Scotiabank Perú S.A.A.

and Subsidiaries

Consolidated Financial Statements

December 31, 2018 and 2017

(including Independent Auditors' Report)

(*TRANSLATION OF A FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH*)

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(TRANSLATION OF A REPORT ORIGINALLY ISSUED IN SPANISH)

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Scotiabank Peru S.A.A. (a subsidiary of Bank of Nova Scotia - BNS, an entity incorporated in Canada) and Subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2018 and 2017, and the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

KPMG

Opinion

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the consolidated financial position of Scotiabank Peru S.A.A. and Subsidiaries as of December 31, 2018 and 2017, their financial performance and their consolidated cash flows for the years then ended, in accordance with accounting standards established for financial institutions in Peru by the SBS.

Lima, Peru

February 15, 2019

Caipo y Asociados

Countersigned by:

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

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Consolidated Statement of Financial Position

December 31, 2018 and 2017

In thousands of soles	*Note*	2018	2017
Assets			
Cash and due from banks	*5*		
Cash		1,151,651	1,052,396
Deposits with Central Reserve Bank of Peru		7,429,609	5,584,554
Deposits with local and foreign banks		276,848	353,448
Clearing		59,264	125,306
Restricted cash and due from banks and others		1,648,659	2,260,835
		10,566,031	**9,376,539**
Interbank funds		65,505	406,108
Investments at fair value through profit or loss			
and available-for-sale investments	*6*	4,485,614	5,403,722
Loan portfolio, net	*7*	47,348,086	42,631,366
Held-for-trading instruments	*8*	99,071	41,658
Accounts receivable, net	*9*	1,791,354	1,280,651
Investments in associates		69,098	70,475
Goodwill	*10*	570,664	570,664
Property, furniture and equipment, net	*11*	401,860	406,229
Deferred tax	*26*	260,828	255,827
Other assets, net	*12*	1,214,830	346,188
Total assets		**66,872,941**	**60,789,427**
Contingent risks and commitments	*18*	49,367,329	36,359,079

In thousands of soles	*Note*	2018	2017
Liabilities and equity			
Deposits and obligations			
with financial institutions	*13*		
Demand deposits		12,919,107	11,503,337
Savings accounts		9,662,806	9,283,817
Time deposits		16,565,637	16,061,149
Other obligations		803,543	1,014,124
		39,951,093	**37,862,427**
Interbank funds		438,233	150,040
Borrowings and debts	*14*	11,335,223	9,691,622
Held-for-trading instruments	*8*	86,161	68,011
Provisions and other liabilities	*15*	6,250,806	4,828,712
Total liabilities		**58,061,516**	**52,600,812**
Equity	*16*		
Share capital		6,122,946	5,634,538
Additional paid-in capital		394,463	394,463
Legal reserve		1,082,742	960,640
Unrealized gains and losses		(19,796)	23,591
Retained earnings		1,231,070	1,175,383
Total equity		**8,811,425**	**8,188,615**
Total liabilities and equity		**66,872,941**	**60,789,427**
Contingent risks and commitments	*18*	49,367,329	36,359,079

The accompanying notes on pages 6 to 85 are part of these consolidated financial statements.

Scotiabank Perú S.A.A. and Subsidiaries
Consolidated Statement of Profit or Loss
For the years ended December 31, 2018 and 2017

In thousands of soles	***Note***	**2018**	**2017**
Interest income	*19*	4,967,894	4,739,940
Interest expenses	*20*	(1,140,873)	(1,151,484)
Gross profit margin		**3,827,021**	**3,588,456**
Provision for loan loss, net of recovery	*7(d)*	(1,225,929)	(1,173,087)
Net profit margin		**2,601,092**	**2,415,369**
Financial service income, net	*21*	646,258	636,966
Net profit margin of financial service income and expenses		**3,247,350**	**3,052,335**
Income from financial transactions	*22*	300,948	316,785
Operating margin		**3,548,298**	**3,369,120**
Administrative expenses	*23*	(1,693,453)	(1,615,473)
Depreciation of property, furniture and equipment	*11*	(60,317)	(61,662)
Amortization of intangible assets		(14,704)	(14,345)
Net operating margin		**1,779,824**	**1,677,640**
Net provisions for indirect loan losses, doubtful and other accounts receivable, and realizable, repossessed and other assets		(60,565)	(39,117)
Operating income		**1,719,259**	**1,638,523**
Other income, net	*24*	37,108	13,913
Net profit before tax		**1,756,367**	**1,652,436**
Deferred tax	*26*	5,001	(1,868)
Current tax	*25.D*	(484,681)	(437,460)
Net profit		**1,276,687**	**1,213,108**

The accompanying notes on pages 6 to 85 are part of these consolidated financial statements.

Scotiabank Perú S.A.A. and Subsidiaries
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the years ended December 31, 2018 and 2017

In thousands of soles	**2018**	**2017**
Net profit	1,276,687	1,213,108
Other comprehensive income		
Net loss on available-for-sale investments	(50,754)	(513)
Adjustment to other comprehensive income of associates	228	(16)
Cash flow hedge	7,140	-
Income tax effect	-	(16)
Other comprehensive income for the year, net of income tax	**(43,386)**	**(545)**
Total comprehensive income for the year	**1,233,301**	**1,212,563**

The accompanying notes on pages 6 to 85 are part of these consolidated financial statements.

(Translation of a Consolidated Financial Statements Originally Issued in Spanish)

Scotiabank Perú S.A.A. and Subsidiaries
Consolidated Statement of Changes in Equity
For the years ended December 31, 2018 and 2017

In thousands of soles	**Number of shares (note 16.B)**	**Share capital (note 16.B)**	**Additional paid-in capital (note 16.C)**	**Legal reserve (note 16.D)**	**Unrealized gains and losses (note 16.F)**	**Retained earnings (note 16.E)**	**Total equity**
Balance as of January 1, 2017	**481,666,886**	**4,816,667**	**394,463**	**843,801**	**24,136**	**1,130,647**	**7,209,714**
Net profit	-	-	-	-	-	1,213,108	1,213,108
Other comprehensive income:							
Net unrealized loss on available-for-sale investments	-	-	-	-	(529)	-	(529)
Adjustments to other comprehensive income of associates	-	-	-	-	(16)	-	(16)
Total comprehensive income	**-**	**-**	**-**	**-**	**(545)**	**1,213,108**	**1,212,563**
Allocation to legal reserve	-	-	-	116,839	-	(116,839)	-
Dividend distribution	-	-	-	-	-	(233,677)	(233,677)
Capitalization of retained earnings	81,787,056	817,871	-	-	-	(817,871)	-
Other adjustments	-	-	-	-	-	15	15
Balance as of December 31, 2017	**563,453,942**	**5,634,538**	**394,463**	**960,640**	**23,591**	**1,175,383**	**8,188,615**
Net profit	-	-	-	-	-	1,276,687	1,276,687
Other comprehensive income:							
Net unrealized loss on available-for-sale investments	-	-	-	-	(50,754)	-	(50,754)
Adjustments to other comprehensive income of associates	-	-	-	-	228	-	228
Cash flow hedge	-	-	-	-	7,140	-	7,140
Total comprehensive income	**-**	**-**	**-**	**-**	**(43,386)**	**1,276,687**	**1,233,301**
Allocation to legal reserve	-	-	-	122,102	-	(122,102)	-
Dividend distribution	-	-	-	-	-	(610,510)	(610,510)
Capitalization of retained earnings	48,840,838	488,408	-	-	-	(488,408)	-
Other adjustments	-	-	-	-	(1)	20	19
Balance as of December 31, 2018	**612,294,780**	**6,122,946**	**394,463**	**1,082,742**	**(19,796)**	**1,231,070**	**8,811,425**

The accompanying notes on pages 6 to 85 are part of these consolidated financial statements.

Scotiabank Perú S.A.A. and Subsidiaries
Consolidated Statement of Cash Flows
For the years ended December 31, 2018 and 2017

In thousands of soles	*Note*	2018	2017
Cash flows from operating activities			
Net profit		1,276,687	1,213,108
Adjustments to reconcile net profit to cash used in operating activities			
Provision for doubtful loans, net of recovery	*7(d)*	1,225,929	1,173,087
Provision for realizable, repossessed and other assets, net		23,430	17,506
Provision for accounts receivable, net		14,044	14,482
Depreciation and amortization		74,623	76,007
Provision for fringe benefits		48,473	50,431
Provision for current and deferred tax	*25.D and 26*	479,680	439,328
Provision for indirect loans and country risk, net of recovery		15,598	3,405
Other provisions		(29,818)	94,906
Gain on sale of property, furniture, and equipment		(6,792)	(6,003)
Gain on sale of realizable and repossessed assets		(7,000)	(6,828)
Net changes in assets and liabilities			
Loans		(5,977,543)	(3,986,131)
Investments at fair value through profit or loss		285,959	(48,134)
Available-for-sale investments		580,044	(2,534,631)
Accounts receivable		(577,777)	(404,095)
Other assets		(865,352)	891,507
Unsubordinated financial liabilities		3,967,259	2,037,076
Accounts payable		888,959	1,160,687
Provisions and other liabilities		886,341	(689,081)
Net results for the year after net changes in assets, liabilities and adjustments		**2,302,744**	**(503,373)**
Income tax paid		(224,931)	(429,685)
Net cash flows from operating activities		**2,077,813**	**(933,058)**
Cash flows from investing activities			
Dividends received		5,079	11,205
Acquisition of property, furniture and equipment	*11*	(65,175)	(73,702)
Acquisition of other financial assets		(4,754)	(16,466)
Sale of property, furniture and equipment		12,368	7,347
Sale of investments in associates		9,777	-
Net cash flows from investing activities		**(42,705)**	**(71,616)**
Cash flows from financing activities			
Dividends paid	*16.E*	(610,510)	(233,677)
Net cash flows from financing activities		**(610,510)**	**(233,677)**
Net increase (decrease) in cash and cash equivalents before effects of changes in exchange rate		1,424,598	(1,238,351)
Effects of changes in exchange rate on cash and cash equivalents		**37,249**	**(91,125)**
Net increase (decrease) in cash and cash equivalents		1,461,847	(1,329,476)
Cash and cash equivalents at the beginning of year		**7,527,096**	**8,856,572**
Cash and cash equivalents at the end of year		**8,988,943**	**7,527,096**

The accompanying notes on pages 6 to 85 are part of these consolidated financial statements.

