

Scotiabank Perú S.A.A. and
Subsidiaries

Unaudited Consolidated Interim Financial Statements

September 30, 2023

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



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INDEPENDENT AUDITORS' REPORT ON REVIEW OF CONSOLIDATED INTERIM FINANCIAL INFORMATION

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

Introduction

We have reviewed the accompanying consolidated statement of financial position of Scotiabank Perú S.A.A. (a subsidiary of The Bank of Nova Scotia – BNS, an entity established in Canada) and Subsidiaries as at September 30, 2023 the consolidated statement of profit of loss, consolidated statements of profit of loss and other comprehensive income, changes in equity and cash flows for the nine-month period then ended, and notes, comprising significant accounting policies and other explanatory information (“the consolidated interim financial statements”). Management is responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with accounting standards established by Superintendencia de Banca, Seguros y Administradoras Privadas de Fondos de Pensiones - SBS (Banking, Insurance and Pension Plan Agency) for financial institutions in Peru. Our responsibility is to express a conclusion on these consolidated interim financial statements based on our review.

Scope of Review

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



Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying September 30, 2023, consolidated interim financial statements do not present fairly, in all material respects, the financial position, financial performance and cash flows of Scotiabank Perú S.A.A. and Subsidiaries in accordance with accounting standards established by the SBS for financial institutions in Peru.

Lima, Peru,

13 February, 2024

Countersigned by:

Zimmerlich, Córdoba y Asociados

Eduardo Aléjos P. (Partner)
Peruvian Certified Public Accountant
Registration 29180

Scotiabank Perú S.A.A. and Subsidiaries

Unaudited Consolidated Interim Financial Statements

September 30, 2023

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Scotiabank Perú S.A.A. and Subsidiaries
Consolidated Statement of Financial Position
As of September 30, 2023 and December 31, 2022

<i>In thousands of soles</i>		09.30.2023	12.31.2022
	<i>Note</i>	(Unaudited)	(Audited)
Assets			
Cash and due from banks	6		
Cash		1,449,973	1,458,549
Deposits with BCRP		5,807,321	8,714,741
Deposits with local and foreign banks		202,582	221,319
Clearing		35,972	46,243
Restricted cash and due from banks and others		302,912	166,524
		7,798,760	10,607,376
Interbank funds		171,521	12,619
Investments at fair value through profit or loss and available-for-sale investments	7	6,183,224	5,059,092
Loan portfolio, net	8	53,751,643	56,354,673
Held-for-trading and hedging instruments	9	640,237	425,951
Accounts receivable, net	10	1,721,150	954,013
Investments in associates		29,931	34,326
Goodwill	11	524,161	524,161
Property, furniture and equipment, net	12	309,036	309,633
Deferred tax	28	502,610	480,512
Intangible assets, net	13	387,154	378,069
Other assets, net	14	757,064	495,862
Total assets		72,776,491	75,636,287
Contingent risks and commitments	20	66,604,155	81,685,314

<i>In thousands of soles</i>		09.30.2023	12.31.2022
	<i>Note</i>	(Unaudited)	(Audited)
Liabilities			
Deposits and obligations and other obligations financial entities deposits			
	15		
Demand deposits		15,468,563	15,699,890
Savings deposits		11,670,636	14,331,724
Time deposits		16,653,119	13,495,091
Other obligations		587,745	829,292
		44,380,063	44,355,997
Interbank funds		380,827	553,222
Borrowings and debts	16	11,071,085	14,057,318
Held-for-trading and hedging instruments	9	454,322	651,787
Provisions and other liabilities	17	4,698,718	5,123,155
Total liabilities		60,985,015	64,741,479
Equity			
	18		
Share capital		8,226,777	8,026,777
Additional capital		394,463	394,463
Legal reserve		1,630,644	1,488,093
Equity-related adjustments		(258,552)	(442,720)
Retained earnings		1,729,415	1,350,593
Equity attributable to shareholders of Scotiabank Perú S.A.A.		11,722,747	10,817,206
Non-controlling interests	2	68,729	77,602
Total equity		11,791,476	10,894,808
Total equity and liabilities		72,776,491	75,636,287
Contingent risks and commitments	20	66,604,155	81,685,314

The accompanying notes on pages 6 to 89 are part of these consolidated interim financial statements.

Scotiabank Perú S.A.A. and Subsidiaries

Consolidated Statement of Profit or Loss

For the nine-month periods ended September 30, 2023 and 2022

<i>In thousands of soles</i>	<i>Note</i>	09.30.2023 (Unaudited)	09.30.2022 (Unaudited)
Interest income	21	4,475,690	3,491,575
Interest expenses	22	(1,775,866)	(901,076)
Gross profit margin		2,699,824	2,590,499
Provision for loan losses, net of recoveries	8(c)	(982,356)	(487,158)
Net profit margin		1,717,468	2,103,341
Financial service income, net	23	382,499	416,846
Net profit margin of financial service income and expenses		2,099,967	2,520,187
Income from financial transactions	24	238,848	429,694
Operating margin		2,338,815	2,949,881
Administrative expenses	25	(1,362,638)	(1,261,416)
Depreciation of property, furniture and equipment	12	(28,428)	(19,987)
Amortization of intangible assets	13	(49,396)	(48,442)
Net operating margin		898,353	1,620,036
Provisions for realizable, received as payment, recovered and obsolete assets		(14,445)	(18,858)
Net provisions for indirect loan losses, impairment loss on other accounts receivable, and others		11,783	(63,649)
Operating income		895,691	1,537,529
Other income, net	26	45,156	22,708
Profit before tax		940,847	1,560,237
Deferred tax	28	22,097	37,871
Current tax	27.C	(251,440)	(504,389)
Net profit		711,504	1,093,719
Profit or loss attributable to:			
Shareholders of Scotiabank Perú S.A.A.		720,413	1,090,997
Non-controlling interests	2	(8,909)	2,722
		711,504	1,093,719

The accompanying notes on pages 6 to 89 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 nine-month periods ended September 30, 2023 and 2022

<i>In thousands of soles</i>	<i>Note</i>	09.30.2023 (Unaudited)	09.30.2022 (Unaudited)
Net profit		711,504	1,093,719
Other comprehensive income			
Net unrealized gain(loss) on available-for-sale investments		183,475	(241,784)
Cash flow hedges	<i>9.b</i>	229	(279)
Net unrealized gain on associates		500	504
Other comprehensive income for the year, net of income tax		184,204	(241,559)
Total comprehensive income for the period		895,708	852,160
Other comprehensive income attributable to:			
Shareholders of Scotiabank Perú S.A.A.		904,581	849,404
Non-controlling interests	<i>2</i>	(8,873)	2,756
		895,708	852,160

The accompanying notes on pages 6 to 89 are part of these consolidated Interim financial statements.

Scotiabank Perú S.A.A. and Subsidiaries

Consolidated Statement of Changes in Equity

For the nine-month period ended September 30, 2023 and 2022

	Number of shares (note 18.B)	Share capital (note 18.B)	Additional paid-in capital (note 18.C)	Legal reserve (note 18.D)	Retained earnings (note 18.E)	Equity-related adjustments		Total	Non- controlling interests	Total equity
						Unrealized gains and losses (note 18.F)	Other adjustments			
<i>In thousands of soles</i>										
Balance as of December 31, 2021 (Audited)	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	-	-	-	-	1,090,997	-	-	1,090,997	2,722	1,093,719
Other comprehensive income										
Net unrealized (loss) gain on available-for-sale investments	-	-	-	-	-	(241,818)	-	(241,818)	34	(241,784)
Cash flow hedge	-	-	-	-	-	(279)	-	(279)	-	(279)
Adjustments to other comprehensive income of associates	-	-	-	-	-	504	-	504	-	504
Total comprehensive income	-	-	-	-	1,090,997	(241,593)	-	849,404	2,756	852,160
Allocation to legal reserve	-	-	-	104,180	(104,180)	-	-	-	-	-
Dividend distribution	-	-	-	-	(1,232,065)	-	-	(1,232,065)	-	(1,232,065)
Other adjustments	-	-	-	-	(563)	-	-	(563)	-	(563)
Balance as of September 30, 2022 (Unaudited)	802,677,853	8,026,777	394,463	1,488,093	1,027,686	(417,349)	(172,860)	10,346,810	78,379	10,425,189
Balance as of December 31, 2022 (Audited)	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
Net profit	-	-	-	-	720,413	-	-	720,413	(8,909)	711,504
Other comprehensive income										
Net unrealized gain on available-for-sale investments	-	-	-	-	-	183,439	-	183,439	36	183,475
Cash flow hedge	-	-	-	-	-	229	-	229	-	229
Adjustments to other comprehensive income of associates	-	-	-	-	-	500	-	500	-	500
Total comprehensive income	-	-	-	-	720,413	184,168	-	904,581	(8,873)	895,708
Allocation to legal reserve	-	-	-	142,551	(142,551)	-	-	-	-	-
Capitalization of retained earnings	-	200,000	-	-	(200,000)	-	-	-	-	-
Other adjustments	-	-	-	-	960	-	-	960	-	960
Balance as of September 30, 2023 (Unaudited)	802,677,853	8,226,777	394,463	1,630,644	1,729,415	(85,692)	(172,860)	11,722,747	68,729	11,791,476

The accompanying notes on pages 6 to 89 are part of these consolidated financial statements

Scotiabank Perú S.A.A. and Subsidiaries
Consolidated Statement of Cash Flows
For the nine-month period ended September 30, 2023 and 2022

<i>In thousands of soles</i>	<i>Note</i>	09.30.2023 (Unaudited)	09.30.2022 (Unaudited)
Cash flows from operating activities			
Net profit		711,504	1,093,719
Adjustments to reconcile net profit to net cash from operating activities			
Provision for loan losses, net of recoveries	<i>8(c)</i>	982,356	487,158
Provision for realizable, repossessed and other assets, net		12,927	17,577
Provision for accounts receivable, net		6,955	4,415
Depreciation and amortization	<i>12, 13</i>	77,824	68,429
Provision for fringe benefits		36,441	35,080
Provision for current and deferred tax	<i>27.C</i>	229,343	466,518
Provision for indirect loan losses and country risk, net of recoveries		(22,807)	2,288
Other provisions		18,723	(8,021)
Loss on sale of property, furniture and equipment	<i>26</i>	(153)	(2,990)
Gain on sale of realizable and repossessed assets	<i>26</i>	(20,152)	(10,607)
Net changes in assets and liabilities			
Loan portfolio		1,603,659	(2,701,346)
Investments at fair value through profit or loss		(1,258,907)	(183,804)
Available-for-sale investments		318,114	786,955
Accounts receivable		(762,086)	(311,250)
Other assets		(1,090,065)	203,339
Non-subordinated financial liabilities		(1,612,962)	2,153,704
Accounts payable		(95,944)	(69,828)
Provisions and other liabilities		(1,330,895)	153,970
Net loss after net changes in assets, liabilities and adjustments		(2,196,125)	2,185,306
Income tax paid		(343,190)	(113,763)
Net cash flows applied (used in) from operating activities		(2,539,315)	2,071,543
Cash flows from investing activities			
Dividends received		134,947	3,532
Acquisition of property, furniture and equipment	<i>12</i>	(27,862)	(18,951)
Acquisition of intangible assets	<i>13</i>	(58,481)	(47,445)
Net cash flows from (used in) investing activities		48,604	(62,864)
Cash flows from financing activities			
Dividends paid		-	(1,232,065)
Net cash flows used in financing activities		-	(1,232,065)
Net decrease (increase) in cash and cash equivalents before effects of exchange rate fluctuations		(2,490,711)	776,614
Effects of exchange rate fluctuations on cash and cash equivalents		(14,578)	16,052
Net decrease (increase) in cash and cash equivalents		(2,505,289)	792,666
Cash and cash equivalents at the beginning of period		10,228,438	13,507,050
Cash and cash equivalents at the end of period		7,723,149	14,299,716
Non-cash transactions			
Net unrealized gain (loss) on available-for-sale investments		183,439	(241,818)
BCRP repurchase agreements	<i>17(a)</i>	2,610,518	5,551,303

The accompanying notes on pages 6 to 89 are part of these consolidated financial statements.

