Scotiabank Perú S.A.A. and Subsidiaries

Consolidated Financial Statements

December 31, 2021 and 2020

(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 (collectively, the Scotiabank Group), which comprise the consolidated statement of financial position as of December 31, 2021 and 2020, 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 requirement s 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 our 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, 2021 and 2020, 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,

February 26, 2022

Countersigned by:

Caipo y Asociados

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

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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, 2021 and 2020

In thousands of soles	***Note***	**2021**	**2020**
Assets			
Cash and due from banks	6		
Cash		1,725,461	1,398,734
Deposits with BCRP		11,018,934	14,026,036
Deposits with local and foreign banks		661,601	383,932
Clearing		14,386	18,230
Restricted cash and due from banks and others		888,065	1,674,333
		14,308,447	**17,501,265**
Interbank funds		-	90,526
Investments at fair value through profit or loss and available-for-sale investments	7	5,143,189	8,789,726
Loan portfolio, net	8	55,302,362	49,804,017
Held-for-trading and hedging instruments	9	412,815	189,557
Accounts receivable, net	10	1,107,121	1,125,471
Investments in associates		113,145	85,636
Goodwill	11	570,664	570,664
Property, furniture and equipment, net	12	312,987	339,095
Deferred tax	28	445,604	585,873
Intangible assets, net	13	366,150	386,954
Other assets, net	14	801,269	535,328
Total assets		**78,883,753**	**80,004,112**
Contingent risks and commitments	20	75,802,854	73,904,128

In thousands of soles	***Note***	**2021**	**2020**
Liabilities			
Deposits and obligations with financial institutions:	15		
Demand deposits		18,762,312	17,436,241
Savings deposits		16,726,753	15,175,103
Time deposits		11,365,386	15,333,086
Other obligations		768,751	630,779
		47,623,202	**48,575,209**
Interbank funds		-	108,670
Borrowings and debts	16	12,714,298	12,924,516
Held-for-trading and hedging instruments	9	398,290	181,640
Provisions and other liabilities	17	7,342,305	8,192,617
Total liabilities		**68,078,095**	**69,982,652**
Equity	18		
Share capital		8,026,777	7,840,352
Additional capital		394,463	394,463
Legal reserve		1,383,913	1,357,281
Equity-related adjustments		(348,616)	(105,488)
Retained earnings		1,273,498	452,680
Equity attributable to shareholders of Scotiabank Perú S.A.A.		**10,730,035**	**9,939,288**
Non-controlling interests	2	75,623	82,172
Total equity		**10,805,658**	**10,021,460**
Total equity and liabilities		**78,883,753**	**80,004,112**
Contingent risks and commitments	20	75,802,854	73,904,128

The accompanying notes on pages 6 to 107 are part of these consolidated financial statements.

(Translation of Consolidated Financial Statements originally issued in Spanish)

Scotiabank Perú S.A.A. and Subsidiaries
Consolidated Statement of Profit or Loss
For the years ended December 31, 2021 and 2020

In thousands of soles	***Note***	**2021**	**2020**
Interest income	*21*	3,740,700	5,122,635
Interest expenses	*22*	(560,488)	(993,651)
Gross profit margin		**3,180,212**	**4,128,984**
Provision for loan losses, net of recoveries	*8(c)*	(910,703)	(2,845,309)
Net profit margin		**2,269,509**	**1,283,675**
Financial service income, net	*23*	569,562	498,348
Net profit margin of financial service income and expenses		**2,839,071**	**1,782,023**
Income from financial transactions	*24*	448,849	460,372
Operating margin		**3,287,920**	**2,242,395**
Administrative expenses	*25*	(1,764,583)	(1,818,493)
Depreciation of property, furniture and equipment	*12*	(43,127)	(52,815)
Amortization of intangible assets	*13*	(66,622)	(59,820)
Net operating margin		**1,413,588**	**311,267**
Provisions for realizable, received as payment, recovered and obsolete assets		(31,835)	(21,082)
Net provisions for indirect loan losses, impairment loss on other accounts receivable, and others		(70,542)	(70,474)
Operating income		**1,311,211**	**219,711**
Other income, net	*26*	19,150	35,737
Profit before tax		**1,330,361**	**255,448**
Deferred tax	*28*	(129,965)	348,510
Current tax	*27.D*	(168,325)	(351,514)
Net profit		**1,032,071**	**252,444**
Profit or loss attributable to:			
Shareholders of Scotiabank Perú S.A.A.		1,038,566	262,802
Non-controlling interests	*2*	(6,495)	(10,358)
		1,032,071	**252,444**

The accompanying notes on pages 6 to 107 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, 2021 and 2020

In thousands of soles	***Note***	**2021**	**2020**
Net profit		1,032,071	252,444
Other comprehensive income			
Net loss (gain) on available-for-sale investments	*18.F*	(265,043)	76,728
Cash flow hedges	*9.B*	21,886	(22,454)
Adjustments to other comprehensive income of associates	*18.F*	(25)	(12)
Other equity-related adjustments	*18.G*	-	(183,150)
Other comprehensive income for the year, net of income tax		**(243,182)**	**(128,888)**
Total comprehensive income for the year		**788,889**	**123,556**
Other comprehensive income attributable to:			
Shareholders of Scotiabank Perú S.A.A.		795,438	144,209
Non-controlling interests	*2*	(6,549)	(20,653)
		788,889	**123,556**

The accompanying notes on pages 6 to 107 are part of these consolidated financial statements.

(Translation of Consolidated Financial Statements originally issued in Spanish)

Scotiabank Perú S.A.A. and Subsidiaries
Consolidated Statement of Changes in Equity
For the years ended December 31, 2021 and 2020

In thousands of soles	Number of shares (note 18.B)	Share capital (note 18.B)	Additional capital (note 18.C)	Legal reserve (note 18.D)	Retained earnings (note 18.E)	Equity-related adjustments: Unrealized gains and losses (note 18.F)	Equity-related adjustments: Other adjustments (note 18.G)	Total	Non-controlling interests	Total equity
Balance as of January 1, 2020	676,327,282	6,763,271	394,463	1,210,807	1,413,709	13,105	-	9,795,355	102,825	9,898,180
Net gain (loss)	-	-	-	-	262,802	-	-	262,802	(10,358)	252,444
Other comprehensive income:										
Net unrealized gain on available-for-sale investments	-	-	-	-	-	76,733	-	76,733	(5)	76,728
Cash flow hedges	-	-	-	-	-	(22,454)	-	(22,454)	-	(22,454)
Adjustments to other comprehensive income of associates	-	-	-	-	-	(12)	(172,860)	(172,872)	(10,290)	(183,162)
Total comprehensive income	**-**	**-**	**-**	**-**	**262,802**	**54,267**	**(172,860)**	**144,209**	**(20,653)**	**123,556**
Allocation to legal reserve	-	-	-	146,474	(146,474)	-	-	-	-	-
Capitalization of retained earnings	107,708,108	1,077,081	-	-	(1,077,081)	-	-	-	-	-
Other adjustments	-	-	-	-	(276)	-	-	(276)	-	(276)
Balance as of December 31, 2020	**784,035,390**	**7,840,352**	**394,463**	**1,357,281**	**452,680**	**67,372**	**(172,860)**	**9,939,288**	**82,172**	**10,021,460**
Balance as of January 1, 2021	784,035,390	7,840,352	394,463	1,357,281	452,680	67,372	(172,860)	9,939,288	82,172	10,021,460
Net gain (loss)	-	-	-	-	1,038,566	-	-	1,038,566	(6,495)	1,032,071
Other comprehensive income:										
Net unrealized loss on available-for-sale investments	-	-	-	-	-	(264,989)	-	(264,989)	(54)	(265,043)
Cash flow hedges	-	-	-	-	-	21,886	-	21,886	-	21,886
Adjustments to other comprehensive income of subsidiaries	-	-	-	-	-	(25)	-	(25)	-	(25)
Total comprehensive income	**-**	**-**	**-**	**-**	**1,038,566**	**(243,128)**	**-**	**795,438**	**(6,549)**	**788,889**
Allocation to legal reserve	-	-	-	26,632	(26,632)	-	-	-	-	-
Capitalization of retained earnings	18,642,463	186,425	-	-	(186,425)	-	-	-	-	-
Other adjustments	-	-	-	-	(4,691)	-	-	(4,691)	-	(4,691)
Balance as of December 31, 2021	**802,677,853**	**8,026,777**	**394,463**	**1,383,913**	**1,273,498**	**(175,756)**	**(172,860)**	**10,730,035**	**75,623**	**10,805,658**

The accompanying notes on pages 6 to 107 are part of these consolidated financial statements.

(Translation of Consolidated Financial Statements originally issued in Spanish)

Scotiabank Perú S.A.A. and Subsidiaries
Consolidated Statement of Cash Flows
For the years ended December 31, 2021 and 2020

In thousands of soles	***Note***	**2021**	**2020**
Cash flows from operating activities			
Net profit		1,032,071	252,444
Adjustments to reconcile net profit to net cash used in operating activities			
Provision for loan losses, net of recoveries	*8(c)*	910,703	2,845,309
Provision for realizable, repossessed and other assets, net		28,385	21,082
Provision for accounts receivable, net		23,802	38,887
Depreciation and amortization		109,749	112,635
Provision for fringe benefits		50,289	53,867
Provision for current and deferred tax	*27.D and 28*	298,290	3,004
Provision for indirect loan losses and country risk, net of recoveries		43,826	25,886
Other provisions		(814,682)	(1,031,889)
Gain on sale of property, furniture and equipment		(3,551)	(2,881)
Gain on sale of realizable and repossessed assets		(6,429)	(428)
Net changes in assets and liabilities:			
Loan portfolio		(6,434,445)	(1,628,968)
Investments at FVTPL		2,443,823	(2,125,165)
Available-for-sale investments		1,200,765	(176,780)
Accounts receivable		(224,971)	(41,911)
Other assets		(19,696)	(92,665)
Non-subordinated financial liabilities		(1,417,297)	3,679,602
Accounts payable		63,389	2,156,044
Provisions and other liabilities		459,615	(149,683)
Profit after net changes in assets, liabilities and adjustments		**(2,256,364)**	**3,938,390**
Income tax paid		(131,752)	(227,651)
Net cash flows from operating activities		**(2,388,116)**	**3,710,739**
Cash flows from investing activities			
Dividends received		1,003	5,648
Acquisition of property, furniture and equipment	*12*	(23,830)	(39,942)
Acquisition of intangible assets	*13*	(45,867)	(44,440)
Sale of property, furniture and equipment and repossessed assets		21,062	13,630
Net cash flows used in investing activities		**(47,632)**	**(65,104)**
Net increase (decrease) in cash and cash equivalents before effects of exchange rate fluctuations		(2,435,748)	3,645,635
Effects of exchange rate fluctuations on cash and cash equivalents		**223,910**	**1,035,916**
Net increase (decrease) in cash and cash equivalents		(2,211,838)	4,681,551
Cash and cash equivalents at the beginning of period		**15,984,073**	**11,302,522**
Cash and cash equivalents at the end of period		**13,772,235**	**15,984,073**
Non-cash transactions			
Capitalization of retained earnings		186,425	1,077,081
Net unrealized gain (loss) on available-for-sale investments		(264,989)	76,733
Repurchase agreements		6,091,479	7,038,974

The accompanying notes on pages 6 to 103 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 holds 98.05% of the Bank's share capital as of December 31, 2021 and 2020.

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 No. 102, San Isidro, Lima, Peru. As of December 31, 2021, the Scotiabank Group operates through a national network of 452 branches (517 branches as of December 31, 2020).

As of December 31, 2021 and 2020, 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 SAFM), 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 Cencosud Scotia 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**
2021					
Scotiabank Perú S.A.A.	Banking	-	77,023,841	77,023,841	10,792,864
CrediScotia Financiera S.A.	Financing	100.00	2,720,594	2,090,867	629,727
Caja Rural de Ahorro y Crédito Cencosud Scotia Perú S.A.	Financing	51.00	552,302	397,968	154,334
Servicios, Cobranzas e Inversiones S.A.C.	Collection services	100.00	101,372	35,951	65,421
Scotia Fondos Sociedad Administradora de Fondos Mutuos S.A.	Administration of mutual funds	100.00	109,199	3,286	105,913
Scotia Sociedad Agente de Bolsa S.A.	Brokerage House	100.00	36,867	966	35,902
Scotia Sociedad Titulizadora S.A.	Securitization	100.00	6,585	1,380	5,205
2020					
Scotiabank Perú S.A.A.	Banking	-	77,227,505	67,233,557	9,993.948
CrediScotia Financiera S.A.	Financing	100.00	3,444,806	2,851,928	592,878
Caja Rural de Ahorro y Crédito Cencosud Scotia Perú S.A.	Financing	51.00	743,322	575,624	167,697
Servicios, Cobranzas e Inversiones S.A.C.	Collection services	100.00	141,100	60,480	80,620
Scotia Fondos Sociedad Administradora de Fondos Mutuos S.A.	Administration of mutual funds	100.00	115,936	4,980	110,956
Scotia Sociedad Agente de Bolsa S.A.	Brokerage House	100.00	43,914	1,007	42,907
Scotia Sociedad Titulizadora S.A.	Securitization	100.00	5,268	484	4,784

C. Business activities during the national state of emergency

On March 15, 2020, through Supreme Decree 044-2020-PCM, the Peruvian government declared a national state of emergency due to the serious circumstances affecting people's life as a result of the COVID-19 outbreak. At the reporting date, the national state of emergency was extended until August 29, 2022. Consequently, the SBS and the Central Reserve Bank of Peru (BCRP), in coordination with the Ministry of Economy and Finance (MEF), implemented measures to mitigate the impact resulting from debtors' failing to meet their payment obligations due to transit restrictions inside and outside Peru and the suspension of certain economic activities, as well as measures to ensure that the chain of payments is not disrupted in Peru.

During the state of emergency, the Scotiabank Group's business activities were not suspended. The business activities carried out at headquarters and agencies were adapted to the COVID-19 technical guidance for infection prevention and control required to protect the health of its employees and clients. The Scotiabank Group implemented measures to ensure said business activities during the state of emergency, even before the Peruvian government decreed them. They include the identification of employees considered at high-risk from exposure to COVID-19, implementation of a remote work policy applicable to employees, and provision of mental health support, employee assistance program and work equipment for working remotely and for leaders. In 2020, the measures for employees working on-site include the introduction of a daily allowance in favor of those employees (suspended in 2021), permanent supply of personal protective equipment, provision of buses for the transportation of employees, reduction of the capacity limits of agencies of the Bank, CrediScotia and CRAC to 50%, and introduction of special working hours for clients aged 60 years and over.

The consolidated financial statements as of December 31, 2021 and 2020 include the impacts resulting from the implementation of such measures that were in force as of that date, as detailed in the corresponding notes to the consolidated financial statements below.

D. Approval of the consolidated financial statements

The consolidated financial statements as of December 31, 2021 were approved by management on February 25, 2022, 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. General Shareholders' Meeting, held March 24, 2021, approved the consolidated financial statements as of December 31, 2020.

2. Non-controlling Interests

The following table summarizes the financial reporting as of December 30, 2021 and 2020 of the CRAC (non-controlling shareholder) before the eliminations required in preparing the consolidated financial statements:

In thousands of soles	**2021**	**2020**
Total assets	552,302	743,322
Total liabilities	(397,968)	(575,624)
Total assets, net	**154,334**	**167,698**
Net assets attributable to non-controlling interests 49%	**75,623**	**82,172**
Net loss	(13,254)	(21,139)
Other comprehensive income	(109)	(21,010)
Total comprehensive income	**(13,363)**	**(42,149)**
Net loss allocated to non-controlling interests 49%	**(6,495)**	**(10,358)**
Other comprehensive income allocated to non-controlling interests 49%	**(54)**	**(10,295)**

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 IFRSs, International Accounting Standards (IAS), and 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 4.

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 prior 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 4.58% and 5.82%, respectively, of the total Bank's assets before eliminations as of December 31, 2021 and 2020.

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 and amendments: (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 of December 31, 2021, the Bank does not have hedging instruments (note 9.b). As of December 31, 2020, the Bank had interest rate swaps designated as cash flow hedges (note 9.b).

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" and amendments, 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, unrealized gains or losses from the changes in fair value shall be recognized.

The approach to identify impairment of available-for-sale investments and investments and their maturity is indicated below:

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.

The impairment loss on available-for-sale debt instruments is measured as the difference between the amortized cost and the fair value, less any impairment loss previously recognized in profit or loss for the period or prior periods. Any impairment loss is recognized in the consolidated statement of profit or loss and other comprehensive income.