1. Background and Economic Activity

A. Background

Scotiabank Perú S.A.A. (hereinafter the Bank) is a subsidiary of the Bank of Nova Scotia - BNS (a financial institution from Canada), which holds directly and indirectly 98.05% of the Bank's share capital as of December 31, 2018 and 2017. The Bank holds directly 2.32% of shares, and through NW Holdings Ltd. and Scotia Perú Holdings S.A. holds indirectly 55.32% and 40.41% of shares, respectively.

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 the Ley General del Sistema Financiero y del Sistema de Seguros y Orgánica (General Law of the Financial and Insurance Systems and the SBS Organic Law), Law 26702 (hereinafter the Banking Law). This law establishes the requirements, rights, obligations, collaterals, restrictions, and other operating conditions to which every legal entity operating in the financial and insurance system is subject.

The Bank's registered office is Av. Dionisio Derteano N° 102, San Isidro, Lima, Peru. As of December 31, 2018, the Scotiabank Group operates through a national network of 365 branches (as of December 31, 2017, 360 branches).

As of December 31, 2018 and 2017, the accompanying consolidated financial statements include the consolidated financial statements of the Bank and other companies 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., which is engaged in collections and address verification, among other activities; Scotia Sociedad Agente de Bolsa S.A. (hereinafter SAB), which is engaged in intermediation activities in the Peruvian securities market; Scotia Fondos Sociedad Administradora de Fondos S.A. (hereinafter SAF), which is engaged in mutual funds management; Scotia Sociedad Titulizadora S.A., (hereinafter Titulizadora), which is engaged in trusts management; and special purpose entities called the Fideicomiso CrediScotia-Dinero Electrónico and the Patrimonio en Fideicomiso sobre Bienes Inmuebles - Depsa.

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

In thousands of soles	Activity	Shareholding percentage	Assets	Liabilities	Equity
2018					
Scotiabank Perú S.A.A.	Banking	-	63,813,979	54,952,881	8,861,098
CrediScotia Financiera S.A.	Financing	100.00	4,896,069	3,924,551	971,518
Servicios, Cobranzas e Inversiones S.A.C.	Collection services	100.00	132,116	59,817	72,299
Scotia Fondos Sociedad Administradora de Fondos S.A.	Administration of mutual funds	100.00	70,465	2,421	68,044
Scotia Sociedad Agente de Bolsa S.A.	Stock market broker	100.00	44,081	1,757	42,324
Scotia Sociedad Titulizadora S.A.	Securitization	100.00	4,462	142	4,320
Patrimonio en Fideicomiso sobre Bienes Inmuebles-Depsa	Special purpose entity	-	1,555	1,296	259
Fideicomiso CrediScotia-Dinero Electrónico	Special purpose entity	-	530	587	(57)
2017					
Scotiabank Perú S.A.A.	Banking	-	57,750,449	49,515,888	8,234,561
CrediScotia Financiera S.A.	Financing	100.00	4,528,148	3,695,368	832,780
Servicios, Cobranzas e Inversiones S.A.C.	Collection services	100.00	122,095	56,365	65,730
Scotia Fondos Sociedad Administradora de Fondos S.A.	Administration of mutual funds	100.00	54,524	3,261	51,263
Scotia Sociedad Agente de Bolsa S.A.	Stock market broker	100.00	43,846	899	42,947
Scotia Sociedad Titulizadora S.A.	Securitization	100.00	3,579	100	3,479
Patrimonio en Fideicomiso sobre Bienes Inmuebles-Depsa	Special purpose entity	-	1,746	1,270	476
Fideicomiso CrediScotia-Dinero Electrónico	Special purpose entity	-	520	560	(40)

C. Acquisition of subsidiary

On May 9, 2018, the Bank entered into an agreement with Cencosud Perú S.A. to acquire 51% of shares of Banco Cencosud S.A., an entity that offers credit cards and consumer loans in Peru, for approximately US$ 100,000 thousand. Likewise they agreed to engage in a partnership to manage the credit card business and provide additional goods and services to the clients of Banco Cencosud Peru S.A. for a 15-year period. The amount of the consideration to be paid by the Bank may be adjusted depending on the equity value of Banco Cencosud S.A. on the date in which the transaction is completed. The latter is subject to the respective regulatory approvals. To date, this transaction is pending approval by the regulatory agency.

D. Approval of the financial statements

The consolidated financial statements as of December 31, 2018 were approved by the Bank's management on February 14, 2019, 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 financial statements without amendments. The General Shareholders' Meeting, held March 21, 2018, approved the consolidated financial statements as of December 31, 2017.

2. Basis for the Preparation of the Financial Statements

A. Statement of compliance

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

B. Basis of measurement

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

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

C. Functional and presentation currency

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

D. Significant accounting estimates and criteria

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

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

3. Accounting Principles and Practices

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

A. Consolidation policies

The consolidated financial statements include the financial statements of entities comprising 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 7.47% and 7.61%, respectively, of the total Bank's assets before eliminations as of December 31, 2018 and 2017. As of those dates, there is no non-controlling interests resulting from the consolidation process.

B. Financial instruments

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

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

The Scotiabank Group classifies its financial instruments into one of the following categories established by IAS 39, which were determined in SBS Resolution 7033-2012: (i) financial assets and 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 liabilities held at FVTPL.

Acquisitions or sales of financial assets that require assets' delivery within a period established according to market regulations or conventions (regular market terms) 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 income 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. The evidence of impairment can be an indication that a borrower or group of borrowers are experiencing significant financial difficulties, defaults or delays in payments of interest or principal, probability that the company will enter bankruptcy, restructuring or other legal and financial reorganization in which it is shown that there is a significant decline in expected future cash flows, as changes in circumstances or economic conditions related to payment defaults.

Offsetting financial instruments
Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position, when management currently 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 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, loan portfolio, accounts receivable, other assets and liabilities in the consolidated statement of financial position, unless otherwise indicated in the note corresponding to assets or liabilities. Accounting policies on recognition and valuation of these items are disclosed in corresponding accounting policies described in this note.

C. Derivative instruments
The SBS provides authorizations per type of derivate instrument and underlying asset, and may comprise more than one type of derivative instrument and underlying asset. Authorization schemes, valuation guidelines and accounting treatment for derivative instruments that financial insitutions shall apply are established in SBS Resolution 1737-2006 "Regulation for Trading and Accounting of Derivative Products 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 income 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 face value translated to initial spot price.

Hedging instruments

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

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

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

As of December 31, 2018, the Scotiabank Group only holds cash flow hedges with an underlying asset amounting to US$ 70,000 thousand, which is related to the transaction referred to note 1.C. As of December 31, 2017, the Scotiabank Group did not hold derivative instruments classified as hedging instruments.

D. Investments

The Scotiabank Group applies the recording and valuation criteria of equity investments established in SBS Resolution 7033-2012 "Regulation for Classification and Valuation 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 securities 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.

Measurement is initially made at fair value excluding transaction costs, which are recognized in the consolidated statement of profit or loss. Subsequently, fair values are 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 rate method. Dividends are recognized in the consolidated statement of profit or loss when the right to receive the payment has been established.

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

ii. Available-for-sale investments

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

Available-for-sale investments are initially recognized on trade date and measured at fair value plus costs that are directly attributable to the instrument's acquisition. They are subsequently remeasured at fair value, and gains and losses therein are recognized in equity in the 'unrealized 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 applying the effective interest method, and based on the resulting amortized cost, gains or losses from the changes in fair value shall be recognized.

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

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

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

Assessment of debt instruments

- Weakening in financial position of the issuer and its economic group.
- Lower credit risk rating of the instrument or the issuer.
- Interruption of transactions or interruption of an active market for the financial asset due to financial difficulties of the issuer.
- Observed inputs indicate that, on initial recognition of a group of financial assets with similar characteristics to the assessed instrument, there is a measurable decline in expected future cash flows.
- Decline in value due to regulatory changes.
- Significant decline in fair value below 40% of its amortized cost.
- Prolonged decline in fair value over the last 12 months, and accumulated fall in fair value in that period is at least 20%.