Scotiabank Perú S.A.A. and Subsidiaries

Notes to the Consolidated Interim Financial Statements

As of September 30, 2023 (unaudited), December 31, 2022 (audited) and September 30, 2022 (unaudited)

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% of the Bank's share capital as of September 30, 2023 and December 31, 2022 respectively.

During the month of July 2022, Scotia Perú Holdings S.A 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 September 30, 2023, the Scotiabank Group operates through a national network of 429 branches (444 branches as of December 31, 2022).

As of September 30, 2023 and December 31, 2022, the accompanying consolidated interim financial statements include the consolidated interim 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 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.

Scotiabank Perú S.A.A. and Subsidiaries

Notes to the Consolidated Interim Financial Statements

As of September 30, 2023 (unaudited), December 31, 2022 (audited) and September 30, 2022 (unaudited)

Below are the main balances of the Bank and other entities referred to in the previous paragraph as of September 30, 2023 and December 31, 2022 indicating the Bank's shareholding percentages, as well as relevant information in this regard:

<i>In thousands of soles</i>	Activity	Shareholding			
		percentage	Assets	Liabilities	Equity
09.30.2023					
Scotiabank Perú S.A.A.	Banking	-	70,759,529	58,949,822	11,809,707
CrediScotia Financiera S.A.	Financing	100.00	2,932,030	2,150,475	781,555
Caja Rural de Ahorro y Crédito	Caja rural de				
Cencosud Scotia Perú S.A.	ahorro y Crédito	51.00	650,251	509,987	140,264
Servicios, Cobranzas e	Collection				
Inversiones S.A.C.	services	100.00	88,647	35,919	52,728
Scotia Fondos Sociedad					
Administradora de Fondos	Administration of				
Mutuos S.A.	mutual funds	100.00	69,369	4,261	65,108
Scotia Sociedad Agente de	Intermediation in				
Bolsa S.A.	stock market	100.00	36,250	1,743	34,507
Scotia Sociedad Titulizadora S.A.	Securitization	100.00	7,530	2,637	4,893
12.31.2022					
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	Caja rural de				
Cencosud Scotia Perú S.A.	ahorro y Crédito	51.00	601,681	443,310	158,371
Servicios, Cobranzas e	Collection				
Inversiones S.A.C.	services	100.00	87,791	26,740	61,051
Scotia Fondos Sociedad					
Administradora de Fondos	Administration of				
Mutuos S.A.	mutual funds	100.00	77,139	109	77,030
Scotia Sociedad Agente de	Intermediation in				
Bolsa S.A.	stock market	100.00	36,194	582	35,612
Scotia Sociedad Titulizadora S.A.	Securitization	100.00	6,600	1,707	4,893

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. On October 27, 2022, Supreme Decree N° 130-2022-PCM was issued, through which the government made official the end of the state of national emergency declared in 2020.

During the first quarter of 2023, the Peruvian State declared certain areas of the national territory in emergency due to imminent danger and emergencies due to the impact of damage or a large-scale disaster due to the occurrence of intense rainfall and associated dangers that occurred in said areas. As a result of the rains and floods, there were economic losses and payment difficulties for debtors in these areas.

The consolidated interim financial statements as of September 30, 2023 and December 31, 2022 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 interim financial statements below.

Scotiabank Perú S.A.A. and Subsidiaries

Notes to the Consolidated Interim Financial Statements

As of September 30, 2023 (unaudited), December 31, 2022 (audited) and September 30, 2022 (unaudited)

D. Approval of the consolidated financial statements

The consolidated financial statements as of September 30, 2023 were approved by management on October 24, 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 interim financial statements without amendments. General Shareholders' Meeting held on March 29, 2023.

2. Non-controlling Interests

The following table summarizes the financial reporting as of September 30, 2023 and 2022 of the CRAC (non-controlling shareholder) before the eliminations required in preparing the consolidated interim financial statements:

<i>In thousands of soles</i>	09.30.2023	09.30.2022
Total assets	650,251	595,054
Total liabilities	(509,987)	(435,096)
Total assets, net	140,264	159,958
Net assets attributable to non-controlling interests 49%	68,729	78,379
Net loss (gain)	(18,182)	5,555
Other comprehensive income	76	68
Total comprehensive income	(18,106)	5,623
Net loss (gain) allocated to non-controlling interests 49%	(8,909)	2,722
Other comprehensive income allocated to non-controlling interests 49%	36	34

3. Basis for the Preparation of the Consolidated Financial Statements

A. Statement of compliance

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

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

Scotiabank Perú S.A.A. and Subsidiaries

Notes to the Consolidated Interim Financial Statements

As of September 30, 2023 (unaudited), December 31, 2022 (audited) and September 30, 2022 (unaudited)

C. Functional and presentation currency

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

D. Significant accounting estimates and criteria

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

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

4. Accounting Principles and Practices

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

A. Consolidation policies

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

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

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

Financial statements of the subsidiaries and special purpose entities have been included for consolidation purposes and represent 5.08% and 4.73% respectively, of the total Bank's assets before eliminations as of September 30, 2023 and December 31, 2022.

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.

Scotiabank Perú S.A.A. and Subsidiaries

Notes to the Consolidated Interim Financial Statements

As of September 30, 2023 (unaudited), December 31, 2022 (audited) and September 30, 2022 (unaudited)

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.

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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 derivative 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.

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

As indicated in note 9(b), as of September 30, 2023 has not contracts designated as cash flow hedges. As of December 31, 2022 (audited) the Bank had Foreign-exchange forward contracts, interest rate swaps and cross currency swaps designated as cash flow hedges.

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.

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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.

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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 September 30, 2023 and 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, note 11 (b).

Investments held by entities can be reclassified. Investments at FVTPL cannot be reclassified except for: (1) unlisted securities, which lack reliable estimated fair value, or (2) investments transferred through a repurchase agreement or pledged as collaterals, as indicated in paragraph (i) of this section. As of September, 30, 2023 and December 31, 2022, investment instruments have not been reclassified into other categories.

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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) 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%.

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As of September, 30, 2023 and December 31, 2022, the Bank and CrediScotia placed loans under the Reactiva Peru program for S/ 505,657 thousand and S/ 1,742,503 thousand, respectively, which have a coverage ratio of 92%, (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.

ii. FAE-MYPE I, II and III

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 September 30, 2023, CrediScotia placed loans under the FAE-MYPE I, II and III for S/ 323 thousand, S/ 536 thousand and S/ 270 thousand, respectively, which have an average coverage ratio of 87% (S/ 773 thousand, S/ 2,029 thousand and S/ 1,732 thousand, respectively, which have an average coverage ratio of 82% as of December 31, 2022 (note 8)).

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 September 30, 2023 and December 31, 2022, the Bank placed loans under the Fondo Crecer for S/ 13,900 thousand and S/ 66,151 thousand, respectively, which have a coverage ratio of 67% , respectively.

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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 September 30, 2023 and December 31, 2022, the Bank has a loan portfolio of S/ 1,737,443 thousand and S/ 1,531,330 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."

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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

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

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

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

In this regard, the amount of revolving credit lines used in the aforementioned calculation shall correspond to the last approved amount reported to the client. Additionally, those entities that do not comply with SBS regulations shall establish an additional general provision of 1% on direct loan. This provision will be applicable to direct consumer (revolving and non-revolving) loans and micro-business loans and/or small-business loans of the clients rated as "standard," as applicable.

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

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

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

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

- (i) SBS Resolution 3922-2021, dated December 23, 2021, annulled Resolution SBS 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.

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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 3922-2021 are included in the consolidated financial statements as of September 30, 2023 and December 31, 2022.

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.

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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.

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

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

I. Impairment of non-financial assets

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

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

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

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

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

As of September 30, 2023 and December 31, 2022, 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.

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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.'

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ii. Contingencies

Contingent liabilities are not recognized in the consolidated interim 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 September 30, 2023 December 31, 2022, 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 interim financial statements of each entity of the Scotiabank Group. Also, it is determined applying the current tax laws and tax rates as of the estimated date in which the deferred tax asset is realized or the deferred tax liability is settled (note 28).

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

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

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

P. Employees' profit sharing

The Scotiabank Group recognizes a liability and an expense for employees' profit sharing equivalent to 5% of taxable income determined in accordance with current tax law (note 29).

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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.

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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 September 30, 2023 and December 31, 2022, the Scotiabank Group maintains repurchase agreements currencies, securities and loan portfolio (notes 6, 7 and 17).

S. Consolidated statement of cash flows

For presentation purposes on this consolidated interim financial statement, as of September 30, 2023 and December 31, 2022, 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 interim 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, net' (note 30).

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 interim 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
<i>Classification of Liabilities as Current or Non-current (Amendments to IAS 1)</i>	Annual periods beginning on or after January 1, 2023. Early adoption is permitted.
<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)</i>	Effective date was indefinitely deferred.

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Amendments to IFRSs	Effective date
<i>Disclosure of Accounting Policies</i> (Amendments to IAS 1 and Practice Statement 2)	Annual periods beginning on or after January 1, 2023. Early adoption is permitted.
<i>Definition of Accounting Estimate</i> (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.
<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i> (Amendments to IAS 12)	Annual periods beginning on or after January 1, 2023. Early adoption is permitted.
<i>Initial Application of IFRS 17 and IFRS 9—Comparative Information</i> (Amendment to IFRS 17)	The Amendment is applicable from the application of IFRS 17 <i>Insurance Contracts</i> .
<i>Lease Liability in a Sale and Leaseback</i> (Amendments to IFRS 16)	Annual periods beginning on or after January 1, 2024. Early adoption is permitted.
<i>Non-current Liabilities with Covenants</i> (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).

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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 2023

- Resolution SBS 00058 – 2023; January 6, 2023; a time extension is set for the exceptional treatment by those entities holding seized and recovered assets instated under Resolution SBS No 1535-2005, as amended, until December 31, 2023, for those companies that need to do so, without any requirement for those companies to request an authorization of resolution to be issued by the SBS.
- Resolution SBS 00066 – 2023; January 9, 2023; Changes to the limits of the foreign exchange global position instated in article 34 of Resolution SBS 4096-2017. Also, a change is introduced to Report 13 Control of Global and Individual Limits. regarding the global position.
- Resolution SBS 00468 – 2023, February 10, 2023, Amendments to the Special Standards for Implementation of Law No 30607 to make them consistent with the provisions of the Rules for Subordinated Debt applicable to Financial System Entities, the Rules for the Regulatory Capital (Patrimonio Efectivo) Requirement for Additional risks; and the Rules for Conservation Buffer Requirements for Economic Cycle and for Market Concentration risks. Further, an addition is made to Report 13 of the Control of Global and Individual Limits relating to investments in debt instruments issued by the U.S Treasury, by other foreign government rated as Risk I, by a foreign government rated as Risk II or Risk III; and by a foreign government rated as Risk IV, or higher.
- SBS Resolution N° 01828-2023, May 29, 2023, Modifications in the treatment of rescheduled credits within the framework of Emergency Decree N° 026-2022 that are covered by the REACTIVA PERU Program, the same treatment is applicable to the part of the credits that are covered by the National Government Guarantee Program for the Continuity in the Chain of Payments and modifies the Accounting Manual for the Financial System Companies.

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- SBS Resolution N° 01829-2023, 29 May 2023, Modifications in the treatment of rescheduled credits within the framework of Emergency Decree N° 026-2022 that have the coverage of the Fund for Business Support to MSMEs in the Tourism Sector (FAE-TURISMO), the same treatment is applicable to the part of the rescheduled credits that have the coverage of the Fund for Business Support to MSMEs.

5. Foreign Currency Balances

The consolidated statement of financial position includes balances of foreign currency transactions, mainly in U.S. dollars (US\$), which are recorded in soles (S/) at the exchange rate established by the SBS. As of September 30, 2023 and December 31, 2022, the exchange rate was US\$ 1 = S/ 3.793 and US\$ 1 = S/ 3.814, 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 September 30, 2023, buy and sell exchange rates used were US\$ 1 = S/ 3.790 and US\$ 1 = S/ 3.797, respectively (US\$ 1 = S/ 3.808 and US\$ 1 = S/ 3.820 as of December 31, 2022).

