Scotiabank Perú S.A.A. and Subsidiaries

Consolidated Financial Statements

December 31, 2019 and 2018

(including Independent Auditors' Report)

(TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH)

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(TRANSLATION OF A REPORT ORIGINALLY ISSUED IN SPANISH)

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Scotiabank Peru S.A.A. (a subsidiary of Bank of Nova Scotia – BNS, an entity incorporated in Canada) and Subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2019 and 2018, and the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the consolidated financial position of Scotiabank Peru S.A.A. and Subsidiaries as of December 31, 2019 and 2018, their financial performance and their consolidated cash flows for the years then ended, in accordance with accounting standards established for financial institutions in Peru by the SBS.

Lima, Peru

Caipo y Asociados

February 18, 2020

Countersigned by:

Gloria Gennell O. (Partner)
Peruvian Certified Public Accountant
Registration 01-27725

Scotiabank Perú S.A.A. and Subsidiaries

Consolidated Financial Statements

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(Translation of Consolidated Financial Statements Originally Issued In Spanish)

Scotiabank Perú S.A.A. and Subsidiaries
Consolidated Statement of Financial Position
As of December 31, 2019 and 2018

In thousands of soles	**Note**	**2019**	**2018**
Assets			
Cash and due from banks	*6*		
Cash		1,413,879	1,151,651
Deposits with Central Reserve Bank of Peru		9,657,121	7,429,609
Deposits with local and foreign banks		158,622	276,848
Clearing		28,452	59,264
Restricted cash and due from banks and others		3,814,133	1,648,659
		15,072,207	**10,566,031**
Interbank funds		38,002	65,505
Investments at fair value through profit or loss and available-for- sale investments	*7*	6,412,104	4,485,614
Loan portfolio, net	*8*	51,289,356	47,348,086
Held-for-trading and hedging instruments	*9*	158,148	99,071
Accounts receivable, net	*10*	1,155,740	1,791,354
Investments in associates		79,897	69,098
Goodwill	*11*	570,664	570,664
Property, furniture and equipment, net	*12*	362,427	353,042
Deferred tax	*28*	169,513	260,828
Intangible assets, net	*13*	404,329	69,475
Other assets, net	*14*	602,431	1,194,173
Total assets		**76,314,818**	**66,872,941**
Contingent risks and commitments	*20*	70,358,389	49,367,329

In thousands of soles	**Note**	**2019**	**2018**
Liabilities			
Deposits and obligations with financial institutions	*15*		
Demand deposits		16,990,769	12,919,107
Savings accounts		10,624,076	9,662,806
Time deposits		16,430,886	16,565,637
Other obligations		717,161	803,543
		44,762,892	**39,951,093**
Interbank funds		362,422	438,233
Borrowings and debts	*16*	12,680,874	11,335,223
Held-for-trading and hedging instruments	*9*	129,701	86,161
Provisions and other liabilities	*17*	8,480,749	6,250,806
Total liabilities		**66,416,638**	**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 gains and losses		13,105	(19,796)
Retained earnings		1,413,709	1,231,070
Equity attributable to shareholders of Scotiabank Perú S.A.A.		**9,795,355**	**8,811,425**
Non-controlling interests	*2*	**102,825**	**-**
Total equity		**9,898,180**	**8,811,425**
Total liabilities and equity		**76,314,818**	**66,872,941**
Contingent risks and commitments	*20*	70,358,389	49,367,329

The accompanying notes on pages 6 to 91 are part of these consolidated financial statements.

Scotiabank Perú S.A.A. and Subsidiaries
Consolidated Statement of Profit or Loss
For the years ended December 31, 2019 and 2018

In thousands of soles	*Note*	2019	2018
Interest income	*21*	5,787,493	4,967,894
Interest expenses	*22*	(1,390,884)	(1,140,873)
Gross profit margin		**4,396,609**	**3,827,021**
Provision for loan losses, net of recoveries	*8(c)*	(1,530,673)	(1,225,929)
Net profit margin		**2,865,936**	**2,601,092**
Financial service income, net	*23*	685,374	646,258
Net profit margin of financial service income and expenses		**3,551,310**	**3,247,350**
Income from financial transactions	*24*	526,551	300,948
Operating margin		**4,077,861**	**3,548,298**
Administrative expenses	*25*	(1,963,869)	(1,693,453)
Depreciation of property, furniture and equipment	*12*	(59,476)	(60,317)
Amortization of intangible assets	*13*	(39,185)	(14,704)
Net operating margin		**2,015,331**	**1,779,824**
Provisions for realizable, received as payment, recovered and obsolete assets		(35,211)	(23,430)
Net provisions for indirect loan losses, impairment loss on other accounts receivable, and others		(33,230)	(37,135)
Operating income		**1,946,890**	**1,719,259**
Other income, net	*26*	11,457	37,108
Net profit before tax		**1,958,347**	**1,756,367**
Deferred tax	*28*	3,624	5,001
Current tax	*27.D*	(489,447)	(484,681)
Net profit		**1,472,524**	**1,276,687**
Profit or loss attributable to:			
Shareholders of Scotiabank Perú S.A.A.		1,463,272	1,276,687
Non-controlling interests	*2*	9,252	-
		1,472,524	**1,276,687**

The accompanying notes on pages 6 to 91 are part of these consolidated financial statements.

Scotiabank Perú S.A.A. and Subsidiaries
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the years ended December 31, 2019 and 2018

In thousands of soles	***Note***	**2019**	**2018**
Net profit		1,472,524	1,276,687
Other comprehensive income			
Net loss on available-for-sale investments	*18.F*	37,144	(50,754)
Adjustments to other comprehensive income of associates	*18.F*	(10)	228
Cash flow hedge	*9.B*	(4,227)	7,140
Other comprehensive income for the year, net of income tax		**32,907**	**(43,386)**
Total comprehensive income for the year		**1,505,431**	**1,233,301**
Other comprehensive income attributable to:			
Shareholders of Scotiabank Perú S.A.A.		1,496,173	1,233,301
Non-controlling interests	*2*	9,258	-
		1,505,431	**1,233,301**

The accompanying notes on pages 6 to 91 are part of these consolidated financial statements.

Scotiabank Perú S.A.A. and Subsidiaries
Consolidated Statement of Changes in Equity
For the years ended December 31, 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 gains and losses (note 18.F)**	**Retained earnings (note 18.E)**	**Total**	**Non-controlling interest**	**Total equity**
Balance as of January 1, 2018	563,453,942	5,634,538	394,463	960,640	23,591	1,175,383	8,188,615	-	8,188,615
Net profit	-	-	-	-	-	1,276,687	1,276,687	-	1,276,687
Other comprehensive income:									
Net unrealized loss on available-for-sale investments	-	-	-	-	(50,754)	-	(50,754)	-	(50,754)
Cash flow hedge	-	-	-	-	7,140	-	7,140	-	7,140
Adjustments to other comprehensive income of associates	-	-	-	-	228	-	228	-	228
Total comprehensive income	**-**	**-**	**-**	**-**	**(43,386)**	**1,276,687**	**1,233,301**	**-**	**1,233,301**
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	-	-	-	-	(1)	20	19	-	19
Balance as of December 31, 2018	**612,294,780**	**6,122,946**	**394,463**	**1,082,742**	**(19,796)**	**1,231,070**	**8,811,425**	**-**	**8,811,425**
Net profit	-	-	-	-	-	1,463,272	1,463,272	9,252	1,472,524
Other comprehensive income:									
Net unrealized gain on available-for-sale investments	-	-	-	-	37,138	-	37,138	6	37,144
Cash flow hedge	-	-	-	-	(4,227)	-	(4,227)	-	(4,227)
Adjustments to other comprehensive income of associates	-	-	-	-	(10)	-	(10)	-	(10)
Total comprehensive income	**-**	**-**	**-**	**-**	**32,901**	**1,463,272**	**1,496,173**	**9,258**	**1,505,431**
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	-	-	-	-	-	-	-	93,567	93,567
Other adjustments	-	-	-	-	-	17	17	-	17
Balance as of December 31, 2019	**676,327,282**	**6,763,271**	**394,463**	**1,210,807**	**13,105**	**1,413,709**	**9,795,355**	**102,825**	**9,898,180**

The accompanying notes on pages 6 to 91 are part of these consolidated financial statements.

Scotiabank Perú S.A.A. and Subsidiaries
Consolidated Statement of Cash Flows
For the years ended December 31, 2019 and 2018

In thousands of soles	*Note*	2019	2018
Cash flows from operating activities			
Net profit		1,472,524	1,276,687
Adjustments to reconcile net profit to cash used in operating activities			
Provision for loan losses, net of recoveries	*8(c)*	1,530,673	1,225,929
Provision for realizable, repossessed and other assets, net		35,211	23,430
Provision for accounts receivable, net		17,781	14,044
Depreciation and amortization		98,661	75,021
Provision for fringe benefits		54,138	48,473
Provision for current and deferred tax	*27.D, 28*	485,823	479,680
Provision for indirect loan losses and country risk, net of recoveries		12,508	15,598
Other provisions		80,170	(29,200)
Gain on sale of property, furniture and equipment		(6,195)	(6,792)
Gain on sale of realizable and repossessed assets		(4,716)	(7,000)
Net changes in assets and liabilities:			
Loan portfolio		(4,739,858)	(5,977,543)
Investments at fair value through profit or loss		(133,501)	285,959
Available-for-sale investments		(1,757,689)	580,044
Accounts receivable		591,838	(577,800)
Other assets		594,511	(865,352)
Non-subordinated financial liabilities		5,304,241	3,967,259
Accounts payable		575,388	888,970
Provisions and other liabilities		(800,339)	886,341
Cash generated from operating activities		**3,411,169**	**2,303,748**
Income tax paid		(294,040)	(224,931)
Net cash from operating activities		**3,117,129**	**2,078,817**
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		(117,588)	-
Dividends received		4,520	5,079
Acquisition of property, furniture and equipment	*12*	(71,020)	(38,180)
Acquisition of intangible assets		(42,205)	(32,753)
Sale of property, furniture and equipment		11,835	12,368
Sale of investments in associates		-	9,777
Net cash used in investing activities		**(214,458)**	**(43,709)**
Cash flows from financing activities			
Dividends paid	*18.E*	(512,260)	(610,510)
Net cash used financing activities		**(512,260)**	**(610,510)**
Net increase in cash and cash equivalents before effects of exchange rate fluctuations		2,390,411	1,424,598
Effects of exchange rate fluctuations on cash and cash equivalents		**(76,832)**	**37,249**
Net increase in cash and cash equivalents		2,313,579	1,461,847
Cash and cash equivalents at the beginning of period		**8,988,943**	**7,527,096**
Cash and cash equivalents at the end of period		**11,302,522**	**8,988,943**
Non-cash transactions			
Capitalization of retained earnings		640,325	488,408
BCRP repurchase agreements		7,031,071	3,511,269

The accompanying notes on pages 6 to 91 are part of these consolidated financial statements.

1. Background and Economic Activity

A. Background

Scotiabank Perú S.A.A. (hereinafter the Bank) is a subsidiary of the Bank of Nova Scotia – BNS (a financial institution incorporated in Canada), which directly and indirectly owns 98.05% of the Bank's share capital as of December 31, 2019 and 2018. Up to May 31, 2019, the direct interests of BNS in the Bank's share capital Bank were 2.32% and its indirect interests, through NW Holdings Ltd. (hereinafter the NWH) and Scotia Perú Holdings S.A. (hereinafter the SPH), were 55.32% and 40.41%, respectively.

On June 1, 2019, the increase in interests of the SPH in the Bank's share capital from 40.41% to 95.73% became effective as a result of the merger by absorption with NWH and Scotia South America S.A. (a subsidiary of the BNS). This transaction was approved by the General Shareholders' Meeting of the SPH on June 11, 2018 and authorized by the SBS through SBS Resolution 1285-2019, dated March 27, 2019. Also, on June 26, 2019, the BNS transferred its shares in the Bank of 2.32% to the SPH. As a result of these transactions, as of December 31, 2019, the SPH holds 98.05% of direct interests in the Bank's share capital.

B. Economic activity

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

The Bank's registered office is Av. Dionisio Derteano N° 102, San Isidro, Lima, Peru. As of December 31, 2019, the Scotiabank Group operates through a national network of 441 branches (365 branches as of December 31, 2018).

As of December 31, 2019 and 2018, the accompanying consolidated financial statements include the consolidated financial statements of the Bank and other entities of the consolidated group (hereinafter the Scotiabank Group), such as: CrediScotia Financiera S.A. (hereinafter the CrediScotia), which is engaged in intermediation transactions for the micro-business and consumer goods sectors; Servicios, Cobranzas e Inversiones S.A.C. (hereinafter the SCI), which is engaged in collections and address verification, among other activities; Scotia Sociedad Agente de Bolsa S.A. (hereinafter the SAB), which is engaged in intermediation activities in the Peruvian securities market; Scotia Fondos Sociedad Administradora de Fondos Mutuos S.A. (hereinafter the SAF), which is engaged in mutual funds management; Scotia Sociedad Titulizadora S.A. (hereinafter the Titulizadora), which is engaged in trusts management; Caja Rural de Ahorro y Crédito CAT Perú S.A. (hereinafter the CRAC), which was acquired on March 1, 2019 and is engaged in credit and debit card issuance and management; and special purpose entities called the Fideicomiso CrediScotia-Dinero Electrónico and the Patrimonio en Fideicomiso sobre Bienes Inmuebles – Depsa.