Assessment of equity instruments

- Lower credit risk rating of the issuer's debt instrument.
- Significant changes in the technological, market, economic or legal environment in which the issuer operates, which may have a negative impact on the investment recovery.
- Weakening in financial position or financial ratios of the issuer and its economic group.
- Interruption of transactions or interruption of an active market for the financial asset due to financial difficulties of the issuer.
- Observed inputs indicate that, on initial recognition of a group of financial assets with characteristics similar to the assessed instrument, there is a measurable decline in expected future cash flows.
- Decline in value due to regulatory changes.

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

Exchange gains or losses related to equity instruments are recognized in equity in 'unrealized gains and losses', while those related to debt instruments are recognized as income for the period.

Interest income on available-for-sale investments is recognized using the effective interest rate method, calculated over the asset's expected life. Premiums and/or discounts originated on the 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

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

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

Investment instruments held by entities can be reclassified. Investment instruments at FVTPL cannot be reclassified except for: (1) unlisted equity securities, which lack of reliable estimated fair value, or (2) investment instruments transferred through a repurchase agreement or given as collaterals, as indicated in paragraph (i) of this section. During 2018 and 2017, investment instruments have not been reclassified into other categories.

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

During 2018 and 2017, the Scotiabank Group has not recognized impairment losses on investment instruments.

E. Loans, classification and provision for loan losses

Direct loans are recorded when fund expenditures are made in favor of clients. Indirect loans (contingent) are recorded when supporting documents are issued and may become direct loans in the event of making a payment to third parties. Likewise, any direct loan behind changes in payment conditions due to constraints on debtors' ability to pay are considered as refinancing or restructuring.

Finance leases are recognized using the effective interest rate method, recording the amount of the receivable installments as loans. Corresponding finance income is recorded on an accrual basis in accordance with the lease arrangement terms. Initial direct costs are recognized immediately as expenses.

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

Loan portfolio classification
The Bank and CrediScotia classify their loan portfolio as: Wholesale Banking (corporate, large-business and medium-business) and Retail Banking (small-business, micro-business, revolving, non-revolving and mortgage loans). 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 guidelines established in SBS Resolution 11356-2008 and amendments.

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

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

The credit risk exposure equivalent of indirect loans is determined by multiplying indirect loans by the different types of Credit Conversion Factor (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 unused credit lines.	-
(v)	Others not considered in the previous items.	100

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

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

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

(*) Including revolving and non-revolving loans.

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

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

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

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

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

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

Additionally, those entities that do not comply with SBS regulations shall establish an additional generic provision of 1% on direct loan. This provision will be applicable to direct consumer (revolving and non-revolving) loans and/or micro-business loans and/or small-business loans of the clients rated as "standard", as applicable.

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

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

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

Provision for direct loans is recorded deducting the balance from the corresponding asset (note 7), and provision for indirect loans is recorded as a liability (note 15).

F. Intermediation services carried out by third parties

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

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

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

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

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

G. Property, furniture and equipment

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

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

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

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

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

H. Realizable, received as payment and repossessed assets

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

Realizable assets, received as payment and repossessed assets (note 12) are regulated by SBS Resolution 1535-2005. This caption mainly includes property, plant and equipment received as payment for doubtful loans, and are initially recorded at the lower of judicial, extrajudicial, recovery or estimated market value, or value of outstanding debt.

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

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

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

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

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

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

I. Impairment of non-financial assets

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

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

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

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

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

J. Intangible assets

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

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

K. Goodwill

Goodwill is related to the higher value paid between the acquisition cost over the identifiable fair values of a subsidiary or an associate, and the acquisition of equity spin-off from Citibank del Perú S.A. (note 10).

Business acquisitions are recorded using the purchase accounting method.

This means, recognizing identifiable assets of the acquired entity at fair value. Any excess between the acquisition cost and the fair value of net identifiable assets is recognized as goodwill.

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

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

L. Securities, bonds and outstanding obligations

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

Interest is recognized in profit or loss when accrued.

M. Provisions and contingencies

i. Provisions

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

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

ii. Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in notes to the consolidated financial statements, unless the possibility of an outflow of economic resources 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 being recorded in equity. Dividends on preference shares are recorded as liabilities and charged to income for the period. As of December 31, 2018 and 2017, the Scotiabank Group does not hold outstanding preference shares.

O. Income and expense recognition

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

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

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

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

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

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

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

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

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

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

P. Income tax

Current income tax is determined based on the taxable income and recorded according to tax legislation applicable to the Bank and each entity that is part of the Scotiabank Group independently (note 25).

Deferred income tax is recorded using the liability method based on temporary differences derived from tax accounting of assets and liabilities, and their balances in the financial statements of each entity of the Scotiabank Group. Also, it is determined applying the current legislation and tax rates as of the estimated date in which the deferred tax asset is realized or the deferred tax liability is settled (note 26).

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

Q. Employees' profit sharing

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

R. Repurchase agreements

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

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

As of December 31, 2018 and 2017, the Scotiabank Group performs repurchase agreements of securities and currencies (notes 5 and 15).

S. Consolidated statement of cash flows

For presentation purposes on this consolidated financial statement, as of December 31, 2018 and 2017, the balances of 'cash and due from banks' and 'interbank funds' of assets were considered as cash and cash equivalents, except for the restricted cash and due from banks for compliance with foreign currency repurchase commitments with BCRP and reserve funds for compliance with contractual commitments with foreign financial institutions (note 5.C).

T. Trust funds

Assets and income from trust fund transactions, where there is a liability to return the assets to the clients, and the Bank and Titulizadora act as trustees, are not included in the consolidated financial statements since they belong to neither the Bank nor Titulizadora, and are recorded in suspense accounts for corresponding control. Commissions for those activities are included in 'financial service income' (note 21).

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 4). Foreign exchange gains or losses resulting from the payment of such transactions and from the translation of monetary assets and liabilities stated in foreign currency at exchange rates ruling at the end of the period are recognized in the consolidated statement of profit or loss.

V. New accounting pronouncements

i. New accounting pronouncements not early adopted

The following new standards, amendments and interpretations have been issued or adapted by the IASB, but are effective for annual periods beginning on or after January 1, 2019; however, the Bank has not adopted them in preparing these consolidated financial statements. Those that might be relevant to the Scotiabank Group are detailed below. The Scotiabank Group do not plan to early adopt these standards.

New IFRS, amendments and interpretations	Effective date
IFRS 16 *Leases.*	Annual periods beginning on or after January 1, 2019. Early adoption is permitted for entities that apply IFRS 15 on or before the date of initial application of IFRS 16.
IFRIC 23 *Uncertainty over Income Tax Treatments.*	Annual periods beginning on or after January 1, 2019. Early adoption is permitted.
Prepayment Features with Negative Compensation (Amendments to IFRS 9 *Financial Instruments*).	Annual periods beginning on or after January 1, 2019.
Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28 *Investments in Associates and Joint Ventures*).	Annual periods beginning on or after January 1, 2019.
Annual Improvements to IFRSs Standards 2015-2017 Cycle – various standards.	Annual periods beginning on or after January 1, 2019.
Amendments to *References to the Conceptual Framework in IFRSs.*	Annual periods beginning on or after January 1, 2020.
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*).	Effective date was indefinitely deferred.

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

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

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

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

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

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

As indicated in note 2.A, the standards and interpretations described in in i) and ii) will only be applicable to the Bank and CrediScotia 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. 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 apply IAS 17 *Leases*.

iii. Main standards and interpretations issued by the SBS in 2018

- Through SBS Resolution 2755-2018, dated July 16, 2018, the SBS approved the "SBS Sanctions Regulation", effective July 17, 2018.

- Through SBS Resolution 2610-2018, dated July 4, 2018, the SBS amended the "Regulation for Classification and Valuation of Investments of Financial Institutions ", effective October 1, 2018.

4. Foreign Currency Balances

The consolidated statement of financial position includes balances of foreign currency transactions, mainly in U.S. dollars (US$), which are recorded in soles (S/) at the exchange rate established by the SBS. As of December 31, 2018 and 2017, the exchange rate was US$1 = S/ 3.373 and S/ 3.241, respectively.

Foreign currency transactions in the country and international trade transactions referred to the concepts authorized by Banco Central de Reserva del Perú (BCRP) are channeled through a free banking system. As of December 31, 2018, buy and sell exchange rates used were US$ 1 = S/ 3.369 and US$ 1 = S/ 3.379, respectively (US$ 1 = S/ 3.238 buy and US$ 1 = S/ 3.245 sell, as of December 31, 2017).

