Scotiabank Perú S.A.A. and Subsidiaries

Consolidated Financial Statements

December 31, 2022 and 2021

(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.

Opinion

We have audited the accompanying consolidated financial statements of Scotiabank Peru S.A.A. and Subsidiaries (collectively, the Scotiabank Group), which comprise the consolidated statement of financial position as of December 31, 2022, 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.

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, 2022, 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.

Basis for Opinion

We conducted our audit 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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in Peru, together with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements, respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, have been of most significance in our audit of the consolidated financial statements of the current period. These matters have been addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon; however, we do not express a separate opinion on these matters.

Evaluation of the allowance for uncollectibility of direct loans, in accordance with the guidelines established in SBS Resolution 11356-2008 (note 4.E and 8 to the consolidated financial statements)	
Key Audit Matters	**How the matter was dealt with in our audit**
As of December 31, 2022, the balance of the direct loan portfolio and its allowance for doubtful accounts amounted to S/ 59,866,087 thousand and S/ 3,854,612 thousand, respectively. The Group records the allowance for doubtful accounts for direct loans as established by the SBS in SBS Resolution 11356-2008, which determines the calculation of such allowance based on debtor classification categories based on variables such as the debtor's payment capacity, its cash flow, the degree of compliance with its obligations, the classifications assigned by other companies in the financial system, the financial situation and the quality of the company's management. We have identified the evaluation of the allowance for the direct loan portfolio as a key audit matter, since there is a high degree of inherent estimation in the determination of such allowance for the impairment of the portfolio, as a result of the judgment required in the variables for evaluating and determining the classification of each debtor.	Our audit procedures for evaluating the provision for uncollectibility of direct credits: ▪ Understanding of the financial process related to the allowance for uncollectibility of direct credits in accordance with SBS Resolution 11356-2008, through a transactional walkthrough of the determination and recording of the allowance for uncollectibility of direct credits. ▪ Review of the relevant controls of the Group such as methodological approval of the allowance, approval of the classification of loans and monitoring of the behavior of the allowance for loan losses. ▪ Inspection of a sample of direct loan portfolio files, review days past due, the indirect loans in the sample and the debtor's classification to verify that the rating granted to portfolio customers complies with the guidelines defined by the SBS. ▪ Recalculation of the allowance for doubtful accounts for direct loans as of December 31, 2022 on the total portfolio in accordance with SBS Resolution 11356-2008. ▪ Review of the movement of the allowance for direct loans as of December 31, 2022. Finally, we have analyzed whether the information detailed in the notes to the consolidated financial statements is adequate in accordance with the criteria established in the SBS Accounting Manual.

IT Environment	
Key Audit Matters	**How the matter was dealt with in our audit**
The Group is highly dependent on its technology structure for the processing of its operations, as well as for the preparation and fair presentation of its separate financial statements, which leads us to consider the information technology environment as an important area in our audit. Technology is fundamental to the evolution of the Bank's business, with significant investments in systems and the information technology environment, including cybersecurity. The Group has technological infrastructure for its business activities, as well as continuous improvement plans, maintenance of access management, change in systems and applications, development of new programs and automated controls in relevant business processes. Controls for authorizing, controlling, restricting and removing access to systems and managing changes to programs are critical to mitigate the potential risk of fraud or error based on misuse or improper changes to the Bank's systems, thereby ensuring the integrity of financial information and accounting records. The Group has an information technology structure integrated by more than one technology environment with different processes and segregated controls; likewise, it is currently undergoing a process of continuous digital transformation and changes at the structural, functional and third-party support levels, a situation that leads to an increase in the risks associated with information security and cybersecurity, which may affect the operational continuity of the Bank's businesses and/or its reputation. Additionally, in 2022, a substantial part of the Bank's team has carried out its activities remotely, generating the need to adapt the processes and technology infrastructure to maintain the continuity of operations. The lack of an adequate general control environment for information technology and its dependent controls could result in the incorrect processing of critical information used for the preparation of separate financial statements. Considering the above, this was an important area in our audit.	With the participation of systems audit specialists, we evaluated and tested the design and operating effectiveness of general information technology controls. While our audit was not intended to provide an opinion on the effectiveness of Information Technology (IT) controls, we reviewed the Bank's IT governance framework and key controls over program and data access management, program development and changes, and IT operations, evaluated the mechanisms implemented by the Bank to respond to potential cybersecurity events, and the segregation of duties, including compensating controls, where necessary. The IT environment and controls established by management, combined with the testing of key controls, including compensating controls, that we have validated and the substantive testing that we performed, provide us with a reasonable basis for reliance on the integrity and reliability of the information generated for the preparation of the Bank's separate financial statements. Likewise, we have verified the existence of technology risk mitigation and attack containment mechanisms, preventive measures to ensure the continuous operation of its security and access controls, staff awareness campaigns on security, identity and access management, among others, which contribute to mitigate cybersecurity risks. The audit procedures performed resulted in appropriate evidence that was considered in determining the nature, timing and extent of other audit procedures.

Other Matters

Management is responsible for the other matters The matters comprises the information included in the Group's 2022 Annual Report and is not an integral part of the consolidated financial statements or our auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we express no assurance or conclusion on that other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether there is a material inconsistency between the other information and the consolidated financial statements or our knowledge obtained in the audit or otherwise whether the other information appears to contain a material misstatement.

If, based on the work we have performed, we conclude that there is a material misstatement in this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Bank's ability to continue as a going concern; to disclose, as applicable, matters related to going concern; and to use the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibility

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with the International Standards on Auditing will always detect a material misstatement when it exists. Misstatements are considered material if they could, individually or in the aggregate, influence the economic decisions that users make on the basis of the consolidated financial statements.

As part of an audit in accordance with the International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies or material weaknesses in internal control that we identify during our audit.

Also, we provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Among the matters communicated to those charged with governance of the Scotiabank Group, we have identified those matters that have been of most significance in the audit of the consolidated financial statements of the current period and are, accordingly, the Key Audit Matters. We have described these matters in our auditor's report unless applicable law or regulation prohibits public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so could reasonably be expected to outweigh the public interest benefits of such communication.

Lima, Peru

February 22, 2023

Caipo y Asociados

Countersigned by:

Eduardo Alejos (Partner)
Peruvian CPA Registration 29180

Scotiabank Perú S.A.A. and Subsidiaries

Consolidated Financial Statements

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Scotiabank Perú S.A.A. and Subsidiaries
Consolidated Statement of Financial Position
As of December 31, 2022 and 2021

In thousands of soles	***Note***	**2022**	**2021**
Assets			
Cash and due from banks	6		
Cash		1,458,549	1,725,461
Deposits with BCRP		8,714,741	11,018,934
Deposits with local and foreign banks		221,319	661,601
Clearing		46,243	14,386
Restricted cash and due from banks and others		166,524	888,065
		10,607,376	**14,308,447**
Interbank funds		12,619	-
Investments at fair value through profit or loss and available-for-sale investments	7	5,059,092	5,143,189
Loan portfolio, net	8	56,354,673	55,302,362
Held-for-trading and hedging instruments	9	425,951	412,815
Accounts receivable, net	10	954,013	1,107,121
Investments in associates		34,326	113,145
Goodwill	11	524,161	570,664
Property, furniture and equipment, net	12	309,633	312,987
Deferred tax	28	480,512	445,604
Intangible assets, net	13	378,069	366,150
Other assets, net	14	495,862	801,269
Total assets		**75,636,287**	**78,883,753**
Contingent risks and commitments	20	81,685,314	75,802,854

In thousands of soles	***Note***	**2022**	**2021**
Liabilities			
Deposits and obligations and other obligations financial entities deposits:	15		
Demand deposits		15,699,890	18,762,312
Savings deposits		14,331,724	16,726,753
Time deposits		13,495,091	11,365,386
Other obligations		829,292	768,751
		44,355,997	**47,623,202**
Interbank funds		553,222	-
Borrowings and debts	16	1,4057,318	12,714,298
Held-for-trading and hedging instruments	9	651,787	398,290
Provisions and other liabilities	17	5,123,155	7,342,305
Total liabilities		**64,741,479**	**68,078,095**
Equity	18		
Share capital		8,026,777	8,026,777
Additional capital		394,463	394,463
Legal reserve		1,488,093	1,383,913
Equity-related adjustments		(442,720)	(348,616)
Retained earnings		1,350,593	1,273,498
Equity attributable to shareholders of Scotiabank Perú S.A.A.		**10,817,206**	**10,730,035**
Non-controlling interests	2	77,602	75,623
Total equity		**10,894,808**	**10,805,658**
Total equity and liabilities		**75,636,287**	**78,883,753**
Contingent risks and commitments	20	81,685,314	75,802,854

The accompanying notes on pages 6 to 101 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, 2022 and 2021

In thousands of soles	***Note***	**2022**	**2021**
Interest income	*21*	4,893,578	3,740,700
Interest expenses	*22*	(1,405,548)	(560,488)
Gross profit margin		**3,488,030**	**3,180,212**
Provision for loan losses, net of recoveries	*8(c)*	(729,058)	(910,703)
Net profit margin		**2,758,972**	**2,269,509**
Financial service income, net	*23*	574,790	569,562
Net profit margin of financial service income and expenses		**3,333,762**	**2,839,071**
Income from financial transactions	*24*	525,009	448,849
Operating margin		**3,858,771**	**3,287,920**
Administrative expenses	*25*	(1,733,248)	(1,764,583)
Depreciation of property, furniture and equipment	*12*	(29,131)	(43,127)
Amortization of intangible assets	*13*	(65,803)	(66,622)
Net operating margin		**2,030,589**	**1,413,588**
Provisions for realizable, received as payment, recovered and obsolete assets		(23,579)	(31,835)
Net provisions for indirect loan losses, impairment loss on other accounts receivable, and others		(65,404)	(70,542)
Operating income		**1,941,606**	**1,311,211**
Other income, net	*26*	44,967	19,150
Profit before tax		**1,986,573**	**1,330,361**
Deferred tax	*28*	34,908	(129,965)
Current tax	*27.D*	(605,616)	(168,325)
Net profit		**1,415,865**	**1,032,071**
Profit or loss attributable to:			
Shareholders of Scotiabank Perú S.A.A.		1,413,930	1,038,566
Non-controlling interests	*2*	1,935	(6,495)
		1,415,865	**1,032,071**

The accompanying notes on pages 6 to 101 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, 2022 and 2021

In thousands of soles	***Note***	**2022**	**2021**
Net profit		1,415,865	1,032,071
Other comprehensive income			
Net loss (gain) on available-for-sale investments	*18.F*	(94,335)	(265,043)
Cash flow hedges	*9.b*	(228)	21,886
Adjustments to other comprehensive income of associates	*18.F*	475	(25)
Other comprehensive income for the year, net of income tax		**(94,088)**	**(243,182)**
Total comprehensive income for the year		**1,321,777**	**788,889**
Other comprehensive income attributable to:			
Shareholders of Scotiabank Perú S.A.A.		1,319,800	795,438
Non-controlling interests	*2*	1,977	(6,549)
		1,321,777	**788,889**

The accompanying notes on pages 6 to 101 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, 2022 and 2021

						Equity-related adjustments				
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)	Unrealized gains and losses (note 18.F)	Other adjustments (note 18.G)	Total	Non-controlling interests	Total equity
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**
Balance as of January 1, 2022	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
Net profit	-	-	-	-	1,413,903	-	-	1,413,903	1,962	1,415,865
Other comprehensive income										
Net unrealized loss on available-for-sale investments	-	-	-	-	-	(94,350)	-	(94,350)	15	(94,335)
Cash flow hedges	-	-	-	-	-	(228)	-	(228)	-	(228)
Adjustments to other comprehensive income of subsidiaries	-	-	-	-	-	475	-	475	-	475
Total comprehensive income	**-**	**-**	**-**	**-**	**1,413,903**	**(94,103)**	**-**	**1,319,800**	**1,977**	**1,321,777**
Allocation to legal reserve	-	-	-	104,180	(104,180)	-	-	-	-	-
Dividend distribution	-	-	-	-	(1,232,065)	-	-	(1,232,065)	-	(1,232,065)
Other adjustments	-	-	-	-	(563)	-	-	(563)	2	(560)
Balance as of December 31, 2022	**802,677,853**	**8,026,777**	**394,463**	**1,488,093**	**1,350,593**	**(269,860)**	**(172,860)**	**10,817,206**	**77,602**	**10,894,808**

The accompanying notes on pages 6 to 101 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, 2022 and 2021

In thousands of soles	***Note***	**2022**	**2021**
Cash flows from operating activities			
Net profit		1,415,865	1,032,071
Adjustments to reconcile net profit to net cash used in operating activities			
Provision for loan losses, net of recoveries	*8(c)*	729,058	910,703
Provision for realizable, repossessed and other assets, net		22,296	28,385
Provision for accounts receivable, net		4,005	23,802
Depreciation and amortization		94,934	109,749
Provision for fringe benefits		45,846	50,289
Provision for current and deferred tax	*27.D & 28*	570,708	298,290
Provision for indirect loan losses and country risk, net of recoveries		4,506	43,826
Other provisions		(94,231)	(818,496)
Gain on sale of property, furniture and equipment		(5,271)	(3,551)
Gain on sale of realizable and repossessed assets		(14,860)	(6,429)
Net changes in assets and liabilities:			
Loan portfolio		(1,814,159)	(6,434,445)
Investments at FVTPL		(124,395)	2,443,823
Available-for-sale investments		113,708	957,637
Accounts receivable		157,873	(224,971)
Other assets		(876,408)	(46,770)
Non-subordinated financial liabilities		(1,314,685)	(1,397,391)
Accounts payable		(954,852)	60,210
Provisions and other liabilities		218,280	447,887
Net profit after net changes in assets, liabilities and adjustments		**(1,821,782)**	**(2,525,380)**
Income tax paid		(310,177)	(131,752)
Net cash flows used operating activities		**(2,131,959)**	**(2,657,132)**
Cash flows from investing activities			
Dividends received		82,721	1,003
Acquisition of property, furniture and equipment	*12*	(27,167)	(23,830)
Acquisition of intangible assets	*13*	(78,409)	(45,867)
Sale of property, furniture and equipment and repossessed assets		8,359	21,739
Net cash flows used in investing activities		**(14,496)**	**(46,955)**
Cash flows from financing activities			
Dividends paid		(1,232,066)	-
Net cash flows used financing activities		**(1,232,066)**	**-**
Net (decrease) in cash and cash equivalents before effects of exchange rate fluctuations		(3,378,520)	(2,704,088)
Effects of exchange rate fluctuations on cash and cash equivalents		**103,065**	**223,910**
Net (decrease) in cash and cash equivalents		(3,275,456)	(2,480,178)
Cash and cash equivalents at the beginning of period		**13,503,895**	**15,984,073**
Cash and cash equivalents at the end of period		**10,228,438**	**13,503,895**
Non-cash transactions			
Capitalization of retained earnings		-	186,425
Net unrealized loss on available-for-sale investments		(94,349)	(264,989)
Repurchase agreements		3,796,329	6,091,479

The accompanying notes on pages 6 to 101 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 99.31% and 98.05% of the Bank's share capital as of December 31, 2022 and 2021, respectively.