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

In thousands of soles	Activity	Shareholding percentage	Assets	Liabilities	Equity
2019					
Scotiabank Perú S.A.A.	Banking	-	72,234,304	62,387,961	9,846,343
CrediScotia Financiera S.A.	Financing	100.00	5,390,543	4,300,585	1,089,958
Caja Rural de Ahorro y Crédito CAT Perú S.A.	Financing	51.00	1,049,870	840,024	209,846
Servicios, Cobranzas e Inversiones S.A.C.	Collection services	100.00	152,658	69,774	82,884
Scotia Fondos Sociedad Administradora de Fondos Mutuos S.A.	Administration of mutual funds	100.00	91,631	2,662	88,969
Scotia Sociedad Agente de Bolsa S.A.	Intermediation in stock market	100.00	43,889	1,216	42,673
Scotia Sociedad Titulizadora S.A.	Securitization	100.00	5,213	832	4,381
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 Mutuos S.A.	Administration of mutual funds	100.00	70,465	2,421	68,044
Scotia Sociedad Agente de Bolsa S.A.	Intermediation in stock market	100.00	44,081	1,757	42,324
Scotia Sociedad Titulizadora S.A.	Securitization	100.00	4,462	142	4,320

C. Acquisition of subsidiary

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

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

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

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

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

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

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

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

(a) Consideration transferred

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

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

(b) Acquisition-related costs

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

(c) Identifiable assets acquired and liabilities assumed

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

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

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

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

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

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

(d) Allocation of consideration transferred and non-controlling interests

As of the acquisition date, this allocation was as follows:

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

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

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

D. Approval of the consolidated financial statements

The consolidated financial statements as of December 31, 2019 were approved by the Bank's management on February 17, 2020, and will be presented for approval to the Board of Directors' and General Shareholders' Meeting within the term established by Law. In management's opinion, the Board of Directors and General Shareholders' Meeting will approve the consolidated financial statements without amendments. The General Shareholders' Meeting, held March 25, 2019, approved the consolidated financial statements as of December 31, 2018.

2. Non-controlling Interests

The following table summarizes the financial reporting as of December 31, 2019 of CRAC (non-controlling shareholder) before the eliminations required in preparing the consolidated financial statements:

In thousands of soles	
Total assets	1,049,870
Total liabilities	(840,024)
Total assets, net	**209,846**
Net assets attributable to non-controlling interests 49%	**102,825**

Net profit	18,882
Other comprehensive income	13
Profit allocated to non-controlling interests 49%	**9,252**
Other comprehensive income allocated to non-controlling interests 49%	**6**

3. Basis for the Preparation of the Consolidated Financial Statements

A. Statement of compliance

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

B. Basis of measurement

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

- Derivative instruments are measured at fair value;
- Financial instruments at fair value through profit or loss (FVTPL) are measured at fair value; and
- Available-for-sale financial assets are measured at fair value.

C. Functional and presentation currency

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

D. Significant accounting estimates and criteria

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

Significant estimates related to the consolidated financial statements correspond to provision for loan losses, measurement of investments, estimated useful life and recoverable amount of property, furniture and equipment and intangible assets, impairment of goodwill, provision for realizable, received as payment and repossessed assets, estimated deferred tax recovery, provision for income tax, and fair value of derivative instruments. Accounting criteria are described in note 3.

E. Reclassifications

Scotiabank Group reclassified certain items in the consolidated statements of financial position and cash flows as of December 31, 2018 to compare them to those of this year. In management's opinion, such reclassifications do not require any changes in the decisions made. The amounts reclassified and accounts affected are the following:

In thousands of soles	***Note***	**Reported balances**	**Reclassifications**	**Reclassified balances**
Consolidated statement of financial position				
Assets:				
Property, furniture and equipment, net	*12*	401,860	(48,818)	353,042
Other assets, net (*)		1,214,830	48,818	1,263,648
		1,616,690	**-**	**1,616,690**
Consolidated statement of cash flows:				
Operating activities		355,987	1,004	356,991
Investing activities		(69,929)	(1,004)	(70,933)
		286,058	**-**	**286,058**

(*) As of December 31, 2018, the reclassified balance includes intangible assets for S/ 69,475 thousand (note 13).

4. Accounting Principles and Practices

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

A. Consolidation policies

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

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

The accounting records of entities of the Scotiabank Group comply with the information requirements established by the SBS.

Financial statements of the subsidiaries and special purpose entities have been included for consolidation purposes and represent 8.53% and 7.47%, respectively, of the total Bank's assets before eliminations as of December 31, 2019 and 2018. As of December 31, 2018, there are no non-controlling interests resulting from the consolidation process.

B. Financial instruments

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

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

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

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

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

Derecognition of financial assets and financial liabilities

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

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

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

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

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

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

C. Derivative Instruments

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

Held-for-trading instruments

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

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

Hedging instruments

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

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

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

As indicated in note 9 (b), as of December 31, 2019, the Bank holds interest rate swaps designated as cash flows hedges. As of December 31, 2018, the Bank held cash flow hedges with an underlying asset for US$ 70,000 thousand related to the acquisition of subsidiary (note 1.C), which matured on March 9, 2019.

D. Investments

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

i. Investments at FVTPL

Equity and debt instruments are classified as investments at FVTPL if they have been acquired principally to sell in the near term, or they are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. These investments are initially recognized on trade date, which is when the Scotiabank Group enters into contractual arrangements with counterparties to purchase investments, and are normally derecognized when sold.

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

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

Investments at FVTPL that are pledged as collaterals or transferred through a repurchase agreement shall be reclassified as available-for-sale investments. Once these transactions are concluded, instruments shall be reclassified at their initial category, transferring the unrealized gains and losses from equity to the consolidated statement of profit or loss.

ii. Available-for-sale investments

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

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

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

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

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, the Scotiabank Group assessed 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 on Classification and Measurement of Investments of Financial Institutions," which mainly focuses on the standard methodology to identify impairment of available-for-sale and held-to-maturity investments.

Assessment of debt instruments

- Weakening of financial position of the issuer and its economic group.
- Lower credit risk rating of the instrument or the issuer.
- Disappearance of an active market for the financial asset because of financial difficulties of the issuer.
- Observable data indicating that there has been a measurable decrease in the expected future cash flows from a group of financial assets with characteristics similar to the assessed instrument since initial recognition.

- Decline in fair value due to changes in laws.
- Significant decline in fair value below 40% of its amortized cost.
- Prolonged decline in fair value over the last 12 months, and cumulative decline in fair value in that period of more than 20%.

Assessment of equity instruments

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

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

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

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

iii. Investments in associates

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

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

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

In 2019 and 2018, the Scotiabank Group has not recognized impairment losses on investments.

Investments held by entities can be reclassified. Investments at FVTPL cannot be reclassified except for: (1) unlisted securities, which lack reliable estimated fair value, or (2) investments transferred through a repurchase agreement or pledged as collaterals, as indicated in paragraph (i) of this section. In 2019 and 2018, investments have not been reclassified into other categories.

E. Loans, classification and provisions for loan losses

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

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

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

Loan portfolio classification

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

Credit risk rating

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

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

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

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

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

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

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

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

(*) Including revolving and non-revolving loans.

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

Type of loan	**Procyclical component %**
Corporate loans	0.40
Large-business loans	0.45
Medium-business loans	0.30
Small-business loans	0.50
Micro-business loans	0.50
Revolving loans	1.50
Non-revolving loans	1.00
Mortgage loans	0.40

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

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

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

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

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

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

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

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

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

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

F. Intermediation services carried out by third parties

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

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

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

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

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

G. Property, furniture and equipment

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

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

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

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

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

H. Realizable, received as payment and repossessed assets

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

Realizable assets, received as payment and repossessed assets (note 14) are regulated by SBS Resolution 1535-2005. This caption mainly includes property, plant and equipment received as payment for loan losses, and are initially recorded at the lower of judicial, extrajudicial, recovery or estimated market price, or value of outstanding debt.

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

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

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

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

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

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

l. Impairment of non financial assets

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

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

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

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

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

J. Intangible assets

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

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

K. Goodwill

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

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

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

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

L. Securities, bonds and outstanding obligations

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

Interest is recognized in profit or loss when accrued.

M. Provisions and contingencies

i. Provisions

A provision is recognized when the Scotiabank Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and it is possible to reliably estimate its amount. Provisions are reviewed and adjusted in each reporting period to reflect the best estimates as of the date of the consolidated statement of financial position.

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

ii. Contingencies

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

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

N. Share capital

Common shares are classified as equity. Preference shares, if any, are recorded as other debt instruments. The difference between the redeemable amount of preference shares and the shares' par value is recorded in equity. Dividends on preference shares are recorded as liabilities and charged to profit or loss for the year. As of December 31, 2019 and 2018, the Scotiabank Group does not hold outstanding preference shares.

O. Income tax

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

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

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

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

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

P. Employees' profit sharing

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

Q. Income and expense recognition

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

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

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

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

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

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

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

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

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

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

R. Repurchase agreements

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

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

As of December 31, 2019 and 2018, the Scotiabank Group performs repurchase agreements of securities and currencies (notes 6 and 17).

S. Consolidated statement of cash flows

For presentation purposes on this consolidated financial statement, as of December 31, 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 repurchase agreements with BCRP and reserve funds for compliance with contractual commitments with foreign financial institutions (note 6.C).

T. Trust funds

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

U. Foreign currency transactions and balances

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

V. New accounting pronouncements

i. New accounting pronouncements not early adopted

The following new standards, amendments and interpretations have been issued or adapted by the IASB, but are effective for annual periods beginning on or after January 1, 2020. However, the Bank has not adopted them in preparing these consolidated financial statements since the Scotiabank Group does not plan to early adopt such standards. Those that might be relevant to the Scotiabank Group are detailed below.

New IFRSs, amendments and interpretation	Effective date
Amendments to References to the Conceptual Framework in IFRSs	Annual periods beginning on or after January 1, 2020.
Definition of a Business (Amendments to IFRS 3)	Annual periods beginning on or after January 1, 2020. Early adoption is permitted.
Definition of Material (Amendments to IAS 1 and IAS 8)	Annual periods beginning on or after January 1, 2020. Early adoption is permitted.
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 regulations issued by the CNC and the Peruvian Securities Market Regulator (SMV) concerning the approval and adoption of IFRSs in Peru

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

- Resolution 003-2019-EF/30, issued September 21, 2019, made official the 2019 edition of IAS, IFRSs, IFRIC and SIC.

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

- Resolution 002-2018-EF/30, issued August 29, 2018, made official the 2018 edition of IFRSs, amendments to IAS 19 *Employee Benefits* and *Conceptual Framework for Financial Reporting*.

- Resolution 001-2018-EF/30, issued April 27, 2018, made official amendments to IFRS 9 *Financial Instruments*, IAS 28 *Investments in Associates and Joint Ventures* and *Annual Improvements to IFRS Standards 2015-2017 Cycle*.

- Resolution 005-2017-EF/30, issued December 13, 2017, made official the deferral of IFRS 15 to January 1, 2019, with early adoption permitted.

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

iii. IFRSs issued by the IASB for annual periods beginning on or after January 1, 2019

- *Prepayment Features with Negative Compensation* (Amendments to IFRS 9 *Financial Instruments*)

- *Long-term Interests in Associates and Joint Ventures* (Amendments to IAS 28 *Investments in Associates and Joint Ventures*)

- *Plan Amendment, Curtailment or Settlement* (Amendments to IAS 19)

- *Annual Improvements to IFRS Standards 2015-2017 Cycle – various standards*

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

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

iv. Main pronouncements issued by the SBS in 2019

- SBS Resolution 5570 -2019, dated November 28, 2019, modified the "Regulation on Credit and Debit Cards," the "Regulation on Risk Management on Retail Debtor's Debt Overhang," and the "Regulation on Regulatory Capital Requirements for Credit Risk," effective 360 days from its publication.

- SBS Resolution 4838-2019, dated October 17, 2019, approved the "Regulation on Reverse Mortgage," effective November 1, 2019.

- SBS Resolution 1884-2019, dated May 5, 2019, amended the “Regulation on Market Risk Management" and the "Accounting Manual for Financial Institutions," effective June 6, 2019.

- SBS Resolution 682-2019, dated February 20, 2019, amended the “Regulation on Liquidity Risk Management" and the "Accounting Manual for Financial Institutions," 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 December 31, 2019 and 2018, the exchange rate was US$1 = S/ 3.314 and S/ 3.373, respectively.

Local foreign currency transactions and foreign trade transactions referred to the concepts authorized by the BCRP are channeled through a free banking system. As of December 31, 2019, buy and sell exchange rates used were US$ 1 = S/ 3.311 and US$ 1 = S/ 3.317, respectively (US$ 1 = S/ 3.369 buy and US$ 1 = S/ 3.379 sell as of December 31, 2018).

As of December 31, foreign currency balances stated in thousands of U.S. dollars are as follows:

	2019			2018		
In thousands	**U.S. dollars**	**Other currencies**	**Total**	**U.S. dollars**	**Other currencies**	**Total**
Assets						
Cash and due from banks	4,065,06	5,956	4,071,019	2,758,023	12,528	2,770,551
Investments at fair value through profit or loss and available-for-sale investments	89	-	896	876	-	876
Loan portfolio, net	4,150,98	-	4,150,986	4,265,796	-	4,265,796
Held-for-trading and hedging instruments	5,23	-	5,236	1,504	-	1,504
Accounts receivable, net	17,47	-	17,474	20,779	-	20,779
Other assets, net	30,77	5,552	36,327	125,762	186	125,948
	8,270,43	**11,508**	**8,281,938**	**7,172,740**	**12,714**	**7,185,454**
Liabilities						
Deposits and obligations and other obligations	4,868,13	31,306	4,899,437	4,168,786	28,233	4,197,019
Borrowings and debts	3,195,70	-	3,195,709	2,863,151	-	2,863,151
Held-for-trading and hedging instruments	1,45	-	1,452	3,202	-	3,202
Other liabilities	90,76	7,214	97,980	119,115	3,905	123,020
	8,156,05	**38,520**	**8,194,578**	**7,154,254**	**32,138**	**7,186,392**
Net asset (liability) position in the consolidated statement of financial position	**114,37**	**(27,012)**	**87,360**	**18,486**	**(19,424)**	**(938)**
Derivative transactions	**(162,32**	**28,079**	**(134,242)**	**(104,527)**	**21,760**	**(82,767)**

In 2019 and 2018, the Scotiabank Group recorded net exchange gains on various transactions for S/ 323,239 thousand and S/ 209,778 thousand, respectively, in 'income from financial transactions' in the consolidated statement of profit or loss (note 24).