The impairment loss on equity instruments is measured as the difference between the acquisition cost and the fair value, less any impairment loss previously recognized in profit or loss for the period or prior periods. 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. In 2021 and 2020, CrediScotia recorded impairment losses on an available-for-sale investment (note 7).

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 subsidiaries and 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.

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 2021 and 2020, investment instruments 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 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.

COVID-19 government measures
The government measures implemented to cope with the economic crisis due to the national state of emergency declared and the mandatory social isolation decreed as a result of the COVID-19 outbreak (note 1.C) are the following:

(a) Rescheduled loans
A financial institution, subject to prior assessments, may modify contractual obligations of loans. Such modification will not be considered as a refinance provided that the loan term is not extend for more than 6 months until May 31, 2020 and 12 moths from June 1, 2020 of the original term and that the borrower has made all of its payments at the date the state of emergency was declared. The balance of principal and interest on rescheduled loans shall be recorded in suspense accounts.

During the state of emergency, for meeting the requirement indicating that the borrower shall meet all its payment obligations and not have any payment arrears at the date the state of emergency was declared, the loan of a borrower shall be up to 15 calendar days past due as of February 29, 2020.

A financial institution may recognize on an accrual basis interest on retail loans that are subject to rescheduling. If such retail loans are past due after the payment obligation is effective according to the new payment schedule, the financial institution shall repay the uncollected accrued interest within a 6-month period on a pro-rata basis.

Interest on rescheduled wholesale loans is recognized when earned. Interest on rescheduled loans (individual) is recognized on an accrual basis. The Bank did not rescheduled the gross wholesale loan portfolio.

From March 16, 2021, the gross wholesale loan portfolio may be rescheduled provided that the client has paid an installment in the last 6 months. Also, the debt rescheduling shall not exceed a 3-month period and interest shall be recognized when earned. Where loans are rescheduled without the client's corresponding payment, the entity shall recognize additional voluntary provisions for loans classified as Standard and Potential Problems equivalent to Substandard.

Additionally, from March 2021, revolving loans related to credit card consumer loans may be rescheduled, including a grace period, provided that the full amount of the total payment or the full amount of the total debt is rescheduled.

The Bank and CrediScotia unilaterally rescheduled loans until April 30, 2021.

In 2021, the CRAC did not unilaterally rescheduled loans.

(b) Stop of counting of days of past due

The counting of days past due of loans that are more than 15 calendar days past due as of February 29, 2020 was stopped. Likewise, the financial institutions maintained the financial position of said credits until February 31 August 2020.

The number of days past due as of February 29, 2020 was considered for the credit risk rating and for the measurement of regulatory provisions during the months in which the counting of days past was stopped. From September 1, 2020, starts the counting of days past due.

(c) Government guaranteed loans

In March and April 2020, the MEF launched the following government's financial-support schemes to cope with the economic crisis that impacted on some sectors as a result of the COVID-19 pandemic:

i. Reactiva Peru program I and II

The loan guarantee scheme (Reactiva Peru program) aims to guarantee the loans for the working capital replenishment of entities facing short-term payment challenges with employees and suppliers of goods and services as a result of the COVID-19 outbreak. It consists of granting a government guarantee to loans in local currency that are placed by financial institutions.

The loans placed under the Reactiva Peru program have a 36-month term, including a 12-month grace period. Any interest accrued during the grace period shall not be capitalized and shall be charged on a straight line basis over the remaining loan term from the 13th month. Interest rates are established through an auction.

The Peruvian government granted guarantees to cover between 80% and 97% of loans, depending on the amount of the loan, provided that the financial institutions meet the requirements of the Reactiva Peru program.

The funds of this program are auctioned by the BCRP, for the amount equivalent to the guaranteed amount. Accordingly, repurchase agreements for the sale of the loan portfolio are entered into under a commitment to repurchase the loan portfolio at a later date. The cost of funds index provided by the BCRP is 0.5%.

As of December 31, 2021 and 2020, the Bank and CrediScotia placed loans under the Reactiva Peru program for S/ 3,834,165 thousand and S/ 5,396,224 thousand, respectively, which have a coverage ratio of 95% and 89%, respectively (note 8).

The guarantees under the Reactiva Peru program have a risk weight of 0% for the part of loans covered by the program, since it corresponds to a coverage provided by the Peruvian government. If a loan granted under this program is past due and the Bank and CrediScotia decide to honor its guarantee, the Peruvian government, through Corporación Financiera de Desarrollo S.A. (COFIDE), shall pay the loan for the guaranteed amount. Subsequently, the Bank and CrediScotia shall continue collection efforts and shall pay COFIDE maintaining the coverage ratio.

In June 2021, the counting of days past due of loans granted under this program was stopped. Therefore, in such month the loans were not impaired. The counting of days past due was resumed on July 1, 2021. The counting of days past due of loans that were not rescheduled was resumed from the oldest unpaid installment.

ii. FAE-MYPE I and II

The business support fund for micro and small enterprises (FAE-MYPE) aims to guarantee the working capital replenishment, rescheduled loans and debt restructuring and refinancing of micro and small enterprises, placed by financial institutions.

The guarantees under the FAE-MYPE have a risk weight of 0% for the part of loans covered by the program, since it corresponds to a coverage provided by the Peruvian government.

If a loan is past due under the FAE-MYPE, the guarantee is activated in honoring such guarantee. Accordingly, the Peruvian government shall assume the part of loans covered by the FAE-MYPE. CrediScotia is responsible for the collection management of this loan portfolio, ensuring the refund corresponding to the amount received under the FAE-MYPE.

As of December 31, 2021, CrediScotia placed loans under the FAE-MYPE I, II and III for S/ 8,884 thousand, S/ 10,880 thousand and S/ 6,547 thousand, respectively, which have an average coverage ratio of 87% (S/ 134,370 thousand, S/ 21,387 thousand and S/ 8,227 thousand, respectively, which have an average coverage ratio of 87% as of December 31, 2020).

iii. Fondo Crecer

The financial inclusion fund to improve access to finance for micro and small enterprises (Fondo Crecer) aims to strengthen micro, small and medium enterprises through hedging instruments, debt instruments and investment instruments.

If a loan granted under the Fondo Crecer is past due and the Bank decides to honor its government guarantee, COFIDE shall pay the loan for the guaranteed amount. Subsequently, the Bank shall continue collection efforts and shall pay COFIDE maintaining the coverage ratio.

As of December 31, 2021 and 2020, the Bank placed loans under the Fondo Crecer for S/ 188,617 thousand and S/ 48,939 thousand, respectively, which have a coverage ratio of 67% and 68%, respectively.

iv. Repurchase agreements for securities-backed loan government guarantees

The program aims to participating entities being able to sell securities-backed loans to the BCRP, in exchange for the sale amount in local currency. Also, they are committed to repurchase the loan portfolio at a later date against the repurchase amount in local currency. The securities-backed loans shall not be included in any other credit guarantee scheme launched by the Peruvian government. The BCRP will disburse funds to the participating entity's checking account held at the BCRP.

As of December 31, 2021, the Bank has securities-backed loans for S/ 1,497,450 thousand (the Bank did not access to this scheme as of December 31, 2020) (note 17.a).

Loan portfolio classification

The Bank and CrediScotia classify the 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). The 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 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 portfolio, including the 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 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, CrediScotia and CRAC 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, CrediScotia and CRAC apply the following percentages to determine provisions for loan losses:

	%			
Risk rating	**No collateral**	**Preferred collateral**	**Preferred easily realizable collaterals**	**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 and amendments. 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).

Provision for rescheduled loans

(i) SBS Resolution 3155-2020, dated December 17, 2020, established the following requirements for measuring provisions for rescheduled loans as a result of the COVID-19 pandemic:

- Rescheduled consumer, micro and small-business loans of borrowers classified as Standard are considered borrowers with a credit rating greater than Standard; thus, they are classified as Potential Problems. Accordingly, the entity shall recognize a specific provision for loans classified as Potential Problems.

- Also, the entity shall recognize a provision for unearned interest on those rescheduled loans in current financial position that do not include the payment of capital installments during the last 6 months at the reporting date, as if they were classified as Substandard.

These requirements do not have an effect on the risk rating of the borrower. Likewise, it established that the uncollected accrued interest on the debt rescheduling date, recognized as income and capitalized as a result of the debt rescheduling, shall be repaid and recorded as deferred income over the rescheduled loan term and upon payment of the respective installments.

The requirements issued in the Resolution are included in the consolidated financial statements as of December 31, 2020.

(ii) SBS Resolution 3922-2021, dated December 23, 2021, annulled Resolution 3155-2020 and established the following requirements for measuring provisions for rescheduled loans as a result of the COVID-19 pandemic:

- Rescheduled loans of borrowers rated as Standard are considered borrowers with a credit rating greater than Standard; thus, they are classified as Potential Problems. Accordingly, the entity shall recognize a specific provision for loans classified as Potential Problems.

  However, borrowers rated as Standard and Potential Problems that did not pay at least one full installment, including principal, in the last six months at the end of the reporting period shall be rated as Substandard.

  Likewise, borrowers rated as Standard, Potential Problems and Substandard that did not pay at least one full installment, including principal, in the last twelve months shall be rated as Doubtful. Accordingly, the entity shall recognize a specific provision for loans classified as Substandard, Doubtful or Potential Problems.

  Such provision is applicable to consumer loans, micro-business loans, small-business loans and medium-business loans.

- Unearned, accrued interest on current rescheduled consumer, micro-business, small-business and medium-business loans shall be rated as Substandard.

However, accrued interest on loans of borrowers that did not pay at least one full installment, including principal, in the last six months at the end of the reporting period shall be subject to specific provisions under the classification of Loss.

These requirements do not have an effect on the risk rating of the borrower.

The requirements issued in the Resolution are included in the consolidated financial statements as of December 31, 2021.

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 for 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 4
Vehicles	Between 8 and 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 for 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, received as payment and repossessed assets (note 14) are regulated by SBS Resolution 1535-2005 and amendments. 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 Bank records a monthly provision for personal property equivalent to 1/18 of the carrying amount of assets less the aforementioned initial provision. Regarding assets that have not been sold or leased within a one-year term and that do not have the extension established in the Banking Law, the provision shall be completed up to 100% of the value upon repossession or recovery less the provision for impairment loss upon maturity date.

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

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

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

I. Impairment of non-financial assets

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

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.

As of December 31, 2021 and 2020, the Scotiabank Group did not recognize impairment losses on non-financial assets.

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.D), which are amortized on a straight-line basis over 15 years (agreement term); (ii) the acquisition and development of software, which are amortized on a straight-line basis over 10 years; and (iii) the 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 Bank 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 the consolidated statement of 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, 2021 and 2020, 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 (note 29).

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 and amendments establish 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 classified as investments at FVTPL and available-for-sale investments, 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 when declared.

Income from compensation for funds managed by the SAFM is measured daily at a percentage of the assets 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, 2021, the Scotiabank Group performs repurchase agreements of currencies, securities and loans (repurchase agreements of securities and currencies as of December 31, 2020) (notes 6, 7 and 17).

S. Consolidated statement of cash flows

For presentation purposes on this consolidated financial statement, as of December 31, 2021 and 2020, 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 the BCRP, funds held at accounts opened at the BCRP for the normal processing of instant transfers under Official Letter 0030-2020-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, 2022. However, the Scotiabank Group 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.

Amendments to IFRSs	Effective date
Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)	Annual periods beginning on or after January 1, 2022 to existing contracts on the adoption date. Early adoption is permitted.
Annual Improvements to IFRS Standards 2018-2020	Annual periods beginning on or after January 1, 2022. Early adoption is permitted.
*Property, Plant and Equipment – Proceeds before Intended Use (*Amendments to IAS 16)	Annual periods beginning on or after January 1, 2022. Early adoption is permitted.
Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	Annual periods beginning on or after January 1, 2023. Early adoption is permitted.
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	Effective date was indefinitely deferred.
Reference to the Conceptual Framework (Amendments to IFRS 3)	Annual periods beginning on or after January 1, 2022. Early adoption is permitted.

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 001-2021-EF/30, dated November 15, 2021, made official the amendments to IFRS 16 *Leases*, IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, IAS 1 *Presentation of Financial Statements*, IAS 12 *Income Taxes*, and the 2021 edition of IFRS, including the Conceptual Framework for Financial Reporting.

- Resolution 002-2020-EF/30, dated September 10, 2020, made official the amendments to IAS 16 *Property, Plant and Equipment*, IFRS 3 *Business Combinations*, IFRS 4 *Insurance Contracts*, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IFRS 9 *Financial Instruments* and IAS 41 *Agriculture*.

- Resolution 001-2020-EF/30, dated July 17, 2020 made official the amendments to IAS 1 *Presentation of Financial Statements*, the 2020 edition of IFRSs that includes the *Conceptual Framework for the Financial Reporting* and IFRS 16 *Leases* (*COVID-19-Related Rent Concessions*).

As indicated in note 2.A, the standards and interpretations described in i) and ii) will only be applicable to the Bank 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, 2020

- *Interest Rate Benchmark Reform – Phase 2* (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 7)
- *Amendments to References to the Conceptual Framework in IFRSs*
- *Definition of a Business* (Amendments to IFRS 3)
- *Definition of Material* (Amendments to IAS 1 and IAS 8)

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

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, 2021 and 2020.

v. Main pronouncements issued by the SBS in 2021

- Official Letter 6302-2021-SBS, dated February 5, 2021, established COVID-19 government measures stating that an entity can make changes to loan agreements (contract modifications) not related to financial difficulties of the borrower. Therefore, the entity can reschedule loans during the national state of emergency, after assessing the borrower's ability to meet its payment obligations and recognizing interest on such loans when earned. Likewise, it established that the uncollected accrued interest on the debt rescheduling date, recognized as income and capitalized as a result of the debt rescheduling, shall be repaid and recorded as deferred income. Subsequently, it shall be recorded as income when earned.

- Official Letter 8390-2021-SBS, dated February 16, 2021, provided detailed information on interest rate swaps of the BCRP (Official Letter 0035-2020-BCRP).

- Official Letter 136137-2021-SBS, dated March 16, 2021, established additional measures related to the national state of emergency:

  i. Loans may be rescheduled provided that the client has paid an installment, including principal and interest, in the last 6 months. However, it may not exceed a 3-month period. It also stated debt rescheduling shall be recognized when earned. An entity shall recognize additional voluntary provisions, equivalent to Substandard, for rescheduled loans of borrowers classified as Standard and Potential Problems.

  ii. Additionally, revolving loans related to credit card consumer may be rescheduled, including a grace period, provided that the full amount of the total payment or the full amount of the total debt is rescheduled.

- Official Letter 31933-2021-SBS, dated June 30, 2021, provided detailed information on debt rescheduling of loans guaranteed with the Reactiva Peru program. Also, Official Letter 22799-2021-SBS stated that, from July 1, 2021, financial institutions shall calculate the number of days past due of loans that were not rescheduled at the end of June from the oldest unpaid installment.

- Official Letter 32591-2021-SBS, dated July 5, 2021, provided clarifications on the rescheduling of loans guaranteed with the FAE-MYPE.

- Resolution 2451-2021-SBS, dated August 20, 2021, established minimum procedures for the management, classification, reporting and recognition of provisions for disputes.

  Accordingly, an entity shall recognize a provision for disputes where an inflow of economic benefits is probable, which is charged to expense. The amount recognized as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

  Disputes where an outflow of economic resources is possible shall be disclosed in notes to the financial statements.

  Disputes where an outflow of economic resources is remote shall not be recognized as a liability or disclosed in the financial statements.

  Likewise, it required entities to disclose in notes to the financial statements the policy applied to recognize provisions, contingent liabilities and contingent assets under IAS 37. The accounting treatment for disputes is included in Chapter I of the Accounting Manual for Financial Institutions.

- Resolution 2931-2021-SBS, dated October 1, 2021, provided clarifications on the credit guarantee scheme launched by the Peruvian government to financial institutions.

- Resolution 3718-2021-SBS, dated December 7, 2021, modified the Appendix I of the Regulation on Debtor Risk Assessment and Credit Rating and Provision Requirements—approved by SBS Resolution 11356-2008 and its amendments—in relation to the minimum rates of the procyclical component for each type of loan.

- Resolution 3748-2021-SBS, dated December 10, 2021, approved the Regulation on Financial Fees and Expenses.

- Resolution 3791-2021-SBS, dated December 14, 2021, approved the Regulation on the Leverage Ratio applicable to Financial Institutions.

