31, 2018, maturities of investment at FVTPL and available-for-sale investments, are the following:

In thousands of soles	**09.30.2019**	**12.31.2018**
Up to 3 months	275,686	981,239
From 3 to 12 months	1,020,839	1,429,852
More than 1 year	4,129,320	2,074,523
	5,425,845	**4,485,614**

8. Loan Portfolio, Net

(a) This caption comprises the following:

In thousands of soles	***Note***	**09.30.2019**		**12.31.2018**	
Direct loans					
Current loans		49,613,653	94%	46,950,638	95%
Refinanced loans		947,071	2%	804,150	1%
Restructured loans		448	-	521	-
Past-due loans		925,886	2%	911,855	2%
Lawsuit loans		1,109,119	2%	993,243	2%
		52,596,177	**100%**	**49,660,407**	**100%**
Plus (less)					
Accrued interest on current loans		378,645	-	341,222	-
Non-accrued interest		(18,524)	-	(25,977)	-
Allowance for impairment		(2,913,908)	-	(2,627,566)	-
		50,042,390	**-**	**47,348,086**	**-**
Indirect loans	***19***	**9,583,757**	**-**	**9,320,024**	**-**

As of September 30, 2019 and December 31, 2018, 51% of the loan portfolio (direct and indirect loans) was concentrated in 454 and 488 clients, respectively.

The loan portfolio (direct and indirect loans) is mainly backed up with 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.

Annual interest rates are regulated by the market and may be determined at the discretion of the Bank, CrediScotia and CRAC. As of September 30, 2019 and December 31, 2018, average effective annual interest rates of main assets were the following:

	09.30.2019		12.31.2018	
%	**Local currency**	**Foreign currency**	**Local currency**	**Foreign currency**
Overdrafts (*)	55.00 – 85.00	30.00 – 55.00	55.00 – 85.00	30.00 – 55.00
Discounts and commercial loans	4.52 – 49.25	3.19 – 26.53	3.76 – 48.85	2.69 – 27.64
Consumer loans	14.31 – 66.27	8.30 – 41.55	14.59 – 44.65	8.81 – 30.68

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

(b) As of September 30, 2019 and December 31, 2018, according to current SBS regulations, the loan portfolio of the Bank, CrediScotia and CRAC risk-based ratings are as follows:

	09.30.2019				12.31.2018			
In thousands of soles	**Nº of debtors**	**Direct**	**Indirect**	**Total**	**Nº of debtors**	**Direct**	**Indirect**	**Total**
Risk category								
Standard	1,673,307	47,934,898	9,313,383	57,248,281	1,030,994	45,176,158	9,008,681	54,184,839
Potential problems	53,969	1,226,206	158,905	1,385,111	44,325	1,363,954	264,113	1,628,067
Substandard	47,885	593,244	80,152	673,396	33,541	636,264	10,255	646,519
Doubtful	86,368	1,065,396	7,348	1,072,744	59,961	860,077	6,110	866,187
Loss	60,839	1,776,433	23,969	1,800,402	50,689	1,623,954	30,865	1,654,819
	1,922,368	**52,596,177**	**9,583,757**	**62,179,934**	**1,219,510**	**49,660,407**	**9,320,024**	**58,980,431**

(c) The movement of the provision for direct loan losses is as follows:

In thousands of soles	***Note***	**Specific**	**Generic**	**Total**
Balance as of January 1, 2018		1,679,624	591,376	2,271,000
Additions debited to profit or loss		1,594,520	258,979	1,853,499
Recovery of provisions		(689,457)	(212,561)	(902,018)
Transfers of provisions and others		15,181	(13,479)	1,702
Write-offs and forgiveness		(701,185)	-	(701,185)
Exchange difference		7,358	2,894	10,252
Balance as of September 30, 2018		**1,906,041**	**627,209**	**2,533,250**
Balance as of January 1, 2019		1,995,314	632,252	2,627,566
Additions debited to profit or loss		1,968,137	275,292	2,243,429
Additions from acquisition of subsidiary	*(1.C.(iii))*	58,195	6,863	65,058
Recovery of provisions		(827,128)	(224,454)	(1,051,582)
Transfers of provisions and others		3,098	(2,921)	177
Write-offs and forgiveness		(972,188)	-	(972,188)
Exchange difference		1,113	335	1,448
Balance as of September 30, 2019		**2,226,541**	**687,367**	**2,913,908**

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

In thousands of soles	**09.30.2019**	**09.30.2018**
Provisions for loan losses of the period	(2,243,429)	(1,853,499)
Recovery of provisions	1,051,582	902,018
Income from recovery of loan portfolio	65,991	48,198
Provisions for loan losses, net of recovery	**(1,125,856)**	**(903,283)**

The Bank and CrediScotia record legal provisions for loan portfolio according to the policy described in note 4.E. Also, Bank and CrediScotia record voluntary provisions for doubtful loans included in the generic provision for loan losses. As of September 30, 2019 and December 31, 2018, voluntary provisions amount to S/ 114,734 thousand and S/ 102,627 thousand, respectively.

As of September 30, 2019, the provision for exchange rate loans amounts to S/ 3,250 thousand (amounted to S/ 1,982 thousand as of December 31, 2018).

As indicated in note 4.E, from November 2014, the procyclical component for provision calculation was deactivated. As of September 30, 2019, the Bank did not apply procyclical provisions for the record of specific provisions (during 2018, the Bank used amount to S/ 13,472 thousand). As of September 30, 2019 and December 31, 2018, the Bank and CrediScotia, record the procyclical provisions amounting to S/ 42,297 thousand and S/ 42,204 thousand, respectively.

(e) As of September 30, 2019 and December 31, 2018, maturities of direct loans are as follows:

	09.30.2019			12.31.2018		
In thousands of soles	**Local currency**	**Foreign currency**	**Total**	**Local currency**	**Foreign currency**	**Total**
Up to 1 month	3,379,663	1,979,678	5,359,341	3,518,127	2,072,826	5,590,953
From 1 to 3 months	4,234,498	2,733,349	6,967,847	3,557,294	3,094,385	6,651,679
More than 3 to 6 months	3,262,768	2,080,102	5,342,870	2,791,957	1,814,226	4,606,183
More than 6 to 12 months	5,042,265	1,639,572	6,681,837	5,197,421	1,610,036	6,807,457
More than 1 year	20,399,452	6,188,470	26,587,922	18,518,774	5,921,486	24,440,260
Past-due loans and lawsuit loans	1,555,866	479,139	2,035,005	1,390,507	514,591	1,905,098
Less, accrued interest	(301,580)	(77,065)	(378,645)	(266,351)	(74,872)	(341,223)
	37,572,932	**15,023,245**	**52,596,177**	**34,707,729**	**14,952,678**	**49,660,407**

9. Held-For-Trading Instruments

The Bank holds forward exchange contracts (forwards), cross-currency swaps (CCS) and interest rate swaps (IRS). As of September 30, 2019 and December 31, 2018, fair value held-for- trading instruments has generated accounts receivable and payable as follows:

	09.30.2019		12.31.2018	
In thousands of soles	**Accounts receivable**	**Accounts payable**	**Accounts receivable**	**Accounts payable**
Forwards	71,406	62,593	59,419	50,779
IRS	16,834	11,393	5,074	10,799
CCS	29,060	21,497	34,578	24,583
	117,300	**95,483**	**99,071**	**86,161**

During the nine month period ended in September 30, 2019 and 2018 these derivatives generated a net loss for S/ 5,319 thousand and net gains of S/ 35,834 thousand, respectively (note 24).