As of September 30, 2023 and December 31, 2022 foreign currency balances stated in thousands of U.S. dollars are as follows:

<i>In thousands of</i>	09.30.2023			12.31.2022		
	U.S. dollars	Other currencies	Total	U.S. dollars	Other currencies	Total
Assets						
Cash and due from banks	1,711,572	17,288	1,728,860	2,401,056	22,030	2,423,086
Interbank funds	20,006	-	20,006	1,000	-	1,000
Investments at fair value through profit or loss and available-for-sale investments	168,682	-	168,682	15,924	-	15,924
Loan portfolio, net	3,779,093	-	3,779,093	3,698,229	-	3,698,229
Held-for-trading and hedging instruments	32,766	-	32,766	31,245	-	31,245
Accounts receivable, net	39,235	-	39,235	16,837	-	16,837
Other assets, net	34,954	8,499	43,453	18,349	2,588	20,937
	5,786,308	25,787	5,812,095	6,182,640	24,618	6,207,258
Liabilities						
Deposits and obligations and other obligations	4,497,197	29,949	4,527,146	4,751,685	48,278	4,799,963
Interbank funds	17,005	-	17,005	-	-	-
Borrowings and debts	2,472,898	-	2,472,898	3,244,328	-	3,244,328
Held-for-trading and hedging instruments	30,257	-	30,257	28,641	-	28,641
Other liabilities	162,638	10,541	173,179	78,071	5,404	83,475
	7,179,995	40,490	7,220,485	8,102,725	53,682	8,156,407
Net liability position in the consolidated statement of financial position	(1,393,687)	(14,703)	(1,408,390)	(1,920,085)	(29,064)	(1,949,149)
Derivative transactions	1,401,850	14,701	1,416,551	1,924,732	29,418	1,954,150

During the nine-month period ended in September 30, 2023 and 2022, the Scotiabank Group recorded net exchange gains on various transactions for S/ 135,070 thousand and S/ 469,113 thousand, respectively, in 'income from financial transactions' in the consolidated statement of profit or loss (note 24).

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As of September 30, 2023, the Scotiabank Group has contingent foreign currency transactions for S/ 46,315,409 thousand equivalent to US\$ 12,226,787 thousand (S/ 60,427,013 thousand equivalent to US\$ 15,843,475 thousand as of December 31, 2022).

6. Cash and Due from Banks

This caption comprises the following:

<i>In thousands of soles</i>	09.30.2023	12.31.2022
Cash (a)	1,449,973	1,458,549
BCRP (a)	5,807,321	8,714,741
Local banks and other financial institutions (b)	54,051	60,049
Foreign banks and other financial institutions (b)	148,531	161,270
Clearing	35,972	46,243
Restricted cash and due from banks (c)	302,869	166,431
Other cash and due from banks	43	93
	7,798,760	10,607,376

- (a) As of September 30, 2023, funds held in cash and deposits with the BCRP include US\$ 1,416,493 thousand and S/ 235,049 thousand (US\$ 2,149,141 thousand and S/ 1,017,207 thousand as of December 31, 2022, 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 September 30, 2023 and December 31, 2022, the excess of minimum reserve requirements in foreign currency accrued interest at an effective annual rate of 4.82% and 3.79%, respectively, generated accrued interest of US\$ 4,985 thousand and US\$ 4,345 thousand, respectively.

As of September 30, 2023, the Scotiabank Group includes and thousands of US\$ 10,300 and S/ 5,400 corresponding to overnight operations in the BCRP, which accrued interest at a rate of 5.35% and 4.75%, respectively (S/ 8,000 thousand and US\$ 190,300 thousand at a nominal annual rate of 5.25% and 4.39%, respectively; as of December 31, 2022).

- (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 September 30, 2023, deposits with foreign banks comprise deposits held at the Bank of Nova Scotia for CAD\$ 177 thousand (CAD\$ 72 thousand as of December 31, 2022).

As of September 30, 2023 and December 31, 2022, the Scotiabank Group concentrates 85% and 80%, respectively of its deposits in four and five foreign financial institutions, respectively.

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- (c) As of September 30, 2023, restricted cash and due from banks comprises:
- i) Reserve funds for compliance with repurchase commitments with the BCRP for US\$ 47,410 thousand (US\$ 23,358 thousand as of December 31, 2022) (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\$ 3,180 thousand and S/ 65,618 thousand (US\$ 2,700 thousand and S/ 60,488 thousand as of December 31, 2022);
 - iii) guarantee funds for lawsuits against the Bank for S/ 53 thousand (S/ 54 thousand as of December 31, 2022); and
 - iv) other restrictions for US\$ 1,069 thousand and S/ 3,022 thousand (US\$ 1,099 thousand and S/ 2,313 as of December 31, 2022).

As of September 30, 2023 and 2022, interest income from cash and due from banks amounted to S/ 231,446 thousand and S/ 62,975 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:

<i>In thousands of soles</i>	09.30.2023	12.31.2022
Investments at FVTPL		
Peruvian treasury bonds (a)	760,060	157,473
US Treasury Bonds (b)	-	58,664
Corporate bonds (d)	30,136	-
Interests in mutual funds	5,401	6,965
BCRP certificates of deposit (c)	686,411	-
	1,482,008	223,102
Available-for-sale investments		
Peruvian treasury bonds (a)	4,295,714	4,165,156
BCRP certificates of deposit (c)	301,024	565,726
Corporate bonds (d)	100,454	100,949
Unlisted securities	3,384	3,519
Listed securities	640	640
	4,701,216	4,835,990
Total investments at FVTPL and available-for-sale investments	6,183,224	5,059,092

- (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 September 30, 2023, these bonds accrue interest at annual rates ranging from 1.79% to 8.13% (from 1.78% to 8.32% as of December 31, 2022) with maturities between August 2024 and August 2034 (between August 2024 and February 2055 as of December 31, 2022).

Likewise, as of September 30, 2023 and December 31, 2022, the Scotiabank Group has Peruvian treasury bonds for S/ 925,230 thousand and S/ 875,794 thousand granted in repurchase agreements (note 17 (a)(iv)).

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- (b) As of September 30, 2023, it no maintains U.S. Treasury bonds which are issued in foreign currency by the U.S Government (4.06% and mature in August 2042 as of December 31, 2022).
- (c) 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 September 30, 2023, these certificates accrue interest based on the BCRP reference rate ranging from 5.59% to 7.63% annually (from 2.38% to 7.30% annually as of December 31, 2022) with maturities between October 2023 and September 2024 (between January 2023 and May 2023 as of December 31, 2022).

Likewise, as of September 30, 2023, the Scotiabank Group does not maintain holds negotiable certificates of deposits issued by the BCRP (S/ 257,885 thousand as of December 31, 2022).

- (d) The balance corresponds to corporate bonds issued in local currency by the MiVivienda Fund. As of September 30, 2023, these bonds accrue interest at an annual rate ranging from 6.39% to 8.20% and mature in February 2024 (6.39% and mature in February 2024 as of December 31, 2022).

As of September 30, 2023 and 2022, the accrued interest on investments managed by the Scotiabank Group amounted to S/ 219,088 thousand and S/ 142,255 thousand, respectively. It is recorded as 'interest income' in the consolidated statement of profit or loss (note 21).

As of September 30, 2023 and 2022, the Scotiabank Group generated net gains on sale of available-for-sale investments for S/ 51,634 thousand and S/ 1,810 thousand, respectively (note 24).

As indicated in note 18.F, as of September 30, 2023, the Scotiabank Group generated unrealized net gains on measurement of available-for-sale investments for S/ 183,439 thousand (unrealized net losses for S/ 241,818 thousand as of September 30, 2022).

As of September 30, 2023 and December 31, 2022 maturities of investments at FVTPL and available-for-sale investments are the following:

<i>In thousands of soles</i>	09.30.2023	12.31.2022
Up to 3 months	5,322,359	4,698,862
From 3 to 12 months	164,687	290,442
More than 1 year	696,178	69,788
	6,183,224	5,059,092

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8. Loan Portfolio, Net

This caption comprises the following:

<i>In thousands of soles</i>	<i>Note</i>	09.30.2023		12.31.2022	
Direct loans (a)					
Current loans					
Loans		35,659,178	62%	38,379,927	65%
Mortgage loans		10,602,553	18%	10,249,250	17%
Credit cards		2,042,792	4%	1,890,890	3%
Finance lease		2,426,724	4%	2,549,475	4%
Factoring		1,481,061	3%	1,622,895	3%
Discounts		779,629	1%	854,268	1%
Overdrafts and advances in checking accounts		72,447	-	33,566	-
Refinanced loans		1,861,588	3%	1,816,526	3%
Past-due loans		981,966	2%	1,069,405	2%
Lawsuit loans		1,445,541	3%	1,399,885	2%
		57,353,479	100%	59,866,087	100%
Plus (less)					
Accrued interest on current loans		426,668	-	371,965	-
Deferred interest		(30,341)	-	(28,767)	-
Provision for loan losses (b)		(3,998,163)	-	(3,854,612)	-
		53,751,643	-	56,354,673	-
Indirect loans	20	12,191,905	-	12,008,695	-

As of September 30, 2023 and December 31, 2022, 51% of the loan portfolio (direct and indirect loans) was concentrated in 583 and 685 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 September 30, 2023 and December 31, 2022 the types of loans under this program are the following:

<i>In thousands of soles</i>	09.30.2023		12.31.2022	
	Balance	Guaranteed (%)	Balance	Guaranteed (%)
Type of loan				
Corporate loans	5,612	80%	25,551	80%
Large-business loans	96,627	87%	459,477	87%
Medium-business loans	340,819	96%	987,276	96%
Micro-business loans	1,511	98%	10,671	97%
Small-business loans	61,088	97%	259,528	98%
Loans from Reactiva Peru program	505,657	92%	1,742,503	92%

The payment obligations to the BCRP related to this program are presented in 'accounts payable'. As of September 30, 2023 and December 31, 2022, they amount to S/ 458,995 thousand and S/ 2,030,503 thousand (note 17(a)(i)).

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As of September 30, 2023 (unaudited), December 31, 2022 (audited) and September 30, 2022 (unaudited)

Likewise, as of September 30, 2023 and December 31, 2022, CrediScotia participated in the FAE-MYPE I, II and III, placing government guaranteed loans, as follows:

	09.30.2023							
	FAE-MYPE I		FAE-MYPE II		FAE-MYPE III		Total average	
<i>In thousands of soles</i>	Guaranteed (%)		Guaranteed (%)		Guaranteed (%)		guaranteed (%)	
Medium-business loans	-	-	-	-	-	-	-	-
Micro-business loans	107	68%	362	98%	172	98%	641	88%
Small-business loans	216	61%	174	98%	98	98%	488	86%
FAE-MYPE	323	65%	536	98%	270	98%	1,129	87%

	12.31.2022							
	FAE-MYPE I		FAE-MYPE II		FAE-MYPE III		Total average	
<i>In thousands of soles</i>	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%

As of September 30, 2023 and December 31, 2022, 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 September 30, 2023 and December 31, 2022 effective interest rates of main assets were the following:

%	09.30.2023		12.31.2022	
	Currency local	Foreign currency	Currency local	Foreign currency
Overdrafts (*)	55.00 – 85.00	30.00 -55.00	55.00 - 85.00	30.00 -55.00
Discounts and commercial loans	5.42 – 33.30	4.25 – 13.15	4.30 - 48.90	2.65 - 20.26
Consumer loans	12.70 – 68.89	6.49 – 41.77	12.32 - 67.97	6.45 - 39.06

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

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- (a) As of September 30, 2023 and December 31, 2022, according to current SBS regulations, the credit risk rating of loan portfolio of the Bank, CrediScotia and CRAC is as follows:

<i>In thousands of soles</i>	09.30.2023				12.31.2022			
	Number of debtors	Direct	Indirect	Total	Number of debtors	Direct	Indirect	Total
Risk rating								
Standard	1,164,793	50,183,922	10,763,318	60,947,240	1,198,293	53,219,225	10,716,542	63,935,767
Potential problems	48,751	2,548,616	1,125,272	3,673,888	43,144	2,145,443	1,011,213	3,156,656
Substandard	45,877	989,382	72,414	1,061,796	41,092	905,425	92,900	998,325
Doubtful	93,908	1,362,177	139,668	1,501,845	84,619	1,274,341	85,825	1,360,166
Loss	74,659	2,269,382	91,233	2,360,615	41,091	2,321,653	102,215	2,423,868
	1,427,988	57,353,479	12,191,905	69,545,384	1,408,239	59,866,087	12,008,695	71,874,782