During the month of July 2022, Scotia Perú Holdings increased its shareholding in the Bank by 1.26%, reaching 99.31% of the Bank's capital. This increase was due to the acquisition of certain positions from institutional investors put up for sale.

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, 2022, the Scotiabank Group operates through a national network of 444 branches (452 branches as of December 31, 2021).

As of December 31, 2022 and 2021, 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
2022					
Scotiabank Perú S.A.A.	Banking	-	73,854,776	62,962,568	10,892,208
CrediScotia Financiera S.A.	Financing	100.00	2,855,587	2,050,665	804,922
Caja Rural de Ahorro y Crédito Cencosud Scotia Perú S.A.	Caja rural de ahorro y Crédito	51.00	601,681	443,310	158,371
Servicios, Cobranzas e Inversiones S.A.C.	Collection services	100.00	87,791	26,740	61,051
Scotia Fondos Sociedad Administradora de Fondos Mutuos S.A.	Administration of mutual funds	100.00	77,139	109	77,030
Scotia Sociedad Agente de Bolsa S.A.	Intermediation in stock market	100.00	36,194	582	35,612
Scotia Sociedad Titulizadora S.A.	Securitization	100.00	6,600	1,707	4,893
2021					
Scotiabank Perú S.A.A.	Banking	-	77,023,841	66,230,977	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.	Caja rural de ahorro y Crédito	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.	Intermediation in stock market	100.00	36,867	966	35,901
Scotia Sociedad Titulizadora S.A.	Securitization	100.00	6,585	1,380	5,205

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. In October 2022, the end of the national state of emergency was made official and the national health emergency period has been extended until February 25, 2023, inclusive.

The consolidated financial statements as of December 31, 2022 and 2021 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, 2022 were approved by management on February 15, 2023, 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 30, 2022, approved the consolidated financial statements as of December 31, 2021.

2. Non-controlling Interests

The following table summarizes the financial reporting as of December 31, 2022 and 2021 of the CRAC (non-controlling shareholder) before the eliminations required in preparing the consolidated financial statements:

In thousands of soles	**2022**	**2021**
Total assets	601,681	552,302
Total liabilities	(443,310)	(397,968)
Total assets, net	**158,371**	**154,334**
Net assets attributable to non-controlling interests 49%	**77,602**	**75,623**
Net gain (loss)	4,005	(13,254)
Other comprehensive income	32	(109)
Total comprehensive income	**4,037**	**(13,363)**
Net loss allocated to non-controlling interests 49%	**1,962**	**(6,495)**
Other comprehensive income allocated to non-controlling interests 49%	**(15)**	**(54)**

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 4.73% and 4.58%, respectively, of the total Bank's assets before eliminations as of December 31, 2022 and 2021.

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 in one of the categories defined by IAS 39 established in SBS Resolution 7033-2012 as amended: (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, 2022, the Bank has contracts designated as cash flow hedges (note 9(b)) (the Bank does not hold financial hedging instruments as of December 31, 2021).

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

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

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

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

Investments at FVTPL that are pledged as collaterals or transferred through a repurchase agreement shall be reclassified as available-for-sale investments.

Once these transactions are concluded, instruments shall be reclassified at their initial category, transferring the unrealized gains and losses from equity to the consolidated statement of profit or loss.

ii. Available-for-sale investments

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

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

Amortized cost of debt instruments at fair value shall be remeasured using the effective interest method, and based on the resulting amortized cost, 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 was 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.

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.

As of December 31, 2022, the Bank maintains a provision for impairment of goodwill arising from the investment in CrediScotia Financiera S.A. for S/ 46,503 thousand (as of December 31, 2021, the Bank did not maintain this provision), note 10 (a).

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 2022 and 2021, 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 reschedule 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) 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, 2022 and 2021, the Bank and CrediScotia placed loans under the Reactiva Peru program for S/ 1,742,503 thousand and S/ 3,834,165 thousand, respectively, which have a coverage ratio of 92% and 95%, 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 2022, the computation of days in arrears for loans granted under this program was not suspended; in June 2021, the counting of days past due of loans granted under this program was stopped. Therefore, the loans in such month 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, 2022, CrediScotia placed loans under the FAE-MYPE I, II and III for S/ 773 thousand, S/ 2,029 thousand and S/ 1,732 thousand, respectively, which have an average coverage ratio of 82% (S/ 8,884 thousand, S/ 10,880 thousand and S/ 6,547 thousand, respectively, which have an average coverage ratio of 87% as of December 31, 2021).

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, 2022 and 2021, the Bank placed loans under the Fondo Crecer for S/ 66,151 thousand and S/ 188,617 thousand, respectively, which have a coverage ratio of 67% on average.

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, 2022 and 2021, the Bank has a loan portfolio of S/ 1,531,330 thousand and S/ 1,497,450 thousand, respectively, in guarantee of this program (note 17(a)(ii)).

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	0.10
Large-business loans	0.40
Medium-business loans	0.60
Small-business loans	1.00
Micro-business loans	1.00
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. As of December 31, 2022 and 2021, the balance of voluntary provisions set up in the event of a possible activation of the procyclical rule by the Bank, La Financiera and CRAC amounts to S/ 97,585 thousand, S/ 19,343 thousand and S/ 7,600 thousand (S/ 39,930 thousand; S/ 8,000 thousand and S/ 7,600 thousand, respectively, as of December 31, 2021).

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).

(i) 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, 2022 and 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 40 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.

l. Impairment of non-financial assets

When events or circumstantial economic changes indicate that the value of long-lived assets might not be recoverable, management reviews at each date of consolidated statement of financial position the carrying amount of these assets to determine if there is an impairment. When the asset’s carrying amount exceeds its recoverable amount, the Scotiabank Group recognizes an impairment loss in the consolidated statement of profit or loss by an amount equivalent to the excess in the carrying amount, net of tax effects. 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, 2022 and 2021, 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 , 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 5 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.

In 2022, the Scotiabank Group recorded a provision for goodwill impairment, recognizing a loss amounting to S/ 46,503 thousand (note 11(b)).

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, 2022 and 2021, 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, 2022 and 2021, the Scotiabank Group carries out currency, securities and loan portfolio reporting transactions (notes 6, 7 and 17).

S. Consolidated statement of cash flows

For presentation purposes on this consolidated financial statement, as of December 31, 2022 and 2021, 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.

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, 2023. However, the Group has not adopted them in preparing these consolidated financial statements since the Group does not plan to early adopt such standards. Those that might be relevant to the Group are detailed below.

Amendments to IFRSs	**Effective date**
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.
Disclosure of Accounting Policies (Amendments to IAS 1 and Practice Statement 2)	Annual periods beginning on or after January 1, 2023. Early adoption is permitted.

Amendments to IFRSs	Effective date
Definition of Accounting Estimate (Amendments to IAS 8)	Annual periods beginning on or after January 1, 2023. Early adoption is permitted. The Company shall apply the amendments to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the first annual reporting period in which it applies the amendments.
Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)	Annual periods beginning on or after January 1, 2023. Early adoption is permitted.
Initial Application of IFRS 17 and IFRS 9—Comparative Information (Amendment to IFRS 17)	The Amendment is applicable from the application of IFRS 17 *Insurance Contracts.*
Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)	Annual periods beginning on or after January 1, 2024. Early adoption is permitted.
Non-current Liabilities with Covenants (Amendments to IAS 1)	Annual periods beginning on or after January 1, 2024.

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

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

- Resolution 003-2022-EF/30 issued on November 24, 2022 Approving technical conditions for the application of International Financial Reporting Standards.

- Resolution 002-2022-EF/30 issued on September 16, 2022 Approve the Complete Set of International Financial Reporting Standards version 2022 as well as the Conceptual Framework for Financial Reporting.

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, 2022

- *Cost of Fulfilling a Contract* (Amendments to IAS 37)
- *Annual Improvements to IFRS Standards 2018-2020*
- *Proceeds before Intended Use* (Amendments to IAS 16)
- *Reference to the Conceptual Framework* (Amendments to IFRS 3)

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 be 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 income taxes for which there could be uncertainty about the accounting treatment. As a result of the assessment, the Bank determined that it is not required to recognize any provision for future events as of December 31, 2022 and 2021.

v. Main pronouncements issued by the SBS in 2022

- Resolution 0126-2022-SBS, dated January 13, 2022; establishes to modify the regulation of infractions and sanctions of the SBS. Related to non-compliance with the authorization for the use of novelty models.

- Resolution 0127-2022-SBS, dated January 13, 2022; establishes to extend the exceptional treatment for the extension for the holding of foreclosed and repossessed assets for those companies that require it without the need for an authorization request or Resolution by the SBS.

- Resolution 00530-2022-SBS, dated February 11, 2022; reestablishes the minimum requirement of 100% for the Liquidity Coverage Ratio in local currency and Liquidity Coverage Ratio in foreign currency as of April 1, 2022.

- Resolution 00598-2022-SBS, dated February 25, 2022; establishes to modify the paragraph of voluntary dissolution of the Regulation of the special regimes and liquidation of the companies of the financial system and the insurance system. It establishes that the company must request to the SBS authorization for voluntary dissolution attaching the GSM resolution, the balance sheet, the schedule of the voluntary liquidation process until its final completion. It must also indicate the procedure and the liquidators appointed. Failure to comply with this schedule may result in an administrative sanction.

- Resolution 00949-2022-SBS, dated March 24, 2022; establishes the modification of the regulations for the election of representatives to the Board of Directors of the Municipal Savings and Loan Banks. Modification regarding the requirements to be direct and the documentation required to the direct for the purpose of their appointment.

- Resolution 01299-2022-SBS, dated April 20, 2022; establishes to modify the Regulation for the negotiation and accounting of Derivative Financial Products regarding the use of rates for the determination of the valuation of:

  i. Derivative Financial Products for Trading
  ii. Derivative Financial Products for Hedging Purposes

- Resolution 01944-2022-SBS, dated June 16, 2022; establishes that for the rescheduled credits that have the coverage of the Business Support Fund for MSMEs in the Tourism Sector (FAE-TURISMO), the same treatment is applicable to the part of the rescheduled loans covered by the Fund for Entrepreneurial Support to MSMEs.

- Resolution 01905-2022-SBS, dated June 10, 2022; establishes the postponement of the entry into force of the following amendments to the Regulation for the Consolidated Supervision of Financial and Mixed Conglomerates until January 1, 2023. Regarding the calculation of the effective net worth.

- Resolution 02165-2022-SBS, dated July 11, 2022; it is established that the rescheduled loans under Emergency Decree 011-2022 are covered by the Reactiva Peru Program and the same treatment is applicable to them; therefore, the accounting accounts to be used for the amount of rescheduled current capital presented in the portion with and without central government guarantee, rescheduled past due capital presented in the portion with and without central government guarantee and the yields of these rescheduled loans presented by the accrued and received criteria are established. It is also established that the guarantees will be presented in a different account from the previous rescheduling process.

- Resolution 02192-2022-SBS, dated July 13, 2022, establishes the approval of "Provisions for the application of maximum interest rates", where Financial Institutions are required to have processes to implement policies and procedures to guarantee that the compensatory and default interest rates applied to consumer loans and loans to small and micro-enterprises are within the limits established by the BCRP, which are updated every six months.

- Resolution 02800-2022-SBS, dated September 13, 2022, establishes to modify the determination of the Net Accounting Position of Derivative Financial Products in foreign currency; now this position should not include instruments classified as accounting hedging.

- Resolution 3178-2022-SBS, dated October 17, 2022, establishes that in the case of companies in the financial system, the part of the credits covered by the Business Support Fund for the textile and apparel sector (FAE-TEXCO), the same treatment is applicable to the part of the credits covered by the Business Support Fund for the MYPE, through SBS Resolutions1315-2020 and 1546-2020. The exceptional limit of fifty percent (50%) of the effective equity of the companies in the financial system applies to the total coverage granted by the FAE-TEXCO, this resolution comes into force the day after its publication.

- Resolution 3296-2022-SBS, dated October 28, 2022, based on the new pronouncements of the Basel Committee on Banking Supervision, the regulation for liquidity risk management is modified in order to adapt the liquidity risk management and annex 15-B to adapt them to the new regulations of the Basel Committee on Banking Supervision. 15-B in order to adapt them to the standards established by said committee.