10. Accounts Receivable, Net

This caption comprises the following:

In thousands of soles	**09.30.2019**	**12.31.2018**
Financial instruments		
Sale of investments (a)	492,114	846,323
Collection services	36,705	44,454
Commissions receivable	26,673	16,407
Payments on behalf of thirds parties, net	20,735	21,728
Sales of goods and services, trust, net	14,014	584
Advances to personnel	7,075	3,184
Accounts receivable from third parties	356	1,693
Other accounts receivable, net	292,077	160,721
	889,749	**1,095,094**
Non-financial instruments		
Tax claims (b)	722,020	696,260
	1,611,769	**1,791,354**

(a) The balance as of September 30, 2019 and December 31, 2018, corresponds to accounts receivable generated in sales of financial instruments 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/ 243,223 thousand and S/ 574,089 thousand, respectively; and ii) short sale of sovereign bonds for S/ 248,891 thousand and S/ 272,234 thousand, respectively.

(b) Tax claims comprise tax proceedings with the Tax Authorities (SUNAT). As of September 30, 2019 and December 31, 2018, they mainly comprise payments made by the Bank under protest for: i) S/ 228,213 thousand referred to the Temporary Tax on Net Assets (ITAN) of fiscal years 2005 and 2006; ii) S/ 20,666 thousand referred to the Temporary Tax on Net Assets (ITAN) of fiscal years 2010, 2011, 2012 and 2013; and iii) In addition, as of September 30, 2019 includes S/ 25,761 thousand for Income Tax process of the year 2013.These payments under protest are being imputed by the Bank and CrediScotia in the court, for considering and undue payment; and that they must be compensated with income tax and other credit tax. It is the opinion of management and its legal advisors these amounts will be returned upon the favorable resolution of the case.

Also, this account receivable net of the pertinent provision for doubtful account includes tax claims for S/ 433,815 thousand, as of September 30, 2019 and December 31, 2018, 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 the management and its legal advisors that these amounts will be returned to the Bank upon the favorable resolution of the case.

11. Goodwill

It corresponds to the goodwill determined on the acquisition of equity investments made by the Bank. As of September 30, 2019 and December 31, 2018, goodwill amounts to S/ 570,664 thousand which mainly includes: i) goodwill arising on 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 arising on the business acquisition of the retail and consumer banking of Citibank del Perú, which amounts to S/ 287,074 thousand, and iii) goodwill arising on the acquisition of Unibanca's shares which amounts to S/ 4,772 thousand.

According to SBS regulations, goodwill has been assessed by management, which determined that there is no impairment as of September 30, 2019 and December 31, 2018.

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	Units to receive and works in progress	Balance as of 09.30.2019	Balance as of 12.31.2018
Cost							
Balance as of 01.01.2019	126,914	756,465	440,783	3,505	65,509	1,393,176	1,363,876
Additions	2,141	6,949	8,387	507	43,132	61,116	65,175
Disposals	(2,356)	(14,782)	(18,056)	-	-	(35,194)	(29,334)
Transfer	-	-	-	-	(34,330)	(34,330)	(3,588)
Additions from the acquisition of subsidiary (note 1.C.(iii))	-	4,330	22,176	-	-	26,506	-
Reclassification and/or adjustments	-	13,538	4,018	(67)	(19,727)	(2,238)	(2,953)
	126,699	**766,500**	**457,308**	**3,945**	**54,584**	**1,409,036**	**1,393,176**
Accumulated depreciation							
Balance as of 01.01.2019	-	622,935	365,147	3,234	-	991,316	957,647
Additions	-	23,466	20,984	125	-	44,575	60,317
Disposals	-	(12,461)	(17,931)	-	-	(30,392)	(25,093)
Additions from the acquisition of subsidiary (note 1.C.(iii))	-	3,747	18,623	-	-	22,370	-
Reclassification and/or adjustments	-	(934)	209	(66)	-	(791)	(1,555)
	-	**636,753**	**387,032**	**3,293**	**-**	**1,027,078**	**991,316**
	126,699	**129,747**	**70,276**	**652**	**54,584**	**381,958**	**401,860**

(a) During 2019, the Bank sold a property and its land to unrelated third parties for thousand S/ 7,584, The net book value of these properties amounted to thousand S/ 3,850.

(b) According to current legislation, banks and financial institutions in Peru cannot give 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 lease transactions.

13. Intangible assets, net

This caption comprises the following:

In thousands of soles	Software and other developments	Lease premium	Other intangibles (a)	Balances as of 30.09.2019	Balances as of 31.12.2018
Cost					
Balance as of 01.01.2019	289,521	9,818	1,247	300,586	292,302
Additions	2,596	-	330,451	333,047	5,153
Transfer	34,330	-	-	34,330	3,588
Additions from the acquisition of subsidiary Note (1.C(iii))	5,731	-	16,738	22,469	-
Reclassification and/or adjustments	-	(323)	(10)	(333)	(457)
	332,178	**9,495**	**348,426**	**690,099**	**300,586**
Accumulated amortization					
Balance as of 01.01.2019	275,782	2,913	1,234	279,929	265,629
Additions	13,962	675	13,090	27,727	14,704
Additions from the acquisition of subsidiary	4,874	-	16,052	20,926	-
Reclassification and/or adjustments	-	(321)	-	(321)	(404)
	294,618	**3,267**	**30,376**	**328,261**	**279,929**
	37,560	**6,228**	**318,050**	**361,838**	**20,657**

(a) As of September 30, 2019, included S/ 317, 361 thousand corresponding to the intangible net of amortization mainly related with the exclusivity agreement signed with Cencosud Perú S.A., as a result the acquisition of CRAC on March 1, 2019 (note 1.C).

14. Other Assets, Net

This caption comprises the following:

In thousands of soles	09.30.2019	12.31.2018
Financial instruments		
Transactions in progress (a)	398,014	950,313
	398,014	**950,313**
Non-financial instruments		
Prepaid expenses (b)	167,581	133,637
Realizable and repossessed asset, net of accumulated depreciation and provision for impairment of S/ 174,299 thousand (S/ 155,018 thousand as of December 31, 2018)	87,459	88,967
Tax credit, net of income tax	11,994	13,314
Other assets	7,942	7,942
	274,976	**243,860**
	672,990	**1,194,173**

(a) Transactions in progress are mainly those carried out during the last days of the month and are reclassified in the following month into their definitive respective final accounts in the consolidated statement of financial position. These transactions do not have an impact on the profit or loss of the Scotiabank Group. As of September 30, 2019, transactions in progress mainly include treasury transactions and invoices-in-transit amounting to S/ 357,353 thousand and S/ 6,218 thousand, respectively (S/ 930,048 thousand and S/ 1,831 thousand, respectively as of December 31, 2018).

(b) As of September 30, 2019, prepaid expenses mainly include: i) deferred loan origination costs related to commissions paid to the external sales force for S/ 113,613 thousand (S/ 96,195 thousand as of December 31, 2018); ii) prepaid commissions of received borrowings for S/ 12,698 thousand (S/ 7,966 thousand as of December 31, 2018); iii) prepaid rent for S/ 4,331 thousand (S/ 3,526 thousand as of December 31, 2018); and iv) and advertising and marketing services for S/ 2,036 thousand (S/ 1,540 thousand as of December 31, 2018), among others.