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

	2018			2017		
In thousands of US$	**U.S. dollars**	**Other currencies**	**Total**	**U.S. dollars**	**Other currencies**	**Total**
Assets						
Cash and due from banks	2,758,023	12,528	2,770,551	2,479,019	9,197	2,488,216
Investments at FVTPL and available-for-sale investments	876	-	876	86,522	-	86,522
Loan portfolio, net	4,265,796	-	4,265,796	4,536,490	-	4,536,490
Held-for-trading instruments	1,504	-	1,504	697	-	697
Accounts receivable, net	20,779	-	20,779	16,473	-	16,473
Other assets, net	125,762	186	125,948	9,622	1,560	11,182
	7,172,740	**12,714**	**7,185,454**	**7,128,823**	**10,757**	**7,139,580**
Liabilities						
Deposits and obligations and other obligations	4,168,786	28,233	4,197,019	4,295,566	26,642	4,322,208
Borrowings and debts	2,863,151	-	2,863,151	2,350,397	-	2,350,397
Held-for-trading instruments	3,202	-	3,202	212	-	212
Other liabilities	119,115	3,905	123,020	36,302	3,340	39,642
	7,154,254	**32,138**	**7,186,392**	**6,682,477**	**29,982**	**6,712,459**
Net liability (asset) position in the consolidated statement of financial position	**18,486**	**(19,424)**	**(938)**	**446,346**	**(19,225)**	**427,121**
Derivative transactions	**(104,527)**	**21,760**	**(82,767)**	**(336,766)**	**18,035**	**(318,731)**

In 2018 and 2017, the Scotiabank Group recorded net foreign exchange gains on various transactions amounting to S/ 209,778 thousand and S/ 256,897 thousand, respectively in Income from financial transactions in the consolidated statement of profit or loss (note 22).

As of December 31, 2018, the Scotiabank Group has contingent foreign currency transactions amounting to US$ 11,334,227 thousand equivalent to S/ 38,230,347 thousand (US$ 8,105,607 thousand equivalent to S/ 26,270,272 thousand as of December 31, 2017).

5. Cash and Due From Banks

This caption comprises the following:

In thousands of soles	**2018**	**2017**
Cash (a)	1,151,651	1,052,396
BCRP (a)	7,429,609	5,584,554
Local banks and other financial institutions (b)	32,825	51,238
Foreign banks and other financial institutions (b)	244,023	302,210
Clearing	59,264	125,306
Restricted cash and due from banks (c)	1,648,572	2,260,535
Other cash and due from banks	87	300
	10,566,031	**9,376,539**

(a) As of December 31, 2018, funds held in cash and deposits with BCRP include US$ 2,106,394 thousand and S/ 946,416 thousand (US$ 1,650,264 thousand and S/ 870,515 thousand as of December 31, 2017), which are intended for covering reserve requirement that the Bank and CrediScotia shall held for deposits and obligations according to the limits established by current legislation. These funds are deposited with BCRP and in the financial institutions' vaults.

Cash reserves held at BCRP do not accrue interest, except for the amount in local and foreign currency amount that exceeded the minimum cash reserve. As of December 31, 2018, the excess of the minimum cash reserve in foreign currency accrued interest at an annual effective interest rate of 1.95% (annual effective interest rate of 0.37% as of December 31, 2017). Accrued interest on the excess in foreign currency in 2018 amounts to S/ 8,855 thousand (US$ 215 thousand and US$ 4,303 thousand in 2017).

As of December 31, 2018, balance in BCRP comprise 'overnight' transactions for US$ 96,700 thousand and S/ 186,500 thousand, which accrued interest at a nominal annual rate of 1.50% and 2.43%, respectively (US$ 30,000 thousand and S/ 288,000 thousand as of December 31, 2017 at a nominal annual rate of 1.41% and 2.00%, respectively).

(b) Deposits in local and foreign banks mainly correspond, to balances in soles and U.S. dollars, and lower amounts in other currencies. They have free withdrawal option and accrue interest at market rates. As of December 31, 2018, deposits with foreign banks comprise deposits held at the Bank of Nova Scotia for US$ 2,350 thousand and CAN$ 2,894 thousand (US$ 10,900 thousand and CAN$ 262 thousand as of December 31, 2017).

As of December 31, 2018 and 2017, the Scotiabank Group concentrate 75% and 83% of its deposits with foreign banks in three financial institutions, respectively.

(c) As of December 31, 2018, restricted cash and due from banks comprises: reserve funds for compliance with foreign currency repurchase commitments with BCRP for US$ 478,683 thousand (note 15.a) (US$ 688,367 thousand as of December 31, 2017); ii) reserve funds for compliance with contractual commitments with foreign financial institutions for US$ 8,300 thousand (US$ 7,576 thousand as of December 31, 2017); iii) guarantee funds for treasury transactions for US$ 38 thousand and S/ 2 thousand (US$ 43 thousand and S/ 2 thousand as of December 31, 2017); iv) guarantee funds for lawsuits against the Bank for US$ 263 thousand and S/ 952 thousand (US$ 14 thousand and S/ 952 thousand as of December 31, 2017); and v) other restrictions for US$ 866 thousand and S/ 1,089 thousand (US$ 851 thousand and S/ 1,087 as of December 31, 2017).

(d) In 2018 and 2017, interest income from cash and due from banks amounted to S/ 60,189 thousand and S/ 33,104 thousand, respectively, and is recorded as interest income in the consolidated statement of profit or loss (note 19).

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

This caption comprises the following:

In thousands of soles	**2018**	**2017**
Investments at FVTPL		
Peruvian Treasury Bonds (a)	270,534	161,735
Interest on mutual funds (b)	11,143	11,116
Corporate bonds (c)	2,186	-
BCRP indexed certificates of deposit (d)	-	277,451
BCRP certificates of deposit (e)	-	119,521
	283,863	**569,823**
Available-for-sale investments		
BCRP certificates of deposit (e)	2,488,426	3,981,432
Peruvian Treasury Bonds (a)	1,705,231	846,521
Unlisted securities	7,428	5,390
Listed securities	648	538
Other interests, net	18	18
	4,201,751	**4,833,899**
Total investments at FVTPL and available-for-sale investments	**4,485,614**	**5,403,722**

(a) Peruvian Treasury Bonds correspond to sovereign bonds issued in local currency by the Ministry of Economy and Finance of Peru and represent internal public debt securities of the Republic of Peru. As of December 31, 2018, these bonds accrue interest at annual rates ranging from 3.17% to 6.22% (from 1.05% to 6.26% as of December 31, 2017) with maturities between August 2020 and August 2037 (between February 2018 and February 2055 as of December 31, 2017).

(b) As of December 31, 2018, the Scotiabank Group holds mutual fund investment shares in local and foreign currency for S/ 9,443 thousand and US$ 504 thousand, respectively (S/ 9,343 thousand and US$ 547 thousand as of December 31, 2017).

(c) Corporate bonds are issued by the MiVivienda Fund in local currency. As of December 31, 2018, these bonds accrue interest at an annual rate of 5.18% and mature in February 2024.

(d) BCRP indexed certificates of deposit are freely negotiable securities in foreign currency, repossessed through BCRP public bids and traded in the Peruvian secondary market. These certificates are subject to a readjustment based on changes in average exchange rate between the issuance date and the maturity date. These certificates matured in February 2018.

(e) BCRP certificates of deposit are freely negotiable securities in local currency, they are acquired through BCRP public bids and traded in the Peruvian secondary market. As of December 31, 2018, these certificates accrue interest based on the BCRP reference rate, which ranged from 2.55% to 3.12% annually (from 3.08% to 4.96% annually as of December 31, 2017) with maturities between January 2019 and June 2020 (between January 2018 and December 2018 as of December 31, 2017). Likewise, as of December 31, 2018, the Bank holds negotiable certificates of deposits issued by BCRP, which cannot be withdrawn since they are granted in repurchase agreements for S/ 1,299,331 thousand (note 15) (S/ 1,182,657 thousand as of December 31, 2017).

(f) As of December 31, 2018 and 2017, the accrued interest on investments managed by the Scotiabank Group amounted to S/ 134,577 thousand and S/ 150,869 thousand, respectively, and it is recorded as 'interest income' in the consolidated statement of profit or loss (note 19).

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

In thousands of soles	**2018**	**2017**
Up to 3 months	981,239	2,115,458
From 3 to 12 months	1,429,852	2,313,532
More than 1 year	2,074,523	974,732
	4,485,614	**5,403,722**

7. Loan Portfolio, Net

(a) This caption comprises the following:

In thousands of soles	***Note***	**2018**		**2017**	
Direct loans:					
Current loans		46,950,638	95%	42,480,703	95%
Refinanced loans		804,150	1%	602,918	1%
Restructured loans		521	-	-	-
Past-due loans		911,855	2%	810,944	2%
Lawsuit loans		993,243	2%	743,456	2%
		49,660,407	**100%**	**44,638,021**	**100%**
Plus (less)					
Accrued interest on current loans		341,222		297,687	
Non-accrued interest		(25,977)		(33,342)	
Allowance for impairment		(2,627,566)		(2,271,000)	
		47,348,086		**42,631,366**	
Indirect loans:	***18***	**9,320,024**		**9,280,506**	

As of December 31, 2018 and 2017, 51% of the loan portfolio (direct and indirect loans) was concentrated in 488 and 622 clients, respectively.