As of December 31, 2019, the Scotiabank Group has contingent foreign currency transactions for S/ 56,184,012 thousand equivalent to US$ 16,953,509 thousand (S/ 38,230,347 thousand equivalent to US$ 11,334,227 thousand as of December 31, 2018).

6. Cash and Due from Banks

This caption comprises the following:

In thousands of soles	**2019**	**2018**
Cash (a)	1,413,879	1,151,651
BCRP (a)	9,657,121	7,429,609
Local banks and other financial institutions (b)	80,292	32,825
Foreign banks and other financial institutions (b)	78,330	244,023
Clearing	28,452	59,264
Restricted cash and due from banks (c)	3,813,916	1,648,572
Other cash and due from banks	217	87
	15,072,207	**10,566,031**

(a) As of December 31, 2019, funds held in cash and deposits with BCRP include US$ 2,824,482 thousand and S/ 1,373,189 thousand (US$ 2,106,394 thousand and S/ 946,416 thousand as of December 31, 2018), which are intended for hedging the reserve requirement that the Bank, CrediScotia and CRAC shall hold for deposits and obligations according to the limits established by current regulation. These funds are deposited with BCRP and in the financial institutions' vaults.

Cash reserves held at BCRP do not accrue interest, except for the amount in local and foreign currency that exceeded the minimum cash reserve. As of December 31, 2019, the excess of the minimum cash reserve in local and foreign currency accrued interest at an annual effective interest rate of 2.14% and 1.25% (in foreign currency, annual effective interest rate of 1.95% as of December 31, 2018). In 2019, accrued interest on the excess in local and foreign currency amounts to S/ 727 thousand and US$ 22,419 thousand (US$ 8,855 thousand in 2018). As of December 31, 2018, there was no excess of the minimum cash reserve in local currency.

As of December 31, 2019, balance in the BCRP includes 'overnight' transactions for US$ 67,800 thousand and S/ 45,000 thousand, which accrued interest at a nominal annual rate of 1.57% and 1.00%, respectively (US$ 96,700 thousand and S/ 186,500 thousand at a nominal annual rate of 1.50% and 2.43%, respectively, as of December 31, 2018).

(b) Deposits with local and foreign banks mainly correspond to balances in soles and U.S. dollars, and lower amounts in other currencies. They have free withdrawal option and accrue interest at market rates. As of December 31, 2019, deposits with foreign banks comprise deposits held at the Bank of Nova Scotia for US$ 2 thousand and CAN$ 138 thousand (US$ 2,350 thousand and CAN$ 2,894 thousand as of December 31, 2018).

As of December 31, 2019 and 2018, the Scotiabank Group concentrates 83% and 75% of its deposits in three foreign financial institutions.

(c) As of December 31, 209, restricted cash and due from banks comprises: i) reserve funds for compliance with repurchase commitments with BCRP for US$ 1,148,970 thousand (note 17.a) (US$ 478,683 thousand as of December 31, 2018); ii) as of December 31, 2019, no reserve funds for compliance with contractual commitments with foreign financial institutions (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/ 1 thousand (US$ 38 thousand and S/ 2 thousand as of December 31, 2018); iv) guarantee funds for lawsuits against the Bank for US$ 261 thousand and S/ 983 thousand (US$ 263 thousand and S/ 952 thousand as of December 31, 2018); and v) other restrictions for US$ 886 thousand and S/ 1,320 thousand (US$ 866 thousand and S/ 1,089 as of December 31, 2018).

In 2019 and 2018, interest income from cash and due from banks amounted to S/ 159,420 thousand and S/ 60,189 thousand, respectively. It is recorded in 'interest income' in the consolidated statement of profit or loss (note 21).

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

This caption comprises the following:

In thousands of soles	2019	2018
Investments at fair value through profit or loss		
Peruvian treasury bonds (a)	378,740	270,534
Corporate bonds (b)	26,987	2,186
Interests in mutual funds (c)	11,637	11,143
	417,364	**283,863**
Available-for-sale investments		
BCRP certificates of deposit (d)	3,460,672	2,488,426
Peruvian treasury bonds (a)	2,525,823	1,705,231
Unlisted securities	7,411	7,428
Listed securities	816	648
Other interests, net	18	18
	5,994,740	**4,201,751**
Total investments at fair value through profit or loss and available-for-sale investments	**6,412,104**	**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 instruments of the Republic of Peru. As of December 31, 2019, these bonds accrue interest at annual rates ranging from 2.29% to 5.22% (from 3.17% to 6.22% as of December 31, 2018) with maturities between September 2023 and February 2042 (between August 2020 and August 2037 as of December 31, 2018).

(b) The balance corresponds to corporate bonds issued in local currency by the MiVivienda Fund. As of December 31, 2019, these bonds accrue interest at an annual rate of 4.06% (5.18% as of December 31, 2018) and mature in February 2024 (settled in February 2019).

(c) As of December 31, 2019, the Scotiabank Group holds interests in mutual funds in local and foreign currency for S/ 9,928 thousand and US$ 516 thousand, respectively (S/ 9,443 thousand and US$ 504 thousand as of December 31, 2018).

(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 December 31, 2019, these certificates accrue interest based on the BCRP reference rate ranging from 2.10% to 3.12% annually (from 2.55% to 3.12% annually as of December 31, 2018) with maturities between January 2020 and August 2021 (between January 2019 and June 2020 as of December 31, 2018). Likewise, as of December 31, 2019, the Bank holds negotiable certificates of deposits issued by the BCRP, which cannot be withdrawn since they are granted in repurchase agreements for S/ 2,421,424 thousand (note 17) (S/ 1,299,331 thousand as of December 31, 2018).

As of December 31, 2019 and 2018, the accrued interest on investments managed by the Scotiabank Group amounted to S/ 173,988 thousand and S/ 134,577 thousand, respectively. It is recorded as 'interest income' in the consolidated statement of profit or loss (note 21). Likewise, in 2019 and 2018, the Scotiabank Group generated net gains on sale of available-for-sale investments for S/ 172,104 thousand and S/ 20,854 thousand, respectively (note 24).

As indicated in note 18.F, as of December 31, 2019, the Scotiabank Group generated unrealized gains on measurement of available-for-sale investments for S/ 37,138 thousand (unrealized losses for S/ 50,754 thousand as of December 31, 2018).

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

In thousands of soles	**2019**	**2018**
Up to 3 months	302,333	981,239
From 3 to 12 months	1,799,979	1,429,852
More than 1 year	4,309,792	2,074,523
	6,412,104	**4,485,614**

8. Loan Portfolio, Net

This caption comprises the following:

In thousands of soles	***Note***	**2019**		**2018**	
Direct loans (a)					
Current loans					
Loans		33,096,980	61%	31,715,552	64%
Mortgage loans		6,919,265	13%	6,479,348	13%
Finance lease		3,526,413	7%	3,348,854	7%
Credit cards		5,453,015	10%	3,862,234	8%
Factoring		1,065,402	2%	867,633	2%
Discounts		732,684	1%	591,105	1%
Overdrafts and advances in checking accounts		75,986	-	85,912	-
Refinanced loans		955,922	2%	804,150	1%
Restructured loans		376	-	521	-
Past-due loans		989,739	2%	911,855	2%
Lawsuit loans		1,027,948	2%	993,243	2%
		53,843,730	**100%**	**49,660,407**	**100%**
Plus (less)					
Accrued interest on current loans		374,994	-	341,222	-
Non-accrued interest		(16,452)	-	(25,977)	-
Provision for loan losses		(2,912,916)	-	(2,627,566)	-
		51,289,356	-	**47,348,086**	-
Indirect loans	***20***	**9,481,073**	**-**	**9,320,024**	**-**

As of December 31, 2019 and 2018, 51% of the loan portfolio (direct and indirect loans) was concentrated in 740 and 488 clients, respectively.

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

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

	2019		**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	4.31 - 45.31	2.93 - 24.31	3.76 - 48.85	2.69 - 27.64
Consumer loans	8.19 - 66.26	7.26 - 41.53	14.59 - 44.65	8.81 - 30.68

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

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

	2019				2018			
In thousands of soles	Number of debtors	Direct	Indirect	Total	Number of debtors	Direct	Indirect	Total
Risk rating								
Standard	1,707,034	49,103,822	9,197,835	58,301,657	1,030,994	45,176,158	9,008,681	54,184,839
Potential problems	53,527	1,323,177	165,845	1,489,022	44,325	1,363,954	264,113	1,628,067
Substandard	48,543	594,492	87,045	681,537	33,541	636,264	10,255	646,519
Doubtful	90,705	1,082,347	5,842	1,088,189	59,961	860,077	6,110	866,187
Loss	57,758	1,739,892	24,506	1,764,398	50,689	1,623,954	30,865	1,654,819
	1,957,567	**53,843,730**	**9,481,073**	**63,324,803**	**1,219,510**	**49,660,407**	**9,320,024**	**58,980,431**

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

In thousands of soles	***Note***	**Specific**	**Generic**	**Total**
Balance as of January 1, 2018		1,679,624	591,376	2,271,000
Additions charged to profit or loss		2,004,644	295,451	2,300,095
Recovery of provisions		(766,264)	(243,292)	(1,009,556)
Transfer of provisions and others		17,272	(17,404)	(132)
Write-off and forgiveness		(956,947)	-	(956,947)
Exchange difference		16,985	6,121	23,106
Balance as of December 31, 2018		**1,995,314**	**632,252**	**2,627,566**
Additions charged to profit or loss		2,462,550	324,629	2,787,179
Acquisition of subsidiary	*1.C*	58,195	6,863	65,058
Recovery of provisions		(908,494)	(256,945)	(1,165,439)
Transfer of provisions and others		4,381	(3,787)	594
Write-off and forgiveness		(1,390,514)	-	(1,390,514)
Exchange difference		(8,820)	(2,708)	(11,528)
Balance as of December 31, 2019		**2,212,612**	**700,304**	**2,912,916**

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

In thousands of soles	**2019**	**2018**
Provisions for loan losses	(2,787,179)	(2,300,095)
Recovery of provisions	1,165,439	1,009,556
Income from recovery of loan portfolio	91,067	64,610
Provision for loan losses, net of recoveries	**(1,530,673)**	**(1,225,929)**

The Bank, CrediScotia and CRAC record legal provisions for their loan portfolio according to the policy described in note 4.E. They also record voluntary provisions for loan losses included in the general provision. As of December 31, 2019 and 2018, voluntary provisions of the Bank and CrediScotia amount to S/ 115,753 thousand and S/ 102,627 thousand, respectively.

As of December 31, 2019, the Scotiabank Group's provision related to exchange rate risk amounts to S/ 2,944 thousand (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. In 2019, the Scotiabank Group did not applied the procyclical component to record specific provisions. As of December 31, 2019, the Bank and CrediScotia have a balance of S/ 41,646 thousand (procyclical component for S/ 13,472 thousand to record specific provisions was applied as of December 31, 2018, maintaining a balance of S/ 42,204 thousand).

(d) As of December 31, maturities of direct loans are as follows:

	2019			2018		
In thousands of soles	**Local currency**	**Foreign currency**	**Total**	**Local currency**	**Foreign currency**	**Total**
Up to 1 month	2,923,394	2,015,221	4,938,615	3,518,127	2,072,826	5,590,953
From 1 to 3 months	3,777,028	2,941,561	6,718,589	3,557,294	3,094,385	6,651,679
From 3 to 6 months	3,648,463	1,362,480	5,010,943	2,791,957	1,814,226	4,606,183
From 6 to 12 months	5,112,787	1,451,417	6,564,204	5,197,421	1,610,036	6,807,457
More than 1 year	22,813,461	6,155,225	28,968,686	18,518,774	5,921,486	24,440,260
Past-due loans and lawsuit loans	1,578,677	439,010	2,017,687	1,390,507	514,591	1,905,098
Less: Accrued interest	(304,837)	(70,157)	(374,994)	(266,351)	(74,872)	(341,223)
	39,548,973	**14,294,757**	**53,843,730**	**34,707,729**	**14,952,678**	**49,660,407**

9. Held-for-Trading and Hedging Instruments

The Bank holds foreign-exchange forward contracts, cross-currency swaps and interest rate swaps. As of December 31, 2019 and 2018, fair value of held-for-trading instruments and hedging instruments has generated accounts receivable and payable as follows:

	2019		2018	
In thousands of soles	**Accounts receivable**	**Accounts payable**	**Accounts receivable**	**Accounts payable**
Held-for-trading instruments (a)				
Foreign-exchange forward contracts	125,093	107,256	59,419	50,779
Interest rate swaps	14,661	3,451	5,074	10,799
Cross-currency swaps	15,701	17,633	34,578	24,583
	155,455	**128,340**	**99,071**	**86,161**
Hedging instruments (b)				
Interest rate swaps	2,693	1,361	-	-
	2,693	**1,361**	**-**	**-**
Held-for-trading and hedging instruments	**158,148**	**129,701**	**99,071**	**86,161**

(a) In 2019 and 2018, held-for-trading instruments generated a loss net for S/ 9,925 thousand and a gain net for S/ 52,289 thousand, respectively (note 24).

(b) As of December 31, 2019, the Bank holds hedging instruments in cash flow hedges for a notional of US$ 800,000 thousand, related to foreign loans acquired with its related party, Scotiabank Caribbean Treasury Limited, Bahamas. In 2019, such hedging instruments generated gains for S/ 568 thousand, which was recorded in 'other comprehensive income' in the consolidated statement of changes in equity.