- Official Letter 61848-2021-SBS, dated December 21, 2021, provided detailed information on the presentation of appendixes and reports related to the government's financial-support schemes.

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, 2021 and 2020, the exchange rate was US$1 = S/ 3.987 and US$1 = S/ 3.621, 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, 2021, buy and sell exchange rates used were US$ 1 = S/ 3.975 and US$ 1 = S/ 3.998, respectively (US$ 1 = S/ 3.618 and US$ 1 = S/ 3.624 as of December 31, 2020).

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

	2021			2020		
In thousands of	**U.S. dollars**	**Other currencies**	**Total**	**U.S. dollars**	**Other currencies**	**Total**
Assets						
Cash and due from banks	2,993,577	31,323	3,024,900	2,358,018	20,846	2,378,864
Interbank funds	-	-	-	25,000	-	25,000
Investments at fair value through profit or loss and available-for-sale investments	602	-	602	687,134	-	687,134
Loan portfolio, net	3,295,536	-	3,295,536	3,636,443	-	3,636,443
Held-for-trading and hedging instruments	12,617	-	12,617	19,786	-	19,786
Accounts receivable, net	19,761	2	19,763	22,738	-	22,738
Other assets, net	6,771	14,648	21,419	35,323	528	35,851
	6,328,864	**45,973**	**6,374,837**	**6,784,442**	**21,374**	**6,805,816**
Liabilities						
Deposits and obligations and other obligations	5,227,990	57,216	5,285,206	5,019,671	38,367	5,058,038
Interbank funds	-	-	-	30,011	-	30,011
Borrowings and debts	2,819,222	-	2,819,222	3,119,596	-	3,119,596
Held-for-trading and hedging instruments	5,535	-	5,535	23,942	-	23,942
Other liabilities	89,831	16,287	106,118	28,310	4,749	33,059
	8,142,578	**73,503**	**8,216,081**	**8,221,530**	**43,116**	**8,264,646**
Net liability position in the consolidated statement of financial position	**(1,813,714)**	**(27,530)**	**(1,841,244)**	**(1,437,088)**	**(21,742)**	**(1,458,830)**
Derivative transactions	**1,820,596**	**27,322**	**1,847,918**	**1,483,203**	**21,992**	**1,505,195**

In 2021, the Scotiabank Group recorded net exchange losses on various transactions for S/ 98,909 thousand (net exchange gains for S/ 122,219 thousand as of December 31, 2020) in 'income from financial transactions' in the consolidated statement of profit or loss (note 24).

As of December 31, 2021, the Scotiabank Group has contingent foreign currency transactions for S/ 52,994,110 thousand equivalent to US$ 13,291,725 thousand (S/ 58,507,933 thousand equivalent to US$ 16,157,949 thousand as of December 31, 2020).

6. Cash and Due from Banks

This caption comprises the following:

In thousands of soles	**2021**	**2020**
Cash (a)	1,725,461	1,398,734
BCRP (a)	11,018,934	14,026,036
Local banks and other financial institutions (b)	106,709	73,806
Foreign banks and other financial institutions (b)	554,892	310,126
Clearing	14,386	18,230
Restricted cash and due from banks (c)	887,857	1,674,168
Other cash and due from banks	208	165
	14,308,447	**17,501,265**

(a) As of December 31, 2021, funds held in cash and deposits with the BCRP include US$ 2,676,351 thousand and S/ 1,942,858 thousand (US$ 1,820,342 thousand and S/ 1,226,399 thousand as of December 31, 2020), 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 the BCRP and in the financial institutions' vaults.

Cash reserves held at the BCRP do not accrue interest, except for the amount in local and foreign currency that exceeded the minimum cash reserve. As of December 31, 2021, the Scotiabank Group did not accrue interest on the excess of the minimum cash reserve in local and foreign currency (the excess of minimum cash reserve in foreign currency accrued interest at an effective interest rate of 0.02% as of December 31, 2020).

As of December 31, 2020, it includes overnight transactions for S/ 6,300,000 thousand and US$ 22,400 thousand at a nominal interest rate of 0.15% and 0.13%, respectively.

(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, 2021, deposits with foreign banks comprise deposits held at the Bank of Nova Scotia for CAN$ 665 thousand (CAN$ 237 thousand as of December 31, 2020).

As of December 31, 2021 and 2020, the Scotiabank Group concentrates 80% and 82% of its deposits in three foreign financial institutions.

(c) As of December 31, 2021, restricted cash and due from banks comprises:
i) reserve funds for compliance with repurchase commitments with the BCRP for US$ 181,315 thousand (note 17.a) (US$ 439,442 thousand as of December 31, 2020);
ii) funds held at accounts opened at the BCRP for the normal processing of instant transfers under Official Letter 0030-2020-BCRP for US$ 5,471 thousand and S/ 80,894 thousand (US$ 4,394 thousand and S/ 60,658 thousand as of December 31, 2020);
iii) reserve funds for compliance with contractual commitments with foreign financial institutions for US$ 14,300 thousand (US$ 290 thousand as of December 31, 2020);
iv) guarantee funds for lawsuits against the Bank for US$ 8 thousand and S/ 142 thousand (US$ 258 thousand and S/ 126 thousand as of December 31, 2020); and
v) other restrictions for US$ 1,096 thousand and S/ 1,011 thousand (US$ 987 thousand and S/ 1,544 as of December 31, 2020).

As of December 31, 2021 and 2020, interest income from cash and due from banks amounted to S/ 7,153 thousand and S/ 27,091 thousand, respectively. It is recorded in 'interest income' in the consolidated statement of profit or loss (note 21).

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

This caption comprises the following:

In thousands of soles	2021	2020
Investments at FVTPL		
BCRP readjustable certificates of deposit (e)	-	2,485,970
Peruvian treasury bonds (b)	90,367	40,776
Corporate bonds (d)	1,064	8,572
Interests in mutual funds (c)	7,276	7,211
	98,707	**2,542,529**
Available-for-sale investments		
BCRP certificates of deposit (a)	3,130,228	4,419,909
Peruvian treasury bonds (b)	1,909,329	1,821,255
Unlisted securities (f)	4,150	5,232
Listed securities	757	783
Other interests, net	18	18
	5,044,482	**6,247,197**
Total investments at FVTPL and available-for-sale investments	**5,143,189**	**8,789,726**

(a) BCRP certificates of deposit are freely negotiable securities in local currency. They are acquired through the BCRP public bids and traded in the Peruvian secondary market. As of December 31, 2021, these certificates accrue interest based on the BCRP reference rate ranging from 0.38% to 2.38% annually (from 0.25% to 2.66% annually as of December 31, 2020) with maturities between October 2021 and January 2023 (between January 2021 and January 2021 as of December 31, 2020). Likewise, as of December 31, 2021, the Scotiabank Group holds negotiable certificates of deposits issued by the BCRP, which cannot be withdrawn since they are granted in repurchase agreements for S/ 505,563 thousand (note 17.a) (S/ 185,998 thousand as of December 31, 2020).

It also includes BCRP variable-rate certificate of deposits in foreign currency, acquired through the BCRP public bids and traded in the Peruvian secondary market. These certificates accrue interest based on the BCRP reference rate ranging from (0.2778)% to 0.0265% annually with maturities between March 2022 and April 2022 (the Bank did not have securities and obligations issued by the BCRP designated as other instruments in foreign currency as of December 31, 2020).

(b) Peruvian treasury bonds correspond to sovereign bonds issued in local currency by the MEF and represent internal public debt instruments of the Republic of Peru. As of December 31, 2021, these bonds accrue interest at annual rates ranging from 1.78% to 6.8% (from 0% to 5.60% as of December 31, 2020) with maturities between August 2024 and February 2042 (between September 2023 and February 2055 as of December 31, 2020). Likewise, as of December 31, 2021 and 2020, the Bank has Peruvian treasury bonds for S/ 357,212 thousand and S/ 515,954 thousand granted in repurchase agreements (note 17.a).

(c) As of December 31, 2021, the Scotiabank Group holds interests in mutual funds in local and foreign currency for S/ 6,395 thousand and US$ 221 thousand, respectively (S/ 6,449 thousand and US$ 211 thousand as of December 31, 2020).

(d) The balance corresponds to corporate bonds issued in local currency by the MiVivienda Fund. As of December 31, 2021, these bonds accrue interest at an annual rate of 5.70% and mature in February 2024 (2.89% and mature in February 2024 as of December 31, 2020).

(e) BCRP certificates of deposit are freely negotiable securities in local currency. They are acquired through the BCRP public bids and traded in the Peruvian secondary market. They matured in 2021. These certificates are subject to a readjustment based on the changes in the exchange rates between the issue date and the maturity date. As of December 31, 2021, the Scotiabank Group did not have a balance for these certificates (these certificates accrued interest ranging from 0.03% to 0.25% with maturities between January and March 2021 as of December 31, 2020).

(f) As of December 31, 2021 and 2020, it includes S/ 563 thousand and S/ 1,510 thousand, respectively, corresponding to shares held by CrediScotia in Pagos Digitales Peruanos S.A., equivalent to 2.07% of share capital. The investment is measured at cost. As of December 31, 2021 and 2020, CrediScotia recognized a provision for impairment loss on this investment. Accordingly, it recognized an impairment loss for S/ 947 thousand and S/ 2,287 thousand, respectively, to measure it at fair value on that date.

As of December 31, 2021 and 2020, the accrued interest on investments managed by the Scotiabank Group amounted to S/ 86,660 thousand and S/ 165,603 thousand, respectively. It is recorded as 'interest income' in the consolidated statement of profit or loss (note 21).

As of December 31, 2021 and 2020, the Scotiabank Group generated net gains on sale of available-for-sale investments for S/ 25,606 thousand and S/ 150,040 thousand, respectively (note 24).

As indicated in note 18.F, as of December 31, 2021, the Scotiabank Group generated unrealized losses on measurement of available-for-sale investments for S/ 264,989 thousand (unrealized gains for S/ 76,733 thousand as of December 31, 2020).

As of December 31, maturities of investments at FVTPL and available-for-sale investments are the following:

In thousands of soles	**2021**	**2020**
Up to 3 months	2,859,344	5,605,299
From 3 to 12 months	248,263	1,278,130
More than 1 year	2,035,582	1,906,297
	5,143,189	**8,789,726**

8. Loan Portfolio, Net

This caption comprises the following:

In thousands of soles	***Note***	**2021**		**2020**	
Direct loans (a)					
Current loans					
Loans		38,874,362	66%	32,645,786	59%
Mortgage loans		8,909,918	15%	7,557,962	14%
Credit cards		2,868,303	5%	5,087,270	9%
Finance lease		1,687,339	3%	3,203,649	6%
Factoring		1,568,711	3%	1,100,521	2%
Discounts		721,559	1%	475,018	1%
Overdrafts and advances in checking accounts		16,832	-	40,901	-
Refinanced loans		1,961,648	3%	1,287,491	2%
Past-due loans		1,135,535	2%	2,427,635	4%
Lawsuit loans		1,182,340	2%	1,103,178	2%
		58,926,547	**100%**	**54,929,411**	**100%**
Plus (less)					
Accrued interest on current loans		297,126	-	348,895	-
Deferred interest		(30,859)	-	(99,576)	-
Provision for loan losses (b)		(3,890,452)	-	(5,374,713)	-
		55,302,362	**-**	**49,804,017**	**-**
Indirect loans	***20***	**10,398,432**	**-**	**11,595,244**	**-**

As of December 31, 2021 and 2020, 51% of the loan portfolio (direct and indirect loans) was concentrated in 599 and 462 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.

Additionally, as indicated in note 4.E(a), the Bank and CrediScotia participated in the Reactiva Peru program I and II, placing government guaranteed loans. As of December 31, the types of loans under this program are the following:

	2021		2020	
In thousands of soles	**Balance**	**Guaranteed (%)**	**Balance**	**Guaranteed (%)**
Type of loan				
Corporate loans	125,325	80%	180,000	80%
Large-business loans	1,129,670	87%	1,924,301	86%
Medium-business loans	2,078,253	96%	2,339,223	94%
Micro-business loans	37,801	98%	136,131	98%
Small-business loans	463,116	98%	816,569	98%
Loans from Reactiva Peru program	**3,834,165**	**95%**	**5,396,224**	**89%**

The payment obligations to the BCRP related to this program are presented in 'accounts payable.' As of December 31, 2021 and 2020, they amount to S/ 3,478,001 thousand and S/ 4,865,930 thousand (note 17(a)(i)).

Likewise, as of December 31, 2021 and 2020, CrediScotia participated in the FAE-MYPE I, II and III, placing government guaranteed loans, as follows:

	2021							
In thousands of soles	**FAE-MYPE I Guaranteed (%)**		**FAE-MYPE II Guaranteed (%)**		**FAE-MYPE III Guaranteed (%)**		**Total Average guaranteed (%)**	
Medium-business loans	132	56%	74	98%	28	98%	234	84%
Micro-business loans	2,123	70%	4,320	98%	1,932	98%	8,375	89%
Small-business loans	6,629	66%	6,486	98%	4,587	98%	17,702	87%
FAE-MYPE	**8,884**	**64%**	**10,880**	**98%**	**6,547**	**98%**	**26,311**	**87%**

	2020							
In thousands of soles	**FAE-MYPE I Guaranteed (%)**		**FAE-MYPE II Guaranteed (%)**		**FAE-MYPE III Guaranteed (%)**		**Total Average guaranteed (%)**	
Medium-business loans	1,204	58%	90	98%	10	98%	1,304	85%
Micro-business loans	21,863	70%	7,451	98%	2,156	98%	31,470	89%
Small-business loans	111,303	67%	13,846	98%	6,061	98%	131,210	88%
FAE-MYPE	**134,370**	**65%**	**21,387**	**98%**	**8,227**	**98%**	**163,984**	**87%**

As of December 31, 2021 and 2020, accounts payable to COFIDE related to the FAE-MYPE I, II and III are presented in 'borrowings and debts' (note 16(a)).

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:

	2021		2020	
%	Local currency	Foreign currency	Local currency	Foreign currency
Overdrafts (*)	55.00 - 85.00	30.00 - 55.00	55.00 - 115.00	30.00 - 55.00
Discounts and commercial loans	0 - 52.01	1.37 - 22.89	3.01 - 44.83	2.19 - 24.04
Consumer loans	12.88 -68.78	7.29 - 37.97	13.95 - 55.59	7.60 - 39.32

(*) 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:

	2021				2020			
In thousands of soles	**Number of debtors**	**Direct**	**Indirect**	**Total**	**Number of debtors**	**Direct**	**Indirect**	**Total**
Risk rating								
Standard	1,114,311	51,801,671	9,032,656	60,834,327	1,240,325	46,973,417	11,230,475	58,203,892
Potential problems	35,888	2,452,664	1,167,601	3,620,265	61,745	1,884,328	157,706	2,042,034
Substandard	37,379	942,675	87,125	1,029,800	84,612	1,017,372	115,839	1,133,211
Doubtful	92,252	1,415,165	22,425	1,437,590	225,143	2,936,257	68,710	3,004,967
Loss	45,106	2,314,372	88,625	2,402,997	101,089	2,118,037	22,514	2,140,551
	1,324,936	**58,926,547**	**10,398,432**	**69,324,979**	**1,712,914**	**54,929,411**	**11,595,244**	**66,524,655**

As indicated in note 4.E, from February 29 to August 31, 2020 the counting of days past due for the payment of loans was stopped. As of December 31, 2020 , the direct loan portfolio was classified based on the assumption that the start of the counting of days past due is September 1, 2020.

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

In thousands of soles	**Specific**	**General**	**Total**
Balance as of January 1, 2020	2,212,612	700,304	2,912,916
Additions charged to profit or loss	2,984,694	1,188,822	4,173,516
Additions charged to share capital (i)	30,000	230,000	260,000
Recovery of provisions	(938,476)	(315,255)	(1,253,731)
Transfer of provisions and others	121,454	(94,723)	26,731
Write-off and forgiveness	(798,868)	-	(798,868)
Exchange difference	41,307	12,842	54,149
Balance as of December 31, 2020	**3,652,723**	**1,721,990**	**5,374,713**
Additions charged to profit or loss	3,198,494	445,452	3,643,946
Recovery of provisions	(1,761,907)	(789,970)	(2,551,877)
Transfer of provisions and others	2,331	(733)	1,598
Reallocation of provisions	230,000	(230,000)	-
Write-off and forgiveness	(2,646,501)	-	(2,646,501)
Exchange difference	55,008	13,565	68,573
Balance as of December 31, 2021	**2,730,148**	**1,160,304**	**3,890,452**

(i) Official Letter SBS 42138 -2020, dated December 13, 2020, allowed financial institutions to reduce capital, legal reserve and/or other balance sheet accounts in order to recognize new general and specific provisions (including voluntary provisions) for their loan portfolio, provided that the requirements of said Official Letter are met. As of December 31, 2020, CrediScotia and CRAC, with prior authorization from the SBS, reduced their share capital by S/ 230,000 thousand and S/ 30,000 thousand, respectively, in order to recognize voluntary and specific provisions for loans, respectively.