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

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

	2018		**2017**	
%	**Local currency**	**Foreign currency**	**Local currency**	**Foreign currency**
Overdrafts (*)	55.00 – 85.00	30.00 – 55.00	55.00 – 85.00	30.00 – 55.00
Discounts and commercial loans	3.76 – 48.85	2.69 – 27.64	4.79 – 49.03	1.62 – 27.76
Consumer loans	14.59 – 44.65	8.81 – 30.68	14.87 – 45.69	9.68 – 27.11

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

(b) As of December 31, according to current SBS regulations, the loan portfolio of the Bank and CrediScotia risk-based ratings area as follows:

	2018				2017			
In thousands of soles	**Nº of debtors**	**Direct**	**Indirect**	**Total**	**Nº of debtors**	**Direct**	**Indirect**	**Total**
Risk category								
Standard	1,030,994	45,176,158	9,008,681	54,184,839	1,012,590	40,828,371	9,122,355	49,950,726
Potential problems	44,325	1,363,954	264,113	1,628,067	45,991	1,195,085	132,835	1,327,920
Substandard	33,541	636,264	10,255	646,519	34,602	511,657	6,933	518,590
Doubtful	59,961	860,077	6,110	866,187	57,802	761,453	5,823	767,276
Loss	50,689	1,623,954	30,865	1,654,819	54,592	1,341,455	12,560	1,354,015
	1,219,510	**49,660,407**	**9,320,024**	**58,980,431**	**1,205,577**	**44,638,021**	**9,280,506**	**53,918,527**

(c) The movement of the provision for direct doubtful loans is as follows:

In thousands of soles	**Specific**	**Generic**	**Total**
Balance as of January 1, 2017	1,435,174	563,045	1,998,219
Additions debited to profit or loss	1,890,594	235,872	2,126,466
Recovery of provisions	(686,865)	(197,861)	(884,726)
Transfer of provisions and others	4,822	(4,645)	177
Write-off and forgiveness	(949,099)	-	(949,099)
Exchange difference	(15,002)	(5,035)	(20,037)
Balance as of December 31, 2017	**1,679,624**	**591,376**	**2,271,000**
Additions debited to profit or loss	2,004,644	295,451	2,300,095
Recovery of provisions	(766,264)	(243,292)	(1,009,556)
Transfer of provisions and others	17,272	(17,404)	(132)
Write-off and forgiveness	(956,947)	-	(956,947)
Exchange difference	16,985	6,121	23,106
Balance as of December 31, 2018	**1,995,314**	**632,252**	**2,627,566**

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

In thousands of soles	**2018**	**2017**
Provisions for doubtful loans of the period	(2,300,095)	(2,126,466)
Recovery of provisions	1,009,556	884,726
Income from recovery of loan portfolio	64,610	68,653
Provision for loan losses, net of recovery	**(1,225,929)**	**(1,173,087)**

The Bank and CrediScotia record legal provisions for loan portfolio according to the policy described in note 3.E. Also, these entities record voluntary provisions for doubtful loans included in the generic provision for loan losses. As of December 31, 2018 and 2017, voluntary provisions amount to S/ 102,627 thousand and S/ 97,955 thousand, respectively.

As of December 31, 2018, provision for exchange rate loans amounts to S/ 1,982 thousand (S/ 682 thousand as of December 31, 2017).

As indicated in note 3.E, from November 2014, the procyclical component for provision calculation was deactivated. During 2018, the Bank used S/ 13,472 thousand from the procyclical provisions' balance to record specific provisions. As of December 31, 2018, the Bank and CrediScotia have a balance of S/ 42,204 thousand (S/ 54,264 thousand since procyclical provisions were not used as of December 31, 2017).

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

	2018			2017		
In thousands of soles	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Up to 1 month	3,518,127	2,072,826	5,590,953	1,675,291	3,019,501	4,694,792
From 1 to 3 months	3,557,294	3,094,385	6,651,679	2,507,608	3,320,693	5,828,301
More than 3 to 6 months	2,791,957	1,814,226	4,606,183	3,551,360	1,607,604	5,158,964
More than 6 to 12 months	5,197,421	1,610,036	6,807,457	4,378,191	1,193,552	5,571,743
More than 1 year	18,518,774	5,921,486	24,440,260	16,432,082	5,695,426	22,127,508
Past-due loans and lawsuit loans	1,390,507	514,591	1,905,098	1,111,982	442,418	1,554,400
Less, accrued interest	(266,351)	(74,872)	(341,223)	(236,442)	(61,245)	(297,687)
	34,707,729	**14,952,678**	**49,660,407**	**29,420,072**	**15,217,949**	**44,638,021**

8. Held-for-Trading Instruments

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

	2018		2017	
In thousands of soles	Accounts receivable	Accounts payable	Accounts receivable	Accounts payable
Forwards	59,419	50,779	26,044	33,720
IRS	5,074	10,799	2,258	687
CCS	34,578	24,583	13,356	33,604
	99,071	**86,161**	**41,658**	**68,011**

9. Accounts Receivable, Net

This caption comprises the following:

In thousands of soles	2018	2017
Financial instruments		
Sale of investments (a)	846,323	469,830
Collection services	44,454	41,931
Payments on behalf of thirds parties, net	21,728	21,074
Commissions receivable	16,407	20,119
Advances to personnel	3,184	8,749
Accounts receivable from third parties	1,693	423
Sales of goods and services, trust, net	584	1,476
Other accounts receivable, net	160,721	20,181
	1,095,094	**583,783**
Non-financial instruments		
Tax claims (b)	696,260	696,868
	1,791,354	**1,280,651**

(a) The balance as of December 31, 2018 and 2017, corresponds to accounts receivable generated in sales business 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/ 574,089 thousand and S/ 224,535 thousand; and ii) short sale of sovereign bonds for S/ 272,234 thousand and S/ 245,295 thousand, respectively.

(b) Tax claims comprise tax proceedings with the Tax Authorities (SUNAT). As of December 31, 2018 and 2017, they mainly comprise: i) S/ 230,094 thousand for payments made by the Bank under protest referred to the Temporary Tax on Net Assets (ITAN) of fiscal years 2005 and 2006, which were challenged in courts by the Bank as they are considered undue payments and shall be offset with the income tax and other tax credits, and ii) S/ 20,666 thousand for income tax paid in excess by CrediScotia for the years 2010, 2011, 2012 and 2013 (S/ 21,274 thousand as of December 31, 2017). It is the opinion of management and its legal advisors that these amounts will be returned upon the favorable resolution of the case.

Also, this account receivable net of the pertinent provision for doubtful account includes tax claims for S/ 433,815 thousand, as of December 31, 2018 and 2017, which are related to payments made under protest due to a resolution issued by the Tax Authorities. The latter was challenged in courts by the Bank. . It is the opinion of management and its legal advisors that these amounts will be returned to the Bank upon the favorable resolution of the case.

10. Goodwill

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

According to SBS regulations, goodwill has been assessed by management, which determined that there is no impairment as of December 31, 2018 and 2017.

11. Property, Furniture and Equipment, Net

This caption comprises the following:

In thousands of soles	Balance as of 01.01.2018	Additions	Disposals	Reclassification and/or adjustments	Balances as of 12.31.2018
Cost					
Land	132,075	-	(5,161)	-	126,914
Property and premises	761,241	2,277	(21,825)	14,772	756,465
Furniture, fixture and IT equipment	424,831	12,671	(4,991)	8,272	440,783
Vehicles	3,593	160	(248)	-	3,505
Goods in-transit and substitute goods	28,985	30,579	-	(7,564)	52,000
Work-in-progress	13,151	19,488	-	(19,130)	13,509
	1,363,876	**65,175**	**(32,225)**	**(3,650)**	**1,393,176**
Accumulated depreciation					
Property and premises	613,077	31,344	(21,486)	-	622,935
Furniture, fixture and IT equipment	341,229	28,833	(4,915)	-	365,147
Vehicles	3,341	140	(247)	-	3,234
	957,647	**60,317**	**(26,648)**	**-**	**991,316**
	406,229				**401,860**

In thousands of soles	Balance as of 01.01.2017	Additions	Disposals	Reclassification and/or adjustments	Balances as of 12.31.2017
Cost					
Land	133,027	-	(952)	-	132,075
Property and premises	745,474	9,880	(4,876)	10,763	761,241
Furniture, fixture and IT equipment	423,737	26,631	(30,458)	4,921	424,831
Vehicles	3,684	153	(596)	352	3,593
Goods in-transit and substitute goods	13,964	21,997	-	(6,976)	28,985
Work-in-progress	2,832	15,041	-	(4,722)	13,151
	1,322,718	**73,702**	**(36,882)**	**4,338**	**1,363,876**
Accumulated depreciation					
Property and premises	580,066	30,986	(4,588)	6,613	613,077
Furniture, fixture and IT equipment	339,442	30,568	(30,353)	1,572	341,229
Vehicles	3,829	108	(596)	-	3,341
	923,337	**61,662**	**(35,537)**	**8,185**	**957,647**
	399,381				**406,229**

According to current legislation, banks and financial institutions in Peru cannot give as collateral the assets that are part of their property, furniture and equipment, except for those acquired through the issuance of lease bonds to carry out finance lease transactions.