15. Deposits and Obligations with Financial Institutions

This caption comprises the following:

In thousands of soles	**09.30.2019**		**12.31.2018**	
Corporate clients	23,248,483	49%	19,267,025	48%
Individuals	15,853,666	34%	14,862,531	37%
Non-profit entities	5,722,771	12%	4,028,292	10%
Others	2,308,315	5%	1,793,245	5%
	47,133,235	**100%**	**39,951,093**	**100%**

As of September 30, 2019 and December 31, 2018, deposits and other obligations in U.S. dollars represent 39% and 35% of total amount, respectively. As of September 30, 2019, deposits include accounts pledged in favor of the Bank and CrediScotia and for credit transactions for S/ 465,258 thousand and US$ 128,176 thousand (S/ 591,461 thousand and US$ 143,630 thousand as of December 31, 2018).

As of September 30, 2019 and December 31, 2018, total deposits and obligations from individuals and non-profit legal entities amount to S/ 11,470,364 thousand and S/ 10,198,756 thousand, respectively, and are covered by the Peruvian Deposit Insurance Fund, according to current regulations.

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

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

As of September 30, 2019 and December 31, 2018, the maximum amount covered for each individual amounted to S/ 101 thousand.

The Bank, CrediScotia and CRAC freely establish deposits interest rates for its liability transactions based on demand and supply, and the type of deposit. As of September 30, 2019 and December 31, 2018, effective annual rates of main assets fluctuated as follows:

	09.30.2019		12.31.2018	
%	Local currency	Foreign currency	Local currency	Foreign currency
Savings deposits	0.94 – 2.33	0.22 – 0.26	1.04 - 1.90	0.21 - 0.28
Time deposits	2.70 – 5.44	0.20 – 2.18	2.83 - 5.64	0.20 - 1.75
Bank certificates	-	0.18 – 0.44	-	0.19 - 0.43
Severance payment deposits	3.22 – 5.86	1.14 – 1.59	3.16 - 6.05	1.13 - 1.71

As of September 30, 2019, and December 31, 2018, maturities of the time deposits of clients and financial institutions were as follows:

	09.30.2019			12.31.2018		
In thousands of soles	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Up to 1 month	3,341,907	3,046,730	6,388,637	3,404,172	1,640,957	5,045,129
From 1 to 3 months	3,779,757	1,354,333	5,134,090	3,382,494	1,238,242	4,620,736
From 3 to 6 months	2,038,510	672,129	2,710,639	1,707,268	460,357	2,167,625
From 6 to 12 months	1,807,274	822,028	2,629,302	2,110,713	692,798	2,803,511
More than 1 year	1,603,143	564,786	2,167,929	1,234,221	557,908	1,792,129
	12,570,591	**6,460,006**	**19,030,597**	**11,838,868**	**4,590,262**	**16,429,130**
Interest	**131,756**	**16,872**	**148,628**	**122,874**	**13,633**	**136,507**
	12,702,347	**6,476,878**	**19,179,225**	**11,961,742**	**4,603,895**	**16,565,637**

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

16. Borrowings and Debts

This caption comprises the following:

In thousands of soles	09.30.2019	12.31.2018
Borrowings and debts		
Obligations in the country		
COFIDE (a)	856,973	1,221,600
Ordinary loans from abroad		
Related banks (b)	5,781,100	4,384,900
Other banks (c)	3,447,717	3,443,660
	10,085,790	**9,050,160**
Interest payable	35,718	35,876
	10,121,508	**9,086,036**
Securities and obligations (d)	2,269,683	2,249,187
	12,391,191	**11,335,223**

(a) Corporación Financiera de Desarrollo S.A. (COFIDE) credit lines 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 Constant Update Value (CUV) index.

As of September 30, 2019 and December 31, 2018, the Bank and CrediScotia maintain obligations with COFIDE for S/ 544,208 thousand and S/ 566,527 thousand, respectively, which are guaranteed by mortgage loan portfolio, as follows:

		09.30.2019		12.31.2018	
In thousands of	**Currency**	**Net loans**	**Backed debt**	**Net loans**	**Backed debt**
Detail					
Mortgage loans- MiVivienda (*)	Soles	535,846	509,833	550,592	524,794
Mortgage loans- MiVivienda (*)	U.S. dollars	11,740	10,161	14,130	12,373

(*) 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 September 30, 2019 and December 31, 2018, another agreements for borrowing resources were agreed between the Bank and COFIDE for an amount of S/ 312,765 thousand and S/ 655,073 thousand, respectively, used to fund corporate and medium-business loans.

(b) As of September 30, 2019 and December 31, 2018, ordinary loans with related banks mainly include debts payable to Scotiabank Ltd. Bahamas for US$ 1,700,000 thousand, which accrue interest at annual rates ranging from 2.10% to 2.78% with maturities between November 2019 and October 2021 (US$ 1,300,000 thousand as of December 31, 2018, which accrue interest at annual rates ranging from 2.78% to 3.27% with maturities between April 2019 and January 2021).

These borrowings do not have collaterals nor compliance covenants.

(c) As of September 30, 2019, the Bank also holds borrowings and debts with other foreign banks for US$ 1,019,130 thousand (US$ 1,020,949 thousand as of December 31, 2018) which accrue interest at annual rates ranging from 2.37% to 3.22% (2.57% to 3.69% as of December 31, 2018). These transactions contain standard terms of compliance with financial ratios and other administrative matters, in management's opinion, those terms do not affect the Bank's operations and are being met.

As of September 30, 2019 and December 31, 2018, maturities of borrowings from banks and other financial entities were as follows:

In thousands of soles	**09.30.2019**	**12.31.2018**
Up to 1 month	815,352	1,140,106
From 1 to 3 months	2,376,679	1,122,298
From 3 to 6 months	29,746	1,083,834
From 6 to 12 months	1,557,464	1,549,642
More than 1 year	5,342,267	4,190,156
	10,121,508	**9,086,036**

(d) As of September 30, 2019, and December 31, 2018, the detail of securities and bonds is as follows:

In thousands of soles	**Annual interest**	**Maturity**	**09.30.2019**	**12.31.2018**
Issuance				
Redeemable subordinated bonds				
1st Issuance, single series (i)	4.50%	2027	1,353,200	1,349,200
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
			2,018,760	**2,014,760**
Corporate bonds (iv)				
1st Issuance A – 3rd Program	4.56%	2021	104,790	104,790
3rd Issuance B – 2nd Program	5.56%	2019	-	100,000
			104,790	**204,790**
Other debt instruments				
Negotiable certificates of deposits				
1st Issuance A – 5to Program - CSF	4.09%	2020	96,067	-
Negotiable certificates of deposits - SBP			14,213	15,468
			110,280	**15,468**
Interest payable and obligations			35,853	14,169
			2,269,683	**2,249,187**

(i) In December 2012, the Bank issued a single series of subordinated bonds in foreign currency for US$ 400,000 thousand, which under SBS Resolution 8093-2012, qualifies 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, the SBS authorized the issuance of the Scotiabank Peru's First Subordinated Bonds Program up to an amount of US$ 400,000 thousand or the equivalent in soles; these bonds qualifies as a tier 2 capital. In May 2015, the Bank issued 53,556 subordinated bonds in local currency with a face value of S/ 10,000 each and a term of 10 years from the 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 in local currency for S/ 130,000 thousand which, under SBS Resolution 4873-2012, qualifies 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 credit operations financing.

(iv) Correspond to corporate bonds issued by the Bank for S/ 204,790 thousand, with terms that range from 1 to 2 years and accrued interest rates that range from 4.56% to 5.56%. The proceeds were exclusively destined to financing of credit operations.

(v) As of September 30, 2019, Crediscotia issued Negotiable Deposit Certificates (Fifth Program-First Issue-Series A) for thousands of S / 96,067, maturing in June 2020, accrues interest at an annual rate of 4.09%.