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

In thousands of soles	**2021**	**2020**
Provision for loan losses	(3,643,946)	(4,173,516)
Recovery of provisions	2,551,877	1,253,731
Income from recovery of loan portfolio	181,366	74,476
Provision for loan losses, net of recoveries	**(910,703)**	**(2,845,309)**

The Bank, CrediScotia and CRAC record legal provisions for their loan portfolio according to the SBS regulations. They also record voluntary provisions for loan losses included in the general provision. As of December 31, 2021, the voluntary provisions of the Bank, CrediScotia and CRAC amount to S/ 434,978 thousand, S/ 140,421 thousand and S/ 10,200 thousand, respectively (S/ 482,344 thousand and S/ 98,200 thousand, respectively, as of December 31, 2020).

In 2021, the Bank, CrediScotia and CRAC transferred the amounts of S/ 421,330 thousand, S/ 346,587 thousand and S/ 47,800 thousand, respectively, from voluntary general provisions to specific provisions.

As of December 31, 2021 and 2020, the distribution of the provision for impairment loss on accounts receivable by type of loan is as follows:

	2021				2020			
In thousands of soles	**General**	**Specific**	**Voluntary**	**Total**	**General**	**Specific**	**Voluntary**	**Total**
Type of loan								
Corporate loans	138,461	173,465	23,006	334,932	111,427	87,638	66,580	265,645
Large-business loans	43,554	116,457	90,656	250,667	43,833	90,976	121,356	256,165
Medium-business loans	66,014	814,434	134,715	1,015,163	61,108	541,740	146,851	749,699
Small-business loans	16,356	327,092	35,505	378,953	14,681	410,256	66,692	491,629
Micro-business loans	781	14,046	80,324	95,151	1,627	34,564	114,286	150,477
Consumer loans	106,549	907,710	194,589	1,208,848	94,101	2,017,714	747,451	2,859,266
Mortgage loans	70,593	502,917	25,486	598,996	59,550	476,343	59,646	595,539
Total	**442,308**	**2,856,121**	**584,281**	**3,882,710**	**386,327**	**3,659,231**	**1,322,862**	**5,368,420**

As indicated in note 4.E, from November 2014, the procyclical component for provision calculation was deactivated. As of December 31, 2021 2020, the Scotiabank Group did not applied the procyclical component to record specific provisions. As of December 31, 2021, the Bank and CrediScotia have a balance of S/ 48,004 thousand (S/ 44,546 thousand as of December 31, 2020).

As of December 31, 2021, the Scotiabank Group's provision for exchange rate risk amounts to S/ 2,001 thousand and other provisions amount to S/ 5,741 thousand (S/ 2,837 thousand and S/ 3,456 thousand as of December 31, 2020).

(d) The Scotiabank Group, based on the policies indicated in note 4.E, rescheduled loans of borrowers that have loans up to 15 days past due as of February 29, 2020 or borrowers that have made all of their payments at the date the state of emergency was declared. These easy payment terms included debt rescheduling applicable to gross and individual loan portfolio depending on the loans.

As of December 31, the debt rescheduling of the Bank, CrediScotia and CRAC is as follows:

	2021			2020		
In thousands of soles	**Gross**	**Individual**	**Total**	**Gross**	**Individual**	**Total**
Type of loan						
Corporate loans	-	66,505	66,505	-	1,012,034	1,012,034
Large-business loans	-	333,716	333,716	-	1,978,374	1,978,374
Medium-business loans	27,630	368,896	396,526	131,317	2,436,680	2,567,997
Small-business loans	34,734	108,112	142,846	324,232	696,887	1,021,119
Micro-business loans	2,820	1,243	4,063	54,498	22,782	77,280
Consumer loans	126,844	644,876	771,720	2,342,519	3,926,214	6,268,733
Mortgage loans	130,713	1,029,143	1,159,856	338,791	2,765,838	3,104,629
	322,741	**2,552,491**	**2,875,232**	**3,191,357**	**12,838,809**	**16,030,166**

Likewise, the Bank, CrediScotia and CRAC recognized provisions for rescheduled loans for S/ 47,466 thousand, S/ 2,887 thousand and S/ 2,122 thousand, respectively (2,268 thousand, S/ 4,865 thousand and S/ 10,171 thousand as of December 31, 2020).

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

	2021			2020		
In thousands of soles	**Local currency**	**Foreign currency**	**Total**	**Local currency**	**Foreign currency**	**Total**
Up to 1 month	2,093,591	2,325,490	4,419,081	1,866,876	1,521,700	3,388,576
1-3 months	12,069,040	3,072,805	15,141,847	2,932,240	2,615,593	5,547,833
3-6 months	6,374,230	2,361,840	8,736,070	3,470,765	2,100,995	5,571,760
6-12 months	3,478,564	1,100,735	4,579,299	6,350,442	1,297,422	7,647,864
More than 1 year	19,621,924	4,407,576	24,029,500	24,036,905	5,554,555	29,591,460
Past-due loans and lawsuit loans	1,559,720	758,155	2,317,875	2,754,879	775,934	3,530,813
Less: Accrued interest	(241,313)	(55,810)	(297,123)	(290,251)	(58,644)	(348,895)
	44,955,756	**13,970,791**	**58,926,547**	**41,121,856**	**13,807,555**	**54,929,411**

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, 2021 and 2020, fair value of held-for-trading instruments and hedging instruments has generated accounts receivable and payable as follows:

	2021		2020	
In thousands of soles	**Accounts receivable**	**Accounts payable**	**Accounts receivable**	**Accounts payable**
Held-for-trading instruments (a)				
Foreign-exchange forward contracts	140,376	143,441	67,583	56,655
Interest rate swaps	76,394	22,068	71,685	60,615
Cross-currency swaps	196,045	232,781	50,289	38,293
	412,815	**398,290**	**189,557**	**155,563**
Hedging instruments (b)				
Interest rate swaps	-	-	-	26,077
	-	**-**	**-**	**26,077**
Held-for-trading and hedging instruments	**412,815**	**398,290**	**189,557**	**181,640**

(a) As of December 31, 2021 and 2020, such instruments generated a net gain for S/ 507,011 thousand and S/ 151,436 thousand, respectively (note 24).

(b) As of December 31, 2020, the Bank had these instruments for US$ 800,000 related to foreign loans acquired with Scotiabank Caribbean Treasury Limited. They matured in the year 2021 and resulted in a net gain for S/ 21,886 thousand in profit or loss of the year 2021. As of December 31, 2020, such hedging instruments generated an unrealized net loss for S/ 22,454 thousand, which was recorded in 'other comprehensive income' in the consolidated statement of changes in equity (note 18F).

10. Accounts Receivable, Net

This caption comprises the following:

In thousands of soles	2021	2020
Financial instruments		
Sale of investments (a)	163,160	130,596
Fees receivable	14,585	19,835
Payments on behalf of third parties, net	10,418	18,782
Collection services	7,910	12,856
Sale of goods and services, trust, net	10,770	10,920
Advances to personnel	3,683	8,518
Accounts receivable from third parties	343	243
Other accounts receivable, net (b)	174,231	201,700
	385,100	**403,450**
Non-financial instruments		
Tax claims (c)	722,021	722,021
	1,107,121	**1,125,471**

(a) As of December 31, 2021 and 2020, 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/ 106,412 thousand and S/ 41,670 thousand, respectively; ii) short sale of sovereign bonds for S/ 37,090 thousand and S/ 88,926 thousand, respectively; and iii) short sale of treasury bonds for S/ 19,658 thousand (there were no such transactions as of December 31, 2020).

(b) As of December 31, 2021, other accounts receivable, net provision for impairment loss, include: i) unsettled transactions with debit and credit cards for S/ 31,193 thousand (S/ 18,122 thousand as of December 31, 2020); ii) finance leases for S/ 69,606 thousand (S/ 73,079 thousand as of December 31, 2020); iii) refund of travel expenses for S/ 5,105 thousand (S/ 941 thousand as of December 31, 2020); and iv) other accounts receivable for S/ 68,327 thousand (S/ 19,323 thousand as of December 31, 2020).

(c) As of December 31, 2021 and 2020, the balance comprises the following:

(i) A total S/ 481,846 thousand corresponding to payments made under protest related to a tax claim filed with the Tax Authorities and the Tax Court, which was resolved in 2013 after more than 14 years at the administrative stage. At that stage, the Tax Authorities determined the existence of an alleged tax debt borne by the Bank derived from the sales tax credit on gold purchase transactions entered into between 1997 and 1998. From December 2013 and February 2014, the Bank paid in full the debt under protest without recognizing the validity or legality of the debt. Such payment was recognized as an account receivable.

On November 15 and 21, 2013, since the Bank considered irregular and illegal the alleged tax debt from a claim that was resolved after more than 14 years and resulted in default interest, the Bank filed two legal actions for a review of the case and seek recovery of the payment under protest made: (i) a writ of amparo (Amparo 1) to review the unconstitutionality of accrued interest due to the fact the Peruvian tax authorities exceeded the legal term to resolve the case, and (ii) an adversary administrative proceeding to challenge the alleged tax.

On November 9, 2021, the Constitutional Court issued a ruling on the legal proceeding involving the default interest (Amparo 1), and declared the claim inadmissible. In June 2018, regarding the adversary administrative proceeding involving the alleged tax, the Supreme Court dismissed the claim. Consequently, in July 2018, the Bank filed a new writ of amparo (Amparo 2) demanding the nullity of such ruling and the reopening of the adversary administrative proceeding. A favorable outcome would result in the reopening of the adversary administrative proceeding and in a new ruling from the Supreme Court and probably from the other lower court instances. To date, such second proceeding remains to be resolved by the Superior Court.

As of December 31, 2021, it is the opinion of management and internal and external legal advisors that, although the adversary administrative proceeding and Amparo 1 were resolved, Amparo 2 is still in progress and pending resolution, the Bank may obtain a favorable outcome given the procedural errors committed in the ruling of the Supreme Court. Such outcome would result in the reopening of the adversary administrative proceeding, which will enable the Bank to obtain a refund of the payment under protest made.

In March 2015, by means of Official Letter 10454-2015, the SBS, at its sole discretion and as a precautionary measure, required the recognition of a prudential provision for the alleged tax (principal) for S/ 48,031 thousand; this and any other requirement to record provisions of a prudential nature is irrespective of the estimated favorable outcome referred to in the prior paragraph.

(ii) As of December 31, 2021 and 2020, they mainly comprise: i) S/ 230,095 thousand of payments made by the Bank under protest of the Temporary Tax on Net Assets (ITAN) for fiscal years 2005 and 2006; and iii) S/ 25,760 thousand for the tax proceeding for fiscal 2013. Such payments were challenged in courts by the Bank as they are considered undue payments and shall be offset with the income tax payable and other tax credits that may become available. In the opinion of Bank Management and its legal counsel, the above amounts would be refunded to the Bank once the expected favorable outcome is obtained.

11. Goodwill

It corresponds to the goodwill determined on the acquisition of investments in equity instruments made by the Bank. As of December 31, 2021 and 2020, 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 Servicios Bancarios Compartidos S.A.'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, 2021 and 2020.

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	2021	2020
Cost							
Balance as of January 1	128,884	780,497	468,749	3,277	22,094	1,403,501	1,398,871
Additions	-	191	7,506	507	15,626	23,830	39,942
Sales	-	(2,971)	(12,167)	(190)	(373)	(15,701)	(28,967)
Transfers	-	17,287	3,293	-	(20,532)	48	836
Disposals and others	-	(17,509)	(13,618)	-	(38)	(31,165)	(7,181)
Balance as of December 31	**128,884**	**777,495**	**453,763**	**3,594**	**16,777**	**1,380,513**	**1,403,501**
Accumulated depreciation							
Balance as of January 1	-	664,213	397,398	2,795	-	1,064,406	1,036,444
Additions	-	18,492	24,515	120	-	43,127	52,815
Sales	-	(2,223)	(10,518)	(190)	-	(12,931)	(19,694)
Disposals and others	-	(16,385)	(10,691)	-	-	(27,076)	(5,159)
Balance as of December 31	**-**	**664,097**	**400,704**	**2,725**	**-**	**1,067,526**	**1,064,406**
Net carrying amount	**128,884**	**113,398**	**53,059**	**869**	**16,777**	**312,987**	**339,095**

(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.

13. Intangible Assets, Net

This caption comprises the following:

In thousands of soles	Software and others	Work-in-progress	Goodwill	Other intangible assets	Exclusive agreement	Cencosud brand name	2021	2020
Cost								
Balance as of January 1	399,213	20,055	12,911	23,861	326,302	4,148	786,490	744,045
Additions	126	44,885	-	856	-	-	45,867	44,440
Transfers	36,907	(36,956)	-	-	-	-	(49)	(836)
Disposals and others	-	-	(82)	-	-	-	(82)	(1,159)
Balance as of December 31	**436,247**	**27,984**	**12,829**	**24,717**	**326,302**	**4,148**	**832,226**	**786,490**
Accumulated amortization								
Balance as of January 1	328,116	-	8,417	22,615	39,881	507	399,536	339,716
Additions	43,388	-	252	952	21,753	277	66,622	59,820
Disposals and others	-	-	(82)	-	-	-	(82)	-
Balance as of December 31	**371,504**	**-**	**8,587**	**23,567**	**61,634**	**784**	**466,076**	**399,536**
Net carrying amount	**64,743**	**27,984**	**4,242**	**1,150**	**264,668**	**3,364**	**366,150**	**386,954**

14. Other Assets, Net

This caption comprises the following:

In thousands of soles	2021	2020
Financial instruments		
Transactions in progress (a)	150,318	167,391
	150,318	**167,391**
Non-financial instruments		
Prepaid expenses (b)	129,617	106,755
Realizable and repossessed assets, net of accumulated depreciation and provision for impairment loss for S/ 213,520 thousand (S/ 198,950 thousand in 2020)	48,267	62,837
Tax credit	465,448	190,326
Others	7,619	8,019
	650,951	**367,937**
	801,269	**535,328**

(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, 2021, it includes treasury transactions for S/ 80,565 thousand (S/ 148,800 thousand as of December 31, 2020), transactions to be settled with Cámara de Compensación Electrónica for S/ 47,370 thousand (S/ 2,543 thousand as of December 31, 2020), and invoices-in-transit for S/ 5,976 thousand (S/ 5,167 thousand as of December 31, 2020).

(b) As of December 31, 2021, prepaid expenses mainly include: i) deferred loan origination costs related to fees paid to the external sales force for S/ 107,309 thousand (S/ 77,172 thousand as of December 31, 2020); ii) prepaid fees for loans received for S/ 6,415 thousand (S/ 3,589 thousand as of December 31, 2020); iii) prepaid leases for S/ 2,539 thousand (S/ 3,218 thousand as of December 31, 2020); and iv) advertising and marketing services for S/ 327 thousand (S/ 417 thousand as of December 31, 2020), among others.

15. Deposits and Obligations with Financial Institutions

This caption comprises the following:

In thousands of soles	2021		2020	
Corporate clients	22,837,699	48%	24,328,543	50%
Individuals	18,675,941	39%	19,320,372	40%
Non-profit entities	4,219,402	9%	3,147,855	6%
Others	1,890,160	4%	1,778,439	4%
	47,623,202		**48,575,209**	**100%**

As of December 31, 2021 and 2020, deposits and other obligations in U.S. dollars represent 44% and 38% of total amount, respectively. As of December 31, 2021, deposits include accounts pledged in favor of the Bank and CrediScotia for credit transactions for S/ 393,970 thousand and US$ 184,502 thousand (S/ 460,017 thousand and US$ 157,196 thousand as of December 31, 2020).