12. Other Assets, Net

This caption comprises the following:

In thousands of soles	2018	2017
Financial instruments		
Transactions in progress (a)	950,313	55,815
	950,313	**55,815**
Non-financial instruments		
Prepaid expenses (b)	133,637	116,779
Realizable and repossessed assets, net of accumulated depreciation and provision for impairment for S/ 155,018 thousand (S/ 141,241 thousand as of December 31, 2017)	88,967	87,683
Intangible assets, net of amortization for S/ 273,817 thousand (S/ 260,296 thousand as of December 31, 2017)	20,657	26,672
Tax credit, net of income tax (c)	13,314	51,297
Sundry	7,942	7,942
	264,517	**290,373**
	1,214,830	**346,188**

(a) Transactions in progress are mainly those carried out during the last days of the month and are reclassified in the following month into their definitive respective final accounts in the consolidated statement of financial position. These transactions do not have an impact on the profit or loss of the Scotiabank Group. As of December 31, 2018, transactions in progress mainly include treasury transactions and invoices-in-transit amounting to S/ 930,048 thousand and S/ 1,831 thousand, respectively (S/ 30,762 thousand and S/ 4,382 thousand, respectively, as of December 31, 2017).

(b) As of December 31, 2018, prepaid expenses mainly include:
i) deferred loan origination costs related to commissions paid to the external sales force for S/ 96,195 thousand (S/ 76,627 thousand as of December 31, 2017); ii) prepaid commissions of received borrowings for S/ 7,966 thousand (S/ 8,631 thousand as of December 31, 2017); iii) prepaid rent for S/ 3,526 thousand (S/ 4,396 thousand as of December 31, 2017); and iv) advertising and marketing services for S/ 1,540 thousand (S/ 2,757 thousand as of December 31, 2017), among others.

(c) As of December 31, 2018, tax credit of sales tax comprises sales tax credit for S/ 587 thousand. As of December 31, 2017, the Scotiabank Group has sales tax payable, net of tax credit of sales tax for S/ 16,539 thousand, and is recorded in 'other accounts payable'.

13. Deposits and Obligations with Financial Institutions

This caption comprises the following:

In thousands of soles	2018		2017	
Corporate clients	19,267,025	48%	18,116,875	48%
Individuals	14,862,531	37%	14,082,733	37%
Non-profit entities	4,028,292	10%	3,784,349	10%
Others	1,793,245	5%	1,878,470	5%
	39,951,093	**100%**	**37,862,427**	**100%**

As of December 31, 2018 and 2017, deposits and other obligations in U.S. dollars represent 35% and 37% of total amount, respectively. As of December 31, 2018, deposits include accounts pledged in favor of the Bank and CrediScotia for credit transactions for S/ 591,461 thousand and US$ 143,630 thousand (S/ 633,042 thousand and US$ 196,062 thousand as of December 31, 2017).

As of December 31, 2018 and 2017, total deposits and obligations from individuals and non-profit legal entities amount to S/ 10,198,756 thousand and S/ 9,919,532 thousand, respectively, and are covered by the Peruvian Deposit Insurance Fund according to current regulations.

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

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

As of December 31, 2018, the maximum amount covered for each individual amounted to S/ 101 thousand (S/ 97 thousand as of December 31, 2017).

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

	2018		2017	
%	Local currency	Foreign currency	Local currency	Foreign currency
Savings accounts	1.04 - 1.90	0.21 - 0.28	0.74 - 1.17	0.20 - 0.21
Time deposits	2.83 - 5.64	0.20 - 1.75	3.60 - 6.13	0.16 - 0.98
Bank certificates	-	0.19 - 0.43	-	0.18 - 0.39
Severance payment deposits	3.16 - 6.05	1.13 - 1.71	3.06 - 6.49	1.14 - 2.12

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

	2018			2017		
In thousands of soles	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Up to 1 month	3,404,172	1,640,957	5,045,129	3,392,385	1,923,343	5,315,728
From 1 to 3 months	3,382,494	1,238,242	4,620,736	3,426,527	621,464	4,047,991
From 3 to 6 months	1,707,268	460,357	2,167,625	1,709,341	342,933	2,052,274
From 6 to 12 months	2,110,713	692,798	2,803,511	2,269,180	479,652	2,748,832
More than 1 year	1,234,221	557,908	1,792,129	1,197,115	554,367	1,751,482
	11,838,868	**4,590,262**	**16,429,130**	**11,994,548**	**3,921,759**	**15,916,307**
Interest	**122,874**	**13,633**	**136,507**	**138,258**	**6,584**	**144,842**
	11,961,742	**4,603,895**	**16,565,637**	**12,132,806**	**3,928,343**	**16,061,149**

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

14. Borrowings and Debts

This caption comprises the following:

In thousands of soles	**2018**	**2017**
Borrowings and debts		
Obligations in the country:		
COFIDE (a)	1,221,600	1,174,000
Ordinary loans from abroad:		
Related banks (b)	4,384,900	3,241,000
Other banks (c)	3,443,660	2,954,403
	9,050,160	**7,369,403**
Interest payable	35,876	19,257
	9,086,036	**7,388,660**
Securities and obligations (d)	2,249,187	2,302,962
	11,335,223	**9,691,622**

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

As of December 31, 2018 and 2017, the Bank and CrediScotia maintain obligations with COFIDE for S/ 566,527 thousand and S/ 613,070 thousand, respectively, which are guaranteed by a mortgage loan portfolio, as follows:

		2018		**2017**	
In thousands of	**Currency**	**Net loans**	**Backed debt**	**Net loans**	**Backed debt**
Detail					
Mortgage loans- MiVivienda Fund (*)	Soles	550,592	524,794	584,578	562,038
Mortgage loans- MiVivienda Fund (*)	U.S. dollars	14,130	12,373	17,772	15,746

(*) 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, during 2018, the Bank entered into agreements to channel resources with COFIDE for an amount of S/ 655,073 thousand (S/ 325,930 thousand as of December 31, 2017). Said resources will be used to fund corporate and medium-business loans.

(b) As of December 31, 2018, ordinary loans with related banks include debts payable to Scotiabank Ltd. Bahamas for US$ 1,300,000 thousand, which accrue interest at annual rates ranging from 2.78% to 3.27% with maturities between April 2019 and January 2021 (US$ 1,000,000 thousand as of December 31, 2017, which accrue interest at annual rates ranging from 1.88% to 2.66% with maturities between July 2018 and December 2019).

These borrowings do not have collaterals nor compliance terms.

(c) As of December 31, 2018, the Bank also holds borrowings and debts with other foreign banks for US$ 1,020,949 thousand (US$ 911,571 thousand as of December 31, 2017), which accrue interest at annual rates ranging from 2.57% to 3.69% (1.63% to 2.96% as of December 31, 2017). These transactions contain standard terms of compliance with financial ratios and other administrative matters, in management's opinion, those terms do not affect the Bank's operations and are being met.

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

In thousands of soles	**2018**	**2017**
Up to 1 month	1,140,106	589,520
From 1 to 3 months	1,122,298	1,737,548
From 3 to 6 months	1,083,834	536,521
From 6 to 12 months	1,549,642	1,209,222
More than 1 year	4,190,156	3,315,849
	9,086,036	**7,388,660**

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

In thousands of soles	**Annual interest**	**Maturity**	**2018**	**2017**
Issuance				
Redeemable subordinated bonds				
1st Issuance, single series (i)	4.50%	2027	1,349,200	1,296,400
1st Issuance A – 1st Program - SBP (ii)	7.34%	2025	535,560	535,560
1st Issuance A – 1st Program - CSF (iii)	7.41%	2027	130,000	130,000
			2,014,760	**1,961,960**
Corporate bonds (v)				
1st Issuance A – 3rd Program	4.56%	2021	104,790	-
3rd Issuance B – 2nd Program	5.56%	2019	100,000	100,000
9th Issuance C – 2nd Program	5.03%	2018	-	100,000
3rd Issuance A – 2nd Program	6.78%	2018	-	75,920
5th Issuance B – 2nd Program	6.19%	2018	-	38,500
			204,790	**314,420**
Other debt instruments				
Negotiable certificates of deposits			15,468	10,373
			15,468	**10,373**
			2,235,018	**2,286,753**
Interest payable and obligations			14,169	16,209
			2,249,187	**2,302,962**

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

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

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

iv. They correspond to corporate bonds issued by the Bank for S/ 204,790 thousand, with terms that range from 1 to 3 years and accrued interest rates that range from 4.56% to 5.56%. The proceeds were exclusively destined to credit operations financing.

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

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

In thousands of soles	**2018**	**2017**
Up to 3 months	7,900	108,218
From 3 to 6 months	106,269	7,992
From 6 to 12 months	13,421	120,268
Over 12 months	2,121,597	2,066,484
	2,249,187	**2,302,962**

(e) As of December 31, 2018 and 2017, interest expenses on borrowings and debts of the Scotiabank Group amount to S/ 389,739 thousand and S/ 342,766 thousand, respectively (note 20).

15. Provisions and other Liabilities

This caption comprises the following:

In thousands of soles	2018	2017
Accounts payable		
Repurchase agreements (a)	3,511,269	3,457,532
Other accounts payable	881,033	421,799
Short sale	203,576	197,478
Dividends, vacations, remunerations and profit sharing payable	38,976	40,821
	4,634,854	**4,117,630**
Provisions		
Provisions for litigations and legal claims (b)	38,916	65,158
Provisions for various contingencies (c)	60,431	60,134
Provision for contingent loans and country risk	110,317	92,105
Other provisions (d)	113,947	125,788
	323,611	**343,185**
Other liabilities		
Transactions in progress (e)	1,247,778	315,112
Deferred income on portfolio sale and other	44,563	52,785
	1,292,341	**367,897**
	6,250,806	**4,828,712**

(a) It corresponds to balance of obligations for foreign currency purchase transactions and negotiable deposits issued by BCRP both with commitments of repurchase made with BCRP (notes 5(c) ans 6(e)). As of December 31, 2018 and 2017, these transactions accrued interest ranging from 3.35% to 5.75% (3.97% to 6.31% as of December 31, 2017). Likewise, as of December 31, 2018, the maturities of these transactions fluctuate between January 2019 and December 2019 (between January 2018 and July 2019 as of December 31, 2017).