10. Accounts Receivable, Net

This caption comprises the following:

In thousands of soles	2019	2018
Financial instruments		
Sale of investments (a)	142,224	846,323
Fees receivable	24,282	16,407
Collection services	23,356	44,454
Payments on behalf of thirds parties, net	17,957	21,728
Sales of goods and services, trust, net	11,359	584
Advances to personnel	7,496	3,184
Accounts receivable from third parties	222	1,693
Other accounts receivable, net (b)	206,823	160,721
	433,719	**1,095,094**
Non-financial instruments		
Tax claims (c)	722,021	696,260
	1,155,740	**1,791,354**

(a) As of December 31, 2019 and 2018, the balance corresponds to accounts receivable generated from sales of sovereign bonds on the last day of the month, which are settled during the first days of the following month and are mainly related to: i) sale of sovereign bonds for S/ 41,297 thousand and S/ 574,089 thousand; and ii) short sale of sovereign bonds for S/ 100,927 thousand and S/ 272,234 thousand, respectively.

(b) As of December 31, 2019, other accounts receivable mainly include: i) unsettled transactions with debit and credit cards for S/ 77,560 thousand (S/ 100,620 thousand as of December 31, 2018); ii) finance leases for S/ 32,438 thousand (S/ 16,473 thousand as of December 31, 2018); iii) refund of travel expenses for S/ 2,665 thousand (S/ 1,379 thousand as of December 31, 2018); and iv) other accounts receivable for S/ 91,617 thousand (S/ 40,191 thousand as of December 31, 2018).

(c) Tax claims comprise tax proceedings with the Tax Authorities. As of December 31, 2019 and 2018, they mainly comprise: i) S/ 230,095 thousand for payments made by the Bank under protest referred to the Temporary Tax on Net Assets (ITAN) of the fiscal years 2005 and 2006, which were challenged in courts by the Bank as they are considered undue payments and shall be offset with the income tax and other tax credits; ii) S/ 20,666 thousand for income tax paid in excess by CrediScotia for the years 2010, 2011, 2012 and 2013; and iii) S/ 25,760 thousand for the tax proceeding of the year 2013. It is the opinion of management and its legal advisors that these amounts will be refunded upon the favorable resolution of the case.

Also, as of December 31, 2019 and 2018, this account receivable, net of corresponding provision for impairment loss on account receivable, includes tax claims for S/ 433,815 thousand, which are related to payments made under protest due to a resolution issued by the Tax Authorities. The latter was challenged in courts by the Bank. It is the opinion of management and its legal advisors that these amounts will be refunded to the Bank upon the favorable resolution of the case.

11. Goodwill

It corresponds to the goodwill determined on the acquisition of investments in equity instruments made by the Bank. As of December 31, 2019 and 2018, goodwill amounts to S/ 570,664 thousand, which mainly includes: i) goodwill from the purchase of 100% of the share capital of Banco de Trabajo S.A., currently CrediScotia, which amounts to S/ 278,818 thousand; ii) goodwill from the acquisition of the retail and consumer banking of Citibank del Perú, which amounts to S/ 287,074 thousand; and iii) goodwill from the acquisition of Unibanca's shares, which amounts to S/ 4,772 thousand.

According to SBS regulations, goodwill has been assessed by management on an annual basis. The latter determined that there is no impairment as of December 31, 2019 and 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**	**Goods in-transit and work-in-progress**	**Balances as of 12.31.19**	**Balances as of 12.31.18**
Cost							
Balance as of January 1	126,914	749,732	440,783	3,505	23,424	1,344,358	1,339,129
Additions	7,014	23,741	14,017	507	25,741	71,020	38,180
Sales	(2,356)	(14,782)	(21,833)	(668)	-	(39,639)	(32,221)
Acquisition of subsidiary (b)	-	4,330	22,176	-	-	26,506	-
Transfers	-	17,087	7,304	-	(25,018)	(627)	(726)
Disposals and others	-	(1,229)	(1,451)	(67)	-	(2,747)	(4)
Total cost	**131,572**	**778,879**	**460,996**	**3,277**	**24,147**	**1,398,871**	**1,344,358**
Accumulated depreciation							
Balance as of January 1	-	622,935	365,147	3,234	-	991,316	957,647
Additions	-	31,414	27,879	183	-	59,476	60,317
Sales	-	(12,461)	(21,702)	(668)	-	(34,831)	(26,647)
Acquisition of subsidiary (b)	-	3,747	18,623	-	-	22,370	-
Disposals and others	-	(632)	(1,189)	(66)	-	(1,887)	(1)
Total depreciation	**-**	**645,003**	**388,758**	**2,683**	**-**	**1,036,444**	**991,316**
Net carrying amount	**131,572**	**133,876**	**72,238**	**594**	**24,147**	**362,427**	**353,042**

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

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

13. Intangible Assets, Net

This caption comprises the following:

In thousands of soles	Software and others	Work-in-progress	Lease premium	Other intangible assets	Exclusive agreement (a)	Cencosud brand name (a)	Balances as of 12.31.2019	Balances as of 12.31.2018
Cost								
Balance as of January 1	289,521	48,818	9,818	1,247	-	-	349,404	317,049
Additions	1,861	40,342	-	-	-	-	42,203	32,753
Transfers	46,121	(46,121)	-	-	-	-	-	-
Acquisition of subsidiary (b)	57	-	-	22,412	326,302	4,149	352,920	-
Disposals and others	(59)	(92)	(323)	(8)	-	-	(482)	(457)
Total cost	**337,501**	**42,947**	**9,495**	**23,651**	**326,302**	**4,149**	**744,045**	**349,345**
Accumulated amortization								
Balance as of January 1	264,915	-	2,913	12,101	-	-	279,929	265,629
Additions	17,703	-	894	2,229	18,128	231	39,185	14,704
Acquisition of subsidiary (b)	57	-	-	20,869	-	-	20,926	-
Disposals and others	(3)	-	(321)	-	-	-	(324)	(404)
Total amortization	**282,672**	**-**	**3,486**	**35,199**	**18,128**	**231**	**339,716**	**279,929**
Net carrying amount	**54,829**	**42,947**	**6,009**	**(11,548)**	**308,174**	**3,918**	**404,329**	**69,416**

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

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

14. Other Assets, Net

This caption comprises the following:

In thousands of soles	2019	2018
Financial instruments		
Transactions in progress (a)	316,627	950,313
	316,627	**950,313**
Non-financial instruments		
Prepaid expenses (b)	171,458	133,637
Realizable and repossessed assets, net of accumulated depreciation and provision for impairment loss for S/ 182,255 thousand (S/ 155,018 thousand in 2018)	89,167	88,967
Tax credit	17,237	13,314
Others	7,942	7,942
	285,804	**243,860**
	602,431	**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 to their final accounts in the consolidated statement of financial position. These transactions do not have an impact on the Scotiabank Group's profit or loss. As of December 31, 2019, they mainly include treasury transactions and invoices-in-transit for S/ 299,767 thousand and S/ 4,679 thousand, respectively (S/ 930,048 thousand and S/ 1,831 thousand, respectively, as of December 31, 2018).

(b) As of December 31, 2019, prepaid expenses mainly include: i) deferred loan origination costs related to fees paid to the external sales force for S/ 123,876 thousand (S/ 96,195 thousand as of December 31, 2018); ii) prepaid fees for loans received for S/ 6,858 thousand (S/ 7,966 thousand as of December 31, 2018); iii) prepaid leases for S/ 3,463 thousand (S/ 3,526 thousand as of December 31, 2018); and iv) advertising and marketing services for S/ 1,192 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	2019		2018	
Corporate clients	20,332,538	45%	19,267,025	48%
Individuals	16,896,734	38%	14,862,531	37%
Non-profit entities	5,360,724	12%	4,028,292	10%
Others	2,172,896	5%	1,793,245	5%
	44,762,892	**100%**	**39,951,093**	**100%**

As of December 31, 2019 and 2018, deposits and other obligations in U.S. dollars represent 36% and 35% of total amount, respectively. As of December 31, 2019, deposits include accounts pledged in favor of the Bank and CrediScotia for credit transactions for S/ 453,136 thousand and US$ 131,721 thousand (S/ 591,461 thousand and US$ 143,630 thousand as of December 31, 2018).

As of December 31, 2019 and 2018, total deposits and obligations from individuals and non-profit entities amount to S/ 11,676,411 thousand and S/ 10,198,756 thousand, respectively, are secured by the Peruvian Deposit Insurance Fund according to current regulations.

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

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

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

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

	2019		2018	
%	**Local currency**	**Foreign currency**	**Local currency**	**Foreign currency**
Savings accounts	0.94 - 2.12	0.22 - 0.24	1.04 - 1.90	0.21 - 0.28
Time deposits	2.81 - 5.39	0.20 - 2.06	2.83 - 5.64	0.20 - 1.75
Bank certificates	-	0.18 - 0.45	-	0.19 - 0.43
Length-of-service compensation deposits	3.22 - 6.29	1.15 - 1.58	3.16 - 6.05	1.13 - 1.71

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

	2019			2018		
In thousands of soles	**Local currency**	**Foreign currency**	**Total**	**Local currency**	**Foreign currency**	**Total**
Up to 1 month	3,188,173	2,638,725	5,826,898	3,404,172	1,640,957	5,045,129
From 1 to 3 months	2,570,451	677,710	3,248,161	3,382,494	1,238,242	4,620,736
From 3 to 6 months	1,006,444	702,120	1,708,564	1,707,268	460,357	2,167,625
From 6 to 12 months	2,479,365	765,699	3,245,064	2,110,713	692,798	2,803,511
More than 1 year	1,671,812	591,781	2,263,593	1,234,221	557,908	1,792,129
	10,916,245	**5,376,035**	**16,292,280**	**11,838,868**	**4,590,262**	**16,429,130**
Interest	**121,344**	**17,262**	**138,606**	**122,874**	**13,633**	**136,507**
	11,037,589	**5,393,297**	**16,430,886**	**11,961,742**	**4,603,895**	**16,565,637**

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

16. Borrowings and Debts

This caption comprises the following:

In thousands of soles	2019	2018
Borrowings and debts		
Obligations in the country:		
COFIDE (a)	1,109,728	1,221,600
Ordinary loans from abroad:		
Related banks (b)	5,793,800	4,384,900
Other banks (c)	3,541,728	3,443,660
	10,445,256	**9,050,160**
Interest payable	25,251	35,876
	10,470,507	**9,086,036**
Securities and obligations (d)	2,210,367	2,249,187
	12,680,874	**11,335,223**

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

As of December 31, 2019 and 2018, the Bank and CrediScotia hold obligations with COFIDE for S/ 550,437 thousand and S/ 566,527 thousand, respectively, which are guaranteed by a mortgage loan portfolio, as follows:

		2019		2018	
In thousands of	**Currency**	**Net loans**	**Backed debt**	**Net loans**	**Backed debt**
Detail					
Mortgage loans - MiVivienda Fund (*)	soles	844,347	518,727	550,592	524,794
Mortgage loans - MiVivienda Fund (*)	U.S. dollars	11,162	9,566	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, in 2019, the Bank entered into agreements to channel resources with COFIDE for S/ 559,291 thousand (S/ 655,073 thousand as of December 31, 2018). Said resources will be used to fund corporate and medium-business loans.

(b) As of December 31, 2019, ordinary loans with related banks include debts payable to Scotiabank Ltd. Bahamas for US$ 1,700,000 thousand, which accrue interest at annual rates ranging from 1.88% to 2.50% with maturities between April 2020 and January 2022 (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 loans do not have collaterals nor compliance terms.

(c) As of December 31, 2019, the Bank holds borrowings and debts with other foreign banks for US$ 1,059,664 thousand (US$ 1,020,949 thousand as of December 31, 2018), which accrue interest at annual rates ranging from 2.13% to 3.03% (2.57% to 3.69% as of December 31, 2018). These transactions contain standard terms of compliance with financial ratios and, in management's opinion, those terms do not affect the Bank's business and are being met.

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

In thousands of soles	**2019**	**2018**
Up to 1 month	570,077	1,140,106
From 1 to 3 months	1,004,992	1,122,298
From 3 to 6 months	1,857,388	1,083,834
From 6 to 12 months	1,793,195	1,549,642
More than 1 year	5,244,855	4,190,156
	10,470,507	**9,086,036**

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

In thousands of soles	**Annual interest**	**Maturity**	**2019**	**2018**
Issuance				
Redeemable subordinated bonds				
1st Issuance, single series (i)	4.50%	2027	1,325,600	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
			1,991,160	**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**
Negotiable certificates of deposits			99,102	15,468
			99,102	**15,468**
			2,195,052	**2,235,018**
Interest payable and obligations			15,315	14,169
			2,210,367	**2,249,187**

i. In December 2012, the Bank issued subordinated bonds for US$ 400,000 thousand, which under SBS Resolution 8093-2012, qualify as tier 2 capital. These bonds mature in December 2027 and accrue interest at an annual fixed rate of 4.500% during the first ten years; from the eleventh year, they will accrue interest at a variable LIBOR rate of 3-month plus a spread of 3.856% to be paid each six months. After the eleventh year, all these bonds can be redeemed without penalties. This issuance was performed in the international market and contains certain standard clauses of compliance with financial ratios and other operating matters, which in management's opinion, do not affect the Bank's business and are being met.

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

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

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

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

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

In thousands of soles	**2019**	**2018**
Up to 3 months	7,011	7,900
From 3 to 6 months	6,270	106,269
From 6 to 12 months	99,847	13,421
More than 1 year	2,097,239	2,121,597
	2,210,367	**2,249,187**

(e) As of December 31, 2019 and 2018, interest expenses on borrowings and debts of the Scotiabank Group amount to S/ 446,982 thousand and S/ 389,739 thousand, respectively (note 22).