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

As of September 30, 2019 and December 31, 2018 the maturities of issued securities are as follows:

In thousands of soles	**09.30.2019**	**12.31.2018**
Up to 3 months	32,153	7,900
From 3 to 6 months	2,667	106,269
From 6 to 12 months	103,500	13,421
Over 12 months	2,131,363	2,121,597
	2,269,683	**2,249,187**

During the nine month period ended in September 30, 2019 and 2018, interest expenses on borrowings and financial obligations of the Scotiabank Group amount to S/ 338,910 thousand and S/ 285,012 thousand, respectively (note 22).

17. Provisions and Other Liabilities

This caption comprises the following:

In thousands of soles	**09.30.2019**	**12.31.2018**
Accounts payable		
Repurchase agreements (a)	4,505,495	3,511,269
Other accounts payable	806,090	881,033
Short sale of investments	183,220	203,576
Remunerations and profit sharing payable	49,308	38,976
	5,544,113	**4,634,854**
Provisions		
Provision for contingent loans and country risk	120,578	110,317
Provisions for litigations and legal claims (b)	36,679	38,916
Provisions for various contingencies (c)	60,445	60,431
Other provisions (d)	163,436	113,947
	381,138	**323,611**
Other liabilities		
Transactions in progress (e)	647,145	1,247,778
Deferred income on portfolio sale and other	39,259	44,563
	686,404	**1,292,341**
	6,611,655	**6,250,806**

(a) Corresponds to balances of obligations for foreign currency purchase transactions and negotiable deposits issued by BCRP both with commitments of repurchase made with BCRP (note 5(c) and 6(d)). As of September 30, 2019, these transactions accrued interest ranging from 3.25% to 4.45% (3.35% to 5.75% as of December 31, 2018). Likewise, as of September 30, 2019 the maturities of these transactions fluctuate between October 2019 and July 2020 (between January 2019 and December 2019, as of December 31, 2018).

(b) As of September 30, 2019 and December 31, 2018, the Scotiabank Group has legal actions underway, which are related to civil and labor claims, among others. These legal actions resulted from activities and operations performed during the normal course of each entity of the Scotiabank Group; it is not anticipated they will have a significant impact on operations or results.

(c) As of September 30, 2019, this account mainly comprises reversals or recoveries of provisions recorded in prior years against equity accounts for S/ 60,430 thousand (S/ 60,411 thousand as of December 31, 2018) which, according to SBS Official Letter 23797-2003, shall be reallocated to deficits in other Bank's asset accounts.

(d) As of September 30, 2019, the balance of other provisions mainly includes: i) provisions for personnel expenses for S/ 132,654 thousand (S/ 85,344 thousand as of December 31, 2018); ii) provisions for marketing campaigns of liability products for S/ 5,749 thousand (S/ 8,577 thousand as of December 31, 2018), and iii) provisions related to credit and debit card transactions for S/ 23,982 thousand (S/ 18,523 thousand as of December 31, 2018).

(e) Transactions in progress are mainly those carried out during the last days of the month and are reclassified in the following month to their definitive accounts of the consolidated interim statement of financial position. These operations do not affect the results of Scotiabank Group. As of September 30, 2019, liability transactions in progress include mainly: i) S/ 434,168 thousand related to Treasury operations (S/ 1,045,306 thousand as of December 31, 2018), ii) S/ 51,544 thousand related to credit card transactions (S/ 101,615 thousand as of December 31, 2018) and iii) S/ 61,706 thousand corresponding to client deposits in transit (S/ 30,158 thousand as of December 31, 2018).

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 September 30, 2019, the regulatory capital of the companies amounts to S/ 9,209,168 thousand, S/ 1,017,118 thousand and S/ 202,943 thousand; respectively (Bank and CrediScotia amounts to S/ 8,752,458 thousand and S/ 914,757 thousand as of December 31, 2018, respectively).

As of September 30, 2019, credit risk weighted assets and indirect loans determined by the Bank, CrediScotia and CRAC according to the legislation applicable to financial institutions amount to S/ 58,951,204 thousand, S/ 5,113,575 thousand and S/ 960,453 thousand, respectively (Bank and CrediScotia amount to S/ 55,505,425 thousand and S/ 4,862,133 thousand as of December 31, 2018, respectively).

Pursuant to the delegation conferred by the Board of Directors approved the commit on capitalizations of year 2019 profits, with the purpose that these can be included in the calculation of the regulatory capital of the Bank. In that sense, in August 23, 2019, the Board approved the commitment to capitalize the results for the year 2019 for a total of S/ 504,000 thousand.

The Shareholders' Meeting, held on March 25, 2019, the Shareholders' approved to capitalize the results of the year 2018 for a total of S/ 640,325 thousand, which S/ 171,325 thousand was approved in the Board held and S/ 469,000 thousand for the capitalization of retained earnings of year 2018.

As of September 30, 2019 and December 31, 2018, 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 risk weighted credit related assets and indirect loans. As of September 30, 2019, the regulatory capital of the Bank, CrediScotia and CRAC represents 14.40%; 18.05% and 16.88% respectively, of the minimum capital requirements per market, operational and credit risk (14.64% and 17.43% for the Bank and CrediScotia, respectively as of December 31, 2018).

Likewise, by means of Resolution 2115-2009, the SBS approved the Regulation for the Regulatory Capital for Operational Risk. As of September 30, 2019 and December 31, 2018, the Bank and CrediScotia have applied the alternative standard method for the calculation of the regulatory capital requirement for operational risk. Ask of September 30, 2019, CRAC applies the basic indicator method.

By means of Official Letter 17024-2016-SBS and 17016-2016-SBS, SBS authorized the Bank and CrediScotia, respectively, to use the alternative standard method for the calculation of the regulatory capital requirement for operational risk. It also established that the Bank and CrediScotia shall apply an additional regulatory capital to the one calculated using the alternative standard method, which shall be equivalent to 25% of the difference between the requirements calculated using the basic indicator method and the alternative standard method, from April 2016 to March 2017; and, equivalent to 50% of the difference, from April 2017 to March 2018. By means of SBS Resolution 1889-2018 and 1890-2018 issued on May 9, 2018, SBS extended the application period for the Bank and CrediScotia until September 2019. By means of SBS resolution 41425-2019 and 41426-2019 issued on October 24, 2019, the SBS authorizes the Bank and CrediScotia to use the alternative standard method for calculating the requirement of effective equity for operational risk up to 30 September 2021.

Finally, by means of SBS Resolution 8425-2011 and its amendments, the SBS approved the methodology for the calculation of additional regulatory capital requirement, which establishes that this requirement shall be equal to the sum of the regulatory capital requirements, calculated for each of the following components: i) economic cycle, ii) concentration risk, iii) market risk concentration, iv) interest rate risk in the banking books, and v) other risks. As of September 30, 2019, additional regulatory capital of the Bank, CrediScotia and CRAC amounted to S/ 1,289,410 thousand; S/ 158,373 thousand and S/ 42,591 thousand, respectively (Bank and CrediScotia S/ 1,244,553 thousand and S/ 152,363 thousand, as of December 31, 2018 respectively).

B. Share capital

As of September 30, 2019 the Bank's share capital authorized, subscribed and paid comprises 676,327,282 common shares (612,294,780 common shares as of December 31, 2018). All shares have voting rights and a par value of S/ 10.00 each. As of September 30, 2019 and December 31,2018, the quotation value of common shares of the Bank was S/ 36.00 and S/ 31.50 per share, respectively.

Pursuant to the delegation conferred by the General Shareholders' Meeting held on March 25, 2019, the Board of Directors approved the increase of share capital arising from the capitalization of year 2018 retained earnings for S/ 640,325 thousand. As a result of such capitalization, the share capital increased to S/ 6,763,271 thousand and is represented by 676,327,282 common shares with a par value of S/ 10.00 each as of September 30, 2019.