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As of September 30, 2023 (unaudited), December 31, 2022 (audited) and September 30, 2022 (unaudited)

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

<i>In thousands of soles</i>	Specific	General	Total
Balance as of January 1, 2022	2,730,148	1,160,304	3,890,452
Additions charged to profit or loss	1,491,757	397,603	1,889,360
Recovery of provisions	(1,070,967)	(215,318)	(1,286,285)
Transfer of provisions and others	2,348	(2,000)	348
Write-off and forgiveness	(653,980)	(2)	(653,982)
Exchange difference	(407)	584	177
Balance as of September 30, 2022	2,498,899	1,341,171	3,840,070
Balance as of January 1, 2023	2,579,569	1,275,043	3,854,612
Additions charged to profit or loss	1,989,901	263,953	2,253,854
Recovery of provisions	(893,905)	(297,114)	(1,191,019)
Transfer of provisions and others	1,309	(888)	421
Write-off and forgiveness	(887,486)	(24,000)	(911,486)
Exchange difference	(7,625)	(594)	(8,219)
Balance as of September 30, 2023	2,781,763	1,216,400	3,998,163

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

<i>In thousands of soles</i>	09.30.2023	09.30.2022
Provision for loan losses	(2,253,854)	(1,889,360)
Recovery of provisions	1,191,019	1,286,285
Income from recovery of loan portfolio	80,479	115,917
Provision for loan losses, net of recoveries	(982,356)	(487,158)

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 September 30, 2023, the voluntary provisions of the Bank, CrediScotia and CRAC amount to S/ 545,074 thousand, S/ 66,086 thousand and S/ 10,200 thousand, respectively (S/ 561,153 thousand, S/ 103,680 thousand and S/ 10,200, respectively, as of December 31, 2022).

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As of September 30, 2023 and December 31, 2022, the distribution of the provision for impairment loss on accounts receivable by type of loan is as follows:

<i>In thousands of soles</i>	09.30.2023				12.31.2022			
	General	Specific	Voluntary	Total	General	Specific	Voluntary	Total
Type of loan								
Corporate loans	128,731	180,978	32,780	342,489	126,369	294,964	56,804	478,137
Large-business loans	49,867	160,902	146,656	357,425	54,283	126,596	120,656	301,535
Medium-business loans	60,482	884,984	137,549	1,083,015	69,280	809,834	137,549	1,016,663
Small-business loans	16,736	277,024	37,805	331,565	16,602	265,035	34,646	316,283
Micro-business loans	872	5,716	44,325	50,913	717	7,346	62,888	70,951
Consumer loans	125,273	917,208	178,316	1,220,797	121,680	753,009	219,262	1,093,951
Mortgage loans	81,622	471,799	43,929	597,350	79,621	442,062	43,228	564,911
Total	463,583	2,898,611	621,360	3,983,554	468,552	2,698,846	675,033	3,842,431

As indicated in note 4.E, from November 2014, the procyclical component for provision calculation was deactivated. As of September 30, 2023 and December 31, 2022, the Scotiabank Group did not apply the procyclical component to record specific provisions. As of September 30, 2023 the Bank and CrediScotia have a balance of S/ 46,171 thousand (S/ 46,369 thousand as of December 31, 2022).

As of September 30, 2023, the Scotiabank Group's provision for exchange rate risk amounts to S/ 1,540 thousand and other provisions amount to S/ 13,069 thousand (S/ 1,598 thousand and S/ 10,583 thousand as of December 31, 2022).

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As of September 30, 2023 (unaudited), December 31, 2022 (audited) and September 30, 2022 (unaudited)

- (d) These easy payment terms included debt rescheduling applicable to gross and individual loan portfolio depending on the loans.

As of September 30, 2023 and December 31, 2022 the debt rescheduling of the Bank, CrediScotia and CRAC is as follows:

<i>In thousands of soles</i>	09.30.2023			12.31.2022		
	Gross	Individual	Total	Gross	Individual	Total
Type of loan						
Large-business loans	-	2,483	2,483	-	28,724	28,724
Medium-business loans	2,788	63,147	65,935	5,352	98,098	103,450
Small-business loans	6,056	19,304	25,360	10,823	37,225	48,048
Micro-business loans	318	102	420	527	193	720
Consumer loans	19,203	122,855	142,058	32,569	209,875	242,444
Mortgage loans	55,717	491,617	547,334	75,809	595,544	671,353
	84,082	699,508	783,590	125,080	969,659	1,094,739

Likewise, the Bank, CrediScotia and CRAC as of September 30, 2023 recognized provisions for rescheduled loans for S/ 7,086 thousand, S/ 239 thousand and S/ 28 thousand, respectively (S/ 12,992 thousand, S/ 587 thousand and S/ 185 thousand as of December 31, 2022).

- (e) As of September 30, 2023 and December 31, 2022, maturities of direct loans are as follows:

<i>In thousands of soles</i>	09.30.2023			12.31.2022		
	Currency	Currency	Total	Currency	Currency	Total
	local	foreign		local	foreign	
Up to 1 month	2,554,250	2,702,202	5,256,452	2,284,338	2,699,926	4,984,264
1-3 months	3,408,406	4,172,103	7,580,509	4,302,442	3,086,281	7,388,723
3-6 months	3,874,117	2,407,777	6,281,894	4,730,603	2,395,198	7,125,801
6-12 months	5,295,581	1,729,653	7,025,234	4,629,796	1,720,200	6,349,996
More than 1 year	25,758,489	3,457,819	29,216,308	27,695,197	4,233,679	31,928,876
Past-due loans and lawsuit loans	1,711,158	716,349	2,427,507	1,559,531	909,755	2,469,286
Less: Accrued interest	(291,331)	(143,094)	(434,425)	(284,672)	(96,187)	(380,859)
	42,310,670	15,042,809	57,353,479	44,917,235	14,948,852	59,866,087

9. Held-for-Trading and Hedging Instruments

The Bank holds foreign-exchange forward contracts, cross-currency swaps and interest rate swaps. As of September 30, 2023 and December 31, 2022, fair value of held-for-trading instruments and hedging instruments has generated accounts receivable and payable as follows:

<i>In thousands of soles</i>	09.30.2023		12.31.2022	
	Accounts receivable	Accounts payable	Accounts receivable	Accounts payable
Held-for-trading instruments (a)				
Foreign-exchange forward contracts	213,440	294,761	223,409	90,776
Interest rate swaps	124,282	114,766	119,621	109,238
Cross-currency swaps	302,515	44,795	77,027	392,313
	640,237	454,322	420,057	592,327

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<i>In thousands of soles</i>	09.30.2023		12.31.2022	
	Accounts receivable	Accounts payable	Accounts receivable	Accounts payable
Hedging instruments (b)				
Cross currency swaps	-	-	5,894	59,460
	-	-	5,894	59,460
	640,237	454,322	425,951	651,787

- (a) During nine-month ended in September 30, 2023 and 2022, held-for-trading instruments generated a net loss for S/ 343 thousand and S/ 270,370 thousand, respectively (note 24).
- (b) During nine-month ended in September 30, 2023 and 2022, hedging instruments generated a net loss for S/ 41,227 and S/ 46,166 (note 22).

10. Accounts Receivable, Net

This caption comprises the following:

<i>In thousands of soles</i>	09.30.2023	12.31.2022
Financial instruments		
Sale of investments (a)	898,423	46,493
Commissions receivable	13,903	13,495
Payments on behalf of third parties, net	20,451	11,230
Collection services	504	854
Sale of goods and services, trust, net	7,525	10,267
Advances to personnel	3,728	5,598
Accounts receivable from third parties	602	321
Other accounts receivable, net (b)	136,465	201,782
	1,081,601	290,040
Non-financial instruments		
Tax claims (c)	639,549	663,973
	1,721,150	954,013

- (a) As of September 30, 2023 and December 31, 2022, 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/ 757,844 thousand and S/ 26,183 thousand, respectively; ii) short sale of sovereign bonds for S/ 22,102 thousand and S/ 20,310 thousand; iii) shown short sale of U.S. treasury bonds for S/ 118,477 thousand (does not shown short sale of U.S. treasury bonds of December 31, 2022), respectively.
- (b) As of September 30, 2023, other receivables net of their respective allowance for doubtful accounts include mainly: i) unsettled transactions with debit and credit cards for S/ 55,617 thousand (S/ 65,645 thousand as of December 31, 2022); ii) finance leases for S/ 12,478 thousand (S/ 55,286 thousand as of December 31, 2022); iii) refund of travel expenses for S/ 989 thousand (S/ 2,129 thousand as of December 31, 2022); and iv) other accounts receivable for S/ 67,381 thousand (S/ 78,722 thousand as of December 31, 2022).

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As of September 30, 2023 (unaudited), December 31, 2022 (audited) and September 30, 2022 (unaudited)

- (c) As of September 30, 2023 and December 31, 2022, the balance comprises the following:
- (i) An amount of S/ 481,845 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 September 30, 2023 and 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.

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11. Goodwill

This caption comprises the following:

<i>In thousands of soles</i>	09.30.2023	12.31.2022
Citibank del Perú S.A.(a)	287,074	287,074
Crediscotia Financiera S.A. (b)	232,315	232,315
Unibanca S.A. (c)	4,772	4,772
	524,161	524,161

- (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. In September 6, 2023 CrediScotia Financiera S.A. and Grupo Unicomer Corp decided to advise that by mutual consent, both parties agreed conclude with the sale process of 100% of CrediScotia Financiera S.A' common shares of capital.

As of September 30, 2023 and 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 September 30, 2023 and December 31, 2022, except as indicated in paragraph b).

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12. Property, Furniture and Equipment, Net

This caption comprises the following:

<i>In thousands of soles</i>	Land	Property and premises	Furniture, fixture and IT equipment	Vehicles	Goods in-transit and work-in-progress	Balance as of 09.30.2023	Balance as of 09.30.2022
Cost							
Balance as of January 1	128,369	772,461	433,186	18,518	843	1,353,377	1,380,513
Additions and reclassification	-	16	11,634	(14,991)	31,203	27,862	18,951
Sales	-	-	(359)	(462)	-	(821)	(13,070)
Transfers	-	2,079	3,989	-	(6,068)	-	1,731
Disposals and others	-	(7)	(1,664)	-	(57)	(1,728)	(39,802)
Total cost	128,369	774,549	446,786	3,065	25,921	1,378,690	1,348,324
Accumulated depreciation							
Balance as of January 1	-	656,591	384,243	2,910	-	1,043,744	1,067,526
Additions	-	12,921	15,366	141	-	28,428	19,987
Sales	-	-	(351)	(462)	-	(813)	(12,019)
Disposals and others	-	(5)	(1,643)	(57)	-	(1,705)	(38,434)
Total depreciation	-	669,507	397,615	2,532	-	1,069,654	1,037,060
Net carrying amount	128,369	105,042	49,171	533	25,921	309,036	311,264

- (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.

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13. Intangible Assets, Net

This caption comprises the following:

<i>In thousands of soles</i>	Software and others	Work-in-progress	Goodwill	Other intangible assets	Exclusive agreement (a)	Cencosud brand name	Balance as of 09.30.2023	Balance as of 09.30.2022
Cost								
Balance as of January 1	496,544	44,075	6,653	24,717	326,302	4,148	902,439	832,227
Additions	85	57,173	-	1,223	-	-	58,481	47,445
Transfers	33,826	(33,826)	-	-	-	-	-	(1,731)
Disposals and others	-	-	-	-	-	-	-	(664)
Total cost	530,455	67,422	6,653	25,940	326,302	4,148	960,920	877,277
Accumulated amortization								
Balance as of January 1	413,178	-	2,663	24,081	83,387	1,061	524,370	466,076
Additions	31,607	-	125	1,141	16,523	-	49,396	48,442
Disposals and others	-	-	-	-	-	-	-	(298)
Total amortization	444,785	-	2,788	25,222	99,910	1,061	573,766	514,220
Net carrying amount	85,670	67,422	3,865	718	226,392	3,087	387,154	363,057

- (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. (Note 35(b)).