As of December 31, 2021 and 2020, total deposits and obligations from individuals and non-profit entities amount to S/ 14,459,770 thousand and S/ 13,440,198 thousand, respectively, and 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, 2021, the maximum amount secured for each individual amounted to S/ 116 thousand (S/ 102 thousand as of December 31, 2020). The SBS, exceptionally, postponed until December 31, 2020 the transfer of deposits, with an aging of more than 10 years corresponding to the six-month period from January to June 2020, to the Peruvian Deposit Insurance Fund. Consequently, depositors can use their deposits with an aging of more than 10 years during this period.

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 assets ranged as follows:

	2021		**2020**	
%	**Local currency**	**Foreign currency**	**Local currency**	**Foreign currency**
Savings deposits	0.77 - 1.51	0.10 - 0.12	0.89 - 2.00	0.13 - 0.24
Time deposits	0.57 - 3.50	0.08 - 0.81	0.06 - 4.31	0.17 - 1.25
Bank certificates	-	0.08 - 0.81	-	0.07 - 0.31
Length-of-service compensation deposits	2.39 - 4.27	0.42 - 0.77	2.49 - 4.33	0.56 - 0.80

Emergency Decree 033-2020, issued March 27, 2020, decreed the following measures to support employees amid the COVID-19 pandemic:

(a) Self-employed individuals are authorized to make withdrawals from their deposits for severance payment of up to S/ 2,400 to meet liquidity needs in response to the COVID-19 crisis.

(b) The Peruvian government granted a wage subsidy to employers from the private sector aimed at preserving jobs, for a maximum of 35% of the payroll of employees with a monthly salary of up to S/ 1,500.

(c) Insured workers under the Private Pension System can make extraordinary withdrawals of up to S/ 2,000.

Likewise, the Peruvian government issued laws to authorize the extraordinary withdrawal of pension funds and the free one-time withdrawal of length-of-service compensation deposits until August 31 and December 31, 2021, respectively.

As of December 31, 2021, according to the government measures, the Bank deposited pension funds for S/ 8,080,606 thousand in suspense accounts, out of which an amount of S/ 7,396,735 thousand was withdrew. According to such measures, the Bank, CrediScotia and CRAC released length-of-service compensation deposits for S/ 2,319,462 thousand, S/ 110,710 thousand and S/ 120,811 thousand (S/ 383,945 thousand, S/ 14,371 thousand and S/ 35,397 thousand, respectively, as of December 31, 2020).

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

	2021			2020		
In thousands of soles	**Local currency**	**Foreign currency**	**Total**	**Local currency**	**Foreign currency**	**Total**
Up to 1 month	2,141,197	1,568,164	3,709,361	2,045,909	2,586,621	4,632,530
1-3 months	1,513,780	831,717	2,345,497	1,933,727	1,993,978	3,927,705
3-6 months	1,906,375	316,578	2,222,953	1,238,196	413,036	1,651,232
6-12 months	1,087,392	766,361	1,853,753	2,049,710	568,995	2,618,705
More than 1 year	905,277	289,314	1,194,590	1,629,421	777,315	2,406,736
	7,554,021	**3,772,133**	**11,326,155**	**8,896,963**	**6,339,945**	**1,5236,908**
Interest	31,436	7,797	39,231	82,359	1.3819	96,178
	7,585,456	**3,779,930**	**11,365,386**	**8,979,322**	**6,353,764**	**15,333,086**

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	**2021**	**2020**
Borrowings and debts		
Obligations in the country		
COFIDE (a)	751,988	851,775
Other banks	65,000	-
Ordinary loans from abroad		
Related banks (b)	4,784,400	7,075,434
Other banks (c)	4,821,273	2,747,247
	10,422,661	**10,674,456**
Interest payable (b)	16,668	10,437
	10,439,329	**10,684,893**
Securities and obligations (d)	2,274,969	2,239,623
	12,714,298	**12,924,516**

(a) The credit lines of 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, 2021 and 2020, the Bank and CrediScotia hold obligations with COFIDE for S/ 540,001 thousand and S/ 543,804 thousand, respectively, which are guaranteed by a mortgage loan portfolio, as follows:

		2021		2020	
In thousands of	**Currency**	**Net loans**	**Backed debt**	**Net loans**	**Backed debt**
Detail					
Mortgage loans -					
MiVivienda Fund (*)	soles	501,183	539,499	534,213	517,863
Mortgage loans -	U.S. dollars				
MiVivienda Fund (*)		5,486	4,969	8,273	7,164

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

Likewise, as of December 31, 2021 and 2020, the Bank entered into agreements to channel resources with COFIDE for S/ 192,294 thousand. Said resources will be used to fund corporate and medium-business loans. It also includes balances payable to COFIDE related to the FAE-MYPE I, FAE-MYPE II and FAE-MYPE III for S/ 4,594 thousand, S/ 9,070 thousand and S/ 6,030 thousand (S/ 86,968 thousand, S/ 20,969 thousand and S/ 8,062 thousand as of December 31, 2020).

(b) As of December 31, 2021, ordinary loans with related banks include debts payable to Scotiabank Ltd. Bahamas for US$ 1,200,000 thousand, which accrue interest at annual rates ranging from 0.06% to 1.07% with maturities between January 2022 and December 2023 (US$ 1,722,000 thousand as of December 31, 2019, which accrue interest at annual rates ranging from 0.24% to 0.80% with maturities between January 2021 and January 2022).

These loans do not have collaterals nor compliance terms.

(c) As of December 31, 2021, the Bank holds borrowings and debts with other foreign banks for US$ 1,209,248 thousand (US$ 986,556 thousand as of December 31, 2020), which accrue interest at annual rates ranging from 0.00% to 0.99% (0.21% to 1.66% as of December 31, 2020). These transactions contain standard terms of compliance with financial ratios and, in management's opinion, those terms do not affect the Bank's operations and are being met.

As of December 31, 2020, the Bank exceeded the delinquency rate required by the foreign financial institution from 4% to 5.4% as a result of the effects from the suspension of economic activities due to the national state of emergency declared due to the COVID-19 pandemic on the borrowers' ability to pay. On January 27, 2021, the Bank renewed the loan with such financial institution for US$ 200,000 thousand at a delinquency rate of 6%.

As of December 31, 2021, maturities of borrowings from banks and other financial institutions were as follows:

In thousands of soles	**2021**	**2020**
Up to 1 month	2,136,920	857,804
1-3 months	1,615,403	1,707,077
3-6 months	2,332,734	4,597,668
6-12 months	1,332,425	2,428,196
More than 1 year	3,021,847	1,094,148
	10,439,329	**10,684,893**

(d) As of December 31, 2021, maturities of borrowings from banks and other financial institutions were as follows:

In thousands of soles	**Annual interest**	**Maturity**	**2021**	**2020**
Issuance				
Redeemable subordinated bonds				
1st Issuance, single series (i)	4.50%	2027	1,594,800	1,448,400
1st Issuance A – 1st Program - SBP (ii)	7.34%	2025	535,560	535,560
1st Issuance A – 1st Program - CSF (iii)	7.41%	2027	130,000	130,000
			2,260,360	**2,113,960**
Corporate bonds (iv)				
1st Issuance A – 3rd Program	4.56%	2021	-	104,790
			-	**104,790**
Negotiable certificates of deposit			3,016	7,312
			3,016	**7,312**
			2,263,376	**2,226,062**
Interest payable and obligations			11,593	13,561
			2,274,969	**2,239,623**

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 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 issuance 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 maturity in July 2021. 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, 2021, the maturity of outstanding securities is as follows:

In thousands of soles	**2021**	**2020**
Up to 3 months	1,381	4,012
3-6 months	240	9,549
6-12 months	1,238	111,132
More than 1 year	2,272,110	2,114,930
	2,274,969	**2,239,623**

(e) As of December 31, 2021 and 2020, interest expenses on borrowings and debts of the Scotiabank Group amount to S/ 246,261 thousand and S/ 325,387 thousand, respectively (note 22).

17. Provisions and Other Liabilities

This caption comprises the following:

In thousands of soles	**2021**	**2020**
Accounts payable		
Repurchase agreements (a)	6,091,479	7,038,974
Other accounts payable	384,497	396,054
Short sale	93,832	91,798
Vacations, remunerations and profit sharing payable	31,015	41,060
	6,600,823	**7,567,886**
Provisions		
Provision for litigations and claims (b)	33,246	33,296
Provision for various contingencies (c)	66,682	64,101
Provision for indirect loan losses and country risk	175,814	126,216
Other provisions (d)	80,178	84,982
	355,920	**308,595**
Other liabilities		
Transactions in progress (e)	308,300	238,041
Deferred income (f)	77,262	78,095
	385,562	**316,136**
	7,342,305	**8,192,617**

(a) As of December 31, 2021, the balance of obligations for repurchase agreements includes:

(i) Repurchase agreements with certificates of participation in the Reactiva Peru program I and II entered into with the BCRP for S/ 3,478,001 thousand (S/ 4,865,930 thousand as of December 31, 2020). They accrue interest at an interest rate of 0.5% with a maturity of 3 years from the date of issuance.

(ii) Repurchase agreements on credit portfolio represented by securities for S/ 1,040,000 thousand. They accrue interest at an interest rate ranging from 1.25% to 3.5% with a maturity of 3 years from the date of issuance (no repurchase agreements on credit portfolio represented by securities as of December 31 of 2020).

(iii) Repurchase agreements on currencies with the BCRP for S/ 736,800 thousand. They accrue interest at an interest rate ranging from 0.00% and 2.95% with a maturity in January 2022 (S/ 1,480,000 thousand and accrue interest at an interest rate ranging from 2.60% to 3.52% with a maturity in March 2020 as of December 31, 2020).

(iv) Repurchase agreements with certificates of deposit with the BCRP for S/ 498,829 thousand. They accrue interest at an interest rate ranging from 2.60% and 2.90% with a maturity in January 2022 (S/ 175,627 thousand and accrue interest at an interest rate ranging from 2.40% to 2.50% with a maturity in March 2021) (note 7 a).

(v) Repurchase agreements on Peruvian treasury bonds with the BCRP for S/ 329,074 thousand. They accrue interest at an interest rate ranging from 0.50% to 1.27% with a maturity between April 2022 and December 2023 (S/ 484,417 thousand and accrue interest at an interest rate ranging from 0.70% to 1.27% with a maturity in April 2021 as of December 31, 2020) (note 7 b).

(b) As of December 31, 2021 and 2020, 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, 2021, this account mainly comprises reversals or recoveries of provisions recorded in prior years against equity accounts, 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, 2021, the balance of other provisions mainly includes: i) provisions for personnel expenses for S/ 45,423 thousand (S/ 55,533 thousand as of December 31, 2020); ii) provisions for marketing campaigns of liability products for S/ 5,375 thousand (S/ 5,447 thousand as of December 31, 2020); and iii) provisions related to credit and debit card transactions for S/ 24,613 thousand (S/ 23,160 thousand as of December 31, 2020).

(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, 2021, liability transactions in progress mainly include: i) S/ 96,210 thousand for treasury transactions (S/ 151,903 thousand as of December 31, 2020); ii) S/ 78,446 thousand for credit card transactions (S/ 15,771 thousand as of December 31, 2020); and iii) S/ 71,673 thousand for client deposits in transit (S/ 19,144 thousand as of December 31, 2020).

(f) As of December 31, 2021, it mainly includes income for (i) S/ 30,452 thousand for exclusive right fees (S/ 40,395 thousand as of December 31, 2020); (ii) S/ 24,233 thousand for indirect loan fees (S/ 24,851 thousand as of December 31, 2020); and S/ 14,097 thousand for structuring and trust service fees (S/ 11,546 thousand as of December 31, 2020), which are recorded in the Scotiabank Group's profit or loss during the term of the contract that originates them.

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, 2021, the regulatory capital of such entities amounts to S/ 10,659,311 thousand, S/ 760,258 thousand and S/ 163,853 thousand, respectively (S/ 10,294,564 thousand, S/ 701,159 thousand and S/ 170,956 thousand, respectively, as of December 31, 2020).

As of December 31, 2021, 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/ 66,983,777 thousand, S/ 2,965,020 thousand and S/ 752,997 thousand, respectively (S/ 57,596,896 thousand, S/ 3,557,621 thousand and S/ 894,984 thousand, respectively, as of December 31, 2020).

As of December 31, 2021 and 2020, the Banking Law established as a global limit that the regulatory capital shall be equal to or greater than 8% 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, 2021, the regulatory capital of the Bank, CrediScotia and CRAC represents 14.70%, 22.73% and 18.11% respectively, of the minimum capital requirements per market, operational and credit risk (16.50%, 17.55% and 15.26%, respectively, as of December 31, 2020).

SBS Resolution 2115-2009, approved the "Regulation on Regulatory Capital Requirement for Operational Risk." As of December 31, 2021 and 2020, 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.

SBS Resolution 1265-2020, issued March 26, 2020, extended the application period of the alternative standard method for the Bank and CrediScotia until September 2022. 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, 2021, additional regulatory capital of the Bank and CRAC amounted to S/ 702,941 thousand and S/ 19,749 thousand, respectively, and CrediScotia does not have an additional regulatory capital (S/ 916,159 thousand and S/ 31,894 thousand for the Bank and CRAC as of December 31, 2020).

B. Share capital

As of December 31, 2021, the Bank's authorized, subscribed and paid-in share capital comprise 802,677,853 common shares (784,035,390 common shares as of December 31, 2020). All shares have voting rights and a par value of S/ 10.00 each. As of December 31, 2021 and 2020, the quotation value of common shares of the Bank was S/ 22.00 and S/ 31.00 per share, respectively.

General Stockholders' Meeting, held March 24, 2021, approved the increase in share capital for S/ 186,425 thousand thorough the capitalization of the 2020 profits. As a result from the capitalization, the share capital increased to S/ 8,026,777 thousand represented by 802,677,853 common shares with a par value of S/ 10.00 each as of December 31, 2021.

General Shareholders' Meeting, held May 26, 2020, approved the increase in share capital arising from the capitalization of 2019 retained earnings for S/ 1,077,081 thousand, out of which S/ 952,081 thousand were previously committed and approved at the Board of Directors meetings, held August and November 2019 and March 2020. As a result from the capitalization, the share capital increased to S/ 7,840,352 thousand represented by 784,035,390 common shares with a par value of S/ 10.00 each as of December 31, 2020.

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

	2021		2020	
%	Number of shareholders	%	Number of shareholders	%
From 0.01 to 1	1,294	1.95	1,355	1.95
From 50.01 to 100	1	98.05	1	98.05
	1,295	**100.00**	**1,356**	**100.00**

Under the Banking Law, as of December 31, 2021, the share capital is required to reach the minimum amount of S/ 31,165 thousand (S/ 27,545 thousand as of December 31, 2020), 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 capital

This caption comprises the following:

In thousands of soles	2021	2020
Issuance premium	393,159	393,159
Gain on treasury shares	1,304	1,304
	394,463	**394,463**

As of December 31, 2021 and 2020, the Bank holds 277 and 194 treasury shares respectively.

D. Legal reserve

In accordance with the Banking Law, the Bank is required to have a legal reserve of more than 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. In accordance with the Banking Law, the amount of this reserve may also be increased through contributions made by the stockholders for this purpose.

General Shareholders' Meeting, held March 24, 2021 and May 26, 2020, applied to legal reserve an amount of S/ 26,632 thousand and S/ 146,474 thousand, respectively, corresponding to 10% of net profit for the year 2020 and 2019.

E. Retained earnings

General Shareholders' Meeting, held March 24, 2021, approved the distribution of 2020 net profit for S/ 266,321 thousand, as follows:

i Allocate 10% of net profit, amounting to S/ 26,632 thousand, to increase the legal reserve.

ii Capitalize a total amount of S/ 186,425 thousand and maintain a remaining balance for S/ 53,264 thousand in 'retained earnings.

General Shareholders' Meeting, held May 26, 2020, approved the distribution of 2019 net profit for S/ 1,464,740 thousand, as follows:

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

iv Capitalize a total amount of S/ 1,077,081 thousand and maintain a remaining balance for S/ 241,185 thousand in 'retained earnings.'

F. Unrealized gains and losses

As of December 31, 2021 and 2020, 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 Scotiabank Group's unrealized gains and losses for the years 2021 and 2020, net of deferred tax, was as follows:

In thousands of soles	***Note***	**2021**	**2020**
Balance as of January 1		67,372	13,105
Net unrealized gain (loss) on available-for-sale investments	*7*	(264,989)	76,733
Cash flow hedges	*9(b)*	21,886	(22,454)
Net unrealized loss on associates		(25)	(12)
Balance as of December 31		**(175,756)**	**67,372**

G. Other adjustments

As of December 31, 2020, CrediScotia and CRAC, with prior authorization from the SBS, reduced their share capital by S/ 230,000 thousand and S/ 30,000 thousand, respectively, in order to recognize voluntary and specific provisions for loans, respectively.