(b) As of December 31, 2018 and 2017, the Scotiabank Group has legal actions underway, which are related to civil and labor claims, among others. These legal actions resulted from activities and operations performed during the normal course of business of each entity of the Scotiabank Group; it is not anticipated they will have a significant impact on operations or results.

(c) As of December 31, 2018, this account mainly comprises reversals or recoveries of provisions recorded in prior years against equity accounts for S/ 30,126 thousand (S/ 29,196 thousand as of December 31, 2017) which, according to SBS Official Letter 23797-2003, shall be reallocated to deficits in other Bank's asset accounts. Also, the balance as of December 31, 2018 mainly includes provisions recorded against profit or loss for various contingencies for S/ 30,285 thousand (S/ 30,873 as of December 31, 2017).

(d) As of December 31, 2018, the balance of other provisions mainly includes: i) provisions for personnel expenses for S/ 85,344 thousand (S/ 95,680 thousand as of December 31, 2017); ii) provisions for marketing campaigns of liability products for S/ 8,577 thousand (S/ 8,843 thousand as of December 31, 2017), and iii) provisions related to credit and debit card transactions for S/ 18,523 thousand (S/ 19,783 thousand as of December 31, 2017).

(e) Transactions in progress are mainly those carried out during the last days of the month and are reclassified in the following month to their definitive accounts of the consolidated statement of financial position. These operations do not affect the results of Scotiabank Group. As of December 31, 2018, liability transactions in progress include mainly: i) S/ 1,045,306 thousand related to Treasury operations (S/ 161,785 thousand as of December 31, 2017), ii) S/ 101,615 thousand related to credit card transactions (S/ 56,511 thousand as of December 31, 2017) and iii) S/ 30,158 thousand corresponding to client deposits in transit (S/ 35,130 thousand as of December 31, 2017).

16. Equity

A. General

The regulatory capital of the Bank and CrediScotia is determined in accordance with the Banking Law and is used to calculate legal limits and restrictions applicable to financial institutions in Peru. As of December 31, 2018, the regulatory capital of both companies amount to S/ 8,752,458 thousand and S/ 914,757 thousand, respectively (S/ 8,091,670 thousand and S/ 770,151 thousand, respectively, as of December 31, 2017).

As of December 31, 2018, credit risk weighted assets and indirect loans determined by the Bank and CrediScotia according to the legislation applicable to financial institutions amount to S/ 55,505,425 thousand and S/ 4,862,133 thousand, respectively (S/ 48,287,100 thousand and S/ 4,463,748 thousand, respectively, as of December 31, 2017).

General Shareholders' Meetings, held March 21 2018, conferred authority to the Board of Directors to commit on capitalizations of 2018 profit, with the purpose that these can be included in the calculation of the Bank's regulatory capital. In that sense, in December 2018, the Board of Directors approved the commitment to capitalize the income for the year 2018 for S/ 469,000 thousand.

General Shareholders' Meetings, held on March 23, 2017, conferred authority to the Board of Directors to commit on capitalizations of 2017 profits, with the purpose that these can be included in the calculation of the Bank's regulatory capital. In that sense, in July 2017, the Board of Directors approved the commitment to capitalize the income for the year 2017 for S/ 339,000 thousand.

As of December 31, 2018 and 2017, the Banking Law established as a global limit that the regulatory capital shall be equal to or greater than 10% of the total risk weighted assets and indirect loans, which corresponds to the sum of: the amount of regulatory capital requirements for market risk multiplied by 10, plus the amount of the regulatory capital requirements for operational risk multiplied by 10 plus the credit risk weighted assets and indirect loans. As of December 31, 2018, the regulatory capital of the Bank and CrediScotia represents 14.64% and 17.43% respectively, of the minimum capital requirements per market, operational and credit risk (15.47% and 15.95% respectively, as of December 31, 2017).

By means of Resolution 2115-2009, the SBS approved the Regulation for the Regulatory Capital for Operational Risk. As of December 31, 2018 and 2017, the Bank and CrediScotia have applied the alternative standard method for the calculation of the regulatory capital requirement for operational risk.

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

Finally, by means of SBS Resolution 8425-2011 and its amendments, the SBS approved the methodology for the calculation of additional regulatory capital requirement, which establishes that this requirement shall be equal to the sum of the regulatory capital requirements, calculated for each of the following components: i) economic cycle, ii) concentration risk, iii) market risk concentration, iv) interest rate risk in the banking books, and v) other risks. As of December 31, 2018, additional regulatory capital of the Bank and CrediScotia amounted to S/ 1,244,553 thousand and S/ 152,363 thousand, respectively (S/ 1,126,962 thousand and S/ 138,527 thousand, respectively, as of December 31, 2017).

B. Share capital

As of December 31, 2018 and 2017, the Bank's share capital authorized, subscribed and paid comprise 612,294,780 common shares and 563,453,942 common shares, respectively. All shares have voting rights and a par value of S/ 10.00 each. As of December 31, 2018 and 2017, the quotation value of common shares of the Bank was S/ 31.50 and S/ 32.30 per share, respectively.

Pursuant to the delegation conferred by the General Shareholders' Meeting held on March 21, 2018, the Board of Directors approved the increase of share capital arising from the capitalization of 2017 retained earnings for S/ 488,408 thousand. As a result from both capitalizations, the share capital increased to S/ 6,122,948 thousand represented by 612,294,780 common shares with a par value of S/ 10.00 each as of December 31, 2018.

Pursuant to the delegation conferred by the General Shareholders' Meeting held on March 23, 2017, the Board of Directors approved the increase of share capital arising from the capitalization of 2016 retained earnings for S/ 350,000 thousand and S/ 467,871 thousand. As a result from both capitalizations, the share capital increased to S/ 5,634,539 thousand represented by 563,453,942 ordinary shares with a par value of S/ 10.00 each as of December 31, 2017.

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

%	2018		2017	
From 0.01 to 1	1,413	1.95%	1,486	1.95%
From 1.01 to 50	2	42.73%	2	42.73%
From 50.01 to 100	1	55.32%	1	55.32%
	1,416	**100.00%**	**1,489**	**100.00%**

Under the Banking Law, as of December 31, 2018, the share capital is required to reach the minimum amount of S/ 27,297 thousand (S/ 26,686 thousand as of December 31, 2017), at constant value. This amount is annually updated at the closing date of every fiscal year, based on the wholesale price index (WPI), as published by the Instituto Nacional de Estadistica e Informatica (National Institute of Statistics).

C. Additional paid-in capital

This caption comprises the following:

In thousands of soles	**2018**	**2017**
Issuance premium	393,159	393,159
Gain on treasury shares	1,304	1,304
	394,463	**394,463**

As of December 31, 2018 and 2017, the Bank holds 195 and 191 treasury shares respectively.

D. Legal reserve

In accordance with the Banking Law, the Bank is required to have a legal reserve of at least 35% of its share capital. This reserve is created by an annual transfer of no less than 10% of after-tax profits, and supersedes the reserve referred to in the Banking Law. On the other hand, as stipulated in the Banking Law, the amount of this reserve may also be increased with contributions made by the shareholders for this purpose.

General Shareholders' Meeting, held March 21, 2018 and March 23, 2017, applied to legal reserve an amount of S/ 122,102 thousand and S/ 116,839 thousand, respectively, corresponding to 10% of net profit for the year 2017 and 2016.

E. Retained earnings

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

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

General Shareholders' Meeting, held March 23, 2017, approved the distribution of 2016 net profit for S/ 1,168,387 thousand, as follows:

i Cash dividends payment for S/ 233,677 thousand. Such payment was made in May 2017.
ii Allocate 10% of net profit, amounting to S/ 116,839 thousand, to increase the legal reserve.
iii Remaining balance, amounting to S/ 817,871 thousand, shall be held in 'retained earnings'.

F. Other comprehensive income

As of December 31, 2018 and 2017, it mainly includes unrealized gains and losses of available- for-sale investments and share in other comprehensive income of associates, net of its deferred income tax effect.

17. Contingencies

Scotiabank Group has several pending legal claims related to their ongoing activities. It is the opinion of management and its legal advisors that these claims will not result in liabilities additional to those recorded by Scotiabank Group. Therefore, management considers that no additional provision is necessary for these contingencies (note 15.b).

18. Risks and Contingent Commitments

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

The related contracts consider the amounts that the Bank and CrediScotia would assume for credit losses in contingent transactions. The Bank and CrediScotia apply similar credit policies when evaluating and granting direct loans and contingent loans.