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14. Other Assets, Net

This caption comprises the following:

<i>In thousands of soles</i>	09.30.2023	12.31.2022
Financial instruments		
Transactions in progress (a)	406,769	113,499
	406,769	113,499
Non-financial instruments		
Prepaid expenses (b)	153,254	148,919
Realizable and repossessed assets, net of accumulated depreciation and provision for impairment loss for S/ 239,144 thousand (S/ 236,088 thousand in 2022)	44,326	47,753
Tax credit	142,688	177,698
Others	10,027	7,993
	350,295	382,363
	757,064	495,862

- (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 September 30, 2023, mainly includes treasury transactions for S/ 354,522 thousand (S/ 53,461 thousand as of December 31, 2022), transactions to be settled with Cámara de Compensación Electrónica for S/ 35,395 thousand (S/ 49,356 thousand as of December 31, 2022), and invoices-in-transit for S/ 5,536 thousand (S/ 6,613 thousand as of December 31, 2022).
- (b) As of September 30, 2023, prepaid expenses mainly include: i) deferred loan origination costs related to fees paid to the external sales force for S/ 125,552 thousand (S/ 127,395 thousand as of December 31, 2022); ii) prepaid fees for loans received for S/ 5,164 thousand (S/ 4,967 thousand as of December 31, 2022); iii) prepaid leases for S/ 2,737 thousand (S/ 2,912 thousand as of December 31, 2022); and iv) advertising and marketing services for S/ 142 thousand (S/ 986 thousand as of December 31, 2022), among others.

15. Deposits and Obligations with Financial Institutions

This caption comprises the following:

<i>In thousands of soles</i>	09.30.2023		12.31.2022	
Corporate clients	17,568,228	40%	19,163,362	43%
Individuals	20,182,487	45%	19,452,426	44%
Non-profit entities	4,146,390	9%	4,028,164	9%
Others	2,482,958	6%	1,712,045	4%
	44,380,063	100%	44,355,997	100%

As of September 30, 2023 and December 31, 2022, deposits and other obligations in U.S. dollars represent 39% and 41% of total amount, respectively. As of September 30, 2023, deposits include accounts pledged in favor of the Bank and CrediScotia for credit transactions for S/ 263,042 thousand and US\$ 137,037 thousand (S/ 350,230 thousand and US\$ 171,309 thousand as of December 31, 2022).

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As of September 30, 2023 and December 31, 2022, total deposits and obligations from individuals and non-profit entities amount to S/ 14,570,309 thousand and S/ 14,820,065 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 September 30, 2023 and December 31, 2022, the maximum amount secured for each individual amounted to S/ 124 and S/ 126 thousand, respectively.

The Bank, CrediScotia and CRAC freely establish interest rates for its liability transactions based on demand and supply, and type of deposit. As of September 30, 2023 and December 31, 2022 effective rates of main assets ranged as follows:

	09.30.2023		12.31.2022	
	Local currency	Foreign currency	Local currency	Foreign currency
%				
Savings deposits	0.90 – 2.41	0.10 - 0.24	0.72 - 1.85	0.11 - 0.16
Time deposits	6.61 – 8.83	0.07 – 3.97	3.71 - 6.31	0.13 - 1.64
Bank certificates	-	0.09 – 1.38	-	0.09 - 0.26
Length-of-service compensation deposits	2.69 – 5.65	0.85 - 1.06	2.28 - 4.67	0.6 - 0.86

As of September 30, 2023 and December 31, 2022 maturities of time deposits of clients and financial institutions were as follows:

	09.30.2023			12.31.2022		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
<i>In thousands of soles</i>						
Up to 1 month	1,978,360	1,218,748	3,197,108	2,009,721	1,935,163	3,944,884
1-3 months	3,135,152	1,515,374	4,650,526	2,037,057	650,593	2,687,650
3-6 months	2,756,218	1,643,778	4,399,996	1,764,828	518,929	2,283,757
6-12 months	1,859,629	816,244	2,675,873	2,054,250	862,628	2,916,878
More than 1 year	1,061,531	315,183	1,376,714	1,059,658	473,055	1,532,713
	10,790,890	5,509,327	16,300,217	8,925,514	4,440,368	13,365,882
Interest	290,539	62,363	352,902	116,458	12,751	129,209
	11,081,429	5,571,690	16,653,119	9,041,972	4,453,119	13,495,091

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

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16. Borrowings and Debts

This caption comprises the following:

<i>In thousands of soles</i>	09.30.2023	12.31.2022
Borrowings and debts		
Obligations in the country		
COFIDE (a)	953,099	948,878
Other banks	60,000	15,000
Ordinary loans from abroad		
Related banks (b)	5,727,430	7,628,200
Other banks (c)	3,546,454	3,189,701
	10,286,983	11,781,779
Interest payable (b)	99,989	66,340
	10,386,972	11,848,119
Securities and obligations (d)	684,113	2,209,199
	11,071,085	14,057,318

- (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 September 30, 2023 and December 31, 2022, the Bank and CrediScotia hold obligations with COFIDE for S/ 748,191 thousand and S/ 617,025 thousand, respectively, which are guaranteed by a mortgage loan portfolio, as follows:

<i>In thousands of</i>	Currency	09.30.2023		12.31.2022	
		Net loans	Backed debt	Net loans	Backed debt
Detail					
Mortgage loans -					
MiVivienda Fund (*)	Soles	779,923	740,264	645,692	604,873
Mortgage loans -					
MiVivienda Fund (*)	U.S. dollars	2,369	2,090	3,597	3,186

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

Likewise, as of September 30, 2023 and December 31, 2022, the Bank entered into agreements to channel resources with COFIDE for S/ 204,908 thousand and S/ 328,950 thousand, respectively. Said resources will be used to fund corporate and medium-business loans. As of September 30, 2023 it not maintains balances payable to COFIDE related to the FAE-MYPE I, FAE-MYPE II and FAE-MYPE III (S/ 34 thousand, S/ 1,431 thousand and S/ 1,439 thousand as of December 31, 2022).

- (b) As of September 30, 2023, ordinary loans with related banks include debts payable to Scotiabank Caribbean Treasury Limited for US\$ 1,510,000 thousand, which accrue interest at annual rates ranging from 0.88% to 5.69% with maturities between November 2023 and May 2025 (US\$ 2,000,000 thousand as of December 31, 2022, which accrue interest at annual rates ranging from 0.59% to 4.86% with maturities between January 2023 and January 2024).

These loans do not have collaterals nor compliance terms.

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- (c) As of September 30, 2023, the Bank holds borrowings and debts with other foreign banks for US\$ 935,000 thousand (US\$ 823,204 thousand as of December 31, 2022), which accrue interest at annual rates ranging from 1.75% to 6.33% (1.75% to 5.38% as of December 31, 2022). As of September 30, 2023 and December 31, 2022 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 September 30, 2023 and December 31, 2022 maturities of borrowings from banks and other financial institutions were as follows:

<i>In thousands of soles</i>	09.30.2023	12.31.2022
Up to 1 month	1,253,784	1,390,126
1-3 months	4,374,930	4,745,618
3-6 months	2,001,072	2,022,707
6-12 months	23,797	2,584,002
More than 1 year	2,733,389	1,105,666
	10,386,972	11,848,119

- (d) As of September 30, 2023 and December 31, 2022 securities and bonds are as follows:

<i>In thousands of soles</i>	Annual interest	Maturity	09.30.2023	12.31.2022
Issuance				
Redeemable subordinated bonds				
1st Issuance, single series (i)	4.50%	2027	-	1,525,600
1st Issuance A – 1st Program - SBP (ii)	7.34%	2025	535,560	535,560
1st Issuance A – 1st Program - CSF (iii)	7.41%	2027	130,000	130,000
			665,560	2,191,160
Corporate bonds (iv)				
Negotiable certificates of deposit			2,472	2,560
			2,472	2,560
			668,032	2,193,720
Interest payable and obligations			16,081	15,479
			684,113	2,209,199

- 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.

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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 SBS through Resolution No. 03782-2022 dated December 13, 2022.

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.

- 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% (9.41% as of December 31, 2022) 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 September 30, 2023 and December 31, 2022 the maturity of outstanding securities is as follows:

<i>In thousands of soles</i>	09.30.2023	12.31.2022
Up to 3 months	3,245	6,003
3-6 months	315	102
6-12 months	946	1,416
More than 1 year	679,607	2,201,678
	684,113	2,209,199

- (e) During the nine-month ended in September 30, 2023 and 2022, interest expenses on borrowings and debts of the Scotiabank Group amount to S/ 450,261 thousand and S/ 229,271 thousand, respectively (note 22).

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17. Provisions and Other Liabilities

This caption comprises the following:

<i>In thousands of soles</i>	09.30.2023	12.31.2022
Accounts payable		
Repurchase agreements (a)	2,610,518	3,796,329
Other accounts payable	714,341	472,117
Short sale	136,379	31,731
Vacations, remunerations and profit sharing payable	27,754	23,678
	3,488,992	4,323,855
Provisions		
Provision for litigations and claims (b)	34,856	33,452
Provision for various contingencies (c)	759	648
Provision for indirect loan losses and country risk	149,929	174,683
Other provisions (d)	182,199	151,030
	367,743	359,813
Other liabilities		
Transactions in progress (e)	674,163	350,362
Deferred income (f)	167,820	89,125
	841,983	439,487
	4,698,718	5,123,155

- (a) As of September 30, 2023, 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/ 458,995 thousand (S/ 2,030,503 thousand as of December 31, 2022). 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/ 1,038,452 thousands as of December 31, 2022, and accrued interest between 1.25% and 3.5%).
 - (iii) Repurchase agreements on currencies with the BCRP for S/ 175,000 thousand and accrue interest at an interest rate ranging of 0.08% with a maturity in October 2023 (S/ 89,000 thousand as of December 31, 2022, and accrue interest at an interest rate ranging of 0.08% with a maturity in January 2023).
 - (iv) Repurchase agreements on Peruvian treasury bonds with the BCRP for S/ 887,277 thousand. They accrue interest at an interest rate ranging from 0.50% to 7.90% with a maturity between July 2023 and December 2023 (S/ 829,251 thousand and accrue interest at an interest rate ranging from 0.50% to 8.98% with a maturity ranging from March 2023 to December 2023, as of December 31, 2022) (note 7 (a)).

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- (b) As of September 30, 2023 and December 31, 2022, 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 September 30, 2023 and December 31, 2022, the balance amounted to S/ 759 thousand and S/ 648 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.

As of September 30, 2023, the balance of other provisions mainly includes:

i) provisions for personnel expenses for S/ 147,109 thousand (S/ 116,690 thousand as of December 31, 2022); ii) provisions for marketing campaigns of liability products for S/ 5,490 thousand (S/ 5,817 thousand as of December 31, 2022); and iii) provisions related to credit and debit card transactions for S/ 26,530 thousand (S/ 25,232 thousand as of December 31, 2022).

- (d) 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 September 30, 2023, liability transactions in progress mainly include: i) S/ 360,851 thousand for treasury transactions (S/ 108,449 thousand as of December 31, 2022); ii) S/ 148,630 thousand for credit card transactions (S/ 136,449 thousand as of December 31, 2022); and iii) S/ 57,838 thousand for client deposits in transit (S/ 44,375 thousand as of December 31, 2022).
- (e) As of September 30, 2023, it mainly includes income for (i) S/ 33,475 thousand for exclusive right fees (S/ 27,428 thousand as of December 31, 2022); (ii) S/ 32,749 thousand for indirect loan fees (S/ 27,129 thousand as of December 31, 2022); and S/ 11,078 thousand for structuring and trust service fees (S/ 17,055 thousand as of December 31, 2022), which are recorded in the Scotiabank Group's profit or loss during the term of the contract that originates them.
- (f) During the month of May 2023, a deferred gain was recorded for thousands of S/ 50,315 originating from the sale of a financed portfolio to an unrelated third party, authorized by the SBS according to Resolution N° 01594-2023, which will be recognized in results based on the flows collected from said financing.