- Resolution 3955-2022-SBS, dated December 22, 2022, establishes to modify the Regulation for the Market Risk Effective Equity Requirement, by which this regulation is updated in order to incorporate the changes related to the composition of the effective equity and the elimination of the advanced methods for the calculation of the effective equity requirement for operational risk, effective as of January 1, 2023.

- Resolution 3951-2022-SBS, dated December 22, 2022, establishes the approval of the new Regulation for the Computation of Reserves, Profits, Donations and Capital Instruments in the Effective Equity, establishes the conditions for their computation in the effective equity of the capital instruments, as well as the existence of limits for their consideration in the computation of the effective equity, effective as of January 1, 2023.

- Resolution 3952-2022-SBS, dated December 22, 2022, establishes to modify the Regulation for the Effective Equity Requirement for Credit Risk, basically in changes in the calculation of assets and contingencies weighted by credit risk and changes in the exposures with the public sector, effective as of January 1, 2023.

- Resolution 3953-2022-SBS, dated December 22, 2022, establishes the approval of the Regulation for the Effective Equity Requirement for Additional Risks as clarifications to the calculation of concentration risk and interest rate risk, as well as their effects on the effective equity requirement, it also establishes clarifications on the consideration of voluntary provisions to reduce the effective equity requirement for additional risks. This Resolution is effective as of January 1, 2023.

- Resolution 3950-2022-SBS, dated December 27, 2022, approved the new Regulation of Subordinated Debt applicable to Financial System Companies, establishing the conditions to consider subordinated debt in the computation of effective equity, as well as establishing details on debt instruments and the existence of limits for its consideration in the computation of effective equity. It is effective as from January 1, 2023.

5. Foreign Currency Balances

The consolidated statement of financial position includes balances of foreign currency transactions, mainly in U.S. dollars (US$), which are recorded in soles (S/) at the exchange rate established by the SBS. As of December 31, 2022 and 2021, the exchange rate was US$ 1 = S/ 3.814 and US$ 1 = S/ 3.987, 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, 2022, buy and sell exchange rates used were US$ 1 = S/ 3.808 and US$ 1 = S/ 3.820, respectively (US$ 1 = S/ 3.975 and US$ 1 = S/ 3.998 as of December 31, 2021).

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

	2022			**2021**		
In thousands of	**U.S. dollars**	**Other currencies**	**Total**	**U.S. dollars**	**Other currencies**	**Total**
Assets						
Cash and due from banks	2,401,056	22,030	2,423,086	2,993,577	31,323	3,024,900
Interbank funds	1,000	-	1,000	-	-	-
Investments at fair value through profit or loss and available-for-sale investments	15,924	-	15,924	602	-	602
Loan portfolio, net	3,698,229	-	3,698,229	3,295,536	-	3,295,536
Held-for-trading and hedging instruments	31,245	-	31,245	12,617	-	12,617
Accounts receivable, net	16,837	-	16,837	19,761	2	19,763
Other assets, net	18,349	2,588	20,937	6,771	14,648	21,419
	6,182,640	**24,618**	**6,207,258**	**6,328,864**	**45,973**	**6,374,837**
Liabilities						
Deposits and obligations and other obligations	4,751,685	48,278	4,799,963	5,227,990	57,216	5,285,206
Borrowings and debts	3,244,328	-	3,244,328	2,819,222	-	2,819,222
Held-for-trading and hedging instruments	28,641	-	28,641	5,535	-	5,535
Other liabilities	78,071	5,404	83,475	89,831	16,287	106,118
	8,102,726	**53,682**	**8,156,407**	**8,142,578**	**73,503**	**8,216,081**
Net liability position in the consolidated statement of financial position	**(1,920,085)**	**(29,064)**	**(1,949,149)**	**(1,813,714)**	**(27,530)**	**(1,841,244)**
Derivative transactions	**1,924,732**	**29,418**	**1,954,150**	**1,820,596**	**27,322**	**1,847,918**

In 2022, the Scotiabank Group recorded net exchange gains on various transactions for S/ 650,113 thousand (net exchange losses for S/ 98,909 thousand as of December 31, 2021) in 'income from financial transactions' in the consolidated statement of profit or loss (note 24).

As of December 31, 2022, the Scotiabank Group has contingent foreign currency transactions for S/ 60,427,013 thousand equivalent to US$ 15,843,475 thousand (S/ 52,994,110 thousand equivalent to US$ 13,291,725 thousand as of December 31, 2021).

6. Cash and Due from Banks

This caption comprises the following:

In thousands of soles	**2022**	**2021**
Cash (a)	1,458,549	1,725,461
BCRP (a)	8,714,741	11,018,934
Local banks and other financial institutions (b)	60,049	106,709
Foreign banks and other financial institutions (b)	161,270	554,892
Clearing	46,243	14,386
Restricted cash and due from banks (c)	166,431	887,857
Other cash and due from banks	93	208
	10,607,376	**14,308,447**

(a) As of December 31, 2022, funds held in cash and deposits with the BCRP include US$ 2,149,141 thousand and S/ 1,017,207 thousand (US$ 2,676,351 thousand and S/ 1,942,858 thousand as of December 31, 2021), 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, 2022, the excess of minimum reserve requirements in foreign currency accrued interest at an effective annual rate of 3.79% and generated accrued interest of US$ 4,345 thousand (as of December 31, 2021, the Scotiabank Group did not accrue interest on the excess of minimum legal reserve requirements in local currency or in foreign currency).

As of December 31, 2022, the Scotiabank Group includes thousands of S/ 8,000 and thousands of US$ 190,300 corresponding to overnight operations in the BRCP, which accrued interest at a rate of 5.25% and 4.39%, respectively (as of December 31, 2021, there were no balances for this type of operations).

(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, 2022, deposits with foreign banks comprise deposits held at the Bank of Nova Scotia for CAN$ 72 thousand (CAN$ 665 thousand as of December 31, 2021).

As of December 31, 2022 and 2021, the Scotiabank Group concentrates 80% of its deposits in five and three foreign financial institutions, respectively.

(c) As of December 31, 2022, restricted cash and due from banks comprises:
i) reserve funds for compliance with repurchase commitments with the BCRP for US$ 23,358 thousand (US$ 181,315 thousand as of December 31, 2021) (note 17.a);
ii) funds held at accounts opened at the BCRP for the normal processing of instant transfers under Official Letter 0030-2020-BCRP for US$ 2,700 thousand and S/ 60,488 thousand (US$ 5,471 thousand and S/ 80,894 thousand as of December 31, 2021);
iii) not maintains reserve funds for compliance with contractual commitments with foreign financial institutions (US$ 14,300 thousand as of December 31, 2021);
iv) guarantee funds for lawsuits against the Bank for US$ 8 thousand and S/ 54 thousand (US$ 8 thousand and S/ 142 thousand as of December 31, 2021); and
v) other restrictions for US$ 1,099 thousand and S/ 2,313 thousand (US$ 1,096 thousand and S/ 1,011 as of December 31, 2021).

As of December 31, 2022 and 2021, interest income from cash and due from banks amounted to S/ 133,817 thousand and S/ 7,153 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	**2022**	**2021**
Investments at FVTPL		
Peruvian treasury bonds (a)	157,473	90,367
Corporate bonds (c)	-	1,064
Interests in mutual funds (e)	6,965	7,276
US Treasury Bonds (d)	58,664	-
	223,102	**98,707**
Available-for-sale investments		
BCRP certificates of deposit (b)	565,726	3,130,228
Peruvian treasury bonds (a)	4,165,156	1,909,329
Corporate bonds (c)	100,949	-
Unlisted securities (f)	3,519	4,150
Listed securities	640	757
Other interests, net	-	18
	4,835,990	**5,044,482**
Total investments at FVTPL and available-for-sale investments	**5,059,092**	**5,143,189**

(a) 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, 2022, these bonds accrue interest at annual rates ranging from 1.78% to 8.32% (from 1.78% to 6.8% as of December 31, 2021) with maturities between August 2024 and February 2055 (between August 2024 and February 2042 as of December 31, 2021). Likewise, as of December 31, 2022 and 2021, the Scotiabank Group has Peruvian treasury bonds for S/ 875,794 thousand and S/ 357,212 thousand granted in repurchase agreements (note 17.(a)(v)).

(b) 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, 2022, these certificates accrue interest based on the BCRP reference rate ranging from 2.38% to 7.30% annually (from 0.38% to 2.38% annually as of December 31, 2021) with maturities between January 2023 and May 2023 (between January 2022 and January 2023 as of December 31, 2021). Likewise, as of December 31, 2022, 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/ 257,885 thousand (S/ 505,563 thousand as of December 31, 2021) (note 17.(a)(iv)).

As of December 31, 2022, it does not hold certificates of deposit with variable rates issued by the BCRP in foreign currency, awarded through public auctions of the BCRP and traded in the Peruvian secondary market, (between (0.28%) and 0.03% per annum as of December 31, 2021 and whose maturities were between March 2022 and April 2022).

(c) The balance corresponds to corporate bonds issued in local currency by the MiVivienda Fund. As of December 31, 2022, these bonds accrue interest at an annual rate of 6.39% and mature in February 2024 (5.70% and mature in February 2024 as of December 31, 2021).

(d) As of December 31, 2022, the balance corresponds to U.S. Treasury bonds which are issued in foreign currency by the U.S. Government, bear annual interest at 4.06% and mature in August 2042.

(e) As of December 31, 2022, the Scotiabank Group holds interests in mutual funds in local and foreign currency for S/ 6,315 thousand and US$ 170 thousand, respectively (S/ 6,395 thousand and US$ 221 thousand as of December 31, 2021).

(f) As of December 31, 2022 and 2021, it includes S/ 127 thousand and S/ 563 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, 2022 and 2021, CrediScotia recognized a provision for impairment loss on this investment. Accordingly, it recognized an impairment loss for S/ 436 thousand and S/ 947 thousand, respectively, to measure it at fair value on that date.

As of December 31, 2022 and 2021, the accrued interest on investments managed by the Scotiabank Group amounted to S/ 209,980 thousand and S/ 86,660 thousand, respectively. It is recorded as 'interest income' in the consolidated statement of profit or loss (note 21).

As of December 31, 2022 and 2021, the Scotiabank Group generated net gains on sale of available-for-sale investments for S/ 30,351 thousand and S/ 25,606 thousand, respectively (note 24).

As indicated in note 18.F, as of December 31, 2022, the Scotiabank Group generated unrealized losses on measurement of available-for-sale investments for S/ 94,350 thousand (unrealized net losses for S/ 264,989 thousand as of December 31, 2021).

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

In thousands of soles	**2022**	**2021**
Up to 3 months	4,698,862	2,859,344
From 3 to 12 months	290,442	248,263
More than 1 year	69,788	2,035,582
	5,059,092	**5,143,189**

8. Loan Portfolio, Net

This caption comprises the following:

In thousands of soles	***Note***	**2022**		**2021**	
Direct loans (a)					
Current loans					
Loans		38,379,927	65%	38,874,362	66%
Mortgage loans		10,249,250	17%	8,909,918	15%
Credit cards		1,890,890	3%	2,868,303	5%
Finance lease		2,549,475	4%	1,687,339	3%
Factoring		1,622,895	3%	1,568,711	3%
Discounts		854,268	1%	721,559	1%
Overdrafts and advances in checking accounts		33,566	-	16,832	-
Refinanced loans		1,816,526	3%	1,961,648	3%
Past-due loans		1,069,405	2%	1,135,535	2%
Lawsuit loans		1,399,885	2%	1,182,340	2%
		59,866,087	**100%**	**58,926,547**	**100%**
Plus (less)					
Accrued interest on current loans		371,965	-	297,126	-
Deferred interest		(28,767)	-	(30,859)	-
Provision for loan losses (b)		(3,854,612)	-	(3,890,452)	-
		56,354,673	**-**	**55,302,362**	**-**
Indirect loans	***20***	**12,008,695**	**-**	**10,398,432**	**-**

As of December 31, 2022 and 2021, 51% of the loan portfolio (direct and indirect loans) was concentrated in 685 and 599 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:

	2022		2021	
In thousands of soles	**Balance**	**Guaranteed (%)**	**Balance**	**Guaranteed (%)**
Type of loan				
Corporate loans	25,551	80%	125,325	80%
Large-business loans	459,477	87%	1,129,670	87%
Medium-business loans	987,276	96%	2,078,253	96%
Micro-business loans	10,671	97%	37,801	98%
Small-business loans	259,528	98%	463,116	98%
Loans from Reactiva Peru program	**1,742,503**	**92%**	**3,834,165**	**95%**

The payment obligations to the BCRP related to this program are presented in 'accounts payable.' As of December 31, 2022 and 2021, they amount to S/ 2,030,503 thousand and S/ 3,478,001 thousand (note 17(a)(i)).