The Bank recognized as equity-related adjustments the proportional part of these amounts based on its percentage of shares in these subsidiaries, net of deferred tax for S/ 67,850 thousand and current tax for S/ 9,000 thousand, respectively.

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 that are recorded in suspense accounts in the consolidated statement of financial position is related to the probability that one of the participants of the respective contract does not meet the agreed 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, contingent accounts comprise the following:

In thousands of soles	***Note***	**2021**	**2020**
Indirect loans	*8*		
Guarantees and letters of guarantee		9,280,808	10,677,481
Letters of credit issued		943,245	707,585
Outstanding banker's acceptance		174,379	210,178
		10,398,432	**11,595,244**
Unused credit lines		41,791,490	46,091,388
Derivative instruments		22,046,840	16,217,496
		75,802,854	**73,904,128**

21. Interest Income

This caption comprises the following:

In thousands of soles	***Note***	**2021**	**2020**
Direct loan portfolio		3,644,186	4,926,978
Available-for-sale investments	*7*	78,401	155,135
Cash and due from banks and deposits with banks	*6*	7,153	27,091
Investments at FVTPL	*7*	8,259	10,468
Interbank funds		191	520
Other finance income		2,510	2,443
		3,740,700	**5,122,635**

22. Interest Expenses

This caption comprises the following:

In thousands of soles	***Note***	**2021**	**2020**
Deposits and obligations		225,038	510,314
Borrowings and debts	*16(e)*	246,261	325,387
Repurchase agreements		39,220	105,274
Fees for borrowings and debts		23,167	24,314
Profit or loss from hedging instruments		23,234	21,989
Deposits with financial institutions		1,824	4,151
Interbank funds		1,744	2,222
		560,488	**993,651**

23. Financial Service Income, Net

This caption comprises the following:

In thousands of soles	**2021**	**2020**
Income		
Income from fees for collections services	319,760	251,829
Other income and fees for banking services	163,257	145,695
Income from services and maintenance of liability transactions and transfer fees	90,164	81,536
Income from compensation for mutual funds and fees for redemption of shares	75,829	65,111
Income from structuring and management services	80,241	57,543
Income from teleprocessing services	36,091	40,025
Income from recovery of loan portfolio	27,236	35,794
Income from fees and intermediation services	5,411	6,661
Income from fees of Reactiva Peru program	20,676	14
Other income	298,528	245,915
	1,117,193	**930,123**
Expenses		
Credit/debit card expenses	(159,506)	(127,437)
Deposit insurance fund premiums	(64,383)	(55,773)
Expenses for insurance services	(5,824)	(6,719)
Expenses from fees of Reactiva Peru program	(20,562)	-
Other expenses	(297,356)	(241,846)
	(547,631)	**(431,775)**
	569,562	**498,348**

24. Profit or Loss from Financial Transactions

This caption comprises the following:

In thousands of soles	*Note*	2021	2020
Net gain on measurement of held-for-trading instruments	9	507,011	151,436
Gain on sale of available-for-sale investments	7	25,606	150,040
Net exchange gain (loss)	5	(98,909)	122,219
Gain (loss) on sale and measurement of investments at FVTPL		(17,553)	20,524
Gain on interests		31,620	15,147
Dividends from available-for-sale investments		1,009	1,058
Others, net		65	(52)
		448,849	**460,372**

25. Administrative Expenses

This caption comprises the following:

In thousands of soles	2021	2020
Personnel and board of directors expenses	944,789	952,547
Expenses for third-party services	735,566	775,987
Taxes and contributions	84,228	89,959
	1,764,583	**1,818,493**

26. Other Income, Net

This caption comprises the following:

In thousands of soles	2021	2020
Sale of non-financial services	31,998	17,906
Lease of own assets	416	2,773
Gain on sale of realizable and repossessed assets	6,429	2,745
Reimbursements and refunds	601	1,343
Gain on sale of property, furniture and equipment	3,551	414
Other income (expenses), net	(23,845)	10,556
	19,150	**35,737**

27. Tax Matters

Consolidation

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, 2021 and 2020, 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 2021 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. On this concern, Peru has currently entered into double tax treaties with the Andean Community, Chile, Canada, Brazil, Portugal, Switzerland, Mexico, South Korea and Japan.

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 shall be subject to a 15% applicable rate, provided that Income Tax Law requirements are met. As noted above, the retention ratio 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, 2021 and 2020, and determined income tax for S/ 168,325 thousand and S/ 351,514 thousand, respectively.

The Scotiabank Group's current tax has been determined for fiscal years 2021 and 2020, net of prior years, as follows:

In thousands of soles	**2021**	**2020**
Scotiabank Perú S.A.A.	143,182	310,238
CrediScotia Financiera S.A.	-	(278)
Scotia Fondos Sociedad Administradora de Fondos S.A.	20,032	17,161
Servicios, Cobranzas e Inversiones S.A.C.	2,394	2,036
Caja Rural de Ahorro y Crédito Cencosud Scotia Perú S.A.	1,320	21,124
Scotia Sociedad Agente de Bolsa S.A.	758	656
Scotia Sociedad Titulizadora S.A.	639	577
	168,325	**351,514**

Income tax expense comprises the following:

In thousands of soles	2021	2020
Current tax		
Current year	192,647	332,686
Prior year adjustments	(24,322)	18,828
	168,325	**351,514**
Deferred tax	**129,965**	**(348,510)**
Net income tax expense	**298,290**	**3,004**

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

In thousands of soles	2021		2020	
Net profit before tax	**1,330,361**	**100.00%**	**255,448**	**100.00%**
Income tax (theoretical)	392,456	29.50%	75,357	29.50%
Tax effect on additions and deductions				
Permanent differences	(76,922)	(5.78%)	(65,844)	(25.77%)
Prior year income tax adjustment	(17,244)	(1.30%)	(6,509)	(2.55%)
Current and deferred tax recorded as per effective rate	**298,290**	**22.42%**	**3,004**	**1.18%**

Tax Loss

E. In accordance with Article 50 of the Income Tax Law, there are 2 systems to offset tax loss carryforward:

System A: It consists of the use of the tax loss generated from the year in which it was accrued and with a term of up to 4 years for its use. After such term, the tax loss is considered as expired.

System B: It establishes that the tax loss carryforward can be used until its depletion, offsetting only 50% of the tax base generated in the year.

Legislative Decree 1481, published on May 8, 2020, established that, as an exceptional measure, the term for tax loss carryforwards under the System A is five years, only for the total net loss of the corporate income obtained in the taxable year 2020.

As of December 31, 2020, CrediScotia incurred in a tax loss for S/ 129,473 thousand. Accordingly, it elected the System A.

In 2021, CrediScotia elected the System B, which differs from the system elected in the year 2020, by presenting a corrected informative sworn statement for the year 2020.

As of December 31, 2021, CrediScotia obtained a tax loss carryforward for S/ 387,603 thousand.

In thousands of soles	**Accumulated balance**
2020	129,473
2021	258,130
	387,603

As of December 31, 2021, CrediScotia recognized deferred tax assets for S/ 114,343 thousand for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which they can be utilized.

As of December 31, 2021, the CRAC elected the System B and determined its tax loss carryforward for S/ 96,172 thousand. At the reporting date, the unused tax losses have not expired.

The CRAC recognized deferred tax assets for S/ 28,371 thousand for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which they can be utilized.

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 2021 and 2020 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. In 2021, the Bank, CrediScotia, CRAC, SAB, SAFM, Titulizadora and SCI determined that the temporary tax on net assets amounts to S/ 279,602 thousand, S/ 15,571 thousand, S/ 3,339 thousand, S/ 189 thousand, S/ 514 thousand, S/ 18 thousand and S/ 527 thousand, respectively (S/ 243,916 thousand, S/ 21,544 thousand, S/ 4,192 thousand, S/ 188 thousand, S/ 397 thousand, S/ 17 thousand and S/ 618 thousand in 2020).

Tax on financial transactions

G. Tax on financial transactions for fiscal periods 2021 and 2020 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 revenue exceeds 2,300 tax units [UIT, for its Spanish acronym]); (ii) presentation of a Master File (if accrued revenue of the group exceeds 20,000 UIT); and (iii) presentation of a Country-by-Country Reporting (if 2017 accrued, consolidated revenue of the multinational group's Parent Company exceeds S/ 2,700,000,000 or € 750,000,000). The presentation of the Master File and the Country-by-Country Reporting is mandatory for transactions corresponding to the 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.

In 2020, the Scotiabank Group presented the Local File, excluding the Titulizadora, which was not required to present such file according to the provisions.

The deadline for the presentation of the Local File for the year 2020 will be June 2021, in accordance with the maturity schedule published by the Tax Authorities.

The Master File for the year 2020 shall be presented in October 2021 according to the schedule of monthly tax obligations agreed for the tax period of September published by the Tax Authorities. The Bank, CrediScotia and CRAC presented the file for the year 2020.

The Scotiabank Group presented the Country-by-Country Reporting for the years 2017 and 2018 (it is not mandatory for the year 2019) to the Tax Authorities, in accordance with the extension established in Resolutions 054-2019/SUNAT and 155-2020/SUNAT.

According to the information published by the Organization for Economic Cooperation and Development (OECD), the automatic exchange of information agreement between Peru and Canada is effective from the year 2019. The Country-by-Country Reporting for the year 2021 will no longer be presented by the Scotiabank Group since such agreement is effective from the year 2019.

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.

Based on the business analysis, it is the opinion of management and its legal advisors that no significant contingencies will arise as of December 31, 2021 and 2020 from the application of such regulations.

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 sales tax returns for the years 2017 through 2021 are open for review by the Tax Authorities, excluding the Bank's sales tax returns for the year 2016 as a result of a correction made in the year 2021 corresponding to the 2016 tax assessment.

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 2021	-
CrediScotia Financiera S.A.	From 2017 to 2021	-
Servicios, Cobranzas e Inversiones S.A.C.	From 2017 to 2021	-
Scotia Fondos Sociedad Administradora de Fondos Mutuos S.A.	From 2017 to 2021	-
Scotia Sociedad Agente de Bolsa S.A.	From 2017 to 2021	-
Scotia Sociedad Titulizadora S.A.	From 2017 to 2021	-
Caja Rural de Ahorro y Crédito CAT Perú S.A.	From 2017 to 2021	-
Patrimonio en Fideicomiso Sobre Bienes Inmuebles – Depsa	From 2017 to 2021	-

Concerning tax returns for fiscal years 2006 through 2010 and 2019 through 2015, 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.

The Tax Authorities have sent Tax Assessment and Fine Resolutions to the Bank, which are related to non-domiciled income tax for the periods 2008 and 2011 and related to Essalud contributions for the periods 2011 and 2012, which are being appealed.

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, it was audited by the Tax Authorities in 2012. The CRAC filed an appeal in 2017. In 2016, the Tax Authorities concluded the tax assessment of year 2013 and did not generate any significant contingencies. In 2020, the Tax Authorities concluded the tax assessment of year 2014 and did not generate any significant contingencies.

The Tax Authorities conducted a partial audit to the SCI corresponding to the year 2016. Currently, this case is on appeal to the Tax Court.

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, 2021 and 2020.

Uncertainty over Income Tax Treatments

J. In accordance with IFRIC 23, the Scotiabank Group assessed its uncertain tax treatments and concluded, based on its assessment of tax compliance and transfer pricing, that it is probable that the Tax Authorities will accept its uncertain tax treatment. The Interpretation did not have an effect on the Scotiabank Group's consolidated financial statements as of December 31, 2021 and 2020.

Sales tax regime

K. As of December 31, 2021 and 2020, the sales tax is calculated on the basis of the taxable income determined by the Scotiabank Group monthly at a rate of 18%.

The fees and interest derived from the transactions of banks and financial institutions, municipal savings and credit institutions, municipal savings and credit and popular institutions, small and micro enterprises development institutions, credit unions and rural savings and credit institutions are exempt from sales tax.

Income tax exemptions and exceptions

L. 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.

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

New accrual concept

M. Legislative Decree1425 introduced the definition of "legal accrual" for income tax purposes, stating that: a) revenue from transfer of goods occurs when i) control has been transferred (under IFRS 15); or ii) risk has been transferred to the acquirer (Risk Theory set out in the Civil Code), whichever occurs first; and b) revenue from rendering the service occurs when realization level of the rendered service has been established.

The new legal accrual concept is applicable to lessees when determining the tax treatment of the expense associated with leases regulated by IFRS 16—i.e., 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.

N. Deduction of expenses or costs incurred in transactions with non-domiciled individuals: Legislative Decree 1369 requires that from January 1, 2019 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.

   Said regulation abolished the obligation to pay the amount equivalent to the withholding on the amount recorded as cost and/or expense.

O. 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.

P. 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

Q. 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

R. 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

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

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

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

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

Major amendments to tax laws effective for periods beginning in 2021

T. ***Depreciation of assets***
Legislative Decree 1488 established a special depreciation regime and modified depreciation periods by increasing depreciation rates for certain assets acquired in 2020 and 2021 to promote private sector investment and provide greater liquidity given the economic outlook due to the COVID-19 pandemic.

U. **Thin capitalization**
From January 1, 2021, the borrowing costs shall 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 utilities, among others.

Supreme Decree 402-2021, published December 30 and effective December 31, 2021, modified the Regulation on the Income Tax Law that regulates the calculation of tax-EBITDA for the purpose of setting interest rate limits.

For the years 2019 and 2020, the borrowing costs generated by debts of independent and related parties are subject to the thin capitalization limit of 3:1 debt-to-equity ratio, which is calculated at the end of the prior period.

V. **Other significant changes**
On December 30, 2021, as part of the delegation of powers to make tax, financial and economic recovery laws given to the executive branch (Law 31380), the first tax laws were published, including the tax benefits approved for the fishing and wood industries, the price standardization for tax stability and the extension of the sales tax exemptions. They also include the following:

- The term of tax exemptions included in Appendixes I and II of the Sales Tax Law was extended until December 31, 2022. Consequently, the sale of staple food and basic services—e.g., public transport, among others—will not be subject to sales tax.
- The issuance of e-money will not be subject to sales tax until December 31, 2024.
- The refund of taxes on acquisitions through foreign donations from and imports from diplomatic missions will be effective until December 31, 2024.

Supreme Decree 1516, published December 30, 2021 and effective December 31, 2021, required the price standardization for tax stability under legal stability agreements according to Legislative Decrees 662 and 757. Therefore, such Decree modified the Article 1 of Law 27342 that regulates such agreements. Accordingly, under those legal stability agreements entered into between entities that receive investment and the Peruvian government, the income tax is stabilized. Such tax is applicable in accordance with the current laws and corresponds to the tax rate (plus 2%) referred to in the first paragraph of Article 55 of the Income Tax Law.

28. Deferred Tax

Deferred tax assets have been calculated applying the diminishing balance method per entity (note 4.O). The consolidated deferred tax asset as of December 31, 2021 and 2020 mainly comprises:

In thousands of soles	**Balance as of 01.01.2020**	**(Debit) credit to profit or loss**	**Others**	**Balance as of 31.12.2020**	**(Debit) credit to profit or loss**	**Other adjustments**	**Balance as of 31.12.2021**
General provision for direct/indirect loan losses	239,833	258,622	67,850	566,305	(204,193)	(10,303)	351,809
Provision for accounts receivable	31,634	7,900	-	39,534	1,483	-	41,017
Provision for repossessed assets	25,742	6,759	-	32,501	6,628	-	39,129
Provision for vacations	11,224	(994)	-	10,230	(2,027)	-	8,203
Provision for credit and debit card rewards	5,551	-	-	5,551	-	-	5,551
Tax loss	-	34,406	-	34,406	108,308		142,714
Investment in subsidiaries	941	-	-	941	-	-	941
Finance leases, net	135	-	-	135	-	-	135
Intangible assets	(101,461)	(1,786)	-	(103,247)	6,907	-	(96,340)
Leveling of assets and liabilities	(28,099)	14,770	-	(13,329)	(36,055)	-	(49,384)
Deferred sales charges	(31,607)	13,128	-	(18,479)	(2,543)	-	(21,022)
Others	15,620	15,705	-	31,325	(8,473)	-	22,851
Deferred tax assets, net	**169,513**	**348,510**	**67,850**	**585,873**	**(129,965)**	**(10,303)**	**445,604**

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 2021, legal employees' profit sharing was determined for S/ 31,207 thousand (S/ 48,314 thousand in 2020), 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, 2021, the allocated value of assets in trusts and trust fees amounts to S/ 6,070,037 thousand (S/ 4,976,050 thousand in 2020).