17. Provisions and Other Liabilities

This caption comprises the following:

In thousands of soles	**2019**	**2018**
Accounts payable		
Repurchase agreements (a)	7,031,071	3,511,269
Other accounts payable	411,047	881,033
Short sale	80,545	203,576
Vacations, remunerations and profit sharing payable	44,604	38,976
	7,567,267	**4,634,854**
Provisions		
Provisions for litigations and legal claims (b)	36,086	38,916
Provisions for various contingencies (c)	60,123	60,431
Provision for indirect loan losses and country risk	119,865	110,317
Other provisions (d)	115,250	113,947
	331,324	**323,611**
Other liabilities		
Transactions in progress (e)	502,668	1,247,778
Deferred income (f)	79,490	44,563
	582,158	**1,292,341**
	8,480,749	**6,250,806**

(a) It corresponds to the balance of obligations for foreign currency repurchase agreements and repurchase agreements with the BCRP (notes 6(c) and 7(e)). As of December 31, 2019, these transactions accrued interest ranging from 2.25% to 4.45% (3.35% to 5.75% as of December 31, 2018). Likewise, as of December 31, 2019, the maturities of these transactions fluctuate between January 2020 and July 2020 (between January 2019 and December 2019 as of December 31, 2018).

(b) As of December 31, 2019 and 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 transactions performed during the normal course of business of each entity of the Scotiabank Group. Management does not consider that they will have a significant impact on business or profit or loss.

(c) As of December 31, 2019, this account mainly comprises reversals or recoveries of provisions recorded in previous years against equity accounts for S/ 65,612 thousand (S/ 60,411 thousand as of December 31, 2018), which according to SBS Official Letter 23797-2003, shall be reclassified to deficits in other asset accounts of the Bank.

(d) As of December 31, 2019, the balance of other provisions mainly includes: i) provisions for personnel expenses for S/ 83,619 thousand (S/ 85,344 thousand as of December 31, 2018); ii) provisions for marketing campaigns of liability products for S/ 5,502 thousand (S/ 8,577 thousand as of December 31, 2018); and iii) provisions related to credit and debit card transactions for S/ 24,114 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 final accounts of the consolidated statement of financial position. These transactions do not affect the Scotiabank Group's profit or loss. As of December 31, 2019, liability transactions in progress mainly include: i) S/ 317,888 thousand for treasury transactions (S/ 1,045,306 thousand as of December 31, 2018); ii) S/ 79,335 thousand for credit card transactions (S/ 101,615 thousand as of December 31, 2018); and iii) S/ 27,847 thousand for client deposits in transit (S/ 30,158 thousand as of December 31, 2018).

(f) As of December 31, 2019, it mainly includes income for (i) S/ 43,502 thousand for exclusive right fees; (ii) S/ 20,573 thousand for indirect loan fees; and S/ 14,691 thousand for structuring and trust service fees, which are recorded in the Scotiabank Group's profit or loss during the term of the contract that originates them. As of December 31, 2018, the balance included S/ 21,648 thousand for indirect loan fees and S/ 22,221 thousand for structuring and trust service fees.

18. Equity

A. General

The regulatory capital of the Bank, CrediScotia and CRAC is determined in accordance with the Banking Law and is used to calculate legal limits and restrictions applicable to financial institutions in Peru. As of December 31, 2019, the regulatory capital of such entities amounts to S/ 9,400,512 thousand, S/ 1,019,288 thousand and S/ 217,256 thousand, respectively (S/ 8,752,458 thousand and S/ 914,757 thousand for the Bank and CrediScotia, respectively, as of December 31, 2018).

As of December 31, 2019, credit risk weighted assets and indirect loans determined by the Bank, CrediScotia and CRAC, according to the regulation applicable to financial institutions, amount to S/ 60,096,086 thousand, S/ 5,286,982 thousand and S/ 1,270,067 thousand, respectively (S/ 55,505,425 thousand and S/ 4,862,133 thousand for the Bank and CrediScotia, respectively, as of December 31, 2018).

General Shareholders' Meeting, held March 25, 2019, conferred authority to the Board of Directors to commit on capitalizations of 2019 profits, with the purpose that these can be included in the calculation of the Bank’s regulatory capital. In this regard, in August and November 2019, the Board of Directors approved the commitment to capitalize the 2019 profits for S/ 504,000 thousand and S/ 300,000 thousand, respectively. Additionally, it approved the capitalization of S/ 640,325 thousand, among which S/ 171,325 thousand correspond to the 2018 retained earnings and S/ 469,000 correspond to the capitalization agreement approved by the Bank's Board of Directors in December 2018.

As of December 31, 2019 and 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 credit risk weighted assets and indirect loans. As of December 31, 2019, the regulatory capital of the Bank, CrediScotia and CRAC represents 14.45%, 17.62% and 17.11% 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).

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

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

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

Finally, SBS Resolution 8425-2011 and its amendments approved the method for the calculation of additional regulatory capital requirement, which establishes that this requirement shall be equal to the sum of the regulatory capital requirements calculated for each of the following components: i) economic cycle, ii) concentration risk, iii) market risk concentration, iv) interest rate risk, and v) other risks. As of December 31, 2019, additional regulatory capital of the Bank, CrediScotia and CRAC amounted to S/ 1,303,310 thousand, S/ 162,517 thousand and S/ 44,476 thousand, respectively (S/ 1,244,553 thousand and S/ 152,363 thousand for the Bank and CrediScotia, respectively, as of December 31, 2018).

B. Share capital

As of December 31, 2019, the Bank's authorized, subscribed and paid-in share capital comprise 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 December 31, 2019 and 2018, the quotation value of common shares of the Bank was S/ 32.45 and S/ 31.50 per share, respectively.

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

Pursuant to the delegation conferred by the General Shareholders' Meeting, held March 21, 2018, the Board of Directors approved the increase in share capital arising from the capitalization of 2017 retained earnings for S/ 488,408 thousand. As a result from the capitalization, the share capital increased to S/ 6,122,946 thousand represented by 612,294,780 common shares with a par value of S/ 10.00 each as of December 31, 2018.

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

	2019		2018	
%	**Number of shareholders**	**%**	**Number of shareholders**	**%**
From 0.01 to 1	1,347	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
	1,348	**100.00**	**1,416**	**100.00**

Under the Banking Law, as of December 31, 2019, the share capital is required to reach the minimum amount of S/ 27,485 thousand (S/ 27,297 thousand as of December 31, 2018), at a constant value. This amount is annually updated at the end of each fiscal year, based on the wholesale price index (WPI), as published by the National Institute of Statistics.

C. Additional paid-in capital

This caption comprises the following:

In thousands of soles	**2019**	**2018**
Issuance premium	393,159	393,159
Gain on treasury shares	1,304	1,304
	394,463	**394,463**

As of December 31, 2019 and 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 not less than 10% of profit after tax, and supersedes the reserve referred to in the Banking Law. On the other hand, as stipulated in the Banking Law, the amount of this reserve may also be increased with contributions made by the shareholders for this purpose.

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

E. Retained earnings

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

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

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

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

General Shareholders' Meeting, held March 21, 2018, approved the distribution of 2017 net profit for S/ 1,221,020 thousand, as follows:

i Allocate S/ 610,510 thousand to pay cash dividends. 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 Hold the remaining balance, amounting to S/ 488,408 thousand, in 'retained earnings.'

F. Other comprehensive income

As of December 31, 2019 and 2018, it mainly includes unrealized gains and losses on available-for-sale investments, hedging instruments and interests in other comprehensive income of associates, net of deferred tax effect.

Movement in the Bank's unrealized gains and losses for the years 2019 and 2018, net of deferred tax, was as follows:

In thousands of soles	***Note***	**2019**	**2018**
Balance as of January 1		(19,796)	23,590
Net unrealized gain (loss) on available-for-sale investments	*7*	37,138	(50,754)
Unrealized (loss) gain on associates		(10)	228
Cash flow hedges		(4,227)	7,140
Balance as of December 31		**13,105**	**(19,796)**

19. Contingencies

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

20. Contingent Risks and Commitments

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

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

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

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

In thousands of soles	***Note***	**2019**	**2018**
Indirect loans:	*8*		
Guarantees and letters of guarantee		8,669,592	8,556,038
Issued letters of credit		710,585	655,145
Outstanding bank acceptances		100,896	108,841
		9,481,073	**9,320,024**
Unused credit lines		43,814,950	27,054,802
Derivative instruments		17,062,366	12,992,503
		70,358,389	**49,367,329**

21. Interest Income

This caption comprises the following:

In thousands of soles	***Note***	**2019**	**2018**
Direct loan portfolio		5,445,216	4,763,263
Available-for-sale investments	*7*	165,918	126,877
Cash and due from banks	*6*	159,420	60,189
Investments at fair value through profit or loss	*7*	8,070	7,700
Interbank funds		3,404	5,076
Profit or loss from hedging instruments		1,652	-
Other finance income		3,813	4,789
		5,787,493	**4,967,894**

22. Interest Expenses

This caption comprises the following:

In thousands of soles	***Note***	**2019**	**2018**
Deposits and obligations		814,641	647,735
Borrowings and debts	*16(e)*	446,982	389,739
Repurchase agreements		93,527	70,723
Fees for borrowings and debts		18,031	20,020
Deposits with financial institutions		9,437	5,275
Interbank funds		8,266	7,381
		1,390,884	**1,140,873**

23. Financial Service Income, Net

This caption comprises the following:

In thousands of soles	2019	2018
Income:		
Income from fees for collections services	302,431	214,721
Other income and fees for banking services	151,703	156,830
Income from services and maintenance of liability transactions and transfer fees	98,494	94,175
Income from recovery of loan portfolio	67,029	73,588
Income from structuring and management services	60,479	65,133
Income from remunerations of mutual funds and redemption fees	55,026	50,146
Income from teleprocessing services	21,487	35,228
Income from fees and intermediation services	6,241	5,982
Other income	420,160	371,375
	1,183,050	**1,067,178**
Expenses		
Credit/debit card expenses	(170,931)	(123,476)
Deposit insurance fund premiums	(49,675)	(46,329)
Insurance services expenses	(6,472)	(5,656)
Other expenses	(270,598)	(245,459)
	(497,676)	**(420,920)**
	685,374	**646,258**

24. Income from Financial Transactions

This caption comprises the following:

In thousands of soles	*Note*	2019	2018
Net gain on foreign exchange	*5*	323,239	209,778
Gain on sale of available-for-sale investments	*7*	172,104	20,854
Net gain (loss) on sale and measurement of investments at fair value through profit or loss		20,626	(954)
Gain on interests		18,687	13,823
Dividends received from available-for-sale investments		1,726	1,351
Net gain (loss) on measurement of held-for-trading instruments	*9*	(9,925)	52,289
Others, net		94	3,807
		526,551	**300,948**

25. Administrative Expenses

This caption comprises the following:

In thousands of soles	2019	2018
Personnel and board of directors expenses	999,157	888,296
Third party services expenses	877,075	721,907
Taxes and contributions	87,637	83,250
	1,963,869	**1,693,453**

26. Other Income, Net

This caption comprises the following:

In thousands of soles	**2019**	**2018**
Sale of non-financial services	15,673	9,444
Gain on sale of property, furniture and equipment	4,928	8,231
Gain on sale of realizable and repossessed assets	6,195	6,792
Lease of own assets	2,796	3,560
Reimbursements and recoveries	672	(43)
Other income (expenses), net	(22,340)	9,216
	7,924	**37,200**

27. Tax Matters

Consolidated

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

Income tax regime

B. The Scotiabank Group is subject to the Peruvian tax regime. As of December 31, 2019 and 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%.

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

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

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

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

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

Income tax determination

D. The Scotiabank Group computed its tax base for the years ended December 31, 2019 and 2018, and determined income tax for S/ 489,447 thousand and S/ 484,681 thousand, respectively.

The Scotiabank Group's current tax has been determined for fiscal years 2019 and 2018 as follows:

In thousands of soles	**2019**	**2018**
Scotiabank Perú S.A.A.	351,644	366,673
CrediScotia Financiera S.A.	109,953	102,000
Scotia Fondos Sociedad Administradora de Fondos Mutuos S.A.	13,031	10,993
Servicios, Cobranzas e Inversiones S.A.C.	6,639	4,581
CRAC CAT Perú S.A.	7,659	-
Scotia Sociedad Agente de Bolsa S.A.	247	34
Scotia Sociedad Titulizadora S.A.	274	400
	489,447	**484,681**

Income tax expense comprises the following:

In thousands of soles	**2019**	**2018**
Current tax		
Current year	490,603	492,593
Previous year adjustment	(1,156)	(7,912)
	489,447	**484,681**
Deferred tax		
Current year	(8,981)	(12,587)
Previous year adjustment	5,357	7,586
	(3,624)	**(5,001)**
Net income tax expense	**485,823**	**479,680**

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

In thousands of soles	2019		2018	
Net profit before tax	**1,958,347**	**100.00%**	**1,756,367**	**100.00%**
Income tax (theoretical)	577,712	29.5%	518,128	29.5%
Tax effect on additions and deductions				
Permanent differences	(96,090)	(4.90)%	(38,120)	(2.17)%
Previous year income tax adjustment	4,201	0.21%	(328)	(0.02)%
Current and deferred tax recorded as per effective rate	**485,866**	**24.81%**	**479,680**	**27.31%**

Income tax exemptions and exceptions

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

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

The aforementioned exemption will be applicable whenever certain requirements concur.

Temporary tax on net assets

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

Tax on financial transactions

G. Tax on financial transactions 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 in funds made through the financial system, unless the account is tax-exempt.

Transfer pricing

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

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

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

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

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

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

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

Tax assessment by Tax Authorities

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

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

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

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

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

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

Concerning the CRAC, 2012 was audited by the Tax Authorities. The CRAC filed an appeal before the Tax Court in 2017. In 2016, the Tax Authorities concluded the tax assessment of year 2013 and did not generate any significant contingencies.

Currently, the Tax Authorities is carrying out the tax assessment of year 2014. The income tax returns for the years 2015 through 2019 are open for review by the Tax Authorities.

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

Due to the possibility of various interpretations of the current regulations by the Tax Authorities, it is not possible to determine, to date, whether a future tax audit will result or not in liabilities for the Scotiabank Group of the period in which they are recognized. However, it is the opinion of management and its legal advisors that any possible additional settlement of taxes would not be significant for the Scotiabank Group's consolidated financial statements as of December 31, 2019 and 2018.