Likewise, as of December 31, 2022 and 2021, CrediScotia participated in the FAE-MYPE I, II and III, placing government guaranteed loans, as follows:

	2022							
	FAE-MYPE I		**FAE-MYPE II**		**FAE-MYPE III**		**Total average**	
In thousands of soles	**Guaranteed (%)**		**Guaranteed (%)**		**Guaranteed (%)**		**guaranteed (%)**	
Medium-business loans	18	70%	-		-		18	70%
Micro-business loans	133	69%	1,056	98%	755	98%	1,944	88%
Small-business loans	622	69%	973	98%	977	98%	2,572	88%
FAE-MYPE	**773**	**69%**	**2,029**	**98%**	**1,732**	**98%**	**4,534**	**82%**

	2021							
	FAE-MYPE I		**FAE-MYPE II**		**FAE-MYPE III**		**Total average**	
In thousands of soles	**Guaranteed (%)**		**Guaranteed (%)**		**Guaranteed (%)**		**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%**

As of December 31, 2022 and 2021, 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:

	2022		2021	
	Currency	**Foreign**	**Currency**	**Foreign**
%	**Local**	**currency**	**Local**	**currency**
Overdrafts (*)	55.00 - 85.00	30.00 -55.00	55.00 - 85.00	30.00 - 55.00
Discounts and commercial loans	4.30 - 48.90	2.65 - 20.26	1.44 - 52.03	1.37 - 22.89
Consumer loans	12.32 - 67.97	6.45 - 39.06	12.88 - 70.62	7.29 - 37.97

(*) 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:

	2022				**2021**			
In thousands of soles	**Number of debtors**	**Direct**	**Indirect**	**Total**	**Number of debtors**	**Direct**	**Indirect**	**Total**
Risk rating								
Standard	1,198,293	53,219,225	10,716,542	63,935,766	1,114,311	51,801,671	9,032,656	60,834,327
Potential problems	43,144	2,145,443	1,011,213	3,156,656	35,888	2,452,664	1,167,601	3,620,265
Substandard	41,092	905,425	92,900	998,325	37,379	942,675	87,125	1,029,800
Doubtful	84,619	1,274,341	85,825	1,360,166	92,252	1,415,165	22,425	1,437,590
Loss	41,091	2,321,653	102,215	2,423,868	45,106	2,314,372	88,625	2,402,997
	1,408,239	**59,866,087**	**12,008,695**	**71,874,781**	**1,324,936**	**58,926,547**	**10,398,432**	**69,324,979**

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

In thousands of soles	**Specific**	**General**	**Total**
Balance as of January 1, 2021	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**
Additions charged to profit or loss	1,962,845	415,096	2,377,941
Recovery of provisions	(1,209,210)	(291,349)	(1,500,559)
Transfer of provisions and others	3,769	(3,339)	430
Write-off and forgiveness	(873,177)	(4)	(873,181)
Exchange difference	(34,806)	(5,665)	(40,471)
Balance as of December 31, 2022	**2,579,569**	**1,275,043**	**3,854,612**

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

In thousands of soles	**2022**	**2021**
Provision for loan losses	(2,377,941)	(3,643,946)
Recovery of provisions	1,500,559	2,551,877
Income from recovery of loan portfolio	148,324	181,366
Provision for loan losses, net of recoveries	**(729,058)**	**(910,703)**

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, 2022, the voluntary provisions of the Bank, CrediScotia and CRAC amount to S/ 561,153 thousand, S/ 103,680 thousand and S/ 10,200 thousand, respectively (S/ 434,978 thousand, S/ 140,421 thousand and S/ 10,200, respectively, as of December 31, 2021).

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, 2022 and 2021, the distribution of the provision for impairment loss on accounts receivable by type of loan is as follows:

	2022				2021			
In thousands of soles	**General**	**Specific**	**Voluntary**	**Total**	**General**	**Specific**	**Voluntary**	**Total**
Type of loan								
Corporate loans	126,369	294,964	56,804	478,137	138,461	173,465	23,006	334,932
Large-business loans	54,283	126,596	120,656	301,535	43,554	116,457	90,656	250,667
Medium-business loans	69,280	809,834	137,549	1,016,663	66,014	814,434	134,715	1,015,163
Small-business loans	16,602	265,035	34,646	316,283	16,356	327,092	35,505	378,953
Micro-business loans	717	7,346	62,888	70,951	781	14,046	80,324	95,151
Consumer loans	121,680	753,009	219,262	1,093,951	106,549	907,710	194,589	1,208,848
Mortgage loans	79,621	442,062	43,228	564,911	70,593	502,917	25,486	598,996
Total	**468,552**	**2,698,846**	**675,033**	**3,842,431**	**442,308**	**2,856,121**	**584,281**	**3,882,710**

As indicated in note 4.E, from November 2014, the procyclical component for provision calculation was deactivated. As of December 31, 2022 and 2021, the Scotiabank Group did not apply the procyclical component to record specific provisions. As of December 31, 2022, the Bank and CrediScotia have a balance of S/ 46,369 thousand (S/ 48,004 thousand as of December 31, 2021).

As of December 31, 2022, the Scotiabank Group's provision for exchange rate risk amounts to S/ 1,598 thousand and other provisions amount to S/ 10,583 thousand (S/ 2,001 thousand and S/ 5,741 thousand as of December 31, 2021).

(d) 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:

	2022			2021		
In thousands of soles	**Gross**	**Individual**	**Total**	**Gross**	**Individual**	**Total**
Type of loan						
Corporate loans	-	-	-	-	66,505	66,505
Large-business loans	-	28,724	28,724	-	333,716	333,716
Medium-business loans	5,352	98,098	103,450	27,630	368,896	396,526
Small-business loans	10,823	37,225	48,048	34,734	108,112	142,846
Micro-business loans	527	193	720	2,820	1,243	4,063
Consumer loans	32,569	209,875	242,444	126,844	644,876	771,720
Mortgage loans	75,809	595,544	671,353	130,713	1,029,143	1,159,856
	125,080	**969,659**	**1,094,739**	**322,741**	**2,552,491**	**2,875,232**

Likewise, the Bank, CrediScotia and CRAC recognized provisions for rescheduled loans for S/ 12,992 thousand, S/ 587 thousand and S/ 185 thousand, respectively (S/ 47,466 thousand, S/ 2,887 thousand and S/ 2,122 thousand as of December 31, 2021).

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

	2022			2021		
	Currency	**Currency**		**Currency**	**Currency**	
In thousands of soles	**Local**	**Foreign**	**Total**	**Local**	**Foreign**	**Total**
Up to 1 month	2,284,338	2,699,926	4984,264	2,093,591	2,325,490	4,419,081
1-3 months	4,302,442	3,086,281	7,388,723	12,069,040	3,072,805	15,141,845
3-6 months	4,730,603	2,395,198	7,125,801	6,374,230	2,361,840	8,736,070
6-12 months	4,629,796	1,720,200	6,349,996	3,478,564	1,100,735	4,579,299
More than 1 year	27,695,197	4,233,679	31,928,876	19,621,924	4,407,576	24,029,500
Past-due loans and lawsuit loans	1,559,531	909,755	2,469,286	1,559,720	758,155	2,317,875
Less: Accrued interest	(284,672)	(96,187)	(380,859)	(241,313)	(55,810)	(297,123)
	44,917,235	**14,948,852**	**59,866,087**	**44,955,756**	**13,970,791**	**58,926,547**

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, 2022 and 2021, fair value of held-for-trading instruments and hedging instruments has generated accounts receivable and payable as follows:

	2022		2021	
In thousands of soles	**Accounts receivable**	**Accounts payable**	**Accounts receivable**	**Accounts payable**
Held-for-trading instruments (a)				
Foreign-exchange forward contracts	223,409	90,776	140,376	143,441
Interest rate swaps	119,621	109,238	76,394	22,068
Cross-currency swaps	77,027	392,313	196,045	232,781
	420,057	**592,327**	**412,815**	**398,290**
Hedging instruments (b)				
Interest rate swaps	5,894	59,460	-	-
	5,894	**59,460**	**-**	**-**
Held-for-trading and hedging instruments	**425,951**	**651,787**	**412,815**	**398,290**

(a) In 2022 and 2021, held-for-trading instruments generated a loss for S/ 390,581 thousand and a gain for S/ 507,011 thousand, respectively (note 24).

(b) As of December 31, 2022 and 2021, such instruments generated a net gain for S/ 67,215 thousand and S/ 23,234 thousand, respectively (note 22). As of December 31, 2022 and 2021, such hedging instruments generated an unrealized net loss of S/ 229 thousand and a net gain of S/ 21,886 thousand, respectively, which was recorded in 'other comprehensive income' in the consolidated statement of changes in equity (note 18.F).

10. Accounts Receivable, Net

This caption comprises the following:

In thousands of soles	**2022**	**2021**
Financial instruments		
Sale of investments (a)	46,493	163,160
Commissions receivable	13,495	14,585
Payments on behalf of third parties, net	11,230	10,418
Collection services	854	4,096
Sale of goods and services, trust, net	10,267	10,770
Advances to personnel	5,598	3,683
Accounts receivable from third parties	321	343
Other accounts receivable, net (b)	201,782	178,045
	290,040	**385,100**
Non-financial instruments		
Tax claims (c)	663,973	722,021
	954,013	**1,107,121**

(a) As of December 31, 2022 and 2021, 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/ 26,183 thousand and S/ 106,412 thousand, respectively; ii) short sale of sovereign bonds for S/ 20,310 thousand and S/ 37,090 thousand, respectively; and iii) does not shown short sale of treasury bonds (S/ 19,658 thousand of December 31, 2021).

(b) As of December 31, 2022, other receivables net of their respective allowance for doubtful accounts include mainly: i) unsettled transactions with debit and credit cards for S/ 65,645 thousand (S/ 31,193 thousand as of December 31, 2021); ii) finance leases for S/ 55,286 thousand (S/ 69,606 thousand as of December 31, 2021); iii) refund of travel expenses for S/ 2,129 thousand (S/ 5,105 thousand as of December 31, 2021); and iv) other accounts receivable for S/ 78,722 thousand (S/ 72,141 thousand as of December 31, 2021).

(c) As of December 31, 2022 and 2022, the balance comprises the following:

(i) An amount of S/ 481,846 thousand corresponding to payments made under protest related to a tax claim before the Tax Authorities and the Tax Court, which was resolved in the year 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 related to purchase transactions of gold entered into between the years 1997 and 1998. Between 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 accrued interest, the Bank filed two legal actions for review of the case and recovery of the payment under protest: (i) a writ of amparo (Amparo 1) to review the unconstitutionality of accrued interest due to the excess of the legal term of the tax administration in the resolution of the case, and (ii) an adversary administrative proceeding to discuss the alleged tax.

On November 9, 2021, the Constitutional Court issued a ruling on the legal proceeding referred to default interest (Amparo 1), declaring the claim inadmissible. in June 2018, regarding the adversary administrative proceeding referred to the alleged tax, the Supreme Court dismissed the claim. Consequently, in July 2018, the Bank initiated 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 the other authorities. To date, such second proceeding is pending resolution by the Superior Court.

As of December 31, 2022, 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 force and pending resolution, the Bank will achieve a favorable outcome given the procedural errors incurred 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 the refund of the payment under protest.

It should be noted that in March 2015 and 2022, the SBS, by means of Notices No. 10454-2015 and No. 12616-2022, requested the recording of provisions for the amount of the alleged tax (principal) amounting to S/ 48,031 thousand and S/ 72,430 thousand, respectively. The provision recorded in March 2022, resulted in the recording of an expense amounting to S/ 7,716 thousand. This and any other prudential requirement to record provisions is independent of the estimate of the favorable result mentioned in the preceding paragraph.

(ii) They mainly comprise: i) S/ 230,095 thousand for payments made by the Bank under protest referred to the Temporary Tax on Net Assets (ITAN) of the fiscal years 2005 and 2006; and iii) S/ 25,760 thousand for the tax proceeding of the year 2013. Such payments were challenged in courts by the Bank as they are considered undue payments and shall be offset with the income tax and other tax credits. It is the opinion of management and its legal advisors that these amounts will be refunded to the Bank upon the favorable resolution of the case.

11. Goodwill

This caption comprises the following:

In thousands of soles	**2022**	**2021**
Citibank del Perú S.A.(a)	287,074	287,074
Crediscotia Financiera S.A. (b)	232,315	278,818
Unibanca S.A. (c)	4,772	4,772
	524,161	**570,664**

(a) Goodwill generated in the acquisition of the commercial retail and consumer banking business of Citibank del Perú.

(b) On May 10, 2022, the Bank entered into an agreement with Grupo Unicomer Corp. for the transfer of 100% of the shares representing the capital stock of Crediscotia Financiera S.A. Likewise, as usual in this type of agreements, the materialization of the transaction is subject to the fulfillment of certain conditions, among them, obtaining the authorization of the SBS for the acquisition of the shares by Grupo Unicomer Corp.

As of December 31, 2022, the Bank recognized a provision for impairment loss of the goodwill. Accordingly, it recognized an impairment loss for S/ 46,503 to measure it at fair value on that date.

(c) Goodwill generated in the purchase of shares of Servicios Bancarios Compartidos S.A. amounting 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, 2022 and 2021, except as indicated in paragraph b).

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	2022	2021
Cost							
Balance as of January 1	128,884	777,495	453,763	3,594	16,777	1,380,513	1,403,501
Additions	-	56	12,120	14,991	-	27,167	23,830
Sales	(515)	(5,642)	(9,954)	-	-	(16,111)	(15,701)
Transfers	-	12,294	5,371	-	(15,934)	1,731	48
Disposals and others	-	(11,742)	(28,114)	(67)	-	(39,923)	(31,165)
Balance as of December 31	**128,369**	**772,461**	**433,186**	**18,518**	**843**	**1,353,377**	**1,380,513**
Accumulated depreciation							
Balance as of January 1	-	664,097	400,704	2,725	-	1,067,526	1,064,406
Additions	-	7,959	20,920	252	-	29,131	43,127
Sales	-	(4,740)	(9,624)	-	-	(14,364)	(12,931)
Disposals and others	-	(10,725)	(27,757)	(67)	-	(38,549)	(27,076)
Balance as of December 31	**-**	**656,591**	**384,243**	**2,910**	**-**	**1,043,744**	**1,067,526**
Net carrying amount	**128,369**	**115,870**	**48,943**	**15,608**	**843**	**309,633**	**312,987**

(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 (a)	Cencosud brand name	2022	2021
Cost								
Balance as of January 1	436,247	27,984	12,829	24,717	326,302	4,148	832,226	786,490
Additions	767	77,641	-	-	-	-	78,408	45,867
Transfers	59,819	(61,550)	-	-	-	-	(1,731)	(49)
Disposals and others	(289)	-	(6,176)	-	-	-	(6,465)	(82)
Balance as of December 31	**496,544**	**44,075**	**6,653**	**24,717**	**326,302**	**4,148**	**902,439**	**832,226**
Accumulated amortization								
Balance as of January 1	371,504	-	8,587	23,567	61,634	784	466,076	399,536
Additions	41,674	-	175	1,924	21,753	277	65,803	66,622
Disposals and others	-	-	(6,099)	(1,410)	-	-	(7,509)	(82)
Balance as of December 31	**413,178**	**-**	**2,663**	**24,081**	**83,387**	**1,061**	**524,370**	**466,076**
Net carrying amount	**83,366**	**44,075**	**3,989**	**636**	**242,915**	**3,087**	**378,069**	**366,150**

(a) On March 1, 2019, the Bank signed an agreement with Cencosud Perú S.A. to acquire 51% of shares of Banco Cencosud S.A., an entity engaged in credit and debit card issuance and management, incorporated in Peru. The Scotiabank Group generated an intangible asset for exclusivity amounting to S/ 330,450 thousand, which is being amortized over a period of 15 years.