31. Related Party Transactions

As of December 31, 2021 and 2020, 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:

	2021					2020				
In thousands of soles	**Parent Company**	**Related parties (i)**	**Associates**	**Key management personnel and directors**	**Total**	**Parent Company**	**Related parties (i)**	**Associates**	**Key management personnel and directors**	**Total**
Assets										
Cash and due from banks	-	59,112	-	-	59,112	-	1,724	-	-	1,724
Loan portfolio, net	-	480,181	12,344	28,936	521,460	-	308,829	7,591	22,880	339,300
Held-for-trading and hedging instruments	-	134,451	-	-	134,451	-	36,911	-	-	36,911
Other assets, net	-	119,848	122,974	21	242,843	-	82,656	96,069	179	178,904
Total assets	**-**	**793,593**	**135,317**	**28,957**	**957,867**	**-**	**430,120**	**103,660**	**23,059**	**556,839**
Liabilities										
Deposits and obligations with financial institutions	106,476	543,229	42,234	21,038	712,976	2,180,220	859,634	32,761	36,451	3,109,066
Borrowings and debts	230,252	4,790,046	-	-	5,020,298	230,252	6,240,201	-	-	6,470,453
Held-for-trading and hedging instruments	-	185,908	-	-	185,908	-	131,693	-	-	131,693
Provisions and other liabilities	0	66,377	1,074	27	67,477	-	42,777	850	32	43,659
Total liabilities	**336,728**	**5,585,559**	**43,308**	**21,065**	**5,986,660**	**2,410,472**	**7,274,305**	**33,611**	**36,483**	**9,754,871**
Off-balance sheet accounts										
Indirect loans	-	498,781	57,302	-	556,084	-	540,654	72,698	-	613,702
Derivative instruments	-	8,394,807	-	-	8,394,807	-	8,709,020	-	-	8,709,020

(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:

	2021					2020				
In thousands of soles	arent Company	elated parties (i)	Associates	Key manageme nt personnel and directors	Total	Parent Company	Related parties (i)	Associates	Key manageme nt personnel and directors	Total
Interest income	-	9,245	601	1,556	11,402	-	12,381	349	1,593	14,323
Interest expenses	(16,987)	(58,665)	(13)	(355)	(76,020)	(20,310)	(88,234)	(163)	(804)	(109,511)
	(16,987)	**(49,419)**	**588**	**1,200**	**(64,618)**	**(20,310)**	**(75,853)**	**186**	**789**	**(95,188)**
Financial service income	21	5,621	954	241	6,836	15	8,825	997	112	9,949
Financial service expenses	-	(75)	(20,318)	(37)	(20,430)	-	(86)	(16,606)	(12)	(16,704)
	21	**5,545**	**(19,364)**	**204**	**(13,594)**	**15**	**8,739**	**(15,147)**	**100**	**(6,755)**
Net profit or loss from financial transactions	-	(205,721)	31,614	-	(174,107)	-	(162,955)	15,147	-	(147,808)
Administrative expenses (ii)	-	(12,670)	(1,910)	(91)	(14,671)	-	(16,946)	(1,348)	(67)	(18,361)
Other income, net	-	3,381	(2)	(97)	3,281	-	10,369	210	97	10,676
Net profit or loss	**21**	**(258,885)**	**10,925**	**1,216**	**(263,709)**	**(20,295)**	**(236,646)**	**(1,414)**	**919**	**(257,436)**

(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	2021	2020
Remuneration of key personnel	30,921	33,748
Expense allowance for Board of Directors	1,860	1,755
	32,781	**35,503**

As of December 31, 2021 and 2020, the outstanding remuneration to key personnel amounted to S/ 11,358 thousand and S/ 10,708 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:

		2021						
				Available-for-sale				
In thousands of soles	*Note*	At FVTPL	Loans and items receivable	At amortized cost (a)	At fair value	Liabilities at amortized cost	Other liabilities (b)	Total
Assets								
Cash and due from banks	*6*	-	14,308,447	-	-	-	-	14,308,447
Interbank funds		-	-	-	-	-	-	-
Investments at FVTPL								
Equity instruments	*7*	7,276	-	-	-	-	-	7,276
Debt instruments	*7*	91,431	-	-	-	-	-	91,431
Available-for-sale investments								
Equity instruments (c)	*7*	-	-	-	4,925	-	-	4,925
Debt instruments	*7*	-	-	-	5,039,557	-	-	5,039,557
Loan portfolio	*8*	-	55,302,362	-	-	-	-	55,302,362
Held-for-trading and hedging instruments	*9*	412,815	-	-	-	-	-	412,815
Accounts receivable	*10*	-	385,100	-	-	-	-	385,100
Other assets	*14*	-	150,318	-	-	-	-	150,318
		511,522	**70,146,227**	**-**	**5,044,482**	**-**	**-**	**75,702,231**
Liabilities								
Deposits and obligations and other obligations	*15*	-	-	-	-	-	47,237,634	47,237,634
Interbank funds		-	-	-	-	-	-	-
Deposits with financial institutions and international financial institutions	*15*	-	-	-	-	-	385,564	385,564
Borrowings and debts	*16*	-	-	-	-	12,714,296	-	12,714,296
Held-for-trading and hedging instruments	*9*	398,291	-	-	-	-	-	398,291
Accounts payable		-	-	-	-	-	6,562,203	6,562,203
Other liabilities	*17*	-	-	-	-	-	308,300	308,300
		398,291	**-**	**-**	**-**	**12,714,296**	**54,493,701**	**67,606,288**

(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).

		2020						
			Loans and items	Available-for-sale				
In thousands of soles	*Note*	At FVTPL	receivable	At amortized cost (a)	At fair value	Liabilities at amortized cost	Other liabilities (b)	Total
Assets								
Cash and due from banks	*6*	-	17,501,265	-	-	-	-	17,501,265
Interbank funds		-	90,526	-	-	-	-	90,526
Investments at FVTPL								
Equity instruments	*7*	7,211	-	-	-	-	-	7,211
Debt instruments	*7*	2,535,318	-	-	-	-	-	2,535,318
Available-for-sale investments								
Equity instruments (c)	*7*	-	-	-	6,033	-	-	6,033
Debt instruments	*7*	-	-	-	6,241,164	-	-	6,241,164
Loan portfolio	*8*	-	49,804,017	-	-	-	-	49,804,017
Held-for-trading and hedging instruments	*9*	189,557	-	-	-	-	-	189,557
Accounts receivable	*10*	-	403,450	-	-	-	-	403,450
Other assets	*14*	-	167,391	-	-	-	-	167,391
		2,732,086	**67,966,649**	**-**	**6,247,197**	**-**	**-**	**76,945,932**
Liabilities								
Deposits and obligations and other obligations	*15*	-	-	-	-	-	47,588,560	47,588,560
Interbank funds		-	-	-	-	-	108,670	108,670
Deposits with financial institutions and international financial institutions	*15*	-	-	-	-	-	986,649	986,649
Borrowings and debts	*16*	-	-	-	-	12,924,516	-	12,924,516
Held-for-trading and hedging instruments	*9*	181,641	-	-	-	-	-	181,641
Accounts payable		-	-	-	-	-	7,483,166	7,483,166
Other liabilities	*17*	-	-	-	-	-	238,041	238,041
		181,641	**-**	**-**	**-**	**12,924,516**	**56,405,086**	**69,511,243**

(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.

Risk management 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.

(ii) 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.

(iii) 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.

(iv) 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 Risk Assessment and Credit Rating and Provision Requirements" and amendments, 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***	**2021**	**2020**
Loans with first mortgage collateral or collateral trust on property registered in Public Registry		15,352,854	12,009,236
Loans with non-preferred collaterals		12,248,172	11,482,931
Loans to subsidiaries		7,917,591	8,680,428
Loans for finance leases		3,190,985	3,541,475
Loans with first real estate collateral or collateral trust registered in Public Registry		1,440,300	1,759,766
Loans with cash deposit collateral		375,574	387,858
Loans with collateral or collateral trust registered in Public Registry – warrants		143,952	207,070
Other collaterals		18,200	18,587
Loans with no collateral		18,238,919	16,842,060
Total loans	***8***	**58,926,547**	**54,929,411**

- ***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, the Bank uses debtors' regulatory credit rating, 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 on Debtor Risk Assessment and Credit Rating and Provision Requirements," 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)

  According to the measures adopted by the SBS during the national state of emergency, the counting of days past due was stopped from February 29, 2020 to August 31, 2020. As of December 31, 2020, the loan portfolio was classified based on this event.

- ***Loan portfolio impairment loss***
  As of December 31, 2021 and 2020, based on SBS Resolution 7036-2012, the Bank, CrediScotia and CRAC 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 portfolio comprises loans rated as 'substandard,' 'doubtful' or 'loss,' and refinanced, restructured and lawsuit loans.

Wholesale portfolio 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**	**%**
2021						
Neither past-due nor impaired loans						
Standard	31,739,955	1,503,780	9,837,426	8,688,919	51,770,080	88
Potential problems	1,773,765	59,589	233,785	111,891	2,179,030	4
Past due but not impaired loans						
Standard	21,244	433	21	10	21,708	-
Potential problems	56,648	-	50,763	184	107,595	-
Impaired loans						
Standard	9,808	2	73	-	9,883	-
Potential problems	166,035	-	4	-	166,039	-
Substandard	493,990	67,562	269,299	111,824	942,675	2
Doubtful	555,722	135,578	530,585	193,280	1,415,165	2
Loss	1,028,181	338,780	460,632	486,776	2,314,369	4
Gross loan portfolio	**35,845,348**	**2,105,724**	**11,382,588**	**9,592,884**	**58,926,544**	**100**
Less: provisions	(1,602,926)	(478,960)	(1,208,263)	(600,303)	(3,890,452)	-
	34,242,422	**1,626,764**	**10,174,325**	**8,992,584**	**55,036,095**	**-**
2020						
Neither past-due nor impaired loans						
Standard	28,913,832	2,005,801	8,808,150	7,215,044	46,942,827	85
Potential problems	1,125,380	82,006	378,115	129,103	1,714,604	3
Past due but not impaired loans						
Standard	22,819	228	34	22	23,103	-
Potential problems	40,304	5	50,632	157	91,098	-
Impaired loans						
Standard	7,443	3	42	1	7,489	-
Potential problems	78,615	-	11	-	78,626	-
Substandard	206,813	98,347	570,251	141,962	1,017,373	2
Doubtful	625,583	230,674	1,841,441	238,558	2,936,256	5
Loss	513,916	392,603	764,325	447,191	2,118,035	4
Gross loan portfolio	**31,534,705**	**2,809,667**	**12,413,001**	**8,172,038**	**54,929,411**	**100**
Less: provisions	(1,273,152)	(645,233)	(2,860,666)	(595,662)	(5,374,713)	-
	30,261,553	**2,164,434**	**9,552,335**	**7,576,376**	**49,554,698**	**-**

- ***Credit risk mitigation – voluntary provisions***

Wholesale loans
In order to maintain an adequate credit risk management within the framework of the national state of emergency, declared under Supreme Decree 44-2020 as a result of the COVID-19 outbreak, as well as to mitigate the requirement for future provisions for losses resulting from the COVID-19 pandemic, the Scotiabank Group considered recognized voluntary provisions. The Scotiabank Group assessed the wholesale loans, identifying high risk segments and sectors, and recognized voluntary provisions for impairment losses (note 8).

Retail loans
As a result of the COVID-19 pandemic, in 2020, the Scotiabank Group recognized progressively voluntary provisions for losses resulting from the rescheduling of retail loans. These voluntary provisions were determined on the basis of historical information on credit loss ratios, considering different COVID-19 crisis stress components for each loan portfolio (note 8).

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**
2021						
Type of loan						
Large-business loans	4	15	-	-	19	(15)
Medium-business loans	32,501	45,370	-	2	77,873	(87,606)
Subtotal wholesale portfolio	**32,505**	**45,385**	**-**	**2**	**77,892**	**(87,621)**
Small-business loans	419	-	-	-	419	(351)
Micro-business loans	3	-	13	-	16	(287)
Revolving loans	-	29	6	1	36	(41)
Non-revolving loans	5	50,733	5	5	50,748	(4)
Mortgage loans	11	-	183	-	194	(124)
Subtotal retail portfolio	**438**	**50,762**	**205**	**6**	**51,413**	**(807)**
	32,943	**96,147**	**205**	**8**	**129,305**	**(88,428)**

	Days in arrears					
In thousands of soles	[16 - 30]	[31 - 60]	[61 - 90]	More than 90	Total	Value of collaterals
2020						
Type of loan						
Large-business loans	5,021	1,376	-	-	6,397	(4,368)
Medium-business loans	26,878	29,836	4	10	56,728	(58,713)
Subtotal wholesale portfolio	**31,899**	**31,212**	**4**	**10**	**63,125**	**(63,081)**
Small-business loans	229	1	-	-	230	(335)
Micro-business loans	3	-	-	-	3	-
Revolving loans	32,008	1	3	-	32,012	(15)
Non-revolving loans	18,652	-	-	-	18,652	(1)
Mortgage loans	24	155	-	-	179	(244)
Subtotal retail portfolio	**50,916**	**157**	**3**	**-**	**51,076**	**(595)**
	82,815	**31,369**	**7**	**10**	**114,201**	**(63,676)**

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
2021					
Impaired loans	2,253,732	541,924	1,260,596	791,879	4,848,131
Value of collaterals	3,291,326	667,331	293,130	971,674	5,223,461
Provisions for impairment loss	(1,049,939)	(338,264)	(859,618)	(499,906)	(2,747,727)
2020					
Impaired loans	1,432,369	721,628	3,176,071	827,711	6,157,779
Value of collaterals	2,108,975	747,856	338,461	1,017,011	4,212,303
Provisions for impairment loss	(683,957)	(439,777)	(2,084,913)	(472,709)	(3,681,356)

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

- ***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	2021	2020
Opening balance	6,295,456	5,479,220
Write-offs	2,656,269	817,751
Cash recovery	(161,671)	(66,454)
Forgiveness	(28,831)	(342)
Exchange difference	139,372	113,925
Others	75,515	(48,644)
Closing balance	**8,976,110**	**6,295,456**

- **Financial assets exposed to credit risk concentration**
  As of December 31, financial assets are distributed among the following geographic areas:

			Available-for-sale		
In thousands of soles	**At FVTPL**	**Loans and items receivable**	**At amortized cost (*)**	**At fair value**	**Total**
2021					
Peru	392,128	69,591,940	4,150	5,040,332	75,028,550
United States	-	419,411	-	-	419,411
Canada	119,394	2,098	-	-	121,492
Belgium	-	88,614	-	-	88,614
United Kingdom	-	41,910	-	-	41,910
Germany	-	1,776	-	-	1,776
Switzerland	-	478	-	-	478
	511,522	**70,146,227**	**4,150**	**5,040,332**	**75,702,231**
2020					
Peru	2,695,245	67,656,220	5,232	6,241,965	76,598,662
United States	-	250,663	-	-	250,663
Canada	36,841	674	-	-	37,515
Belgium	-	31,085	-	-	31,085
United Kingdom	-	22,760	-	-	22,760
Germany	-	2,650	-	-	2,650
Switzerland	-	2,597	-	-	2,597
	2,732,086	**67,966,649**	**5,232**	**6,241,965**	**76,945,932**

(*) It includes financial assets measured at cost.

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

In thousands of soles	**2021**		**2020**	
Mortgage and consumer loans	21,136,131	36%	20,925,039	38%
Manufacturing	9,730,296	17%	7,952,997	14%
Trading	8,595,743	15%	7,418,240	14%
Real estate, business and leasing services	4,186,706	7%	4,782,292	9%
Transport	3,454,809	6%	3,343,902	6%
Mining	1,158,412	2%	1,999,051	4%
Agriculture and livestock	1,670,766	3%	1,697,786	3%
Education, services and others	2,959,384	5%	1,527,011	3%
Financial intermediation	2,050,949	3%	1,447,975	3%
Power, gas and water	1,480,801	3%	1,050,490	2%
Hospitality	455,646	1%	457,649	1%
Construction	316,903	1%	311,134	1%
Public administration and defense	115,510	0%	215,286	-
Fishing	76,148	0%	63,772	-
Others (mainly non-profit, healthcare and automotive)	1,538,343	3%	1,736,788	3%
	58,926,547	**100%**	**54,929,412**	**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	**2021**	**2020**
Total VaR Peru	4,985	1,971

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 interest rate 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. Assets, liabilities and other positions off-balance sheet 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.