Tax regime applicable to Value Added Tax (VAT)

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

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

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

K. New regulatory concept of accrual: Legislative Decree 1425 introduced the definition of "legal accrual" for income tax purposes, stating that: a) income for transfer of goods occurs when i) control has been transferred (in accordance with IFRS 15); or ii) risk has been transferred to the acquirer (Risk Theory set out in the Civil Code), whichever occurs first; and b) income for service provision occurs when realization level of the service provided has been established.

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

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

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

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

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

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

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

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

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

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

Information related to ultimate beneficiaries

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

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

Indirect transfer of shares

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

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

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

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

Joint and several liability of legal representatives and directors

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

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

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

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

28. Deferred Tax

Deferred tax assets have been calculated applying the liability method per entity (note 4.P). The consolidated deferred tax asset as of December 31, 2019 and 2018 mainly comprises:

In thousands of soles	**Balances as of 01.01.18**	**(Debit) credit to profit or loss**	**Balances as of 12.31.18**	**(Debit) credit to profit or loss**	**Acquisition of subsidiary (note 1.C)**	**Balances as of 12.31.19**
General provision for direct/indirect loan losses	201,809	18,144	219,953	17,197	2,059	239,209
Provision for accounts receivable	26,641	4,019	30,660	974	-	31,634
Provision for repossessed assets	13,327	3,305	16,632	9,110	-	25,742
Provision for vacations	16,586	(8,933)	7,653	(1,884)	424	6,193
Provision for credit and debit card rewards	5,584	(311)	5,273	-	-	5,273
Investment in subsidiaries	940	-	940	-	-	940
Finance leases, net	8,967	(8,536)	431	(296)	-	135
Intangible assets	(5,295)	4,359	(936)	(1,378)	(99,101)	(101,415)
Others	(12,730)	(7,046)	(19,776)	(20,099)	1,677	(38,198)
Deferred tax assets, net	**255,829**	**5,001**	**260,828**	**3,624**	**(94,941)**	**169,513**

29. Employees' Profit Sharing

According to Legislative Decree 677, bank's employees are entitled to a profit-sharing plan computed at 5% of the net profit, similarly to employees of the entities part of the Scotiabank Group. This profit sharing is considered as a deductible expense for income tax calculation purposes. In 2019, legal employees' profit sharing was determined for S/ 85,351 thousand (S/ 85,844 thousand in 2018), which is included in 'administrative expenses' in the consolidated statement of profit or loss.

30. Trust Fund Activities

The Scotiabank Group offers structuring and management services of trust operations and trust fees, and is in charge of the preparation of agreements related to these operations. Assets held in trust are not included in the consolidated financial statements. The Scotiabank Group is responsible for the appropriate management of these trusts based on the limits established by applicable laws and the respective agreement. As of December 31, 2019, the allocated value of assets in trusts and trust fees amounts to S/ 5,380,636 thousand (S/ 4,599,751 thousand in 2018).

31. Related Party Transactions

As of December 31, 2019 and 2018, the consolidated financial statements include related party transactions, which, under IAS 24, comprise the Parent Company, related parties, associates, other related parties, and the Bank's directors and key management. All related party transactions are conducted in accordance with market conditions applicable to non-related third parties.

A. The balances of the Scotiabank Group's consolidated statement of financial position arising from related parties as of December 31, were as follows:

	2019					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	-	360	-	-	360	-	43,076	-	-	43,076
Loan portfolio, net	-	466,518	6,838	25,231	498,587	-	505,664	9,450	18,447	533,561
Held-for-trading and hedging instruments	-	108,979	-	-	108,979	-	20,921	-	-	20,921
Other assets, net	-	57,963	95,251	114	153,328	-	451,473	79,058	15	530,546
Total assets	**-**	**633,820**	**102,089**	**25,345**	**761,254**	**-**	**1,021,134**	**88,508**	**18,462**	**1,128,104**
Liabilities										
Deposits and obligations with financial institutions	2,165,253	791,903	16,770	27,809	3,001,735	1,175,823	418,135	43,267	22,072	1,659,297
Borrowings and debts	230,252	5,646,090	-	-	5,876,342	241,582	4,397,150	-	-	4,638,732
Held-for-trading and hedging instruments	-	27,939	-	-	27,939	-	76,979	-	-	76,979
Provisions and other liabilities	-	47,289	10,431	27	57,747	20	532,093	1,139	149	533,401
Total liabilities	**2,395,505**	**6,513,221**	**27,201**	**27,836**	**8,963,763**	**1,417,425**	**5,424,357**	**44,406**	**22,221**	**6,908,409**
Off-balance sheet accounts										
Indirect loans	-	496,879	47,396	-	544,275	-	588,502	72,300	-	660,802
Derivative instruments	-	8,290,576	-	-	8,290,576	-	7,635,708	-	-	7,635,708

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

B. The effects of related party transactions in the Scotiabank Group's consolidated statement of financial position are detailed below for the year ended December 31:

	2019					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	-	33,043	345	1,558	34,946	-	30,866	442	1,257	32,565
Interest expenses	(20,055)	(172,992)	(300)	(573)	(193,920)	(20,134)	(129,242)	(267)	(422)	(150,065)
	(20,055)	**(139,949)**	**45**	**985**	**(158,974)**	**(20,134)**	**(98,376)**	**175**	**835**	**(117,500)**
Financial service income	15	4,759	814	241	5,829	15	5,667	684	193	6,559
Financial services expense	-	(72)	(20,563)	(30)	(20,665)	-	(2,775)	(16,308)	(19)	(19,102)
	15	**4,687**	**(19,749)**	**211**	**(14,836)**	**15**	**2,892**	**(15,624)**	**174**	**(12,543)**
Net income from financial transactions	-	92,958	18,687	-	111,645	-	(62,617)	15,377	-	(47,240)
Administrative expenses (ii)	-	(10,705)	(966)	(86)	(11,757)	-	(5,777)	(693)	(100)	(6,570)
Other income, net	-	12	6	(4)	14	-	13	-	(1)	12
Net profit	**(20,040)**	**(52,997)**	**(1,977)**	**1,106**	**(73,908)**	**(20,119)**	**(163,865)**	**(765)**	**908**	**(183,841)**

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

(ii) Excluding personnel expenses.

C. Remuneration of key personnel and directors for the years ended December 31 was as follows:

In thousands of soles	**2019**	**2018**
Remuneration to key personnel	31,756	32,529
Remuneration to members of the Board of Directors	1,544	1,435
	33,300	**33,964**

As of December 31, 2019 and 2018, the outstanding remuneration to key personnel amounted to S/ 11,608 thousand and S/ 11,920 thousand, respectively.

32. Classification of Financial Instruments

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

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

(a) It includes financial assets measured at cost.

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

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

		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	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, net	10	-	1,095,094	-	-	-	-	1,095,094
Other assets, net	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 with financial institutions and international financial institutions	15	-	-	-	-	-	468,620	468,620
Borrowings and debts	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) It includes financial assets measured at cost.
(b) It includes financial liabilities whose fair value correspond to carrying amounts in accordance with Official Letter 43078-2014-SBS and Official Letter 1575-2014-SBS.
(c) It includes unlisted securities (note 7).

33. Financial Risk Management

The Scotiabank Group has a strong risk culture throughout the entire entity and manages risks related to its activities with a model of three lines of defense. Risk management is a responsibility shared by all employees, being a main element the risk diversification across different lines of business, products and industries. The first line is constituted by the areas that assume the risks, the second line includes risk and control functions, and the third line is related to audit functions.

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' inability to meet their contractual obligations.

B. Market risk: It is the risk of loss in on-balance or off-balance sheet positions due to changes in the market conditions. It generally includes exchange rate, interest rate, price and other risks.

C. Liquidity risk: It is the risk of loss due to inability to meet borrowing requirements and application of funds arising from cash flow mismatches.

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

Current risk management allows the Bank to identify, measure and assess the return on risk in order 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 risk–return spectrum. The Risk Appetite Framework's main purpose is to provide an integrated set of policies, guidelines and principles in order to ensure the 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 the following requirements: (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

It is responsible for setting the main guidelines to maintain an effective risk management supported by the Parent Company, establishing an overall 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 of the following committees: The Asset-Liability Committee (ALCO), Retail Credit Risk Committee and Operational Risk Committee.

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

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

(ii) Aligned and updated risk policies and limits
The policies are based on recommendations from the different risk units, internal audit, business lines, industry best practices, regulatory and Parent Company requirements, as well as the recommendations from senior management. They are governed by the Risk Appetite Framework, and set the limits and controls within which the Scotiabank Group can operate.

The policies are reviewed and approved by the Board of Directors, either directly or through its committees. They provide a description of the types of exposure, responsibilities and conditions that the Scotiabank Group will consider in doing business, in order to ensure a proper understanding of clients, products, markets and fully understanding of risks inherent to each activity.

(iii) Risk monitoring
The Risk Division has developed a set of policies to identify, measure and communicate the evolution of risks in different products and banking, which are intended to early anticipate any portfolio impairment in order to adopt corrective measures.

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

A. Credit risk

- ***Life cycle: Admission, Monitoring and Collection***
  The Risk Units are responsible for designing and implementing strategies and policies to achieve a loan 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, based on a risk (measured based on a rating or scoring) to return spectrum. Also, for portfolio management, loans are monitored in order to minimize future losses. For collection management, these clients are segmented in 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 Banking unit, according to policies and red flags, resulting from the monitoring of the portfolio. For retail portfolio, risk-based strategies (scoring) are established to optimize available resources for collection seeking to reach greater effectiveness.

- ***Credit risk mitigation - collaterals***
The Scotiabank Group has a set of policies and practices to mitigate credit risk. One of them is the use of collaterals; however, loans are not granted for the amount or quality of collaterals but for the debtor's ability to meet its obligations. Even though collaterals reduce the risk of loss, they shall not be linked to the primary source of repayment.

The value of collaterals is established through remeasured valuations, which are held regularly and consider changes in the market. 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 changes.

Periodical certifications of price, value and changes of collaterals are conducted by the Scotiabank Group; and, if necessary, measures are adopted to mitigate the risk inherent to the value of these collaterals.

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

The types of collaterals include mortgages, levies on assets, such as inventories, premises and accounts receivable, and levies on financial instruments, such as debt and equity instruments.

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

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

Credit portions hedged by each type of collateral as of December 31, are presented below:

In thousands of soles	***Note***	**2019**	**2018**
Loans with first mortgage collateral or collateral trust on property registered in Public Registry		11,982,098	11,789,707
Loans with non-preferred collaterals		10,783,290	9,813,858
Finance lease loans		3,658,005	3,479,971
Loans with contingent liability		4,327,843	3,432,580
Loans with first real estate collateral or collateral trust registered in Public Registry		2,010,691	1,766,770
Loans with cash deposit collateral		333,079	338,087
Loans with collateral or collateral trust registered in Public Registry – warrants		137,325	186,068
Other collaterals		24,117	24,960
Loans with no collateral		20,587,282	18,828,406
Total loans	***8***	**53,843,730**	**49,660,407**

- ***Credit rating***
  For Corporate and Commercial Loans, the Bank uses the Advanced Internal Rating-Based (AIRB) approach. Based on this internal rating, it assigns the limits of credit autonomy.

  For Retail Banking, an internal score that reflects the strength of clients based on the probability of default and payment is used. Also, this score determines the strategies to be used with clients based on the risk of each one.

  Additionally to these ratings, debtors' regulatory 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 Resolution 11356-2008 "Regulation for Debtor's Assessment and Rating and Provision Requirement," which establishes five debtor's ratings: Wholesale Portfolio (corporate, large and medium-business loans) and Retail Portfolio (small and micro-business, consumer and mortgage loans):

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

- ***Loan portfolio impairment loss***
  As of December 31, 2019 and 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 loans***
    It comprises client's past-due loans rated as 'standard' or 'potential problems.'

  - ***Impaired loans***
    Retail Banking comprises loans rated as 'substandard,' 'doubtful' or 'loss,' and refinanced, restructured and lawsuit loans.

    Wholesale Banking comprises loans past-due of more than 90 days, rated as 'substandard,' 'doubtful' or 'loss,' and refinanced, restructured and lawsuit loans.

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

In thousands of soles	**Wholesale loans**	**Small and micro-business loans**	**Consumer loans**	**Mortgage loans**	**Total**	**%**
2019						
Neither past-due nor impaired loans						
Standard	27,322,585	2,415,778	12,703,980	6,620,798	49,063,141	91%
Potential problems	601,297	90,445	359,571	132,716	1,184,029	2%
Past due but not impaired loans						
Standard	31,387	25	9	6	31,427	-
Potential problems	39,877	6	26,247	300	66,430	-
Impaired loans						
Standard	9,210	2	39	-	9,251	-
Potential problems	72,710	-	8	1	72,719	-
Substandard	132,599	70,408	298,235	93,251	594,493	1%
Doubtful	306,538	109,812	533,336	132,660	1,082,346	2%
Loss	492,663	302,511	538,949	405,771	1,739,894	4%
Gross loan portfolio	**29,008,866**	**2,988,987**	**14,460,374**	**7,385,503**	**53,843,730**	**100%**
Less: provisions	(893,715)	(400,951)	(1,180,790)	(437,460)	(2,912,916)	-
	28,115,151	**2,588,036**	**13,279,584**	**6,948,043**	**50,930,814**	**-**
2018						
Neither past-due nor impaired loans						
Standard	26,951,848	2,147,568	9,904,134	6,142,650	45,146,200	91%
Potential problems	603,812	86,136	387,428	150,353	1,227,729	2%
Past due but not impaired loans						
Standard	24,685	61	56	-	24,802	-
Potential problems	44,516	11	101	233	44,861	-
Impaired loans						
Standard	5,114	4	37	-	5,155	-
Potential problems	91,354	-	8	2	91,364	-
Substandard	212,141	68,002	262,251	93,869	636,263	1%
Doubtful	178,396	107,621	421,367	152,692	860,076	2%
Loss	449,821	329,545	500,118	344,473	1,623,957	4%
Gross loan portfolio	**28,561,687**	**2,738,948**	**11,475,500**	**6,884,272**	**49,660,407**	**100%**
Less: provisions	(745,354)	(408,737)	(1,098,422)	(375,053)	(2,627,566)	-
	27,816,333	**2,330,211**	**10,377,078**	**6,509,219**	**47,032,841**	**-**

As of December 31, 2019 and 2018, refinanced loans amount to S/ 955,922 thousand and S/ 804,150 thousand, respectively, of which S/ 146,977 thousand and S/ 108,904 thousand are classified as 'neither past due nor impaired loans,' and S/ 808,945 thousand and S/ 695,296 thousand, as 'impaired loans.'