14. Other Assets, Net

This caption comprises the following:

In thousands of soles	2022	2021
Financial instruments		
Transactions in progress (a)	113,499	150,318
	113,499	**150,318**
Non-financial instruments		
Prepaid expenses (b)	148,919	129,617
Realizable and repossessed assets, net of accumulated depreciation and provision for impairment loss for S/ 236,088 thousand (S/ 213,520 thousand in 2021)	47,753	48,267
Tax credit	177,698	465,448
Others	7,993	7,619
	382,363	**650,951**
	495,862	**801,269**

(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, 2022, it includes treasury transactions for S/ 53,461 thousand (S/ 80,565 thousand as of December 31, 2021), transactions to be settled with Cámara de Compensación Electrónica for S/ 49,356 thousand (S/ 47,370 thousand as of December 31, 2021), and invoices-in-transit for S/ 6,613 thousand (S/ 5,976 thousand as of December 31, 2021).

(b) As of December 31, 2022, prepaid expenses mainly include: i) deferred loan origination costs related to fees paid to the external sales force for S/ 127,395 thousand (S/ 107,309 thousand as of December 31, 2021); ii) prepaid fees for loans received for S/ 4,967 thousand (S/ 6,415 thousand as of December 31, 2021); iii) prepaid leases for S/ 2,912 thousand (S/ 2,539 thousand as of December 31, 2021); and iv) advertising and marketing services for S/ 986 thousand (S/ 327 thousand as of December 31, 2021), among others.

15. Deposits and Obligations with Financial Institutions

This caption comprises the following:

In thousands of soles	2022		2021	
Corporate clients	19,163,362	43%	22,837,699	48%
Individuals	19,452,426	44%	18,675,941	39%
Non-profit entities	4,028,164	9%	4,219,402	9%
Others	1,712,045	4%	1,890,160	4%
	44,355,997	**100%**	**47,623,202**	**100%**

As of December 31, 2022 and 2021, deposits and other obligations in U.S. dollars represent 41% and 44% of total amount, respectively. As of December 31, 2022, deposits include accounts pledged in favor of the Bank and CrediScotia for credit transactions for S/ 350,230 thousand and US$ 171,309 thousand (S/ 393,970 thousand and US$ 184,502 thousand as of December 31, 2021).

As of December 31, 2022 and 2021, total deposits and obligations from individuals and non-profit entities amount to S/ 14,820,065 thousand and S/ 14,459,770 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, 2022, the maximum amount secured for each individual amounted to S/ 126 thousand (S/ 116 thousand as of December 31, 2021). 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:

	2022		**2021**	
%	**Local currency**	**Foreign currency**	**Local currency**	**Foreign currency**
Savings deposits	0.72 - 1.85	0.11- 0.16	0.77 - 1.51	0.10 - 0.12
Time deposits	3.71 - 6.31	0.13 - 1.64	0.57 - 3.50	0.08 - 0.81
Bank certificates	-	0.09 - 0.26	-	0.08 - 0.81
Length-of-service compensation deposits	2.28 - 4.67	0.6 - 0.86	2.39 - 4.27	0.42 - 0.77

As of December 31, 2022 and 2021, due to the measures enacted by the Peruvian Government and the Peruvian Congress, the Bank deposited in intangible accounts AFP funds amounting to S/ 10,652,927 thousand and S/ 8,080,606 thousand, respectively, from which a total of S/ 10,055,813 thousand and S/ 7,396,735 thousand, respectively, were withdrawn. According to such measures, the Bank, CrediScotia and CRAC released length-of-service compensation deposits for S/ 2,927,403 thousand, S/ 110,710 thousand and S/ 160,257 thousand, respectively (S/ 2,319,462 thousand, S/ 110,710 thousand and S/ 120,811 thousand, respectively, as of December 31, 2021).

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

	2022			2021		
In thousands of soles	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Up to 1 month	2,009,721	1,935,163	3,944,884	2,141,197	1,568,164	3,709,361
1-3 months	2,037,057	650,593	2,687,650	1,513,780	831,717	2,345,497
3-6 months	1,764,828	518,929	2,283,757	1,906,375	316,578	2,222,953
6-12 months	2,054,250	862,628	2,916,878	1,087,392	766,361	1,853,753
More than 1 year	1,059,658	473,055	1,532,714	905,277	289,314	1,194,590
	8,925,514	**4,440,368**	**13,365,883**	**7,554,021**	**3,772,133**	**11,326,155**
Interest	116,458	12,751	129,208	31,436	7,797	39,231
	9,041,972	**4,453,119**	**13,495,091**	**7,585,456**	**3,779,930**	**11,365,386**

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	2022	2021
Borrowings and debts		
Obligations in the country		
COFIDE (a)	948,878	751,988
Other banks	15,000	65,000
Ordinary loans from abroad		
Related banks (b)	7,628,200	4,784,400
Other banks (c)	3,189,701	4,821,273
	11,781,779	**10,422,661**
Interest payable (b)	66,340	16,668
	11,848,119	**10,439,329**
Securities and obligations (d)	2,209,199	2,274,969
	14,057,318	**12,714,298**

(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, 2022 and 2021, the Bank and CrediScotia hold obligations with COFIDE for S/ 617,025 thousand and S/ 540,001 thousand, respectively, which are guaranteed by a mortgage loan portfolio, as follows:

		2022		2021	
In thousands of	Currency	Net loans	Backed debt	Net loans	Backed debt
Detail					
Mortgage loans - MiVivienda Fund (*)	soles	645,692	604,873	501,183	520,191
Mortgage loans - MiVivienda Fund (*)	U.S. dollars	3,597	3,186	5,486	4,969

(*) 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, 2022 and 2021, the Bank entered into agreements to channel resources with COFIDE for S/ 328,950 thousand and S/ 192,292 thousand, respectively. 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/ 4,594 thousand, S/ 9,070 thousand and S/ 6,030 thousand as of December 31, 2021).

(b) As of December 31, 2022, ordinary loans with related banks include debts payable to Scotiabank Ltd. Bahamas for US$ 2,000,000 thousand, which accrue interest at annual rates ranging from 0.59% to 4.86% with maturities between January 2023 and December 2024 (US$ 1,200,000 thousand as of December 31, 2021, which accrue interest at annual rates ranging from 0.06% to 1.07% with maturities between January 2022 and January 2023).

These loans do not have collaterals nor compliance terms.

(c) As of December 31, 2022, the Bank holds borrowings and debts with other foreign banks for US$ 823,204 thousand (US$ 1,209,248 thousand as of December 31, 2021), which accrue interest at annual rates ranging from 1.75% to 5.38% (0.00% to 0.99% as of December 31, 2021). As of December 31, 2022 and 2021. 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, maturities of borrowings from banks and other financial institutions were as follows:

In thousands of soles	**2022**	**2021**
Up to 1 month	1,390,126	2,136,920
1-3 months	4,745,618	1,615,403
3-6 months	2,022,707	2,332,734
6-12 months	2,584,002	1,332,425
More than 1 year	1,105,666	3,021,847
	11,848,119	**10,439,329**

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

In thousands of soles	**Annual interest**	**Maturity**	**2022**	**2021**
Issuance				
Redeemable subordinated bonds				
1st Issuance, single series (i)	4.50%	2027	1,525,600	1,594,800
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
			2,191,160	**2,260,360**
Corporate bonds (iv)				
Negotiable certificates of deposit			2,560	3,016
			2,560	**3,016**
			2,193,720	**2,263,376**
Interest payable and obligations			15,479	11,593
			2,209,199	**2,274,969**

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 9.41% (7.41% as of December 31, 2021) 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.

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

As of December 31, the maturity of outstanding securities is as follows:

In thousands of soles	**2022**	**2021**
Up to 3 months	6,003	1,381
3-6 months	102	240
6-12 months	1,416	1,238
More than 1 year	2,201,678	2,272,110
	2,209,199	**2,274,969**

(e) As of December 31, 2022 and 2021, interest expenses on borrowings and debts of the Scotiabank Group amount to S/ 350,137 thousand and S/ 246,261 thousand, respectively (note 22).

17. Provisions and Other Liabilities

This caption comprises the following:

In thousands of soles	2022	2021
Accounts payable		
Repurchase agreements (a)	3,796,329	6,091,479
Other accounts payable	472,117	384,497
Short sale	31,731	93,832
Vacations, remunerations and profit sharing payable	23,678	31,015
	4,323,855	**6,600,823**
Provisions		
Provision for litigations and claims (b)	33,452	33,246
Provision for various contingencies (c)	648	66,682
Provision for indirect loan losses and country risk	174,683	175,814
Other provisions (d)	151,030	80,178
	359,813	**355,920**
Other liabilities		
Transactions in progress (e)	350,362	308,300
Deferred income (f)	89,125	77,262
	439,487	**385,562**
	5,123,155	**7,342,305**

(a) As of December 31, 2022, 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/ 2,030,503 thousand (S/ 3,478,001 thousand as of December 31, 2021). 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/ 1,038,452 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 (S/ 1,040,000 thousands as of December 31, 2021 and accrued interest between 1.25% and 3.5%).

(iii) Repurchase agreements on currencies with the BCRP for S/ 89,000 thousand, They accrue interest at an interest rate of 0.08% with a maturity in January 2023 (S/ 736,800 thousand and accrue interest at an interest rate ranging from 0.00% to 2.95% with a maturity in January 2022 as of December 31, 2021).

(iv) Repurchase agreements with certificates of deposit with the BCRP for S/ 252,532 thousand. They accrue interest at an interest rate of 8.0% with a maturity in January 2023 (S/ 498,829 thousand and accrue interest at an interest rate ranging from 2.60% to 2.90% with a maturity in January 2022 as of December 31, 2021) (note 7 (b)).

(v) Repurchase agreements on Peruvian treasury bonds with the BCRP for S/ 829,251 thousand. They accrue interest at an interest rate ranging from 0.50% to 8.98%% with a maturity between March 2023 and December 2023 (S/ 329,074 thousand and accrue interest at an interest rate ranging from 0.50% to 1.27% with a maturity ranging from April 2022 to December 2023, as of December 31, 2021) (note 7 (a)).

(b) As of December 31, 2022 and 2021, 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, 2022 and 2021, the balance amounted to S/ 648 thousand and S/ 66,682 thousand, respectively, 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, 2022, the balance of other provisions mainly includes: i) provisions for personnel expenses for S/ 116,690 thousand (S/ 45,423 thousand as of December 31, 2021); ii) provisions for marketing campaigns of liability products for S/ 5,817 thousand (S/ 5,375 thousand as of December 31, 2021); and iii) provisions related to credit and debit card transactions for S/ 25,232 thousand (S/ 24,613 thousand as of December 31, 2021).

(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, 2022, liability transactions in progress mainly include: i) S/ 108,449 thousand for treasury transactions (S/ 96,210 thousand as of December 31, 2021); ii) S/ 136,449 thousand for credit card transactions (S/ 78,446 thousand as of December 31, 2021); and iii) S/ 44,375 thousand for client deposits in transit (S/ 71,673 thousand as of December 31, 2021).

(f) As of December 31, 2022, it mainly includes income for (i) S/ 27,428 thousand for exclusive right fees (S/ 30,452 thousand as of December 31, 2021); (ii) S/ 27,129 thousand for indirect loan fees (S/ 24,233 thousand as of December 31, 2021); and S/ 17,055 thousand for structuring and trust service fees (S/ 14,097 thousand as of December 31, 2021), 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, 2022, the regulatory capital of such entities amounts to S/ 10,353,517 thousand, S/ 780,801 thousand and S/ 170,131 thousand, respectively (S/ 10,659,311 thousand, S/ 760,258 thousand and S/ 163,853 thousand, respectively, as of December 31, 2021).

In order to strengthen the effective equity, it was decided to commit a partial capitalization of the profits of fiscal year 2022 and a legal reserve of thousands of S/ 200,000 and thousands of S/ 139,000 respectively, which based on the regulations in force is being considered as part of the effective equity as of December 2022.

As of December 31, 2022, 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/ 69,341,115 thousand, S/ 3,738,411 thousand and S/ 946,423 thousand, respectively (S/ 66,983,777 thousand, S/ 2,965,020 thousand and S/ 752,997 thousand, respectively, as of December 31, 2021).

As of December 31, 2022 and 2021, the Banking Law established as a global limit that the regulatory capital shall be equal to or greater than 8.5% and 8%, respectively, 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, 2022, the regulatory capital of the Bank, CrediScotia and CRAC represents 13.97%, 19.29% and 14.78% respectively, of the minimum capital requirements per market, operational and credit risk (14.70%, 22.73% and 18.11%, respectively, as of December 31, 2021).

SBS Resolution 2115-2009, approved the "Regulation on Regulatory Capital Requirement for Operational Risk." As of December 31, 2022 and 2021, 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 1265-2019, 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.