Pursuant to the delegation conferred by the General Shareholders' Meeting held on March 21, 2018, the Board of Directors approved the increase of share capital arising from the capitalization of year 2017 retained earnings for S/ 488,408 thousand. As a result of such capitalization, the share capital increased to S/ 6,122,942 thousand and is represented by 612,294,780 common shares with a par value of S/ 10.00 each as of September 30, 2018.

Shareholding on the Bank's share capital as of September 30, 2019 and December 31, 2018, is as follows:

	09.30.2019		12.31.2018	
%	**Number of shareholders**	**%**	**Number of shareholders**	**%**
From 0.01 to 1	1,353	1.95	1,413	1.95
From 1.01 to 50	-	-	2	42.73
From 50.01 to 100	1	98.05	1	55.32
	1,354	**100.00**	**1,416**	**100.00**

Under the Banking Law, as of September 30, 2019, the share capital is required to reach the minimum amount of S/ 27,393 thousand (S/ 27,297 thousand as of December 31, 2018), at constant value. This amount is annually updated at the closing date of every fiscal year, based on the wholesale price index (WPI), as published by the Instituto Nacional de Estadística e Informática (National Institute of Statistics).

C. Additional paid-in capital

This caption comprises the following:

In thousands of soles	**09.30.2019**	**12.31.2018**
Issuance premium	393,159	393,159
Gain on treasury shares	1,304	1,304
	394,463	**394,463**

As of September 30, 2019 and December 31, 2018, the Bank holds 212 and 195 treasury shares, respectively.

D. Legal reserve

In accordance with the Banking Law, the Bank is required to have a legal reserve of at least 35% of its share capital. This reserve is created by an annual transfer of no less than 10% of after-tax profits, and supersedes the reserve referred to in the 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.

General Shareholders' Meeting, held on March 25, 2019 and March 21, 2018, applied to legal reserve an amount of S/ 128,065 thousand and S/ 122,102 thousand corresponding to 10% of net profit for the year 2018 and 2017.

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. Cash dividends payment for S/ 512,260 thousand. 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. Remaining as capitalization, amounting to S/ 640,325 thousand, it is in legal process of share subscription agreement.

General Shareholders' Meeting, held on March 21, 2018, the distribution of 2017 net profit for a total of S/ 1,221,021 thousand was approved, as follows:

i. Cash dividends payment for S/ 610,510 thousand. Such payment was made between May, June and July 2018.
ii. Allocate 10% of net profit, amounting to S/ 122,102 thousand, to increase the legal reserve.
iii. Remaining balance, amounting to S/ 488,408 thousand, shall be held in 'retained earnings'.

F. Other comprehensive income

As of September 30, 2019 and December 31, 2018, it mainly includes unrealized gains and losses of available-for-sale investments and share in other comprehensive income of associates, net of its deferred income tax effect.

19. Contingencies

Scotiabank Group has several pending legal claims related to their 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 Scotiabank Group. Therefore, management considers that no additional provision is necessary for these contingencies (note 17(b)).

20. Risks and Contingent 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 risk, 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 comply with the agreed terms.

The related contracts consider the amounts that the Bank, CrediScotia and CRAC would assume for credit losses in contingent transactions. The Bank, CrediScotia and CRAC apply similar credit policies when evaluating and granting direct loans and contingent 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 letter of credit issued, guarantees and letters of guarantee are contingent commitments issued by the Bank, CrediScotia and CRAC to guarantee a customer’s obligation before a third party.

As of September 30, 2019 and December 31, 2018, the contingent accounts comprise the following:

In thousands of soles	***Note***	**09.30.2019**	**12.31.2018**
Indirect loans	*8*		
Guarantees and stand by letters of guarantee		8,790,726	8,556,038
Issued letters of credit		652,848	655,145
Outstanding bank acceptances		140,183	108,841
		9,583,757	**9,320,024**
Other contingent commitments			
Unused credit lines		46,927,978	27,054,802
Financial derivative instruments		15,308,964	12,992,503
		71,820,699	**49,367,329**

21. Interest Income

This caption comprises the following:

In thousands of soles	***Note***	**09.30.2019**	**09.30.2018**
Direct loan portfolio		4,022,147	3,534,241
Cash and due from banks	*6(d)*	130,267	32,674
Available-for-sale investments	*7*	123,979	95,510
Investments at FVTPL	*7*	4,849	5,314
Interbank funds		2,822	4,159
Other finance income		2,929	3,771
		4,286,993	**3,675,669**

22. Interest Expenses

This caption comprises the following:

In thousands of soles	***Note***	**09.30.2019**	**09.30.2018**
Deposits and obligations		621,175	468,333
Borrowings and debts	*16*	338,910	285,012
Repurchase agreements		68,202	55,003
Commissions on borrowings and debts		12,394	14,979
Deposits with financial institutions		7,157	2,624
Interbank funds		5,875	5,638
		1,053,713	**831,589**

23. Financial Service Income, Net

This caption comprises the following:

In thousands of soles	09.30.2019	09.30.2018
Income		
Income from commissions from collections services	219,103	156,814
Other fees and commissions from banking services	117,849	115,006
Income from services and maintenance of liability transactions and transfer fees	75,014	70,937
Income from portfolio recovery	53,607	51,650
Income from remunerations of mutual funds and redemption fees	40,203	37,493
Income from structuring and administration services	31,875	47,324
Income from teleprocessing services	27,544	26,550
Income from commissions and brokerage services stock exchange	4,875	4,776
Other sundry income	301,135	269,846
	871,205	**780,396**
Expenses		
Credit / debit card expenses	(125,593)	(90,053)
Deposit insurance fund premiums	(37,568)	(34,525)
Insurance services expenses	(4,501)	(4,153)
Other sundry expenses	(201,717)	(180,842)
	(369,379)	**(309,573)**
	501,826	**470,823**

24. Income from Financial Transactions

This caption comprises the following:

In thousands of soles	***Note***	09.30.2019	09.30.2018
Net gain on foreign exchange	*5*	248,219	171,951
Gains on valuation of available-for-sale investments		131,544	20,115
Gain (loss) on valuation of investments at FVTPL		19,069	(3,239)
Gain on associates		14,334	10,865
Dividends received from available-for-sale investments		1,697	1,351
(Loss) gain of valuation of held-for-trading instruments	*9*	(5,319)	35,834
Others, net		131	756
		409,675	**237,633**

25. Administrative Expenses

This caption comprises the following:

In thousands of soles	09.30.2019	09.30.2018
Personnel and board of directors expenses	736,753	663,521
Third party services expenses	633,944	531,912
Taxes and contributions	63,501	63,459
	1,434,198	**1,258,892**

26. Other Income, Net

This caption comprises the following:

In thousands of soles	**09.30.2019**	**09.30.2018**
Sale of non-financial services	12,116	6,400
Gain (loss) on sale of property, furniture, and equipment	6,028	4,556
Net profit on sale of repossessed assets to third parties	3,739	6,787
Leasing of own goods	2,073	1,702
Reimbursements and recoveries	1,245	148
Other expenses, net	(19,767)	15,901
	5,434	**35,494**

27. Tax Matters

Consolidated

A. Tax income is determined individually and not consolidated. According to the tax legislation in force in Peru, Income tax is settle based on statutory financial statements and additions, deductions and tax losses established.

Income tax legislation

B. Scotiabank Group is subject to the Peruvian tax legislation. As of September 30, 2019 and December 31, 2018, 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%.