Likewise, as of December 31, past due but not impaired loans are presented per type of loan, days in arrears and value of related collaterals as follows:

	Days in arrears					
In thousands of soles	**16 -30**	**31 – 60**	**61 – 90**	**More than 90**	**Total**	**Value of collaterals**
2019						
Type of loan						
Corporate loans	67	-	-	-	67	-
Large-business loans	17,209	2,528	-	-	19,737	27,936
Medium-business loans	19,846	31,604	6	4	51,460	75,807
Subtotal wholesale	**37,122**	**34,132**	**6**	**4**	**71,264**	**103,743**
Small-business loans	27	1	1	-	29	2,255
Micro-business loans	2	-	-	-	2	-
Revolving loan	14,283	3	3	-	14,289	30
Non-revolving loan	11,966	1	-	-	11,967	1
Mortgage loans	5	301	-	-	306	948
Subtotal retail	**26,283**	**306**	**4**	**-**	**26,593**	**3,234**
	63,405	**34,438**	**10**	**4**	**97,857**	**106,977**
2018						
Type of loan						
Corporate loans	-	-	-	-	-	-
Large-business loans	8,322	2,484	1	-	10,807	16,091
Medium-business loans	27,303	31,078	6	7	58,394	114,709
Subtotal wholesale	**35,625**	**33,562**	**7**	**7**	**69,201**	**130,800**
Small-business loans	67	3	-	-	70	632
Micro-business loans	2	-	-	-	2	-
Revolving loan	46	2	1	-	49	48
Non-revolving loan	98	1	1	8	108	1
Mortgage loans	-	233	-	-	233	305
Subtotal retail	**213**	**239**	**2**	**8**	**462**	**986**
	35,838	**33,801**	**9**	**15**	**69,663**	**131,786**

As of December 31, hedging of impaired loans, taking into consideration collaterals and related provisions, is presented below:

In thousands of soles	Wholesale loans	Small and micro-business loans	Consumer loans	Mortgage loans	Total
2019					
Impaired loans	1,013,720	482,733	1,370,567	631,683	3,498,703
Value of collaterals	1,404,765	603,129	255,588	798,036	3,061,518
Provisions for impairment loss	(535,114)	(329,143)	(930,806)	(377,104)	(2,172,167)
2018					
Impaired loans	936,826	505,172	1,183,781	591,036	3,216,815
Value of collaterals	1,332,997	640,658	237,377	760,412	2,971,444
Provisions for impairment loss	(476,485)	(345,983)	(813,852)	(319,372)	(1,955,692)

The collaterals were considered for the calculation of provisions for impairment loss in accordance with the criteria established in SBS Resolution 11356-2008.

- ***Write-off of loans***

As of December 31, the Bank, CrediScotia and CRAC hold written-off loans, which are presented in suspense accounts, as follows:

In thousands of soles	2019	2018
Opening balance	4,048,037	3,123,519
Write-offs	1,433,642	956,341
Acquisition of subsidiary	192,760	-
Cash recovery	(86,518)	(56,523)
Forgiveness	(22,998)	(2,357)
Exchange difference	(20,986)	45,575
Others	(31,537)	(18,518)
Closing balance	**5,512,400**	**4,048,037**

- ***Financial assets exposed to credit risk concentration***
  As of December 31, financial assets are distributed among geographical areas as follows:

In thousands of soles	At fair value through profit or loss	Loans and items receivable	Available-for-sale investments: At amortized cost (*)	Available-for-sale investments: At fair value	Total
2019					
Peru	467,003	67,071,581	7,411	5,987,329	73,533,324
Canada	108,509	360	-	-	108,869
United States	-	64,821	-	-	64,821
United Kingdom	-	7,605	-	-	7,605
Switzerland	-	3,020	-	-	3,020
Germany	-	2,163	-	-	2,163
Belgium	-	343	-	-	343
Australia	-	18	-	-	18
	575,512	**67,149,911**	**7,411**	**5,987,329**	**73,720,163**
2018					
Peru	363,048	59,781,004	6,146	4,194,323	64,344,521
United States	-	187,003	-	-	187,003
Canada	19,886	15,081	-	-	34,967
Belgium	-	17,501	-	-	17,501
United Kingdom	-	14,583	-	-	14,583
Germany	-	9,279	-	-	9,279
Venezuela	-	-	1,282	-	1,282
Switzerland	-	538	-	-	538
Australia	-	40	-	-	40
	382,934	**60,025,029**	**7,428**	**4,194,323**	**64,609,714**

(*) Including financial assets measured at cost.

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

In thousands of soles	2019		2018	
Mortgage and consumer loans	21,845,878	41%	18,677,270	38%
Manufacturing	7,366,564	14%	5,330,058	11%
Trading	6,628,880	12%	6,572,862	13%
Real estate, business and leasing services	4,543,506	8%	4,521,658	9%
Transport	3,045,641	6%	2,241,030	4%
Mining	1,838,286	3%	3,835,207	8%
Power, gas and water	1,786,152	3%	1,998,538	4%
Agriculture and livestock	1,483,808	3%	1,246,165	2%
Financial intermediation	1,282,167	2%	894,783	2%
Education, services and others	880,431	2%	2,403,897	5%
Hospitality	478,175	1%	370,114	1%
Construction	295,988	1%	316,750	1%
Public administration and defense	241,212	-	261,416	-
Fishing	93,988	-	275,755	1%
Others (mainly non-profit, healthcare and automotive)	2,033,054	4%	714,904	1%
	53,843,730	**100%**	**49,660,407**	**100%**

B. Market risk

It is the risk of loss due to changes in market prices, such as interest rate, equity value, exchange rate and credit spread, 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. It is in order to ensure solvency while optimizing the risk-adjusted return.

i. Market risk management

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 financial liabilities which are managed on a market value basis.

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

Management uses different tools to monitor exposure to market risk for trading and non-trading portfolios, as follows:

ii. Exposure to market risk – Trading portfolio

The main tool used to measure and control market risk within the Scotiabank 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 change in the market price with a probability determined by the confidence level, under normal market conditions. The VaR used by the Scotiabank Group is a historical simulation approach at a 99% of 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 VaR generates a wide range of various future scenarios for changes in the market price.

Although VaR is an important tool for measuring market risk, the assumptions on which the VaR 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 VaR used, there is a 1% probability that losses may exceed the VaR.
- The VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trade date.
- 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 calculation depends on the Scotiabank Group's position and the changes in market prices. The VaR of a static position reduces if there is a decrease in changes in market prices and vice versa.

The Scotiabank Group uses VaR limits for total market risk and interest rate and exchange rate risks. The overall structure of VaR limits is subject to ALCO's approval and is allocated to trading portfolios. VaR is daily calculated and monitored through daily reports of use which are submitted from local Market Risk Unit to Treasury and Parent Company. Monthly reports are submitted to ALCO.

The VaR limitations are recognized by complementing its limits with other position and sensitivity limit structures. In addition, a wide range of stress tests are used to model the financial impact of different trading portfolio scenarios. Management determines hypothetical scenarios considering potential macroeconomic factors (such as long-term market illiquidity periods, reduced currency convertibility, natural disasters and other catastrophes). ALCO reviews the analysis of these scenarios.

The VaR is subject to regular validation to ensure that it continues 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 backtesting.

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

In thousands of soles	**2019**	**2018**
Total VaR Peru	1,823	810

Sensitivity analysis in trading portfolio is used to measure the effect of changes 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.

iii. Exposure to market risk – Non-trading portfolio

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

Equity 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 profit or loss 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, exchange rate risk and investment portfolio risk, 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 exposure to interest rate risk in order to improve the net interest income according to established risk tolerance policies.

Market risks arising from financing and investing 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 changes, as well as non-parallel changes.

Gap analysis is used to assess the sensitivity of repricing mismatches in the 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 are assigned to an interest rate gap term based on the shorter of the 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 risk in non-trading portfolios mainly arise from terms and currency mismatches of the loan portfolio. 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 aim to keep under control the risk of net interest income, as well as the equity value.

Interest rate risk report is presented on a monthly basis by 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, alternative simulations and stress tests are used in this management process for monitoring and planning purposes.

The table below summarizes the exposure to interest rate risk as of December 31, including the carrying amount of assets and liabilities classified by contractual repricing or maturity date, whichever occurs first.

	2019						2018					
In thousands of soles	**Up to 1 month**	**Over 1 to 3 months**	**Over 3 to 12 months**	**More than 1 year**	**Not accrue interest**	**Total**	**Up to 1 month**	**Over 1 to 3 months**	**Over 3 to 12 months**	**More than 1 year**	**Not accrue interest**	**Total**
Assets												
Cash and due from banks	740,508	2,354,933	1,184,617	9,335,122	1,457,027	15,072,207	1,709,995	769,224	-	6,907,105	1,179,707	10,566,031
Interbank funds	38,002	-	-	-	-	38,002	65,505	-	-	-	-	65,505
Investments at fair value through profit or loss and available-for-sale investments	149,682	154,210	1,682,120	4,327,500	98,592	6,412,104	911,913	69,326	1,418,709	2,085,666	-	4,485,614
Loan portfolio	5,006,244	7,448,324	14,403,824	24,430,966	-	51,289,358	5,771,484	6,697,019	13,843,885	21,035,698	-	47,348,086
Held-for-trading and hedging instruments	-	-	-	-	158,148	158,148	-	-	-	-	99,071	99,071
Accounts receivable	-	-	-	53,867	1,101,873	1,155,740	-	-	-	-	1,791,354	1,791,354
Other assets	-	-	-	-	2,205,139	2,205,139	-	-	-	-	2,517,280	2,517,280
Total assets	**5,934,436**	**9,957,467**	**17,270,561**	**38,147,455**	**5,020,779**	**76,330,698**	**8,458,897**	**7,535,569**	**15,262,594**	**30,028,469**	**5,587,412**	**66,872,941**
Liabilities												
Deposits and obligations	13,593,604	3,333,169	18,394,521	9,067,596	14,662	44,403,552	10,571,959	4,512,018	16,954,134	7,430,651	13,712	39,482,474
Interbank funds	362,422	-	-	-	-	362,422	438,233	-	-	-	-	438,233
Deposits with financial institutions and international financial institutions	171,651	186,396	752	540	-	359,339	263,033	202,945	2,547	94	-	468,619
Borrowings and debts	2,300,282	5,066,026	3,371,423	1,937,097	6,046	12,680,874	2,344,394	5,417,851	2,684,028	884,938	4,012	11,335,223
Held-for-trading and hedging instruments	-	-	-	-	129,701	129,701	-	-	-	-	86,161	86,161
Accounts payable	356	400	920	98	7,577,929	7,579,703	-	-	-	-	4,634,854	4,634,854
Provisions	-	-	-	-	331,325	331,325	-	-	-	-	323,611	323,611
Other liabilities	-	-	-	-	585,748	585,748	-	-	-	-	1,292,341	1,292,341
Total liabilities	**16,428,315**	**8,585,991**	**21,767,616**	**11,005,331**	**8,645,411**	**66,432,664**	**13,617,619**	**10,132,814**	**19,640,709**	**8,315,683**	**6,354,691**	**58,061,516**
Off-consolidated statement of financial position accounts												
Derivative instruments	6,976,587	6,529,950	5,386,727	24,331	-	18,917,595	8,911,672	6,738,529	1,473,854	7,815	-	17,131,870
Marginal gap	(10,493,879)	1,371,476	(4,503,716)	27,148,785	(3,624,632)	9,898,034	(5,158,722)	(2,597,245)	(4,378,115)	21,712,787	(767,279)	8,811,426
Accumulated gap	(10,493,879)	(9,122,403)	(13,626,119)	13,522,666	9,898,034	-	(5,158,722)	(7,755,967)	(12,134,082)	9,578,705	8,811,426	-

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

Earnings at Risk (EaR) and Equity Value at Risk (EVAR) indicators are focused on the impact of potential changes in interest rate on value generation, specifically through the profit margin, and the equity value of the Bank and CrediScotia. This methodology is applied under normal and stressed market conditions. As of December 31, the interest rate indicators are the following:

%	2019	2018
EVAR (i)	7.09	8.71
EaR (ii)	2.90	1.87

i This indicator is focused on the impact of potential changes in interest rate on value generation, specifically, through the profit margin, and the Bank's equity value. It measures the percentage of regulatory capital exposed to interest rate risk as a result of marginal mismatches weighted by their respective sensitivity for all temporary bands.

ii This indicator is focused on the impact of potential changes in interest rate on value generation through the profit margin. It measures the percentage of regulatory capital exposed to interest rate risk as a result accumulated mismatches up to one year. It shall not exceed 5%.

This methodology has been established by the SBS and is applied under normal market conditions.

Exchange rate risk
It is the risk of loss due to adverse changes in exchange rates used by the Scotiabank Group. This risk is managed by the Trading Unit.

The Trading Unit is responsible for managing foreign currency transactions and forward portfolios in accordance with policies, procedures and controls designed to ensure profitable business opportunities. This while considering professionally and cautiously adequate risk levels and changes in market variables.

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 compare actual gains or losses with those obtained through the model.

As of December 31, the VaR results (estimated maximum loss on changes in exchange rate) are detailed as follows:

In thousands of soles	2019	2018
Exchange rate VaR	1,137	355

Management calculates the VaR using historical simulation method on 300 days of market data to measure the estimated maximum loss on changes in the exchange rate, considering as variables the net asset position in foreign currency and changes in exchange rate. As of December 31, 2019 and 2018, the Scotiabank Group records a net asset position in foreign currency in the consolidated statement of financial position for US$ 87,360 thousand and a net liability position for US$ 938 thousand, respectively (note 4).