SBS Resolution 03435-2022, issued November 11, 2022, extended the application period of the alternative standard method for the Bank until September 2025.

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, 2022, additional regulatory capital of the Bank, CrediScotia and CRAC amounted to S/ 1,094,075 thousands, S/ 61,534 thousand and S/ 43,367 thousand, respectively, and CrediScotia does not have an additional regulatory capital (S/ 702,941 thousand and S/ 19,749 thousand for the Bank and CRAC as of December 31, 2021).

B. Share capital

As of December 31, 2022, the Bank's authorized, subscribed and paid-in share capital comprise 802,677,853 common shares (802,677,853 common shares as of December 31, 2021). All shares have voting rights and a par value of S/ 10.00 each. As of December 31, 2022 and 2021, the quotation value of common shares of the Bank was S/ 17.00 and S/ 22.00 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.

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

	2022		2021	
	Number of shareholders	%	Number of shareholders	%
From 0.01 to 1	1,267	0.69	1,294	1.95
From 50.01 to 100	1	99.31	1	98.05
	1,268	**100.00**	**1,295**	**100.00**

Under the Banking Law, as of December 31, 2022, the share capital is required to reach the minimum amount of S/ 34,026 thousand (S/ 31,165 thousand as of December 31, 2021), 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	2022	2021
Issuance premium	393,159	393,159
Gain on treasury shares	1,304	1,304
	394,463	**394,463**

As of December 31, 2022 and 2021, the Bank holds 277 treasury shares.

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 30, 2022, applied to legal reserve an amount of S/ 104,180 thousand, corresponding to 10% of net profit for the year 2021.

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.'

E. Retained earnings

General Shareholders’ Meeting, held March 30, 2022, approved the distribution of 2021 net profit for S/ 1,041,796 thousand, as follows:

i. Allocate S/ 937,616 thousand to pay cash dividends.

ii. Allocate 10% of net profit, amounting to S/ 104,180 thousand, to increase the legal reserve.

In relation to the application of net income from previous years, it was agreed as follows:

i. Allocate S/ 241,185 thousand to pay cash dividends, for the balance of the net profit for the fiscal year 2019.

ii. Allocate S/ 53,264 thousand to pay cash dividends, for the remainder of the net income for the year 2020.

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.'

F. Unrealized gains and losses

As of December 31, 2022 and 2021, 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 2022 and 2021, net of deferred tax, was as follows:

In thousands of soles	***Note***	**2022**	**2021**
Balance as of January 1		(175,756)	67,372
Net unrealized loss on available-for-sale investments	*7*	(94,350)	(264,989)
Cash flow hedges	*9(b)*	(228)	21,886
Net unrealized loss on associates		475	(25)
Balance as of December 31		**(269,860)**	**(175,756)**

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***	**2022**	**2021**
Indirect loans	*8*		
Guarantees and letters of guarantee		10,945,169	9,280,808
Letters of credit issued		822,872	943,245
Outstanding banker's acceptance		240,654	174,379
		12,008,695	**10,398,432**
Unused credit lines		36,440,284	41,791,490
Derivative instruments		33,236,335	22,046,840
		81,685,314	**75,802,854**

21. Interest Income

This caption comprises the following:

In thousands of soles	***Note***	**2022**	**2021**
Direct loan portfolio		4,543,383	3,644,186
Available-for-sale investments	*7*	204,253	78,401
Cash and due from banks and deposits with banks	*6*	133,817	7,153
Investments at FVTPL	*7*	5,727	8,259
Interbank funds		4,365	191
Other finance income		2,033	2,510
		4,893,578	**3,740,700**

22. Interest Expenses

This caption comprises the following:

In thousands of soles	*Note*	2022	2021
Deposits and obligations		778,167	225,038
Borrowings and debts	16(e)	350,137	246,261
Repurchase agreements		143,245	39,220
Fees for borrowings and debts		19,837	23,167
Profit or loss from hedging instruments	9(b)	67,215	23,234
Deposits with financial institutions		13,690	1,824
Interbank funds		33,257	1,744
		1,405,548	**560,488**

23. Financial Service Income, Net

This caption comprises the following:

In thousands of soles	2022	2021
Income		
Income from fees for collections services	342,415	319,760
Other income and fees for banking services	157,998	163,257
Income from services and maintenance of liability transactions and transfer fees	89,606	90,164
Income from compensation for mutual funds and fees for redemption of shares	60,618	75,829
Income from structuring and management services	60,968	80,241
Income from teleprocessing services	35,228	36,091
Income from recovery of loan portfolio	17,563	27,236
Income from fees and intermediation services	6,175	5,411
Other income	355,239	319,204
	1,125,810	**1,117,193**
Expenses		
Credit/debit card expenses	(165,531)	(159,506)
Deposit insurance fund premiums	(65,059)	(64,383)
Expenses for insurance services	(6,940)	(5,824)
Other expenses	(313,490)	(317,918)
	(551,020)	**(547,631)**
	574,790	**569,562**

24. Profit or Loss from Financial Transactions

This caption comprises the following:

In thousands of soles	***Note***	**2022**	**2021**
Net gain (loss) on measurement of held-for-trading instruments	*9*	(390,581)	507,011
Gain on sale of available-for-sale investments	*7*	30,351	25,606
Net exchange gain	*5*	650,113	(98,909)
Net loss on sale and measurement of investments at FVTPL		(6,678)	(17,553)
Gain on interests		16,929	31,620
Dividends from available-for-sale investments		5	1,009
Others, net (a)		224,870	65
		525,009	**448,849**

(a) On April 13, 2022, the Bank closed the sale transaction of the shares it held in the company Procesos Medios de Pago S.A. (PMP), which represent 50% of the capital stock of said entity. The sale price established in the contract for the purchase/sale of the PMP shares amounted to US$ 80,000 thousand dollars, the parties having agreed on a price adjustment clause for variation in the net equity value, which is resolved within 60 days after the sale date. Likewise, it should be noted that the book value of these shares amounts to thousands of S/ 88,900 soles as of March 31, 2022.

25. Administrative Expenses

This caption comprises the following:

In thousands of soles	**2022**	**2021**
Personnel and board of directors expenses	862,999	944,789
Expenses for third-party services	778,600	735,566
Taxes and contributions	91,649	84,228
	1,733,248	**1,764,583**

26. Other Income, Net

This caption comprises the following:

In thousands of soles	**2022**	**2021**
Sale of non-financial services	39,596	31,998
Lease of own assets	1,554	416
Gain on sale of realizable and repossessed assets	14,860	6,429
Reimbursements and refunds	4,055	601
Gain on sale of property, furniture and equipment	5,271	3,551
Other expenses, net	(20,369)	(23,845)
	44,967	**19,150**

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.

Legal stability agreement

B. 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%.

By virtue of this Agreement, the CRAC undertook to:

i. Issue shares representing its capital in favor of Cencosud Perú S.A. against receipt of the contributions to be made, for a total amount of US$ 9,516,837.

ii. Ensure that the contributions are channeled through the National Financial System, as stated in the certification issued by the bank involved in the transaction.

iii. To allocate the contributions to the expansion of the productive capacity.

iv. While this Agreement is in force, the government undertakes to guarantee legal stability for the Fund in the following terms:

   - Stability of the income tax regime, as prescribed in Article 40 of Legislative Decree 757, as amended, which implies that the income tax payable to the CRAC will not be modified during the term of this Agreement.

Stability in the hiring regimes of the CRAC's employees, pursuant to the provisions of Article 12 a) of Legislative Decree 662, as amended, in effect on the date of execution of this Agreement.

Income tax regime

C. The Scotiabank Group is subject to the Peruvian tax regime. As of December 31, 2022 and 2021, 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.

D. 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, Japan and South Korea.

Concerning the technical assistance or digital services rendered by non-domiciled individuals to domiciled individuals, regardless of the place where the service is rendered, they shall be subject to a 15% and 30% income tax rate on gross income, respectively, provided that no double tax treaties are applicable. Technical assistance 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

E. The Scotiabank Group computed its tax base for the years ended December 31, 2022 and 2021, and determined income tax for S/ 605,616 thousand and S/ 168,325 thousand, respectively.

The Scotiabank Group's current tax has been determined for fiscal years 2022 and 2021, net of prior years, as follows:

In thousands of soles	**2022**	**2021**
Scotiabank Perú S.A.A.	551,309	143,182
CrediScotia Financiera S.A.	31,175	-
Scotia Fondos Sociedad Administradora de Fondos S.A.	16,192	20,032
Servicios, Cobranzas e Inversiones S.A.C.	3,302	2,394
Caja Rural de Ahorro y Crédito Cencosud Scotia Perú S.A.	2,878	1,320
Scotia Sociedad Agente de Bolsa S.A.	366	758
Scotia Sociedad Titulizadora S.A.	394	639
	605,616	**168,325**

Income tax expense comprises the following:

In thousands of soles	2022	2021
Current tax		
Current year	599,312	192,647
Prior year adjustments	6,304	(24,322)
	605,616	**168,325**
Deferred tax	**(34,908)**	**129,965**
Net income tax expense	**570,708**	**298,290**

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

In thousands of soles	2022		2021	
Net profit before tax	**1,986,573**	**100.00%**	**1,330,361**	**100.00%**
Income tax (theoretical)	586,039	29.50%	392,456	29.50%
Tax effect on additions and deductions				
Permanent differences	(5,177)	(0.26%)	(76,922)	(5.78%)
Prior year income tax adjustment	(10,154)	(0.51%)	(17,244)	(1.30%)
Current and deferred tax recorded as per effective rate	**570,708**	**28.73%**	**298,290**	**22.42%**

Tax Loss

F. 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, 2021, CrediScotia incurred in a tax loss for S/ 390,684 thousand. Accordingly, it elected the System B.

In thousands of soles	Accumulated balance
2020	129,473
2021	261,211
	390,684

As of December 31, 2022 and 2021, CrediScotia recognized deferred tax assets 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.

As of December 31, 2021, 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.

As of December 31, 2022, 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 (note 24).

Temporary tax on net assets

G. 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 2022 and 2021 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 2022, the Bank, CrediScotia, CRAC, SAB, SAFM, Titulizadora and SCI determined that the temporary tax on net assets amounts to S/ 259,680 thousand, S/ 11,162 thousand, S/ 2,250 thousand, S/ 165 thousand, S/ 504 thousand, S/ 24 thousand and S/ 370 thousand, respectively (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 in 2021).

Tax on financial transactions

H. Tax on financial transactions for fiscal periods 2022 and 2021 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

I. 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 2018 onwards.

According to Tax Authorities' Resolution 014-2018-SUNAT, published January 18, 2018, the Electronic Form 3560 was approved for presentation of the Local File, establishing the deadlines for its presentation and the content and format that must be included according to Annexes I, II, III and IV.

In 2021, the Scotiabank Group presented the Local File, excluding the Titulizadora and SAF, which was not required to present such file according to the provisions.

The deadline for the presentation of the Local File for the year 2021 will be June 2022, in accordance with the maturity schedule published by the Tax Authorities. The Bank, CrediScotia, CRAC, SAB and SCI presented the file for the year 2021.

The Master File for the year 2021 shall be presented in October 2022 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. Therefore, the Country-by-Country Report as of fiscal year 2019 is not delivered by the Scotiabank Peru Group.

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.

Tax Authorities' Resolution 163-2018-SUNAT, published on June 29, 2018, approved the Electronic Form 3560 for presentation of the Master File and the Electronic Form 3562 for presentation of the Country-by-Country Reporting, establishing the deadlines for its presentation and the content and format that shall be included therein.

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, 2022 and 2021 from the application of such regulations.

Tax assessment by Tax Authorities

J. The Tax Authorities are entitled to audit and, if applicable, to correct the income tax calculated by the Scotiabank Group within the four years following the year of the tax return filing. The Scotiabank Group's income tax and sales tax returns for the years 2017 through 2021 are open for review by the Peruvian Tax Authorities. The year 2016 is subject to audit because the Bank filed a rectification in 2021.

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	2019
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 Cencosud Scotia Perú S.A.	From 2017 to 2021	-
Patrimonio en Fideicomiso Sobre Bienes Inmuebles – Depsa	From 2017 to 2021	-

Concerning tax returns for fiscal years 2007 through 2010 and 2013 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, 2011 and 2020, issuing Tax Assessment and Fine Resolutions on the determination of income tax for such years. For the years 2008 to 2011, the values were challenged. In 2008 and 2009 had results before the Tax Authorities and are currently being sued and 2011 in the Tax Authorities. In 2020 the values were compensated and the claim will be filed at a later date.

Concerning the CRAC, it was audited by the Tax Authorities in 2012. The CRAC has filed an appeal in 2017, which was resolved by the Tax Authorities. He is currently being sued before the Judiciary. 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. To date, the recovery of tax losses before the Judiciary is pending. It is important to note that the statute of limitations for the 2017 fiscal year expired on December 31, 2022. Likewise, in the period of December 2022 the Tax Authorities concluded the Income Tax audit process for the period 2019, in that sense, the Management made the payment under protest of the resolutions of determination and fine product of the audit mentioned, however, the Management has decided to take to the next instance through the claim before the tax administration, considering viable a result in favor.

Regarding SCI, the fiscal year 2016 has been partially audited by the Tax Authorities, this case was resolved before the Tax Authorities and is currently before the Judiciary. For the fiscal year 2017 the Tax Authorities carried out a partial audit of Expenses, having culminated its review within the current fiscal year 2022, issuing Values, which are in the process of Claim.

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.

Through Supreme Decree 044-2020-PCM, the Peruvian government declared a national state of emergency. Accordingly, it suspended the limitation period of the Tax Authorities' supervision power from March 16, 2020 to June 10, 2020—i.e., a period of 87 calendar days.

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, 2022 and 2021.