CRAC has an agreement of legal stability with The Peruvian State signed in May 21st, 2012, which has a validity for 10 years from the subscription's date agreement. In this sense, the tax rate applicable for CRAC is 30%.

The modification of 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 distribution of dividends 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 legislation, non-domiciled individuals only pay taxes for its Peruvian source income. In general terms, revenues 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. 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 applicable if provisions of current double tax treaties are applied.

Income tax determination

D. Scotiabank Group computed its taxable base for the current nine month period ended in September 30, 2019 and 2018, and determined income tax of S/ 365,686 thousand and S/ 357,930 thousand, respectively.

The current tax of the Scotiabank Group has been determined as of September 30, 2019 and 2018 as follows:

In thousands of soles	**09.30.2019**	**09.30.2018**
Scotiabank Perú S.A.A.	266,047	288,585
CrediScotia Financiera S.A.	80,616	76,736
Scotia Fondos Sociedad Administradora de Fondos S.A.	9,491	8,245
CRAC CAT Perú S.A.	5,583	-
Servicios, Cobranzas e Inversiones S.A.	4,882	2,838
Scotia Sociedad Agente de Bolsa S.A.	288	31
Scotia Sociedad Titulizadora S.A.	227	285
	367,134	**376,720**

Income tax expense comprises:

In thousands of soles	**09.30.2019**	**09.30.2018**
Current income tax		
Current year	368,044	384,273
Previous year adjustment	(910)	(7,553)
	367,134	**376,720**
Deferred tax	(1,448)	(18,790)
Net income tax expense	**365,686**	**357,930**

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

In thousands of soles	**09.30.2019**		**09.30.2018**	
Profit before taxes	**1,466,380**	**100.00%**	**1,326,123**	**100.00%**
Income tax (theoretical)	432,582	29.50%	391,206	29.50%
Tax effect on additions and deductions				
Permanent differences	(72,874)	(4.97%)	(32,928)	(2.48%)
Previous year deferred tax adjustment	6,888	0.47%.	7,205	0.54%
Previous year income tax adjustment	(910)	(0.06%))	(7,553)	(0.57%)
Current and deferred income tax recorded as per effective rate	**365,686**	**24.94%**	**357,930**	**26.99%**

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 closing of the taxable period 2009 (quotation value), acquisition cost, or increase in the equity value, as per procedure established in Supreme Decree 011-2010-EF.

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

Legislative Decree 1262 became effective on January 1, 2017, extending the exemption until December 31, 2019 and included new assumptions that shall also be exempted: i) Debt securities, 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. Scotiabank Group is subject to Temporary Tax on Net Assets whose taxable base is composed of the prior period adjusted net asset value less depreciations, amortizations, legal cash reserve, and specific provisions for credit risk. The tax rate is 0.4% for years 2019 and 2018 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 paid amount may be used as a credit against payments on account of Income Tax General Regime 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 (ITF) for fiscal periods 2019 and 2018 was fixed at the rate of 0.005%. This tax is applied on debits and credits in bank accounts or movements of 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 cero taxation shall be supported with documents and information on the valuation methods and the criteria used for their determination.

By means of Legislative Decree 1312, published on 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 or 750,000,000 euros. The latter two files are required for transactions corresponding to year 2017 onwards.

According to Tax Authorities' resolution 014-2018-SUNAT, published on January 18, 2018, 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 Local File for the year 2018 was presented in June 2019 according to the schedule of monthly tax obligations agreed for the tax period of May published by the Tax Authority.

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, the 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 to sales tax (IGV, for its Spanish acronym).

Tax assessment by tax authorities

I. 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 2018 are open for review by the Peruvian Tax Authorities.

As of the date of this report, the Tax Authorities completed the review on Bank's income tax, non-domiciled income tax return and transfer pricing for period 2013.

Following the open tax returns subject to audit and those which are being audited as of the date:

In thousands of soles	**Tax returns subject to audit**	**Tax returns being audited**
Scotiabank Perú S.A.A.	2015 to 2018	2014
CrediScotia Financiera S.A.	2012,2014 to 2018	-
Servicios, Cobranzas e Inversiones S.A.	2014 to 2018	2016
Scotia Fondos Sociedad Administradora de Fondos S.A.	2014 to 2018	-
Scotia Sociedad Agente de Bolsa S.A.	2014 to 2018	-
Scotia Sociedad Titulizadora S.A.	2014 to 2018	-
Crac CAT Perú S.A.	2015 to 2018	2014
Fideicomiso sobre Bienes Inmuebles – Depsa	2014 to 2018	-

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 by the Bank. In relation to years 2006 to 2010, the Bank has filed an appeal which is pending resolution by the Tax Court.

In January 2019, the Tax Authorities issued Tax Assessment and Fine Resolutions on the determination of income tax for fiscal year 2013, which has been challenged by the Bank. It is the opinion of Management and its legal advisors that these tax proceedings will not generate significant liabilities that may impact on the Bank's financial income.

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

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; therefore, any major tax, surcharges, and sanctions that might arise from eventual tax audits would be applied to income 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 Bank's financial statements as of September 30, 2019 and December 31, 2018.

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

Concerning CRAC, year 2012 was audited by the Tax Authority on fiscal year 2014 and 2015. CRAC has filed an appeal to the tax court. In 2016, the Tax Authority concluded at of the year 2013, did not generate significant contingencies.

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

J. New regulatory concept of accrual: Legislative Decre1425 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.

K. 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.

L. 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.

M. 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 be distributed the dividends from abroad.

28. Deferred Taxes

Deferred taxes have been calculated applying the liability method per each entity (note 4.P). The consolidated deferred tax asset as of September 30, 2019 and 2018 is mainly composed of:

In thousands of soles	Balances as of 01.01.18	(Debit) credit profit or loss	Balances as of 09.30.18	Balances as of 01.01.19	(Debit) credit profit or loss	Additions from the acquisition of subsidiary(Note 1.C.(iii))	Other Note 1.C	Balances as of 09.30.19
Generic provision for direct/indirect loans	201,809	14,280	216,089	219,953	13,366	2,059	-	235,378
Provision for accounts receivable	26,641	3,404	30,044	30,660	6,560	-	-	37,220
Provision for vacations	16,586	3,324	19,910	16,632	(2,783)	-	-	13,849
Provision for repossessed assets	13,327	1,975	15,302	7,653	1,358	424	-	9,435
Investment in subsidiaries	940	-	940	5,273	-	-	-	5,273
Finance lease operations, net	8,967	(7,967)	1,000	940	-	-	-	940
Provision for credit and debit card rewards	5,584	-	5,584	431	(296)	-	-	135
Intangible assets	(5,297)	3,094	(2,203)	(938)	(1,373)	35	(99,136)	(101,411)
Other	(12,730)	681	(12,049)	(19,776)	(15,384)	1,677	-	(33,483)
Deferred tax assets, net	**255,827**	**18,790**	**274,617**	**260,828**	**1,448**	**4,195**	**(99,136)**	**167,336**

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 Scotiabank Group's entities. This profit sharing is considered as a deductible expense for income tax calculation purposes. As of September 30, 2019, and 2018, it has determined legal employees' profit sharing for S/ 64,060 thousand and S/ 67,028 thousand, respectively, included under administrative expenses in the consolidated statement of profit or loss.

30. Trust Fund Activities

Scotiabank Group offers structuring and administration services of trust operations and trust fees, and are in charge of the preparation of agreements related to these operations. Assets held in trust are not included in the consolidated interim financial statements. 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 September 30, 2019, the allocated value of assets in trusts and trust fees amounts to S/ 5,216,248 thousand (S/ 4,599,751 thousand as of December 31, 2018).