As of December 31, 2019, the global position of overbought in the Bank amounted to S/ 166,740 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 interest rate risks, and long-term capital investment with attractive returns, and administered within approved policies and limits: Limits per type and term of the investment. On the other hand, trading portfolio is acquired with the intention of short- term profit-taking, arising from changes in prices.

Investment portfolios are composed of liquid instruments, mainly certificates of deposit issued by the BCRP and Peruvian treasury bonds issued in local and foreign currency.

C. Liquidity risk
It is the risk of loss due to debtor's inability to meet its financial obligations in the short-term; therefore, the Bank is forced to incur in debt or sell assets in unusually unfavorable conditions.

The Scotiabank Group's approach to manage liquidity is to ensure, as far as possible, that it will always have enough liquidity to meet its obligations upon maturity, under both normal and stress 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 credit lines.
- Carrying a portfolio of highly liquid assets diversified by currency and maturity.
- Monitoring liquidity ratios, maturity mismatches, behavior characteristics of the financial assets and financial liabilities, and the extent to which their assets are available as potential collateral for obtaining funding.
- Carrying out stress tests on 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%, for local and foreign currency, respectively. As of December 31, 2019, the Bank's ratios in local and foreign currencies were 19.22% and 44.33% respectively (15.47% and 43.44%, respectively, as of December 31, 2018).

For CrediScotia, this relation between liquid assets and short-term liabilities shall be greater than 10% and 25%, for local and foreign currency, respectively, given the level of CrediScotia's deposits.

As of December 31, 2019, CrediScotia ratios in local and foreign currency were 19.18% and 124.95% respectively (21.17% and 188.0% respectively, as of December 31, 2018).

The CRAC shall hold local and foreign currency ratios of 10% and 25%, respectively. In this regard, it held adequate levels of 32.00% in local currency and 371.43% in foreign currency (42.35% in local currency and 271.18% in foreign currency at the closing of year 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 funds.

As of December 31, 2019, the minimum amount required by the regulator was 100%, in 2018, it was 90%. The Bank presented levels of liquidity reaching 117.07% in local currency and 117.29% in foreign currency (104.99% in local currency and 106.86% in foreign currency as of December 31, 2018).

CrediScotia presented ratios in local and foreign currency reaching 109.9% and 113.7%, respectively (113.4% and 186.4% respectively, as of December 31, 2018).

The CRAC had adequate liquidity levels with an RCL of 133.72% and 222.48% in local and foreign currency, respectively (125.51% in local currency and 337.07% in local currency at the closing of year 2018).

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

In thousands of soles	**Demand deposits and up to 1 month**	**1 – 3 months**	**3 – 12 months**	**More than 1 year**	**Total**
2019					
Deposits and obligations	33,254,195	3,429,553	5,520,807	2,198,997	44,403,552
Interbank funds	362,422	-	-	-	362,422
Deposits with financial institutions and international financial institutions	322,747	35,302	752	540	359,341
Borrowings and debts	774,153	1,375,035	4,068,457	6,463,229	12,680,874
Held-for-trading and hedging instruments	43,974	38,928	35,015	11,784	129,701
Accounts payable and other liabilities	2,605,598	2,591,481	2,808,889	30,527	8,036,495
Total liabilities	**37,363,089**	**7,470,299**	**12,433,920**	**8,705,077**	**65,972,385**
Off-consolidated statement of financial position credit risk					
Liability position in derivative instruments through delivery	1,616,335	1,013,462	4,095,885	954,896	7,680,577
2018					
Deposits and obligations	27,673,168	4,594,630	5,320,336	1,894,339	39,482,473
Interbank funds	438,233	-	-	-	438,233
Deposits with financial institutions and international financial institutions	263,037	202,943	2,545	95	468,620
Borrowings and debts	1,146,834	1,323,133	3,196,854	5,668,402	11,335,223
Held-for-trading instruments	34,337	14,026	4,818	32,980	86,161
Accounts payable and other liabilities	2,305,927	1,492,019	1,809,091	228,176	5,835,213
Total liabilities	**31,861,536**	**7,626,751**	**10,333,644**	**7,823,992**	**57,645,923**
Off-consolidated statement of financial position credit risk					
Liability position in derivative instruments through delivery	2,082,010	1,731,348	1,080,706	775,593	5,669,657

D. Operational and technological risks

The Operational Risk Management Framework sets out an integrated approach to identify, assess, control, mitigate and report operational risk based on key components such as the internal governance, risk appetite, measurement, monitoring, reporting, among others.

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 defense model, establishing the responsibilities of operational risk management.

During 2019, the development of operational risk management methodologies for the Scotiabank Group has continued in order to incorporate aspects to strengthen management. On the other hand, in 2019, the new Senior Vice President of Anti Money Laundering & Internal Control was created at a corporate level, which reports directly to the General Management of the Bank. The latter in order to strengthen the Rol 1B of the model of three lines of defense. Rol 1B is in charge of supporting and coordinating with the first line of defense (Rol 1A) to implement programs of non-financial risks, including programs or methodologies of operational risk.

In this period, the regulatory authorization to apply the alternative standard method to calculate the regulatory capital due to operational risk was renewed. This for a 24-month period from October 2019 to September 2021, both for the Bank and CrediScotia.

During 2019, the Scotiabank Group's profit or loss reports were periodically presented to the Global Operational Risk Unit of the Parent Company, Risk Control Committee, Board of Directors of the Bank, Operational and Technological Risk Unit as well as the first-line Vice Chairs and Management of the Bank and CrediScotia.

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 entities 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.

Main operational risk management methodologies are the following:

(a) Operational risk loss event methodology.
(b) Key risk indicators (KRIs) methodology.
(c) Business Continuity Management – BCM methodology.
(d) Operational Risk and Controls Assessment methodology; Risk Control Assessment and Risk Control Self-Assessment (RCSA) methodology.
(e) Risk assessment methodology of new initiatives and/or significant changes, among others
(f) Methodology of risk management with third parties, among others.

(a) 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 the 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 business line, type of event and effect type, according to Basel definitions and the "Regulation on Operational Risk Management" approved by the local regulator.

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

(b) 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 KRIs across the Scotiabank Group.

During 2019, the activities developed within the methodology were:

- Monitoring the 19 executive risk indicators of the Bank, 15 of CrediScotia and 23 of the CRAC. KRIs have risk thresholds, which, in case where the accepted risk levels were exceeded, generated the implementation of action plans and corrective measures.
- Monitoring the 19 informative indicators of the Bank and 9 of CrediScotia.
- 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 the action plans derived from the KRI methodology.

(c) Business Continuity Management – BCM methodology

The Scotiabank Group has 126 current Business Continuity Plans (BCPs) in its Vice chairs and/or main management areas and subsidiaries.

In March, April and September 2019, face-to-face trainings and workshops were given to business continuity planners. The objective of these trainings was to strengthen the Business Continuity culture in the entity and to assist them in the process of updating and executing annual tests of their BCPs. To date, BCM is part of the Scotiabank Group's general induction program.

The process of updating the BCPs was carried out in a massive way, meeting the scorecard of April and October 2019. The business units updated their plan strategy, BIA analysis and guide in case of a pandemic.

The Scotiabank Group has an alternate site to support its most critical processes; which remains ready and operational 24 hours a day, 7 days a week providing support to the most sensitive processes.

Entity	Location	Amount
The Bank, CrediScotia, SAF, SAB and Titulizadora	Magdalena Branch	104 locations
Scotia Contacto	San Miguel Branch	14 locations
	Arenales Branch	36 locations
	Nicolás de Piérola Branch	25 locations
	Magdalena Branch	02 locations
CRAC	Santa Anita Branch	08 locations

During the fourth quarter, simulation tests of continuity plans TYPE I and II (containing critical process sensitive to the time) were favorably completed. The objective of these tests is to ensure the proper functioning of the working positions in case these were required due to a contingency, disaster or emergency.

Business Continuity tests include the walkthrough test, call chain test, quarterly review of the call chain, manual procedures (if applicable) and the complete simulation test at the alternate site.

Further detail on main internal and external tests is provided as follows:

Internal tests

- In August 2019, the Disaster Recovery Plan was tested at the Computer Center in Mexico and Critical Units at the Magdalena Branch.
- In August 2019, the Contingency Plan (manual procedures) was tested at the agencies.
- In September 2019, the tabletop test for the plans of Foreign Trade and Global Capital Markets Service Continuity and Treasury was performed along with BNS.
- In November, a cyber-attack drill was performed with LIMT, excluding the CRAC and Profuturo.
- In June and December 2019 a scenario test was performed for each geographical area and total capacity, respectively. The Bank and CrediScotia participated in the test.

External tests

- In September 2019, the Scotiabank Group or the Bank participated with Association of Banks of Peru (ASBANC) associates in the Design Thinking test for lines of communication in case of cybernetic events.
- In October 2019 the Group participated along with ASBANC, SBS and its main banks in the cyber-attack drill organized by BCRP.
- In May and August 2019 the National Earthquake Drills were carried out.

(d) Operational Risk and Controls Assessment methodology; Risk Control Assessment and RCSA

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

To complement this, the RCSA tool 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 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 strengthen 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 of:

- Business lines: approach per product family.
- 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 2019, methodological improvements were incorporated in order to strengthen the risk assessment program and local controls. During this year, 78 assessments were carried out in the Bank, 22 in CrediScotia and 14 in the CRAC.

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

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

The Scotiabank Group has established policies for overall 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 an overall risk assessment prior to its development, and it shall be updated after its implementation.

In order for an initiative to be approved, it is required that the initiative have a risk self-assessment conducted by the Leader or Sponsor. The Operational Risk Unit is the responsible for contrasting/challenging the results and other control functions such as Compliance with Fraud Prevention, Money Laundering and Terrorism Financing Prevention, Legal Advisory, among other units.

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

(f) Risk management methodology with third parties, among others

The policies and methodology for the execution of third party risk management (TPRM) were implemented at the end of 2017 and throughout 2018, respectively. In 2019, the implementation of the TPRM program was still being carried out, with some improvements that include a data remediation process for the contracting parties, while applying processes focusing on privacy, business continuity and information security. The Scotiabank Group recognizes that an efficient and integrated approach to run the management risk process is key to achieve best practices of risk management with third parties. Therefore, the objective of reducing the potential risk of hiring third parties to provide services to the Scotiabank Group is to guarantee the risk identification, measurement and management with third parties.

Training and awareness

Throughout 2019, training on Operational Risk and Business Continuity has been provided to personnel of agencies, business officers, specialized units (including control functions), operational risk managers and new staff joining the Scotiabank Group.

34. Fair Value

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

	Carrying amount		Fair Value	
In thousands of soles	**2019**	**2018**	**2019**	**2018**
Assets				
Cash and due from banks	15,072,207	10,566,031	15,072,207	10,566,031
Interbank funds	38,002	65,505	38,002	65,505
Investments at fair value through profit or loss:				
Equity instruments	11,637	11,143	11,637	11,143
Debt instruments	405,727	272,720	405,727	272,720
Available-for-sale investments				
Equity instruments	8,245	8,094	8,245	8,094
Debt instruments	5,986,495	4,193,657	5,986,495	4,193,657
Loan portfolio	51,289,356	47,348,086	51,289,356	47,348,086
Held-for-trading and hedging instruments	158,148	99,071	158,148	99,071
Accounts receivable	433,719	1,095,094	433,719	1,095,094
Other assets	316,627	950,313	316,627	950,313
	73,720,163	**64,609,714**	**73,720,163**	**64,609,714**

	Carrying amount		Fair Value	
In thousands of soles	**2019**	**2018**	**2019**	**2018**
Liabilities				
Deposits and obligations	44,403,552	39,482,473	44,403,552	39,482,473
Interbank funds	362,422	438,233	362,422	438,233
Deposits with financial institutions and international financial institutions	359,341	468,620	359,341	468,620
Borrowings and debts	12,680,874	11,335,223	13,508,115	11,352,866
Held-for-trading and hedging instruments	129,701	86,161	129,701	86,161
Accounts payable	7,533,827	4,538,221	7,536,771	4,521,023
Other liabilities	502,668	1,247,778	502,668	1,247,778
	65,972,385	**57,596,709**	**66,802,570**	**57,597,154**

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

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

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

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

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

Consequently, as of December 31, 2019 and 2018, fair values or estimated market prices of financial instruments do not differ significantly from their corresponding carrying amount.

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

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

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

Level 3: Unobservable inputs in the market.

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

In thousands of soles	Level 1	Level 2	Level 3	Total
2019				
Assets				
Investments at fair value through profit or loss:				
Equity instruments	-	11,637	-	11,637
Debt instruments	-	405,727	-	405,727
Available-for-sale investments:				
Equity instruments	816	18	7,411	8,245
Debt instruments	-	5,986,495	-	5,986,495
Held-for-trading and hedging instruments	-	158,148	-	158,148
	816	**6,562,025**	**7,411**	**6,570,252**
Liabilities				
Held-for-trading and hedging instruments	-	129,701	-	129,701
	-	**129,701**	**-**	**129,701**
2018				
Assets				
Investments at fair value through profit or loss:				
Equity instruments	-	11,143	-	11,143
Debt instruments	-	272,720	-	272,720
Available-for-sale investments:				
Equity instruments	-	-	8,094	8,094
Debt instruments	-	4,193,657	-	4,193,657
Held-for-trading instruments	-	99,071	-	99,071
	-	**4,576,591**	**8,094**	**4,584,685**
Liabilities				
Held-for-trading instruments	-	86,161	-	86,161
	-	**86,161**	**-**	**86,161**

35. Subsequent Events

No material events or facts that may require adjustments or disclosure in the consolidated financial statements as of December 31, 2019 have occurred between January 1, 2020 and the reporting date.