Uncertainty over Income Tax Treatments

K. 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, 2022 and 2021.

Sales tax regime

L. As of December 31, 2022 and 2021, 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

M. 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 No. 005-2019 extended the term of the exemption of Law No. 30341 until December 31, 2022 and included as new exempted cases: 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.

Through Law 31662, published on December 30, 2022, as of January 2023, domiciled legal entities and non-domiciled legal entities that were included until 2022 will no longer be exempted from the exemption of Law 30341, since from January 2023 until December 31, 2023 the exemption is applicable to individuals and undivided estates or marital partnerships that opted to be taxed as such and up to the first 100 Tax Units of the capital gain generated in each taxable year.

Likewise, Law 31106 extends until December 31, 2023 the exemptions contained in Article 19 of the Income Tax Law.

Major amendments to tax laws effective for periods beginning in 2021

N. **Depreciation of assets**
Legislative Decree 1488 established a special depreciation regime and modified depreciation periods by increasing depreciation rates for assets acquired during the years 2020 and 2022 to promote private sector investment and provide greater liquidity given the economic outlook due to the COVID-19 pandemic.

O. **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.

P. **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 some tax exemptions and benefits was extended as follows:

- The term of tax exemptions included in Appendixes I and II of the Sales Tax Law was extended until December 31, 2025. Consequently, the sale of staple food and basic services—e.g., public transport, among others—will not be subject to sales tax. For more information, see Law 31651.

- The issuance of e-money will not be subject to sales tax until December 31, 2024. For more information, see Legislative Decree 1519.

- The refund of taxes on acquisitions through foreign donations from and imports from diplomatic missions will be effective until December 31, 2024. For more information, see Legislative Decree 1519.

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.

Likewise, Law 28194 "Law on the Fight against Tax Evasion and the Formalization of the Economy" was modified through Legislative Decree 1529, effective as April 1, 2022, regarding the instances where the use of payment methods is applicable, the minimum amount required to use payment methods and the obligation to notify the Tax Authorities about payments made to third parties other than the creditor.

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, 2022 and 2021 mainly comprises:

In thousands of soles	Balance as of 01.01.21	(Debit) credit to profit or loss	Others	Balance as of 01.01.2022	(Debit) credit to profit or loss	Balance as of 12.31.2022
General provision for direct/indirect loan losses	566,305	(204,214)	(10,303)	351,788	42,412	394,200
Provision for accounts receivable	39,534	1,439	-	40,973	(2,511)	38,462
Provision for repossessed assets	32,501	6,628	-	39,129	6,428	45,557
Provision for vacations	10,230	(2,043)	-	8,187	3,870	12,057
Provision for credit and debit card rewards	5,551	-	-	5,551	-	5,551
Tax loss	34,406	108,308	-	142,714	(34,410)	108,304
Investment in subsidiaries	941	-	-	941	-	941
Finance leases, net	135	-	-	135	-	135
Intangible assets	(103,247)	6,644	-	(96,603)	454	(96,149)
Leveling of assets and liabilities	(13,329)	(36,055)	-	(49,384)	23,375	(26,009)
Deferred sales charges	(18,479)	(2,517)	-	(20,996)	(7,436)	(28,432)
Others	31,325	(8,155)	-	23,169	2,726	25,895
Deferred tax assets, net	**585,873**	**(129,964)**	**(10,303)**	**445,604**	**34,908**	**480,512**

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 2022, legal employees' profit sharing was determined for S/ 98,320 thousand (S/ 31,207 thousand in 2021), 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, 2022, the allocated value of assets in trusts and trust fees amounts to S/ 5,524,380 thousand (S/ 6,070,037 thousand in 2021).

31. Related Party Transactions

As of December 31, 2022 and 2021, 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:

	2022					2021				
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	-	203	-	-	203	-	59,112	-	-	59,112
Loan portfolio, net	-	414,589	7,726	25,396	447,711	-	480,181	12,344	28,936	521,460
Held-for-trading and hedging instruments	-	286,570	-	-	286,570	-	134,451	-	-	134,451
Other assets, net	-	63,607	88,497	-	152,128	-	119,848	122,974	21	242,843
Total assets	**-**	**764,969**	**96,223**	**25,396**	**886,612**	**-**	**793,593**	**135,317**	**28,957**	**957,867**
Liabilities										
Deposits and obligations with financial institutions	562,938	51,416	74,660	20,667	709,681	106,476	543,229	42,234	21,038	712,976
Borrowings and debts	230,252	7,437,056	-	-	7,667,308	230,252	4,790,046	-	-	5,020,298
Held-for-trading and hedging instruments	-	87,277	-	-	87,277	-	185,908	-	-	185,908
Provisions and other liabilities	-	26,998	961	20	27,979	-	66,377	1,074	27	67,477
Total liabilities	**793,190**	**7,602,747**	**75,621**	**20,687**	**8,492,245**	**336,728**	**5,585,559**	**43,308**	**21,065**	**5,986,660**
Off-balance sheet accounts										
Indirect loans	-	454,593	57,120	-	511,713	-	498,781	57,302	-	556,084
Derivative instruments	-	11,263,159	-	-	11,263,159	-	8,394,807	-	-	8,394,807

(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:

	2022					2021				
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
Interest income	-	10,173	481	1,643	12,297	-	9,245	601	1,556	11,402
Interest expenses	(16,789)	(136,793)	(669)	(246)	(154,497)	(16,987)	(58,665)	(13)	(355)	(76,020)
	(16,789)	**(126,620)**	**(188)**	**1,397**	**(142,200)**	**(16,987)**	**(49,419)**	**588**	**1200**	**(64,618)**
Financial service income	26	3,881	628	297	4,832	21	5,621	954	241	6,836
Financial service expenses	-	(3,750)	(21,534)	(30)	(25,314)	-	(75)	(20,318)	(37)	(20,430)
	26	**131**	**(20,906)**	**267**	**(20,482)**	**21**	**5,545**	**(19,364)**	**204**	**(13,594)**
Net profit or loss from financial transactions	-	307,642	16,848	-	324,490	-	(205,721)	31,614	-	(174,107)
Administrative expenses (ii)	-	(15,731)	(1,545)	(130)	(17,406)	-	(12,670)	(1,910)	(91)	(14,671)
Other income, net	-	(1,465)	-	(1)	(1,466)	-	3,381	(2)	(97)	3,281
Net profit or loss	**(16,763)**	**163,957**	**(5,791)**	**1,553**	**142,936**	**(16,966)**	**(258,885)**	**10,925**	**1,216**	**(263,709)**

(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	2022	2021
Remuneration of key personnel	25,359	30,921
Expense allowance for Board of Directors	2,066	1,860
	27,425	**32,781**

As of December 31, 2022 and 2021, the outstanding remuneration to key personnel amounted to S/ 7,091 thousand and S/ 11,358 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:

		2022						
				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*	-	10,607,376	-	-	-	-	10,607,376
Interbank funds		-	12,619	-	-	-	-	12,619
Investments at FVTPL								
Equity instruments	*7*	6,965	-	-	-	-	-	6,965
Debt instruments	*7*	216,137	-	-	-	-	-	216,137
Available-for-sale investments								
Equity instruments (c)	*7*	-	-	3,519	640	-	-	4,159
Debt instruments	*7*	-	-	-	4,831,831	-	-	4,831,831
Loan portfolio	*8*	-	56,354,673	-	-	-	-	56,354,673
Held-for-trading and hedging instruments	*9*	425,951	-	-	-	-	-	425,951
Accounts receivable	*10*	-	290,040	-	-	-	-	290,040
Other assets	*14*	-	113,498		-	-	-	113,498
		649,053	**67,378,206**	**3,519**	**4,832,471**	**-**	**-**	**72,863,249**
Liabilities								
Deposits and obligations and other obligations	*15*	-	-	-	-	-	43,710,614	43,710,614
Interbank funds		-	-	-	-	-	553,222	553,222
Deposits with financial institutions and international financial institutions	*15*	-	-	-	-	-	645,383	645,383
Borrowings and debts	*16*	-	-	-	-	14,057,318	-	14,057,318
Held-for-trading and hedging instruments	*9*	651,787	-	-	-	-	-	651,787
Accounts payable		-	-	-	-	-	4,300,177	4,300,177
Other liabilities	*17*	-	-	-	-	-	350,362	350,362
		651,787	**-**	**-**	**-**	**14,057,318**	**49,559,758**	**64,268,863**

(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).

		2021						
			Loans and	Available-for-sale				
In thousands of soles	***Note***	**At FVTPL**	**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
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
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).

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.

(i) Adequate corporate governance

The bodies supporting corporate governance are:

Board of Directors

It is responsible for setting the main guidelines to maintain an effective risk management supported by the Parent Company, establishing an overall risk management and providing an internal environment that facilitates the development of risk management relying on the Risk Management Committee and the Audit Committee.

Executive committees
They are composed of the following committees: The Asset-Liability Committee (ALCO), Retail Credit Risk Committee and Operational Risk Committee.

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

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

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

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

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

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

A. Credit risk

- ***Life cycle: Admission, Monitoring and Collection***
  The Risk Units are responsible for designing and implementing strategies and policies to achieve a loan portfolio in accordance with the parameters of credit quality and risk appetite. Credit adjudication units admit and assess credit proposals from different business segments with different levels of delegation granted to other teams for their approval, based on a risk (measured based on a rating or scoring) to return spectrum. Also, for portfolio management, loans are monitored in order to minimize future losses. For collection management, these clients are segmented in Corporate and Commercial Banking and Retail banking. For corporate and commercial portfolio, collections are managed on a case-by-case basis, transferring it to the Special Banking unit, according to policies and red flags, resulting from the monitoring of the portfolio. For retail portfolio, risk-based strategies (scoring) are established to optimize available resources for collection seeking to reach greater effectiveness.

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

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

The value of collaterals is established through remeasured valuations, which are held regularly and consider changes in the market. Such valuations are performed by qualified independent experts, which shall meet the required standards and best practices. Additionally, when prices are volatile, margins are applied to compensate changes.

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

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

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

Additionally, the Scotiabank Group classifies collaterals as established in SBS Resolution 11356 - 2008 "Regulation on Debtor 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***	**2022**	**2021**
Loans with first mortgage collateral or collateral trust on property registered in Public Registry		17,548,591	15,352,854
Loans with non-preferred collaterals		9,236,636	12,248,172
Loans to subsidiaries		3,064,838	7,917,591
Loans for finance leases		2,837,025	3,190,985
Loans with first real estate collateral or collateral trust registered in Public Registry		1,937,685	1,440,300
Loans with cash deposit collateral		246,382	375,574
Loans with collateral or collateral trust registered in Public Registry – warrants		-	143,952
Other collaterals		9,055	18,200
Loans with no collateral		24,985,875	18,238,919
Total loans	***8***	**59,866,087**	**58,926,547**

- ***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)

- ***Loan portfolio impairment loss***
  As of December 31, 2022 and 2021, 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 Banking comprises loans past-due of more than 90 days, rated as 'substandard,' 'doubtful' or 'loss,' and refinanced, restructured and lawsuit loans.

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

In thousands of soles	Wholesale loans	Small and micro-business loans	Consumer loans	Mortgage loans	Total	%
2022						
Neither past-due nor impaired loans						
Standard	30,464,265	1,365,196	11,335,944	10,027,640	53,193,045	86
Potential problems	1,398,814	63,430	309,537	169,031	1,940,812	3
Past due but not impaired loans						
Standard	19,991	471	316	19	20,797	-
Potential problems	55,419	1	18,417	244	74,081	-
Impaired loans						
Standard	5,335	-	49	-	5,384	-
Potential problems	130,540	-	10	-	130,550	-
Substandard	414,627	66,356	280,093	144,349	905,425	2
Doubtful	503,661	113,335	483,656	173,689	1,274,341	5
Loss	1,297,536	249,861	366,129	408,126	2,321,651	4
Gross loan portfolio	**34,290,188**	**1,858,650**	**12,794,151**	**10,923,098**	**59,866,087**	**100**
Less: provisions	(1,801,192)	(388,422)	(1,094,984)	(570,014)	(3,854,612)	
	32,488,995	**1,470,228**	**11,699,167**	**10,353,084**	**56,011,475**	
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	1,028,184	338,780	460,632	486,776	2,314,372	4
Gross loan portfolio	**35,845,351**	**2,105,724**	**1,1382,588**	**9,592,884**	**58,926,547**	**100**
Less: provisions	(1,602,926)	(478,960)	(1,208,263)	(600,300)	(3,890,452)	
	34,242,425	**1,626,764**	**10,174,325**	**8,992,584**	**55,036,095**	

- ***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 044-2020 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 Bank considered recognized voluntary provisions. The Scotiabank Group assessed the wholesale loans, identifying high risk segments and sectors, and recognized voluntary provisions for impairment losses.