	2021						2020					
In thousands of soles	**Up to 1 month**	**1 – 3 months**	**3 – 12 months**	**More than 1 year**	**Not accrue interest**	**Total**	**Up to 1 month**	**1 – 3 months**	**3 – 12 months**	**More than 1 year**	**Not accrue interest**	**Total**
Assets												
Cash and due from banks	1,860,071	1,448	6,600	10,665,969	1,774,339	14,308,447	8,146,006	1,544,135	30,962	6,378,499	1,401,664	17,501,266
Interbank funds	-	-	-	-	-	-	90,526	-	-	-	-	90,526
Investments at fair value through profit or loss and available-for-sale investments	2,931,530	134,885	-	2,041,898	34,446	5,431,189	2,844,180	2,671,113	1,250,995	1,933,464	89,974	8,789,726
Loan portfolio	3,835,802	7,592,833	13,469,009	30,404,718	-	55,302,362	3,359,964	5,416,921	13,194,545	27,832,587	-	49,804,017
Held-for-trading and hedging instruments	-	-	-	-	412,815	412,815	-	-	-	-	189,557	189,557
Accounts receivable	-	-	-	-	1,107,121	1,107,121	7,877	8	2	73,536	1,044,048	1,125,471
Other assets	-	-	-	-	2,610,241	2,610,241	165	395	2,656	10,731	2,588,738	2,602,685
Total assets	**8,267,403**	**7,729,164**	**13,475,609**	**43,112,605**	**5,939,391**	**78,883,753**	**14,448,718**	**9,632,572**	**14,479,160**	**36,228,817**	**5,313,981**	**80,103,248**
Liabilities												
Deposits and obligations	17,128,258	2,385,804	19,628,999	8,083,422	11,154	47,237,637	14,163,565	4,027,858	19,955,832	9,309,195	132,110	47,588,560
Interbank funds	-	-	-		-	-	108,670	-	-	-	-	108,670
Deposits with financial institutions and international financial institutions	186,252	194,861	3,911	540	-	385,564	639,888	94,582	224,671	200	27,308	986,649
Borrowings and debts	2,554,542	834,148	5,637,908	3,683,687	4,012	12,714,297	3,592,127	4,813,705	2,097,564	2,417,107	4,012	12,924,515
Held-for-trading and hedging instruments	-	-	-	-	398,290	398,290	-	-	-	-	155,564	155,564
Accounts payable	-	-	-	-	6,600,823	6,600,823	336	143	466	34	7,460,961	7,461,940
Provisions	-	-	-	-	355,920	355,920	-	-	-	-	299,855	299,855
Other liabilities	-	-	-	-	385,562	385,562	-	-	-	-	324,684	324,684
Total liabilities	**19,869,052**	**3,414,813**	**25,270,818**	**11,767,649**	**7,755,760**	**68,078,095**	**18,504,586**	**8.936288**	**22,278,533**	**11,726,536**	**8,404,494**	**69,850,437**
Off-consolidated statement of financial position accounts												
Derivative instruments	6,071,779	4,563,025	7,125,125	26,711	-	17,786,640	7,048,584	3,177,746	2,735,658	9,052	-	12,971,040
Marginal gap	(11,241,649)	4,314,351	(11,795,209)	31,344,956	(1,816,790)	10,805,659	(4,055,868)	(3,359,584)	(11,158,957)	13,343,324	10,120,595	4,889,510
Accumulated gap	(11,241,649)	(6,927,298	18,722,507)	12,622,449	10,805,659	-	(4,055,868)	(7,415,452)	(18,574,409)	(5,231,085)	4,889,510	-

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 Bank has the following interest rate indicators:

%	2021	2020
EVAR (i)	11.72	7.03
EaR (ii)	2.42	1.23

i This indicator is focused on the impact of potential changes in interest rate on value generation 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.

During the national state of emergency, the Peruvian government promoted the economic recovery through programs—e.g., the Reactiva Peru program (notes 8 and 17). According to such programs, financial institutions granted medium-term loans partially guaranteed by the Peruvian government and access low-interest loans and medium-term loans from the BCRP. Accordingly, the asset-liability mismatch did not increase significantly; therefore, there was no significant increase in the interest rate risk.

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	**2021**	**2020**
Exchange rate VaR	1,217	1,993

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, 2021 and 2020, the Scotiabank Group records a net asset position in foreign currency in the consolidated statement of financial position for US$ 1,813,714 thousand and a net asset position for US$ 1,437,088 thousand, respectively (note 5).

As of December 31, 2021, the oversold readings in the Bank amounted to S/ 92,856 thousand (overbought readings amounted to S/ 94,902 thousand as of December 31, 2020).

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.

During the national state of emergency, the Scotiabank Group continued to manage the investment portfolios based on the aforementioned policies and limits, monitoring current market conditions. The highly liquid instruments of portfolios increased the Scotiabank Group's liquidity ratios.

The ALM's investments are short-term investments. Also, 61% of the portfolio is represented by BCRP certificates of deposit with terms of less than 13 months. Due to the decrease in liquidity ratios, the portfolio decreased by 18%, amounting to S/ 5,039,557 thousand as a result of the maturity of BCRP certificates of deposit.

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 loans), wholesale loans and credit lines for contingent situations.

- 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, 2021, the Bank's ratios in local and foreign currencies were 23.73% and 43.90% respectively (52.11% and 37.03%, respectively, as of December 31, 2020).

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, 2021, CrediScotia's ratios in local and foreign currency were 26.74% and 125.40% respectively (31.76% and 128.68% respectively, as of December 31, 2020).

The CRAC shall hold local and foreign currency ratios of 10% and 25%, respectively. In this regard, it held adequate levels of 47.67% in local currency and 1666.82% in foreign currency at the closing of year 2021 (41.67% in local currency and 429.01% in foreign currency at the closing of year 2020).

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, 2021, the minimum amount required by the regulator was 100%, in 2020, it was 100%. The Bank presented levels of liquidity reaching 139.86% in local currency and 121.22% in foreign currency (236.6% in local currency and 113.57% in foreign currency as of December 31, 2020).

As of December 31, 2021, CrediScotia presented ratios in local and foreign currency reaching 129.13% and 133.48%, respectively (110.55% and 720.56%, respectively, as of December 31, 2020).

The CRAC presented ratios in local and foreign currency reaching 121.39% and 177.87% in local and foreign currency, respectively (134.29% and 177.16% in local currency, respectively, at the closing of year 2020).

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**
2021					
Deposits and obligations	39,317,585	2,467,114	4,324,372	1,128,566	47,237,637
Interbank funds	-	-	-	-	-
Deposits with financial institutions and international financial institutions	358,152	22,962	3,910	540	385,564
Borrowings and Debts	2,253,005	1,499,083	3,982,072	4,980,137	12,714,297
Held-for-trading and hedging instruments	39,181	60,650	162,765	135,694	398,290
Accounts payable and other liabilities	500,490	1,024,831	857,733	4,487,416	6,870,470
Total liabilities	**42,468,413**	**5,074,640**	**9,330,852**	**10,732,353**	**67,606,258**
Off-consolidated statement of financial position risk					
Liability position – derivative instruments (delivery)	498,392	485,245	244,900	802,369	2,030,906
2020					
Deposits and obligations	36,693,166	4,085,424	4,647,676	2,162,294	47,588,560
Interbank funds	108,670	-	-	-	108,670
Deposits with financial institutions and international financial institutions	681,996	28,436	246,018	30,199	986,649
Borrowings and Debts	1,053,575	1,884,591	7,241,408	2,744,942	12,924,516
Held-for-trading and hedging instruments	23,113	24,481	39,601	94,446	181,641
Accounts payable and other liabilities	368,726	1,655,796	774,632	4,922,053	7,721,207
Total liabilities	**38,929,246**	**7,678,728**	**12,949,335**	**9,953,934**	**69,511,243**
Off-consolidated statement of financial position risk					
Liability position – derivative instruments (delivery)	925,095	237,592	463,161	1,257,117	2,882,965

The Bank renegotiated the contractual cash flows of financial liabilities and implemented new facilities to manage liquidity risk in response to the COVID-19 pandemic (note 17). The Bank concluded that there are no material uncertainties relating to events or conditions that may cast significant doubt upon the Bank's ability to continue as a going concern.

During the national state of emergency, the Peruvian government adopted measures to pump cash into the financial system and prevent disruption of the chain of payments. This increased liquidity ratios in the financial system by S/ 35,000,000 thousand, and previous to the COVID-19 pandemic, the liquidity ratios amounted to S/ 5,000,000 thousand.

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 Scotiabank Group adopted a three-line defense model, establishing the responsibilities of operational risk management.

As a result of the COVID-19 pandemic, the Scotiabank Group continued to implement business continuity plans and operational risk management to provide a prompt response to the needs and expectations of key stakeholders, clients, employees, suppliers and other people.

In 2021, 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

In 2021, as in prior 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.

In 202, the activities developed were:

- Monitoring the 28 executive risk indicators of the Bank and 23, of CrediScotia. KRIs have risk thresholds, which, in case where the accepted risk levels were exceeded, generated the implementation of action plans and corrective measures.

- Additionally, 22 informative indicators have been monitored in the Bank and 10, in CrediScotia.

- Indicators were analyzed and, if necessary, their accepted risk levels (risk thresholds) were assessed with the risk 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) BCM methodology

The Scotiabank Group has 119 Business Continuity Plans and to date they are updated and activated. They include the execution of tests and processes such as phone tree and WhatsApp group chats, as well as review and validation processes of tools and resources to work remotely.

As a result of the COVID-19 pandemic, the Scotiabank Group implemented a hybrid work model (on-site work and remote work) complying with health and safety measures to ensure business continuity and protect the safety and health of employees and clients.

(d) Risk and controls assessment methodology: RCSA methodology

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

The process of identifying and assessing risks and controls is a basic component of operational risk management and an efficient tool with the following advantages:

- 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.

In 2021, as part of the risk and control assessment, 84 risk and control matrices were assessed at the Bank, 22, at CrediScotia and 14, at the CRAC.

In 2021, a program was implemented to assess the design and the operating effectiveness of internal control.

(e) Risk assessment methodology of new initiatives

The Scotiabank Group has established policies for overall risk assessment of new initiatives (they include new products and events of significant changes in the business, operating or computing environment); these policies describe the general principles applicable to the review, approval and implementation of new products and services within the Scotiabank Group. The principles are intended to provide guidance to the 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.

Before implementing any initiative within the scope of the risk assessment methodology of new initiatives, 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 Internal Control Unit also provides advice and support to the owner of the initiative during the Risk Assessment process.

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

Accordingly, the risk assessments of initiatives continued under the traditional approach, and 32 initiatives in the Bank and 8, in CrediScotia were addressed within the scope of the risk assessment methodology at the end of the year 2021.

In 2021, as a result of the COVID-19 pandemic and the regulations decreed by the Peruvian government, the Agile NIRA-COVID-19 was implemented aimed at responding to the needs for overall risk assessment that required timely treatment for operational continuity, regulatory requirements, market needs and other COVID-19 requirements.

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

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 Bank is to guarantee the risk identification, measurement and management with third parties.

From March 2021, the Scotiabank Group made changes under the Third Party Risk Management (TPRM) transformation in order to incorporate improvements to the TPRM program. They include the implementation of two new IT tools that support both TPRM and contract lifecycle management, new operational policies and procedures for TPRM, development of KPIs and KRIs, risk appetite statement, responsibilities of individuals within the second line of defense, increase in new risk factors and more management control.

Training and awareness

Throughout 2021, training on Operational Risk and Business Continuity has been provided to personnel of agencies, business officers, specialized units, operational risk managers and new staff joining the Bank.

Cybersecurity risk management

The Bank relies on IT to deliver financial products and services to its clients. The IT systems and related processes used to plan, build, run and monitor are exposed to risks of failure, degradation, theft, loss, damage, and destruction. Such risks shall be managed to ensure the generation of opportunities for value creation.

The IT risk management involves the Risk Management Framework to identify the expected and necessary roles, responsibilities, supervisory authorities, risk appetite, tools, practices and deliverables.

Likewise, the Bank has a cybersecurity program aligned with the organizational strategy that aims at reducing the occurrence of events that compromise the confidentiality, integrity and availability of information that derive from the degradation or cybersecurity posture of services, technology and information assets in order to protect against emerging risks and threats.

In 2021, the main activities include the following:

- Alignment with the new regulation on cybersecurity risk management (SBS Resolution 504-2021).
- Cybersecurity awareness and training programs to employees and clients.
- Security incident response process, procedures and simulations.
- Continuous access control and change management.
- Continuous vulnerability management in systems, software applications, servers, databases, IT equipment and others to identify and remediate security vulnerabilities.
- Cybersecurity assurance for information assets.
- Information security, cybersecurity and security architectural risk management for new business and technology initiatives and projects.
- Information security and cybersecurity risk management for suppliers.
- Assessment and objective inquiry of the main risk activities.
- Monitoring, control and reporting of IT key risk indicators, security and cybersecurity.
- Validation of integrity, accuracy and effectiveness of key IT, security and cybersecurity controls.

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	**2021**	**2020**	**2021**	**2020**
Assets				
Cash and due from banks	14,308,447	17,501,265	14,308,447	17,501,265
Interbank funds	-	90,526	-	90,526
Investments at FVTPL				
Equity instruments	7,276	7,211	7,276	7,211
Debt instruments	91,431	2,535,318	91,431	2,535,318
Available-for-sale investments				
Equity instruments	4,925	6,033	4,925	6,033
Debt instruments	5,039,557	6,241,164	5,039,557	6,241,164
Loan portfolio	55,302,362	49,804,017	55,302,362	49,804,017
Held-for-trading and hedging instruments	412,815	189,557	412,815	189,557
Accounts receivable	385,100	403,450	385,100	403,450
Other assets	150,318	167,391	150,318	167,391
	75,702,231	**76,945,932**	**75,702,231**	**76,945,932**

	Carrying amount		Fair value	
In thousands of soles	**2021**	**2020**	**2021**	**2020**
Liabilities				
Deposits and obligations	47,237,634	47,588,560	47,237,634	47,588,560
Interbank funds	-	108,670	-	108,670
Deposits with financial institutions and international financial institutions	385,564	986,649	385,564	986,649
Borrowings and debts	12,714,296	12,924,516	12,771,492	13,198,675
Held-for-trading and hedging instruments	398,291	181,641	398,291	181,641
Accounts payable	6,562,203	7,483,166	6,713,168	7,351,325
Other liabilities	308,300	238,041	308,300	238,041
	67,606,288	**69,511,243**	**67,814,449**	**69,653,561**

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.

Techniques and assumptions used depend on the risk terms and characteristics of the financial instruments, as shown below:

i. Cash and due from banks and interbank funds represent cash and short-term deposits that are not considered as exposed to 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. The securities, bonds and outstanding obligations accrue interest at fixed interest rates. The fair value of these financial instruments has been measured using discounted cash flows considering the same methodology of item (vi).

viii. Forward contracts are recorded at estimated market value; therefore there are no differences with their corresponding fair values.

Consequently, as of December 31, 2021 and 2020, 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**
2021				
Assets				
Investments at FVTPL				
Equity instruments	-	7,276	-	7,276
Debt instruments	-	91,431	-	91,431
Available-for-sale investments				
Equity instruments	757	18	4,150	4,925
Debt instruments	-	5,039,557	-	5,039,557
Held-for-trading and hedging instruments	-	412,815	-	412,815
	757	**5,551,097**	**4,150**	**5,556,004**
Liabilities				
Held-for-trading instruments		398,291	-	398,291
	-	**398,291**	**-**	**398,291**

In thousands of soles	Level 1	Level 2	Level 3	Total
2020				
Assets				
Investments at FVTPL				
Debt instruments	-	2,542,529	-	2,542,529
Available-for-sale investments				
Equity instruments	783	-	5,340	6,123
Debt instruments	-	6,241,164	-	6,241,164
Held-for-trading and hedging instruments	-	189,557	-	189,557
	783	**8,973,250**	**5,340**	**8,979,373**
Liabilities				
Held-for-trading and hedging instruments	-	181,641	-	181,641
	-	**181,641**	**-**	**181,641**

35. Subsequent Events

No material events or facts that may require adjustments or disclosure in the consolidated financial statements as of December 31, 2021 have occurred between January 1, 2022 and the reporting date.