31. Related Party Transactions

As of September 30, 2019 and December 31, 2018, the consolidated interim financial statements include transactions with related parties, which, as established by 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:

	09.30.2019					12.31.2018				
In thousands of soles	**Parent company**	**Related parties (i)**	**Associates**	**Key personnel & directors**	**Total**	**Parent company**	**Related parties (i)**	**Associates**	**Key personnel & directors**	**Total**
Assets										
Cash and due from banks	-	12,164	-	-	12,164	-	43,076	-	-	43,076
Loan portfolio, net	-	653,859	7,600	26,961	688,420	-	505,664	9,450	18,447	533,561
Held-for-trading instruments	-	41,531	-	-	41,531	-	20,921	-	-	20,921
Other assets, net	68	124,320	86,859	122	211,369	-	451,473	79,058	15	530,546
Total assets	**68**	**831,874**	**94,459**	**27,083**	**953,484**	**-**	**1,021,134**	**88,508**	**18,462**	**1,128,104**
Liabilities										
Deposits and obligations with financial institutions	2,156,294	711,503	17,847	20,256	2,905,900	1,175,823	418,135	43,267	22,072	1,659,297
Borrowings and debts	234,450	5,764,838	-	-	5,999,288	241,582	4,397,150	-	-	4,638,732
Held-for-trading instruments	-	72,028	-	-	72,028	-	76,979	-	-	76,979
Provisions and other liabilities	-	133,150	920	39	134,109	20	532,093	1,139	149	533,401
Total liabilities	**2,390,744**	**6,681,519**	**18,767**	**20,295**	**9,111,325**	**1,417,425**	**5,424,357**	**44,406**	**22,221**	**6,908,409**
Off-balance sheet accounts										
Contingent loans	-	273,220	47,253	-	320,473	-	588,502	72,300	-	660,802
Financial derivative instruments	-	8,733,350	-	-	8,733,350	-	7,635,708	-	-	7,635,708

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

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

	09.30.2019					09.30.2018				
In thousands of soles	Parent company	Related parties (i)	Associates	Key personnel & directors	Total	Parent company	Related parties (i)	Associates	Key personnel & directors	Total
Interest income	-	27,028	267	1,179	28,474	-	5,855	337	905	7,097
Interest expenses	(14,916)	(131,702)	(205)	(429)	(147,252)	(15,090)	(95,829)	(196)	(318)	(111,433)
	(14,916)	**(104,674)**	**62**	**750**	**(118,778)**	**(15,090)**	**(89,974)**	**141**	**587**	**(104,336)**
Income from finance services	11	4,880	523	183	5,597	18	2,624	506	147	3,295
Expenses on finance services	-	(64)	(15,303)	(25)	(15,392)	-	(2,753)	(11,137)	(22)	(13,912)
	11	**4,816**	**(14,780)**	**158**	**(9,795)**	**18**	**(129)**	**(10,631)**	**125**	**(10,617)**
Net results from financial transactions	-	(23,118)	14,334	-	(8,784)	-	(18,970)	10,865	-	(8,105)
Administrative expenses (ii)	-	(8,121)	(629)	(53)	(8,803)	-	(4,355)	(1,506)	(66)	(5,927)
Other income, net	-	6	6	-	12	-	(7)	-	(1)	(8)
Net profit	**(14,905)**	**(131,091)**	**(1,007)**	**855**	**(146,148)**	**(15,072)**	**(113,435)**	**(1,131)**	**645**	**(128,993)**

(i) Related parties include balances and transactions with 'other related parties' as defined by IAS 24.
(ii) It does not include personnel expenses.

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

In thousands of soles	09.30.2019	09.30.2018
Remuneration to key personnel	22,305	23,153
Remuneration to members of the Board of Directors	1,153	1,122
	23,458	**24,275**

As of September 30, 2019 and 2018 the remuneration pending to pay to key personnel amounted to S/ 5,740 thousand and S/ 6,493 thousand, respectively.

32. Classification of Financial Instruments

Management classifies its financial assets and liabilities into categories as described in note 3.B. As of September 30, 2019 and December 31, 2018 financial assets and financial liabilities are classified as follows:

		09.30.2019						
				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	-	16,364,866	-	-	-	-	16,364,866
Interbank funds		-	120,008	-	-	-	-	120,008
Investments at FVTPL								
Equity instruments	7	11,543	-	-	-	-	-	11,543
Debt instruments	7	191,633	-	-	-	-	-	191,633
Available-for-sale investments								
Equity instruments	7	-	-	7,434(c)	834	-	-	8,268
Debt instruments	7	-	-	-	5,214,401	-	-	5,214,401
Loan portfolio	8	-	50,042,390	-	-	-	-	50,042,390
Held-for-trading instruments	9	117,300	-	-	-	-	-	117,300
Accounts receivable	10	-	889,749	-	-	-	-	889,749
Other assets	14	-	398,014	-	-	-	-	398,014
		320,476	**67,815,027**	**7,434**	**5,215,235**	**-**	**-**	**73,358,172**
Liabilities								
Deposits and obligations and other obligations	15	-	-	-	-	-	46,883,460	46,883,460
Interbank funds		-	-	-	-	-	125,009	125,009
Deposits of financial entities and international financial entities	15	-	-	-	-	-	249,776	249,776
Borrowings and debts	16	-	-	-	-	12,391,191	-	12,391,191
Held-for-trading instruments	9	95,483	-	-	-	-	-	95,483
Accounts payable		-	-	-	-	-	5,504,903	5,504,903
Other liabilities	17	-	-	-	-	-	647,145	647,145
		95,483	**-**	**-**	**-**	**12,391,191**	**53,410,293**	**65,896,967**

(a) Including financial assets measured at cost.
(b) Including financial liabilities whose fair value correspond to carrying amounts as per Official Letter 43078-2014-SBS and Official Letter 1575-2015-SBS.
(c) Correspond to unlisted securities (note 7).

		12.31.2018						
				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*	-	10,566,031	-	-	-	-	10,566,031
Interbank funds		-	65,505	-	-	-	-	65,505
Investments at fair value through profit or loss								
Equity instruments	*7*	11,143	-	-	-	-	-	11,143
Debt instruments	*7*	272,720	-	-	-	-	-	272,720
Available-for-sale investments								
Equity instruments	*7*	-	-	7,428 (c)	666	-	-	8,094
Debt instruments	*7*	-	-	-	4,193,657	-	-	4,193,657
Loan portfolio	*8*	-	47,348,086	-	-	-	-	47,348,086
Held-for-trading instruments	*9*	99,071	-	-	-	-	-	99,071
Accounts receivable	*10*	-	1,095,094	-	-	-	-	1,095,094
Other assets	*14*	-	950,313	-	-	-	-	950,313
		382,934	**60,025,029**	**7,428**	**4,194,323**	**-**	**-**	**64,609,714**
Liabilities								
Deposits and obligations and other obligations	*15*	-	-	-	-	-	39,482,473	39,482,473
Interbank funds		-	-	-	-	-	438,233	438,233
Deposits of financial entities and international financial entities	*15*	-	-	-	-	-	468,620	468,620
Borrowings and financial obligations	*16*	-	-	-	-	11,335,223	-	11,335,223
Held-for-trading instruments	*9*	86,161	-	-	-	-	-	86,161
Accounts payable		-	-	-	-	-	4,538,221	4,538,221
Other liabilities	*17*	-	-	-	-	-	1,247,778	1,247,778
		86,161	**-**	**-**	**-**	**11,335,223**	**46,175,325**	**57,596,709**

(a) Including financial assets measured at cost.