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**
2022						
Type of loan						
Large-business loans	739	329	-	-	1,068	(4,367)
Medium-business loans	31,586	42,710	46	-	74,342	(58,656)
Subtotal wholesale portfolio	**32,325**	**43,039**	**46**	**-**	**75,410**	**(63,023)**
Small-business loans	469	-	-	-	469	(335)
Micro-business loans	2	-	-	-	2	-
Revolving loans	303	2	4	-	309	(16)
Non-revolving loans	55	18,366	1	1	18,424	(1)
Mortgage loans	21	244	-	-	264	(228)
Subtotal retail portfolio	**850**	**18,612**	**5**	**1**	**19,468**	**(580)**
	33,175	**61,651**	**51**	**1**	**94,878**	**(63,603)**
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**	**207**	**6**	**51,413**	**(807)**
	32,943	**96,147**	**207**	**8**	**129,305**	**(88,428)**

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
2022					
Impaired loans	2,351,698	429,553	1,129,935	726,165	4,637,350
Value of collaterals	3,477,425	553,692	267,972	889,463	5,188,552
Provisions for impairment loss	(1,183,182)	(269,771)	(740,445)	(437,525)	(2,630,923)
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 los	(1,049,939)	(338,264)	(859,618)	(499,906)	(2,747,727)

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	2022	2021
Opening balance	**8,976,110**	**6,295,456**
Write-offs	879,729	2,656,269
Cash recovery	(118,438)	(161,671)
Forgiveness	(46,964)	(28,831)
Exchange difference	(69,290)	139,372
Others	(61,530)	75,515
Closing balance	**9,559,617**	**8,976,110**

- **Financial assets exposed to credit risk concentration**

As of December 31, financial assets are distributed among the following geographic areas:

In thousands of soles	At FVTPL	Loans and items receivable	Available-for-sale: At amortized cost (*)	Available-for-sale: At fair value	Total
2022					
Peru	389,571	67,218,803	3,519	4,772,924	72,384,817
United States	-	99,627	-	59,547	159,174
Canada	259,482	203	-	-	259,685
United Kingdom		412	-	-	412
Germany		50,689	-	-	50,689
Japan		7,993	-	-	7,993
Switzerland		479	-	-	479
	649,053	**67,378,206**	**3,519**	**4,832,471**	**72,863,249**

In thousands of soles	At FVTPL	Loans and items receivable	Available-for-sale At amortized cost (*)	Available-for-sale 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**

(*) 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	2022		2021	
Mortgage and consumer loans	24,082,249	40%	21,136,131	36%
Manufacturing	9,913,166	17%	9,730,296	17%
Trading	8,520,547	14%	8,595,743	15%
Real estate, business and leasing services	3,306,189	6%	4,186,706	7%
Transport	3,214,565	5%	3,454,809	6%
Mining	1,653,978	3%	1,158,412	2%
Agriculture and livestock	2,055,809	3%	1,670,766	3%
Education, services and others	1,594,370	3%	2,959,384	5%
Financial intermediation	1,141,517	2%	2,050,949	3%
Power, gas and water	2,306,614	4%	1,480,801	3%
Hospitality	435,109	1%	455,646	1%
Construction	259,440	-	316,903	1%
Public administration and defense	75,119	-	115,510	-
Fishing	55,029	-	76,148	-
Others (mainly non-profit, healthcare and automotive)	1,252,386	2%	1,538,343	3%
	59,866,087		**58,926,547**	**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 back testing.

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

In thousands of soles	**2022**	**2021**
Total VaR Peru	3,930	4,985

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, especially 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.

	2022						2021					
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	1,328,966	-	-	7,811,171	1,467,239	10,607,376	1,860,071	1,448	6,600	10,665,969	1,774,339	14,308,447
Interbank funds	12,619	-	-	-	-	12,619	-	-	-	-	-	-
Investments at fair value through profit or loss and available-for-sale investments	39,970	508,933	12,759	4,497,430	-	5,059,092	2,931,530	134,885	-	2,041,898	34,446	5,431,189
Loan portfolio	4,872,574	7,628,842	14,157,225	29,696,032	-	56,354,673	3,835,802	7,592,833	13,469,009	30,404,718	-	55,302,362
Held-for-trading and hedging instruments	-	-	-	-	425,951	425,951	-	-	-	-	412,815	412,815
Accounts receivable	-	-	-	-	954,013	954,013	-	-	-	-	1,107,121	1,107,121
Other assets	-	-	-	-	2,222,563	2,222,563	-	-	-	-	2,610,241	2,610,241
Total assets	**6,254,129**	**8,137,775**	**14,169,984**	**42,004,633**	**5,069,766**	**75,636,287**	**8,627,403**	**7,729,164**	**13,475,609**	**43,112,605**	**5,939,391**	**78,883,753**
Liabilities												
Deposits and obligations	12,919,301	2,391,771	20,184,048	8,203,884	11,609	43,710,613	17,128,258	2,385,804	19,628,999	8,083,422	11,154	47,237,637
Interbank funds	553,222	-	-		-	553,222	-	-	-		-	-
Deposits with financial institutions and international financial institutions	524,253	16,745	104,386	-	-	645,384	186,252	194,861	3911	540	-	385,564
Borrowings and debts	1,501,221	6,490,825	4,302,878	1,757,300	5,094	14,057,318	2,554,542	834,148	5,637,908	3,683,687	4,012	12,714,297
Held-for-trading and hedging instruments	-	-	-	-	651,787	651,787	-	-	-	-	398,290	398,290
Accounts payable	-	-	-	-	4,323,855	4,323,855	-	-	-	-	6,600,823	6,600,823
Provisions	-	-	-	-	359,813	359,813	-	-	-	-	355,920	355,920
Other liabilities	-	-	-	-	439487	439,487	-	-	-	-	385,562	385,562
Total liabilities	**15,497,997**	**8,899,341**	**24,591,312**	**9,961,184**	**5,791,645**	**64,741,479**	**19,869,052**	**3,414,813**	**25,270,818**	**11,767,649**	**7,755,760**	**68,078,095**
Off-consolidated statement of financial position accounts												
Derivative instruments	9,096,261	6,060,010	7,845,701	1,021,418	-	24,023,390	6,071,779	4,563,025	7,125,125	26,711	-	17,786,640
Marginal gap	(9,243,869)	(761,566)	(10,421,328)	32,043,449	(721,881)	10,894,805	(11,241,649)	4,314,351	(11,795,209)	31,344,956	(1,816,790)	10,805,659
Accumulated gap	(9,243,869)	(10,005,435)	(20,426,763)	11,616,686	10,894,805	-	(11,241,649)	(6,927,298)	(18,722,507)	12,622,449	10,805,659	-

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:

%	**2022**	**2021**
EVAR (i)	10.14	11.72
EaR (ii)	2.15	2.42

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 back testing 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	**2022**	**2021**
Exchange rate VaR	3,090	1,217

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, 2022 and 2021, the Scotiabank Group records a net asset position in foreign currency in the consolidated statement of financial position for US$ 1,949,149 thousand and a net asset position for US$ 1,841,244 thousand, respectively (note 5).

As of December 31, 2022, the oversold readings in the Bank amounted to S/ 292,904 thousand (overbought readings amounted to S/ 92,856 thousand as of December 31, 2021).

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.

ALM's investments closed the year concentrated in the long term, where 66% of the portfolio is in bonds over 5 years. Due to the attractive rates of the bond 32, it was sold to replace them with the bond 31 and thus generate capital gains, being concentrated in S/ 1,794 million in the bond 31.

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, 2022, the Bank's ratios in local and foreign currencies were 18.15% and 35.47% respectively (23.73% and 43.90%, respectively, as of December 31, 2021).

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, 2022, CrediScotia's ratios in local and foreign currency were 24.72% and 166.92% respectively (26.74% and 125.40% respectively, as of December 31, 2021).

The CRAC shall hold local and foreign currency ratios of 10% and 25%, respectively. In this regard, it held adequate levels of 29.56% in local currency and 2,001.88% in foreign currency at the closing of year 2022 (47.67% in local currency and 1,666.82% in foreign currency at the closing of year 2021).

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, 2022 and 2021, the minimum required by the regulator was 100%, respectively. The Bank presented levels of liquidity reaching 20.9% in local currency and 20.47% in foreign currency (139.86% in local currency and 121.22% in foreign currency as of December 31, 2021).

As of December 31, 2022, CrediScotia presented ratios in local and foreign currency reaching 122.13% and 570.56%, respectively (129.13% and 133.48%, respectively, as of December 31, 2021).

The CRAC presented ratios in local and foreign currency reaching 121.39% and 177.87% in local and foreign currency, respectively (121.39% in local currency and 177.87% in foreign currency at the end of 2021).

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**
2022					
Deposits and obligations	33,827,245	2,846,961	5,526,770	1,509,638	43,710,614
Interbank funds	553,222	-	-	-	553,222
Deposits with financial institutions and international financial institutions	624,677	19,176	1,530	-	645,383
Borrowings and Debts	1,502,758	4,964,691	4,766,854	2,823,015	14,057,318
Held-for-trading and hedging instruments	169,459	107,000	235,241	140,087	651,787
Accounts payable and other liabilities	631,060	197,223	124,247	3,698,009	4,650,539
Total liabilities	**37,308,421**	**8,135,051**	**10,654,642**	**8,170,749**	**64,268,863**
Off-consolidated statement of financial position risk					
Liability position – derivative instruments (delivery)	498,392	485,245	244,900	802,369	2,030,906
2021					
Deposits and obligations	39,317,585	2,467,114	4,324,372	1,128,563	47,237,634
Deposits with financial institutions and international financial institutions	358,152	22,962	3,910	544	385,568
Borrowings and Debts	2,253,005	1,499,083	3,982,072	4,980,138	12,714,298
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	4,487,449	6,870,503
Total liabilities	**42,468,413**	**5,074,640**	**9,330,852**	**10,732,388**	**67,606,293**
Off-consolidated statement of financial position risk					
Liability position – derivative instruments (delivery)	498,392	485,245	244,900	802,369	2,030,906

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.

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.

In 2022, 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 2022, 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 2022, the activities developed were:

- Monitoring the 28 executive risk indicators of the Bank and 21 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, 7 informative indicators have been monitored in the Bank and 8, 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 115 Business Continuity Plans and to date they are updated and activated. This includes the execution of tests and exercises such as call chain & communication groups, review exercises and validation of resources available for work in hybrid mode (home office and alternate business site).

(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 2022, as part of the risk and control assessment, 83 risk and control matrices were assessed at the Bank, 23, at CrediScotia and 27, at the CRAC.

In 2022, 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 2022, no evaluations were performed under the Agile process NIRA - COVID-19, which focuses on 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.

In July 2021, new regulatory requirements dictated by the SBS and referred to "Goods and/or Services Provided by Third Parties" were implemented; these requirements are aligned and in accordance with the TPRM Program.

In 2022, the TPRM program made continuous improvements to strengthen the control framework and maintain appropriate risk, as well as simplifications in the risk assessment process to improve the Coupa Risk Assess user experience. Implemented effective questioning through local QC (Quality Control) reviews.

Training and awareness
Throughout 2022, 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 2022, the main activities include the following:

- Alignment to Letter 36482-2022-SBS "Web and mobile applications in production through which any action requiring strong authentication is performed".
- 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.
- Implementation of controls matrix ISO-27001, PCI-DSS v3.1, SBS Regulation 504-SGSI-C.

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	**2022**	**2021**	**2022**	**2021**
Assets				
Cash and due from banks	10,607,376	14,308,447	10,607,377	14,308,447
Interbank funds	12,619	-	12,619	-
Investments at FVTPL				
Equity instruments	6,965	7,276	6,965	7,276
Debt instruments	216,137	91,431	216,118	91,431
Available-for-sale investments				
Equity instruments	4,159	4,925	4,158	4,925
Debt instruments	4,831,831	5,039,557	4,830,762	5,039,557
Loan portfolio	56,354,673	55,302,362	56,354,673	55,302,362
Held-for-trading and hedging instruments	425,951	412,815	425,951	412,815
Accounts receivable	290,040	385,100	290,039	385,100
Other assets	113,498	150,318	113,498	150,318
	72,863,249	**75,702,231**	**72,862,160**	**75,702,231**

	Carrying amount		Fair value	
In thousands of soles	**2022**	**2021**	**2022**	**2021**
Liabilities				
Deposits and obligations	43,710,614	47,237,634	43,710,614	47,237,634
Interbank funds	553,222	-	553,222	-
Deposits with financial institutions and international financial institutions	645,383	385,564	645,384	385,564
Borrowings and debts	14,057,318	12,714,296	11,362,930	12,771,492
Held-for-trading and hedging instruments	651,787	398,291	651,787	398,291
Accounts payable	4,300,177	6,562,203	4,090,938	6,713,168
Other liabilities	350,362	308,300	350,362	308,300
	64,268,863	**67,606,288**	**61,365,237**	**67,814,449**

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, 2022 and 2021, 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**
2022				
Assets				
Investments at FVTPL				
Equity instruments	-	6,965	-	6,965
Debt instruments	-	216,137	-	216,137
Available-for-sale investments				
Equity instruments	640	-	3,519	4,159
Debt instruments	-	4,831,831	-	4,831,831
Held-for-trading and hedging instruments	425,951	-	-	425,951
	426,591	**5,054,933**	**3,519**	**5,485,043**
Liabilities				
Held-for-trading instruments	651,787	-	-	651,787
	651,787	**-**	**-**	**651,787**
2021				
Assets				
Investments at FVTPL				
Equity instruments	-	7,276	-	7,276
Debt instruments	-	91,431	-	9,1431
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		398,290	-	398,290
	-	**398,290**	**-**	**398,290**

35. Subsequent Events

The Bank

On January 3, 2023, the Bank decided to initiate a tender offer, addressed to the holders of the subordinated bonds issued abroad up to the amount of US$ 400,000,000 called First Issue of Scotiabank Peru International Subordinated Bonds maturing in 2027, which was computed as effective level 2 equity. This repurchase was authorized by the Superintendencia de Banca, Seguros y AFP (SBS) through Resolution No. 03782-2022 dated December 13, 2022. It should be noted that on January 13, 2023, the Bank has repurchased for US$ 108,003 thousands.

Likewise, on January 13, 2023 the holders were informed that according to section 11.6 of the agreement this issue would be redeemed on March 13, 2023.

CrediScotia

In accordance with Intendancy Resolution 012-180-0030203/SUNAT dated January 31, 2023, the request for a refund for undue payment of income tax for the year 2010, plus the corresponding interest until the refund date, was declared admissible. On February 9, 2023, CrediScotia collected the refund amounting to S/ 24,133 thousand, which includes taxes paid in excess amounting to S/ 9,158 thousand plus interest of S/ 14,975 thousand.