18. Equity

A. General

The regulatory capital of the Bank, CrediScotia and CRAC is determined in accordance with the Banking Law and is used to calculate legal limits and restrictions applicable to financial institutions in Peru. As of September 30, 2023, the regulatory capital of such entities amounts to S/ 10,962,293 thousand, S/ 841,838 thousand and S/ 113,361 thousand, respectively (S/ 10,353,517 thousand, S/ 780,801 thousand and S/ 170,131 thousand, respectively, as of December 31, 2022).

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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/ 142,551 respectively, which based on the regulations in force is being considered as part of the effective equity as of December 2022.

The bank has a favorable opinion from the regulatory entity for the issuance of instruments representing redeemable subordinated debt, computable as level 2 effective equity, up to a maximum amount of US\$ 1,000'000,000.00 (one billion and 00/100 US dollars) or its equivalent in nuevos soles. This favorable opinion was issued on June 7, 2023 through SBS Resolution No. 02002-2023. As of the date of issuance of this report, the Bank's Management has not planned any issuance.

As of September 30, 2023, 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/ 68,027,296 thousand, S/ 3,019,650 thousand and S/ 650,670 thousand, respectively (S/ 69,341,115 thousand, S/ 3,738,411 thousand and S/ 946,423 thousand, respectively, as of December 31, 2022).

As of September 30, 2023 and December 31, 2022, the Banking Law established as a global limit that the regulatory capital shall be equal to or greater than 8.5%, 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 September 30, 2023, the regulatory capital of the Bank, CrediScotia and CRAC represents 14.77%, 25.36% and 14.20%, respectively, of the minimum capital requirements per market, operational and credit risk 13.97%, 19.29% and 14.78% respectively, as of December 31, 2022).

SBS Resolution 2115-2009, approved the "Regulation on Regulatory Capital Requirement for Operational Risk." As of September 30, 2023 and December 31, 2022, 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.

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As of September 30, 2023, additional regulatory capital of the Bank, CrediScotia and CRAC amounted to S/ 1,261,452 thousands, S/ 24,900 thousand and S/ 7,649 thousand, respectively, and CrediScotia does not have an additional regulatory capital (S/ 1,094,075 thousand, S/ 61,534 thousand and 43,367 thousand for the Bank, CrediScotia and CRAC as of December 31, 2022).

B. Share capital

As of September 30, 2023 and December 31, 2022, the Bank's authorized, subscribed and paid-in share capital comprise 822,677,853 common shares. All shares have voting rights and a par value of S/ 10.00 each. As of September 30, 2023 and December 31, 2022, the quotation value of common shares of the Bank was S/ 16.00 and S/ 17.00 per share, respectively.

Shareholding on the Bank's share capital as of September 30, 2023 and December 31, 2022, is as follows:

	09.30.2023		12.31.2022	
	Number of shareholders	%	Number of shareholders	%
From 0.01 to 1	1,249	0.69	1,267	0.69
From 50.01 to 100	1	99.31	1	99.31
	1,250	100.00	1,268	100.00

Under the Banking Law, as of September 30, 2023, the share capital is required to reach the minimum amount of S/ 33,575 thousand (S/ 34,026 thousand as of December 31, 2022), 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:

<i>In thousands of soles</i>	09.30.2023	12.31.2022
Issuance premium	393,159	393,159
Gain on treasury shares	1,304	1,304
	394,463	394,463

As of September 30, 2023 and December 31, 2022, 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 29, 2023, applied to legal reserve an amount of S/ 142,551 thousand, corresponding to 10% of net profit for the year 2022.

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.

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E. Retained earnings

General Shareholders' Meeting, held March 29, 2023, approved the distribution of 2022 net profit for S/ 342,552 thousand, as follows:

- i. Allocate 10% of net profit, amounting to S/ 142,551 thousand, to increase the legal reserve.
- ii. Capitalize a total amount of S/ 200,000 thousand and maintain a remaining balance for S/ 1,082,964 thousand in '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.

F. Unrealized gains and losses

As of September 30, 2023 and December 31, 2022, 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 as of September 30, 2023 and 2022, net of deferred tax, was as follows:

<i>In thousands of soles</i>	<i>Note</i>	09.30.2023	09.30.2022
Balance as of January 1		(269,860)	(175,756)
Net unrealized gain (loss) on available-for-sale investments	7	183,439	(241,818)
Cash flow hedges		229	(279)
Net unrealized gain on associates		500	504
Balance as of September 30		(85,692)	(417,349)

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).

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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 September 30, 2023 and December 31, 2022; contingent accounts comprise the following:

<i>In thousands of soles</i>	<i>Note</i>	09.30.2023	12.31.2022
Indirect loans			
Guarantees and letters of guarantee		11,239,918	10,945,169
Letters of credit issued		726,350	822,872
Outstanding banker's acceptance		225,637	240,654
	8	12,191,905	12,008,695
Unused credit lines		19,157,809	36,440,284
Derivative instruments		35,254,441	33,236,335
		66,604,155	81,685,314

21. Interest Income

This caption comprises the following:

<i>In thousands of soles</i>	<i>Note</i>	09.30.2023	09.30.2022
Direct loan portfolio		4,014,564	3,282,504
Cash and due from banks and deposits with banks	6	231,446	62,975
Available-for-sale investments	7	197,709	136,940
Investments at fair value through profit or loss	7	21,379	5,315
Interbank funds		9,722	2,303
Other finance income		870	1,538
		4,475,690	3,491,575

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22. Interest Expenses

This caption comprises the following:

<i>In thousands of soles</i>	<i>Note</i>	09.30.2023	09.30.2022
Borrowings and debts	16(e)	450,261	229,271
Deposits and obligations		1,114,986	481,861
Repurchase agreements		109,652	98,937
Losses from hedging instruments	9(b)	41,227	46,166
Fees for borrowings and debts		13,295	15,194
Deposits with financial institutions		36,207	6,470
Interbank funds		10,238	23,177
		1,775,866	901,076

23. Financial Service Income, Net

This caption comprises the following:

<i>In thousands of soles</i>	09.30.2023	09.30.2022
Income		
Income from fees for collections services	263,027	254,354
Other income and fees for banking services	128,561	117,320
Income from services and maintenance of liability transactions and transfer fees	68,742	65,961
Income from compensation for mutual funds and fees for redemption of shares	35,517	46,787
Income from structuring and management services	41,043	45,354
Income from teleprocessing services	25,583	27,237
Income from recovery of loan portfolio	8,337	14,000
Income from fees and intermediation services	3,140	4,513
Income from commissions for banking services	190,448	184,364
Other income	55,796	61,651
	820,194	821,541
Expenses		
Credit/debit card expenses	(135,881)	(117,622)
Deposit insurance fund premium	(49,727)	(48,314)
Expenses for insurance services	(3,982)	(4,773)
Other expenses	(248,105)	(233,986)
	(437,695)	(404,695)
	382,499	416,846

24. Income from Financial Transactions

This caption comprises the following:

<i>In thousands of soles</i>	<i>Note</i>	09.30.2023	09.30.2022
Net loss on measurement of held-for-trading instruments	9(a)	(343)	(270,370)
Gain on sale of available-for-sale investments	7	51,634	1,810
Gain on interests		7,182	14,057
Net gain (loss) gain on sale and measurement of investments at fair value through profit or loss		20,622	(11,599)
Net gain on foreign exchange	5	135,070	469,113
Dividends received from available-for-sale investments		-	5
Others, net (a)		24,683	226,678
		238,848	429,694

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- (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:

<i>In thousands of soles</i>	09.30.2023	09.30.2022
Personnel and board of director's expenses	669,738	625,223
Expenses for third-party services	618,987	567,741
Taxes and contributions	73,913	68,452
	1,362,638	1,261,416

26. Other Income, Net

This caption comprises the following:

<i>In thousands of soles</i>	09.30.2023	09.30.2022
Sale of non-financial services	7,019	18,493
Gain on sale of realizable and repossessed assets	20,152	10,607
Lease of own assets	2,178	1,028
Reimbursements and refunds	73	2,034
Gain on sale of property, furniture and equipment	153	2,990
Other income (expenses), net	15,581	(12,444)
	45,156	22,708

27. Tax Matters**Consolidation**

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

Income tax regime

- B. The Scotiabank Group is subject to the Peruvian tax regime. As of September 30, 2023 and September 2022, 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%. Currently the agreement is not in force.

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

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

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

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

Income tax determination

The Scotiabank Group computed its tax base for the years ended September 30, 2023 and 2022, and determined income tax for S/ 251,440 thousand and S/ 504,389 thousand, respectively.

The Scotiabank Group's current tax has been determined for fiscal years 2023 and 2022, net of prior years, as follows:

<i>In thousands of soles</i>	09.30.2023	09.30.2022
Scotiabank Perú S.A.A.	234,514	460,607
CrediScotia Financiera S.A.	6,051	26,010
Scotia Fondos Sociedad Administradora de Fondos S.A.	8,799	12,544
Servicios, Cobranzas e Inversiones S.A.C.	1,098	2,470
Caja Rural de Ahorro y Crédito Cencosud Scotia Perú S.A.	426	2,083
Scotia Sociedad Agente de Bolsa S.A.	178	296
Scotia Sociedad Titulizadora S.A.	374	379
	251,440	504,389

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Income tax expense comprises the following:

<i>In thousands of soles</i>	09.30.2023	09.30.2022
Current tax (debit) credit		
Current year	249,486	498,211
Prior year adjustments	1,954	6,178
	251,440	504,389
Deferred tax (debit) credit	(22,097)	(37,871)
Net income tax expense	229,343	466,518

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

<i>In thousands of soles</i>	09.30.2023		09.30.2022	
Profit before tax	940,847	100.00%	1,560,237	100.00%
Income tax (theoretical)	277,550	29.50%	460,270	29.50%
Tax effect on additions and deductions				
Permanent differences	(48,471)	(5.15%)	14,970	0.96%
Prior year income tax adjustment	264	0.03%	(8,722)	(0.56%)
Current and deferred tax recorded as per effective rate	229,343	24.38%	466,518	29.90%

Tax Loss

- D. In accordance with article 50 of the Income Tax Law, a Peruvian company may carry losses forward in one of the two ways:

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

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

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

As of December 31, 2020, CrediScotia incurred in a tax loss for S/ 130,848 thousand. Accordingly, it elected the System A.

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

As of September 30, 2023, CrediScotia obtained a tax loss carryforward for S/ 264,095 thousand.

<i>In thousands of soles</i>	Tax losses	Offsetting	Accumulated balance
2020	130,848	(127,964)	2,884
2021	261,211	-	261,211
Total	392,059	(127,964)	264,095

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As of September 30, 2023, CrediScotia recognized deferred tax assets for S/ 77,908 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 September 30, 2023, the CRAC uses the System B and determined its tax loss carryforward for S/ 110,513 thousand. At the reporting date, the unused tax losses have not expired.

The CRAC recognized as of September 30, 2023 a deferred tax assets for S/ 32,601 thousand for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which they can be utilized.

Temporary tax on net assets

- E. 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 2023 and 2022 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 2023, the Bank, CrediScotia, CRAC, SAB, SAFM, Titulizadora and SCI determined that the temporary tax on net assets amounts to S/ 265,208 thousand, S/ 11,561 thousand, S/ 2,453 thousand, S/ 164 thousand, S/ 371 thousand, S/ 22 thousand and S/ 399 thousand, respectively (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 in 2022).

Tax on financial transactions

- F. Tax on financial transactions for fiscal periods 2023 and 2022 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

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

Through Legislative Decree 1312, published December 31, 2016 and effective January 1, 2017, the following formal obligations were established to replace the former ones: (i) presentation of a Local File (if accrued revenue exceeds 2,300 tax units [UIT, for its Spanish acronym]); (ii) presentation of a Master File (if accrued revenue of the group exceeds 20,000 UIT); and (iii) presentation of a Country-by-Country Reporting (if 2017 accrued, consolidated revenue of the multinational group's Parent Company exceeds S/ 2,700,000,000 or € 750,000,000). The presentation of the Master File and the Country-by-Country Reporting is mandatory for transactions corresponding to the year 2017 onwards.