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

(c) Correspond to 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 September 30, 2019 and December 31, 2018, 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 September 30, 2019 and December 31, 2018, the net asset and net liability in the consolidated statement of financial position in foreign currency amounted to US$ 126,463 thousand and US$ 938 thousand, respectively (note 5).

As of September 30, 2019, global position of overbought in the Bank amounted to S/ 302,978 thousand (S/ 340,648 thousand as of December 31, 2018).

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 September 30, 2019, the Bank's ratios in local and foreign currencies were 19.72% and 51.63%, respectively (15.47% and 43.44%, respectively as of December 31, 2018).

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 September 30, 2019, CrediScotia ratios in local and foreign currencies were 18.56% and 113.07%, respectively (21.17% and 188%, respectively as of December 31, 2018).

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 September 30, 2019, the minimum amount required by the regulator was 90% and the Bank presented comfortable levels of liquidity reaching 125.34% in local currency and 129.44% in foreign currency (104.99% in local currency and 106.86% in foreign currency as of December 31, 2018).

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 2019, as in previous years, the 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 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; Risk assessment of new initiatives and/or significant changes.
(e) Third Party Risk Management, among others.

- ***Operational risk loss event methodology***

  The Scotiabank Group follows up relevant data of operational risk losses relevant for the Business Line, in accordance with the Basel loss event types. Losses are reported by Operational Risk Managers (ORM) designated in the various decentralized and specialized units of the Bank and identified in the accounting books. These losses are included in loss event data base for operational risk. This database is used to determine trends, conduct analysis, identify and mitigate risks, and prepare reports of operational risk losses intended for Senior Management and the Board of Directors.

  Loss data collection exercise ensures consistent management across the Scotiabank Group which allows classifying loss event data per line of business, type of event and effect type, as per Basel definitions and according to the Regulations for Operational Risk Management' approved by the local regulator.

  Losses are also classified by significant internal units and types of risk, according to the Scotiabank Group's standard inventory of operational risks.

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

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.

- ***KRI methodology***

The 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 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.

- ***Business Continuity Management – BCM***

The Bank and CrediScotia have 85 and 16 current and deployed Business Continuity Plans (BCPs) in its Vice chairs and/or main management areas, subsidiaries and special agencies.

In March, August and September 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 2018, 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 October 2019, we executed one test of the Crisis Management Plan. The scenario of the exercise, Cyber attack to banks (ransomware). 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.

- ***Operational Risk and Controls Assessment methodology: Risk Control 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 2018, methodological improvements were incorporated in order to strengthen the risk assessment program and local controls. During this year, 69 matrix of the Bank and 23 of CrediScotia were carried out.

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

- ***Risk assessment methodology of new initiatives and/or significant changes, among others***

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

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

- ***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, including CrediScotia Financiera.

- **Training and awareness**
  Throughout 2018, training on Technological and Operational Risk and Business Continuity has been provided to personnel of agencies, business officers, specialized units (including control functions). ORM and new staff joining the Scotiabank Group.

34. Fair Value

The table below shows a comparison of carrying amounts and fair values of the Scotiabank Group's financial instruments per item in the consolidated statement of financial position as of September 30, 2019 and December 31, 2018:

	Carrying amount		Fair value	
In thousands of soles	**09.30.2019**	**12.31.2018**	**09.30.2019**	**12.31.2018**
Assets				
Cash and due from banks	16,364,866	10,566,031	16,364,866	10,566,031
Interbank funds	120,008	65,505	120,008	65,505
Investments at FVTPL				
Capital instruments	11,543	11,143	11,543	11,143
Debt instruments	191,633	272,720	191,569	272,613
Available-for-sale investments				
Instruments representing capital	8,268	8,094	8,268	8,094
Instruments representing debt	5,214,401	4,193,657	5,169,326	4,193,279
Loan portfolio	50,042,390	47,348,086	50,042,390	47,348,086
Held-for-trading investments	117,300	99,071	117,300	99,071
Accounts receivable	889,749	1,095,094	889,749	1,095,094
Other assets	398,014	950,313	398,014	950,313
	73,358,172	**64,609,714**	**73,313,033**	**64,609,229**

	Carrying amount		Fair value	
In thousands of soles	**09.30.2019**	**12.31.2018**	**09.30.2019**	**12.31.2018**
Liabilities				
Deposits and obligations	46,883,460	39,482,473	46,883,460	39,482,473
Interbank funds	125,009	438,233	125,009	438,233
Deposits of financial entities and international financial entities	249,776	468,620	249,776	468,620
Borrowings and debts	12,391,191	11,335,223	12,457,549	11,352,866
Held-for-trading investments	95,483	86,161	95,483	86,161
Accounts payable	5,504,903	4,538,221	5,452,843	4,521,023
Other liabilities	647,144	1,247,778	647,144	1,247,778
	65,896,966	**57,596,709**	**65,911,264**	**57,597,154**

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

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

When a price quotation is not available, or may not be a reliable fair value of a financial instrument, its fair value could be estimated based on price quotation similar instruments, using discounted cash flow analysis or other estimating techniques. Since these techniques are based on subjective factors and, in some cases, on inexact factors, any change in them or in the estimation methodology used could have a material effect on the fair values of financial instruments. Even though management has used its best judgment in estimating the fair values of these financial instruments, a fair value is not an indication of net realizable gain or liquidation value.

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

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 value.
iii. Available-for-sale investments are generally listed or have a market value through future discounted cash flows.
iv. Market values of loan portfolio are the same as the carrying amount.
v. Market values of deposits and obligations are the same as the carrying amount.
vi. Debts to banks and correspondent banks accrue interest at fixed and floating rates and have short- and long- term maturities. The fair value of these financial instruments has been calculated using discounted cash flows considering the funding curve.
vii. Securities, bonds and obligations issued accrue interest at fixed rates. The fair value of these financial instruments has been calculated using discounted cash flows considering the same methodology of item (f).
viii. Forward foreign currency agreements are recorded at estimated market value; therefore there are no differences with their corresponding fair values.

Consequently, as of September 30, 2018 and December 31, 2018, fair or estimated market values of the 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 applied. This classification has three levels as described below:

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

Level 2: Valuation techniques that use significant inputs data and variables with material effect on fair value estimate that are directly or indirectly observable in the market.

Level 3: Valuation technique, where some of the inputs and variables are not observable in the market.

The table below shows the valuation levels applied as of September 30, 2019 and December 31, 2018, to determine the fair value of financial instruments:

In thousands of soles	Level 1	Level 2	Level 3	Total
2019				
Assets				
Investments at FVTPL				
Instruments representing capital	-	11,543	-	11,543
Instruments representing debt	-	191,633	-	191,633
Available-for-sale investments				
Instruments representing capital	-	834	7,434	8,268
Instruments representing debt	-	5,214,401	-	5,214,401
Held-for-trading instruments	-	117,300	-	117,300
	-	**5,535,711**	**7,434**	**5,543,145**
Liabilities				
Held-for-trading instruments	-	95,483	-	95,483
	-	**95,483**	**-**	**95,483**
2018				
Assets				
Investments at FVTPL				
Instruments representing capital	-	11,143	-	11,143
Instruments representing debt	-	272,613	-	272,613
Available-for-sale investments				
Instruments representing capital	-	666	7,428	8,094
Instruments representing debt	-	4,193,279	-	4,193,279
Held-for-trading instruments	-	99,071	-	99,071
	-	**4,576,772**	**7,428**	**4,584,200**
Liabilities				
Held-for-trading instruments	-	86,161	-	86,161
	-	**86,161**	**-**	**86,161**

FS CONSOLIDADO SBP SAA 3Q 2019

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