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

In 2023, the Scotiabank Group presented the Local File for the year 2022, excluding the Titulizadora, which was not required to present such file according to the provisions.

The deadline for the presentation of the Local File for the year 2022 was in June 2023, in accordance with the maturity schedule published by the Tax Authorities.

The Master File for the year 2022 was presented in October 2023 according to the schedule of monthly tax obligations agreed for the tax period of September published by the Tax Authorities. The Bank, CrediScotia, CRAC, SAB and SCI presented the file for the year 2022.

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

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

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.

According to Tax Authorities' Resolution 163-2018-SUNAT, published June 29, 2018, the Electronic Form 3561 was approved 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 should be therein included.

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

Tax assessment by Tax Authorities

- H. The Tax Authorities are entitled to audit and, if applicable, to correct the income tax calculated by the Scotiabank Group within the four years following the year of the tax return filing. The Scotiabank Group's sales tax returns for the years 2018 through 2022 are open for review by the Tax Authorities, excluding the Bank's sales tax returns for the year 2016 and 2017 as a result of a correction made in the year 2021. As of the date of this report, the Tax Authorities has begun the review of the corporate income tax for fiscal year 2019.

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

<i>In thousands of soles</i>	Tax returns subject to audit	Tax returns under audit
Scotiabank Perú S.A.A.	From 2016 to 2022	2019 - 2020
CrediScotia Financiera S.A.	From 2018 to 2022	-
Servicios, Cobranzas e Inversiones S.A.C.	From 2018 to 2022	-
Scotia Fondos Sociedad Administradora de Fondos Mutuos S.A.	From 2018 to 2022	-
Scotia Sociedad Agente de Bolsa S.A.	From 2018 to 2022	-
Scotia Sociedad Titulizadora S.A.	From 2018 to 2022	-
Caja Rural de Ahorro y Crédito Cencosud Scotia Perú S.A.	From 2018 to 2022	-
Patrimonio en Fideicomiso Sobre Bienes Inmuebles – Depsa	From 2018 to 2022	-

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 appeals which are pending resolution of Tax Courts and Judicial Authority respectively. The years 2009, 2010, 2013 and 2014 were resolved by the Tax Court and are awaiting some judicial action by the Tax Authority. The year 2009 is currently being sued before the judiciary.

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 to 2011 and 2020, issuing Tax Assessment and Fine Resolutions on the determination of income tax for such years, which were challenged by CrediScotia. For the years 2008 to 2011, the values were challenged. The years 2008 and 2009 had results before the Tax Court and are currently defendants and 2011 in the Tax Court. For the year 2020 the values were compensated and later the claim will be presented.

Concerning the CRAC, it was audited by the Tax Authorities in 2012. The CRAC filed an appeal in 2017, which was resolved by the Tax Court. Currently, is 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, recovery of tax losses is pending before the Judiciary. In 2022, the Tax Authorities concluded the process of auditing the Income Tax of the period 2019, issuing Tax Assessment and Fine Resolution which were paid under protest. In 2023, the Tax Authorities concluded the process of auditing the Income Tax of the period 2020, issuing Tax Assessment and Fine Resolution which were paid under protest.

The Tax Authorities conducted a partial audit to the SCI corresponding to the year 2016. Currently, this case is in judicial authority.

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.

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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 September 30, 2023 and 2022.

Uncertainty over Income Tax Treatments

- I. 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 September 30, 2023 and 2022.

Sales tax regime

- J. As of September 30, 2023 and 2022, 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

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

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

Law 31662, published on December 30, 2022, establish that as of January 2023, domiciled legal entities and non- resident legal entities that were included until 2022 are excluded from the exemption of Law 30341, since from January 2023 to December 31, 2023 the exemption is applicable to natural persons and undivided estates or conjugal partnership that chose to be taxed as such and up to the first 100 Tax Units (UIT) of the gain of capital in each taxable year.

Law 31106 extends the exemptions contained in the Income Tax Law until December 31, 2023.

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Major amendments to tax laws effective for periods beginning in 2021

L. Depreciation of assets

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

M. 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.

N. 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 price standardization for tax stability and the extension of the sales tax exemptions.

The validity of some tax exemptions and benefits are extended, specifically the following:

- The term of tax exemptions included in Appendixes I and II of the Sales Tax Law was extended until December 31, 2025.
- The issuance of e-money will not be subject to sales tax until December 31, 2024.
- The refund of taxes on acquisitions through foreign donations from and imports from diplomatic missions will be effective until December 31, 2024.

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

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Legislative Decree 1529 published March 03, 2022, and effective April 01, 2022, modified Law 28194, Law for the Fight against Evasion and for the Formalization of the Economy, referring to the cases in which means of payment will be used, the amount from which it is required to use the means of payment and the obligation to notify the Tax Authority about payments made to third parties other than the creditor.

In line with the regulations to strengthen the fight against tax evasion and avoidance, as well as against money laundering and terrorism financing, as of August 3, 2018, provisions introduced by Legislative Decree 1372 are currently in force. The aforementioned Decree requires the presentation of information related to ultimate beneficiaries to the competent authorities through a sworn statement of the ultimate beneficiaries. Tax Authorities' Resolution 00278-2022-SUNAT, extends the obligation presentation of information related of the ultimate beneficiaries for legal entities (trusts, consortiums, investment funds and similar entities). The legal entities registered in the Single Taxpayer Registry until December 31, 2023, and that are not deregistered on the date that corresponds to present the information, must present the information in the tax period of December 2023, with expiration in January 2024.

Legislative Decree 1545, published March 15, 2023, modified the article 26 of the Income Tax Law regarding presumed interest income. In this sense, the reference of the Libor rate is eliminated, and it is modified to the TAMEX, likewise, it is provided that loans in national and foreign currency accrue interest not less than the active monthly average market rate in national currency (TAMN) and monthly average market lending rate in foreign currency (TAMEX) respectively, which will have to be multiplied by an adjustment factor.

- TAMN: The adjustment factor is 0,42.
- TAMEX: The adjustment factor is 0,65.

Legislative Decree 1549, published April 24, 2023, extended until 31 December 2026 the validity of the exemptions contained in article 19 of the Income Tax Law. The Decree will enter into force on 1 January 2024.

Law 31735, published on May 4, 2023, amended Law 29230 that promotes regional and local public investment with the participation of the private sector, as detailed below:

- The Certificate "Regional and Local Public Investment - Public Treasury" (CIPRL) may be used to cancel any tax liability of the Public Treasury.
- The limit of the CIPRL for its application against the Income Tax is increased up to 80%.
- The CIPRL update rate will now be the average inflation rate for the past 12 months.

International Convention, published on May 15, 2023, published the Convention to approve the tax treatment provided for in the Double Taxation Conventions signed between the States Parties to the Framework Agreement of the Pacific Alliance. With regard to Peru, the agreements with Chile and Mexico are amended, and a protocol with Colombia is signed.

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Superintendence Resolution N° 000020-2023, published on 28 June 2023, approved the discretionary power not to sanction the violation referred to the obligation to record the number of RUC in the advertising material of goods or services for the period from July 1, 2023, to December 31, 2023.

Supreme Decree N°137-2023-EF, published on June 29, 2023, amended Article 30 of the Regulation of the Income Tax Law, which regulates the fees applicable for transactions with non-domiciles. For purposes of applying the 4.99% rate in the case of interest from external credits:

- It is established as the predominant preferential rate at the average SOFR rate at 30 days plus four points, whatever the credit, currency or agreed maturity.
- For these purposes, the comparison of the external credit rate with the SOFR rate plus three points shall be made only when the credit interest rate is agreed, modified or extended.

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28. Deferred Tax

Deferred tax assets have been calculated applying the liability method per entity (note 4.O). The consolidated deferred tax asset as of September 30, 2023 and 2022 mainly comprises:

<i>In thousands of soles</i>	Balances as of	(Debit)	Balances as of	Balances as of	(Debit)	Balances as of
	01.01.2022	credit Profit or loss	30.09.2022	01.01.2023	credit Profit or loss	30.09.2023
Generic provision for direct/indirect loans	351,809	58,745	410,554	394,211	(25,953)	368,258
Provision for accounts receivable	41,017	(4,337)	36,680	38,462	692	39,154
Provision for repossessed assets	39,129	6,196	45,325	45,738	4,158	49,896
Provision for vacations	8,203	3,306	11,509	12,350	(249)	12,101
Provision for credit and debit card rewards	5,551	-	5,551	5,551	-	5,551
Tax loss	142,714	(28,662)	114,052	108,304	2,293	110,597
Investment in subsidiaries	941	-	941	941	-	941
Finance lease operations, net	134	-	134	134	-	134
Intangible assets	(96,340)	5,982	(90,358)	(96,064)	13,997	(82,067)
Levelation of assets and liabilities	(49,384)	(198)	(49,582)	(26,008)	-	(26,008)
Sales Commissions	(21,022)	(6,276)	(27,298)	(28,431)	(1,107)	(29,538)
Others	22,852	3,114	25,966	25,324	28,266	53,590
Deferred tax assets, net	445,604	37,871	483,475	480,512	22,097	502,610

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29. Employees' Profit Sharing

According to Legislative Decree 677, bank's employees are entitled to a profit-sharing plan computed at 5% of the net profit, similarly to employees of the entities part of the Scotiabank Group. This profit sharing is considered as a deductible expense for income tax calculation purposes. As of September 30, 2023, legal employees' profit sharing was determined for S/ 51,034 thousand (S/ 63,980 thousand as of September 30, 2022), 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 September 30, 2023, the allocated value of assets in trusts and trust fees amounts to S/ 5,663,400 thousand (S/ 5,524,380 thousand as of December 31, 2022).

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31. Related Party Transactions

As of September 30, 2023 and December 31, 2022, 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:

	09.30.2023					12.31.2022				
	Parent Company	Related parties (i)	Associates	Key management personnel and directors	Total	Parent Company	Related parties (i)	Associates	Key management personnel and directors	Total
<i>In thousands of soles</i>										
Assets										
Cash and due from banks	-	38,986	-	-	38,986	-	203	-	-	203
Loan portfolio, net	-	155,263	12,340	23,943	191,546	-	414,589	7,726	25,405	447,720
Held-for-trading and hedging instruments	-	212,475	-	-	212,475	-	286,570	-	-	286,570
Other assets, net	103	65,189	74,286	28	139,606	-	63,607	88,497	24	152,128
Total assets	103	471,913	86,626	23,971	582,613	-	764,969	96,223	25,429	886,621
Liabilities										
Deposits and obligations with financial institutions	766,372	337,893	70,933	15,725	1,190,923	562,938	51,416	74,660	20,667	709,681
Borrowings and debts	234,450	5,552,492	-	-	5,786,942	230,252	7,437,056	-	-	7,667,308
Held-for-trading and hedging instruments	-	222,692	-	-	222,692	-	87,277	-	-	87,277
Provisions and other liabilities	-	134,406	972	20	135,398	-	26,998	961	20	27,979
Total liabilities	1,000,822	6,247,483	71,905	15,745	7,335,955	793,190	7,602,747	75,621	20,687	8,492,245
Off-balance sheet accounts										
Indirect loans	-	338,420	49,511	-	387,931	-	454,593	57,120	-	511,713
Derivative instruments	-	14,445,949	-	-	14,445,949	-	11,263,159	-	-	11,263,159

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

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

	09.30.2023					09.30.2022				
	Parent Company	Related parties (i)	Associates	Key management personnel and directors	Total	Parent Company	Related parties (i)	Associates	Key management personnel and directors	Total
<i>In thousands of soles</i>										
Interest income	-	9,862	272	1,147	11,281	-	7,512	378	1,228	9,118
Interest expenses	(12,592)	(209,380)	(5,100)	(518)	(227,590)	12,592	(112,059)	(117)	(156)	(99,740)
	(12,592)	(199,518)	(4,828)	629	(216,309)	12,592	(104,547)	261	1,072	(90,622)
Financial service income	106	2,213	500	221	3,040	19	2,821	473	216	3,529
Financial service expenses	-	(928)	(17,864)	(21)	(18,813)	-	(1,985)	(15,478)	(21)	(17,484)
	106	1,285	(17,364)	200	(15,773)	19	836	(15,005)	195	(13,955)
Net profit or loss from financial transactions	-	5,001	7,177	-	12,178	-	(30,099)	13,975	-	(16,124)
Administrative expenses (ii)	-	(13,069)	(741)	(75)	(13,885)	-	(11,111)	(828)	(98)	(12,037)
Other income, net	-	3,565	-	1	3,566	-	(2,163)	-	(1)	(2,164)
Net profit or loss	(12,486)	(202,736)	(15,756)	755	(230,223)	12,611	(147,084)	(1,597)	1,168	(134,902)

(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 September 30 was as follows:

<i>In thousands of soles</i>	09.30.2023	09.30.2022
Remuneration of key personnel	12,277	9,200
Expense allowance for Board of Directors	1,453	2,477
	13,730	11,677

As of September 30, 2023 and 2022, the outstanding remuneration to key personnel amounted to S/ 9,064 thousand and S/ 10,639 thousand, respectively.

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32. Classification of Financial Instruments

Management classifies its financial assets and financial liabilities into categories as described in note 4.B. As of September 30, 2023 and December 31, 2022, financial assets and financial liabilities are classified as follows:

<i>In thousands of soles</i>	<i>Note</i>	09.30.2023						Total
		At FVTPL	Loans and items receivable	Available-for-sale		Liabilities at amortized cost	Other liabilities (b)	
				At amortized cost (a)	At fair value			
Assets								
Cash and due from banks	6	-	7,798,760	-	-	-	-	7,798,760
Interbank funds		-	171,521	-	-	-	-	171,521
Investments at FVTPL								
Equity instruments	7	5,401	-	-	-	-	-	5,401
Debt instruments	7	1,476,607	-	-	-	-	-	1,476,607
Available-for-sale investments								
Equity instruments (c)	7	-	-	3,384	640	-	-	4,024
Debt instruments	7	-	-	-	4,697,192	-	-	4,697,192
Loan portfolio	8	-	53,751,643	-	-	-	-	53,751,643
Held-for-trading and hedging instruments	9	640,237	-	-	-	-	-	640,237
Accounts receivable	10	-	1,081,601	-	-	-	-	1,081,601
Other assets	14	-	406,769	-	-	-	-	406,769
		2,122,245	63,210,294	3,384	4,697,832	-	-	70,033,755
Liabilities								
Deposits and obligations and other obligations	15	-	-	-	-	-	43,995,983	43,995,983
Interbank funds		-	-	-	-	-	380,827	380,827
Deposits with financial institutions and international financial institutions	15	-	-	-	-	-	384,080	384,080
Borrowings and debts	16	-	-	-	-	11,071,085	-	11,071,085
Held-for-trading and hedging instruments	9	454,322	-	-	-	-	-	454,322
Accounts payable		-	-	-	-	-	3,461,238	3,461,238
Other liabilities	17	-	-	-	-	-	674,163	674,163
		454,322	-	-	-	11,071,085	48,896,291	60,421,698

(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).

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	Note	12.31.2022						Total
		At FVTPL	Loans and items receivable	Available-for-sale		Liabilities at amortized cost	Other liabilities (b)	
				At amortized cost (a)	At fair value			
<i>In thousands of soles</i>								
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	-	113,499	-	-	-	-	113,499
		649,053	67,378,207	3,519	4,832,471	-	-	72,863,250
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).

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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.

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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.

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▪ ***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 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.

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▪ **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 September 30, 2023 and December 31, 2022, 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.

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.

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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.

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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.

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.

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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.

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.

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 September 30, 2023 and December 31, 2022, the Scotiabank Group records a net asset position in foreign currency in the consolidated statement of financial position for US\$ 1,408,390 thousand and a net asset position for US\$ 1,949,149 thousand, respectively (note 5).

As of September 30, 2023, the oversold readings in the Bank amounted to S/ 68,898 thousand (overbought readings amounted to S/ 292,904 thousand as of December 31, 2022).

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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.

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 September 30, 2023, the Bank's ratios in local and foreign currencies were 22.74% and 29.78% respectively (18.15% and 35.47%, respectively, as of December 31, 2022).

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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 September 30, 2023, CrediScotia's ratios in local and foreign currency were 22.00% and 120.73% respectively (24.72% and 166.92% respectively, as of December 31, 2022). The CRAC shall hold local and foreign currency ratios of 10% and 25%, respectively. In this regard, it held adequate levels of 32.05% in local currency and 1,933.85 % in foreign currency (29.56% in local currency and 2001.88% in foreign currency at the closing of year 2022).

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 September 30, 2023 and December 31, 2022, the minimum required by the regulator was 100%, respectively. The Bank presented levels of liquidity reaching 119.8% in local currency and 134.12% in foreign currency (115.1% in local currency and 116.1% in foreign currency as of December 31, 2022).

As of September 30, 2023, CrediScotia presented ratios in local and foreign currency reaching 118.00% and 475.22%, respectively (116.46% and 199.71%, respectively, as of December 31, 2022).

As of September 30, 2023, the CRAC presented ratios in local and foreign currency reaching 131.25% and 223.56% in local and foreign currency, respectively (121.39% in local currency and 177.87% in foreign currency at the end of 2022).

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.

During the nine-month period ended September 30, 2023 and December 31, 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.

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Operational risk appetite

During the nine-month period ended September 30, 2023 and December 31, 2022, 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.

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As of September 30, 2023, the activities developed were:

- Monitoring the 27 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, 22 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 117 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.

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

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

During the nine-month period ended September 30, 2023, as part of the risk and control assessment, 77 risk and control matrices were assessed at the Bank, 23, at CrediScotia and 27, at the CRAC.

During the nine-month period ended September 30, 2023, 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 18 initiatives in the Bank and 3 in CrediScotia were addressed within the scope of the risk assessment methodology as of September 30, 2023.

During the nine-month period ended September 30, 2023 and December 31, 2022, 12 initiatives in the Bank and 1 initiative in Crediscotia were addressed.

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(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.

During the nine-month period ended September 30, 2023 and December 31, 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

During the nine-month period ended September 30, 2023 and December 31, 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.

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During the nine-month period ended September 30, 2023 and December 31, 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".
- Alignment to letter 02781-2023-SBS and 02783 "Complementary evaluation of web and mobile applications according to the verification standards of ASVS and MASVS2 security.
- Alignment to letter 33259-2023-SBS and 33269-2023-SBS, preparation of an analysis report in response to the application of non-standard security techniques. Invasive actions carried out by the SBS on the Bank's mobile application.
- 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.
- Official letter SBS No. 02781-2023-SBS - Delivery of the independent report Android Mobile Application JOY - Milestone 1 - Finished Q1-FY2023.

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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 September 30, 2023 and December 31, 2022:

<i>In thousands of soles</i>	Carrying amount		Fair value	
	09.30.2023	12.31.2022	09.30.2023	12.31.2022
Assets				
Cash and due from banks	7,798,760	10,607,376	7,798,760	10,607,376
Interbank funds	171,521	12,619	171,521	12,619
Investments at FVTPL				
Equity instruments	5,401	6,965	5,401	6,965
Debt instruments	1,476,607	216,137	1,476,607	216,118
Available-for-sale investments				
Equity instruments	4,024	4,159	4,024	4,159
Debt instruments	4,697,192	4,831,831	4,697,166	4,830,762
Loan portfolio	53,751,643	56,354,673	53,751,643	56,354,673
Held-for-trading and hedging instruments	640,237	425,951	640,237	425,951
Accounts receivable	1,081,601	290,040	1,081,601	290,040
Other assets	406,769	113,499	406,769	113,499
	70,033,755	72,863,250	70,033,729	72,862,162

<i>In thousands of soles</i>	Carrying amount		Fair value	
	09.30.2023	12.31.2022	09.30.2023	12.31.2022
Liabilities				
Deposits and obligations	43,995,983	43,710,614	43,995,983	43,710,614
Interbank funds	380,827	553,222	380,827	553,222
Deposits with financial institutions and international financial institutions	384,080	645,383	384,080	645,383
Borrowings and debts	11,071,085	14,057,318	11,045,230	11,362,930
Held-for-trading and hedging instruments	454,322	651,787	454,322	651,787
Accounts payable	3,461,238	4,300,177	3,419,349	4,090,938
Other liabilities	674,163	350,362	674,163	350,362
	60,421,698	64,268,863	60,353,954	61,365,236

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.

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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 September 30, 2023 and December 31, 2022, 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.

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The table below shows the valuation levels applied as of September 30, 2023 and December 31, 2022 to determine the fair value of financial instruments:

<i>In thousands of soles</i>	Level 1	Level 2	Level 3	Total
09.30.2023				
Assets				
Investments at FVTPL				
Equity instruments	-	5,401	-	5,401
Debt instruments	-	1,476,607	-	1,476,607
Available-for-sale investments				
Equity instruments	640	-	3,384	4,024
Debt instruments	-	4,697,192	-	4,697,192
Held-for-trading and hedging instruments	640,237	-	-	640,237
	640,877	6,179,200	3,384	6,823,461
Liabilities				
Held-for-trading instruments	454,322	-	-	454,322
	454,322	-	-	454,322
12.31.2022				
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

35. Subsequent Events

- (a) On October 12, 2023, the SBS, in use of its powers, and with a prudential nature, issued Official Letter 58666-2023, by which the SBS has established as a prudential measure require recorded the complement of the provision of account receivable that the Bank maintains for payments under protest. made within the framework of the tax claim that it maintains before SUNAT and the Tax Court (note 10 c.i). This requirement is due to the age of the account receivable as well as the low degree of certainty regarding the completion date of the legal actions in progress. Likewise, it requires that the disclosure of the situation of said controversy in the financial statements be kept up to date.

The Bank, taking into consideration the regulatory powers of the SBS and the considerations specified in its Official Letter N° 58666-2023, confirms its total willingness to comply with this requirement; as well as continue with the disclosure of the status of said controversy in the financial statements.

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On December 27, 2023, the SBS issued Official Letter N° 1859 authorizing the Bank to constitute an additional provision for doubtful account receivable for S/ 361,384 thousands charged the additional capital account (equity) for this process. At the end of the year 2023, the Bank have recorded a provision equivalent to 100% of the account receivable related to this process.

- (b) In October 2023, the Bank established a provision for impairment of the intangibles exclusivity contract and brand recognized at the time of the acquisition of CRAC on March 1, 2019, recognizing a loss amounting to S/ 231,315 thousands, in order to reflect the fair value of these intangibles as of October 31, 2023.
- (c) On December 29, 2023, the Bank was notified with the Intendancy Resolution N° 012-180-0033095/SUNAT by which the refund request for an undue payment of a fine related to Income Tax for the year 2013 was declared admissible. With the Intendancy Resolution, SUNAT is proceeding to refund the S/ 25,748 thousands paid plus accrued interest amounting to S/ 15,231 thousands.
- (d) At the Board of Directors' meeting of CrediScotia Financiera S.A held on October 31, 2018, the Fifth Negotiable Certificate of Deposit (CDN) Program was approved for the amount of up to S/ 500,000 thousand or its equivalent in U.S. dollars. Likewise, through SBS Resolution N° 1663-2019 dated April 17, 2019, the SBS issued its favorable opinion on such issuance.

On December 21, 2023, through a public offering, CrediScotia Financiera S.A issued CDNs for up to S/ 68,180 thousand, (Second Series A Issue), maturing in December 2024 and bearing interest at an annual rate of 6.43750%.

- (e) On January 31, 2024, CrediScotia Financiera S.A. redeemed the first program of Subordinated Bonds - First Issue, which was issued on July 24, 2012 in the local market for the total amount of S/ 130,000 thousands, equivalent to the nominal value of all the outstanding Subordinated Bonds of the First Issue. This issuance was authorized by the by Superintendencia de Banca, Seguros y Administradoras Privadas de Fondos de Pensiones - SBS through Resolution N° 4273-2012 dated July 20, 2012.
- (f) On January 25, 2024, CrediScotia Financiera S.A. held the auction of the fifth program of the Negotiable Deposit Certificate (CDN) Second Issue Series B for the amount of S/ 94,256 thousands with a maturity date of January 20, 2025, which accrues at a rate of 6.09375%.