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

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

In thousands of soles	***Note***	**2018**	**2017**
Indirect loans:	*7*		
Guarantees and stand by letters of guarantee		8,556,038	8,588,934
Issued letters of credit		655,145	575,903
Outstanding bank acceptances		108,841	115,669
		9,320,024	**9,280,506**
Unused credit lines		27,054,802	21,130,602
Financial derivative instruments		12,992,503	5,947,971
		49,367,329	**36,359,079**

19. Interest Income

This caption comprises the following:

In thousands of soles	***Note***	**2018**	**2017**
Direct loan portfolio		4,763,263	4,547,902
Available-for-sale investments	*6(f)*	126,877	141,284
Cash and due from banks	*5(d)*	60,189	33,104
Investments at fair value through profit or loss	*6(f)*	7,700	9,585
Interbank funds		5,076	3,647
Other finance income		4,789	4,418
		4,967,894	**4,739,940**

20. Interest Expenses

This caption comprises the following:

In thousands of soles	***Note***	**2018**	**2017**
Deposits and obligations		647,735	634,337
Borrowings and debts	*14(e)*	389,739	342,766
Repurchase agreements		70,723	145,936
Commissions on borrowings and debts		20,020	14,834
Interbank funds		7,381	11,058
Deposits with financial institutions		5,275	2,553
		1,140,873	**1,151,484**

21. Financial Service Income, Net

This caption comprises the following:

In thousands of soles	**2018**	**2017**
Income:		
Income from commissions from collections services	214,721	193,883
Other fees and commissions from banking services	156,830	148,872
Income from services and maintenance of liability transactions and transfer fees	94,175	108,135
Income from portfolio recovery	73,588	69,299
Income from structuring and administration services	65,133	61,008
Income from remunerations of mutual funds and redemption fees	50,146	41,686
Income from teleprocessing services	35,228	37,037
Income from commissions and brokerage services stock exchange	5,982	5,979
Other sundryincome	371,375	350,568
	1,067,178	**1,016,467**
Expenses		
Credit / debit card expenses	(123,476)	(111,499)
Deposit insurance fund premiums	(46,329)	(42,369)
Insurance services expenses	(5,656)	(5,816)
Other sundry expenses	(245,459)	(219,817)
	(420,920)	**(379,501)**
	646,258	**636,966**

22. Income from Financial Transactions

This caption comprises the following:

In thousands of soles	*Note*	2018	2017
Net gain on foreign exchange	*4*	209,778	256,897
Gain (loss) for valuation of held-for-trading instruments	*8*	52,289	(29,211)
Gains on valuation of available-for-sale investments		20,854	52,342
Gain on interests		13,823	15,073
Dividends received from available-for-sale investments		1,351	1,281
(Loss) gain of valuation of investments at fair value through profit or loss		(954)	17,393
Others, net		3,807	3,010
		300,948	**316,785**

23. Administrative Expenses

This caption comprises the following:

In thousands of soles	2018	2017
Personnel and board of directors expenses	888,296	867,452
Third party services expenses	721,907	675,124
Taxes and contributions	83,250	72,897
	1,693,453	**1,615,473**

24. Other Income, Net

This caption comprises the following:

In thousands of soles	2018	2017
Sale of non-financial services	9,444	12,897
Net profit on sale of repossessed assets to third parties	8,231	8,024
Net profit on sale of property, furniture, and equipment	6,792	6,105
Leasing of own goods	2,114	2,123
Reimbursements and recoveries	31	1,591
Other income (expenses), net	10,496	(16,827)
	37,108	**13,913**

25. Tax Matters

Consolidated

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

Income tax legislation

B. Scotiabank Group is subject to the Peruvian tax legislation. As of December 31, 2018 and 2017, the corporate income tax is calculated on the basis of the net taxable income determined by Scotiabank Group at a rate of 29.5%.

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

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

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

Concerning the technical assistance or digital services rendered by non-domiciled individuals to domiciled individuals, regardless of the place where the service is rendered, they shall be subject to a 15% and 30% income tax rate on gross income, respectively. Technical assistance will be subject to a 15% rate, provided that Income Tax Law requirements are met. As noted above, retention rate in these situations may vary or retention may not be applicable if provisions of current double tax treaties are applied.

Income tax determination

D. Scotiabank Group computed its taxable base for the years ended December 31, 2018 and 2017, and determined income tax of S/ 484,681 thousand and S/ 437,460 thousand, respectively.

The Scotiabank Group's current tax has been determined for fiscal years 2018 and 2017 as follows:

In thousands of soles	**2018**	**2017**
Scotiabank Perú S.A.A.	366,673	342,572
CrediScotia Financiera S.A.	102,000	85,521
Scotia Fondos Sociedad Administradora de Fondos S.A.	10,993	8,542
Servicios, Cobranzas e Inversiones S.A.	4,581	511
Scotia Sociedad Titulizadora S.A.	400	210
Scotia Sociedad Agente de Bolsa S.A.	34	104
	484,681	**437,460**

Income tax expense comprises the following:

In thousands of soles	**2018**	**2017**
Current income tax		
Current year	492,593	461,372
Previous year adjustment	(7,912)	(23,912)
	484,681	**437,460**
Deferred tax	(5,001)	1,868
	(5,001)	**1,868**
Net income tax expense	**479,680**	**439,328**

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

In thousands of soles	**2018**		**2017**	
Profit before tax	**1,756,367**	**100.00%**	**1,652,436**	**100.00%**
Income tax (theoretical)	518,128	29.50%	487,469	29.50%
Tax effect on additions and deductions				
Permanent differences	(38,120)	(2.17)%	(58,907)	(3.56)%
Previous year income tax adjustment	(328)	(0.02)%	10,766	0.65%
Current and deferred income tax recorded as per effective rate	**479,680**	**27.31%**	**439,328**	**26.59%**

Income tax exemptions and exceptions

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

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

Legislative Decree 1262 became effective on January 1, 2017, extending the exemption until December 31, 2019 and included new assumptions that shall also be exempted: i) Debt securities, ii) Certificates of participation in mutual funds of investment in securities, iii) Certificates of participation in real estate investment (FIRBI, for its Spanish acronym) and certificates of participation in real estate trusts (FIBRA, for its Spanish acronym); and iv) negotiable invoices.

The aforementioned exemption will be applicable whenever certain requirements concur.

Temporary tax on net assets

F. Scotiabank Group is subject to Temporary Tax on Net Assets whose taxable base is composed of the prior period adjusted net asset value less depreciations, amortizations, legal cash reserve, and specific provisions for credit risk. The tax rate is 0.4% for years 2018 and 2017 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 General Regime for taxable periods from March to December of the fiscal period for which the tax was paid until maturity date of each of the payments on account, and against the payment for regularization of income tax of the corresponding taxable period. In the event a remaining balance is not applied, its refund could be requested.

Tax on financial transactions

G. Tax on Financial Transactions (ITF) for fiscal periods 2018 and 2017 was fixed at the rate of 0.005%. This tax is applied on debits and credits in bank accounts or movements of funds made through the financial system, unless the account is tax-exempt.

Transfer pricing

H. In determining the income tax, transfer pricing with related parties and entities domiciled in territories with low or zero taxation shall be supported with documents and information on the valuation methods 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.

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

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

The deadline for the presentation of the Local File for the year 2018 will be June 2019, in accordance with the maturity schedule for tax period of May, published by the Tax Authorities. The Local File for the year 2017 shall be presented in June 2018 according to the schedule of monthly tax obligations agreed for the tax period of May published by the Tax Authorities.

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

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

Legislative Decree 1116 established that Transfer Pricing Standards are not applicable for Value Added Tax (VAT).

Tax assessment by tax authorities

I. Tax Authorities are entitled to audit and, if applicable, to correct the income tax calculated by the Scotiabank Group within the four years following the year of the tax return filing. The Scotiabank Group's income tax and sales tax returns for the years 2014 through 2018 are open for review by the Peruvian Tax Authorities. As of the date of this report, the Tax Authorities completed the review of Bank's income tax, non-domiciled income tax return and transfer pricing for period 2013.

	Tax returns subject to audit	Tax returns under audit
Scotiabank Perú S.A.A.	2014 to 2018	-
CrediScotia Financiera S.A.	2014 to 2018	-
Servicios, Cobranzas e Inversiones S.A.	2014 to 2018	-
Scotia Fondos Sociedad Administradora de Fondos S.A.	2014 to 2018	-
Scotia Sociedad Agente de Bolsa S.A.	2014 to 2018	-
Scotia Sociedad Titulizadora S.A.	2014 to 2018	-
Patrimonio en Fideicomiso sobre Bienes Inmuebles – Depsa	2014 to 2018	-

Concerning tax returns for fiscal years 2006 through 2010, the Tax Authorities issued various Tax Assessment and Fine Resolutions on the determination of corporate income tax for said years, which were challenged by the Bank. In relation to years 2006, 2007, 2008, 2009 and 2010, the Bank has filed an appeal which is pending resolution by the Tax Court.

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

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

Due to the possibility of various interpretations of the current regulations by the Tax Authorities, it is not possible to determine, to date, whether a future tax audit will result or not in liabilities for the Scotiabank Group; therefore, any major tax, surcharges, and sanctions that might arise from eventual tax audits would be applied to income of the period in which they are recognized. However, It is the opinion of management and its legal advisors that any possible additional settlement of taxes would not be significant for the Bank's financial statements as of December 31, 2018 and 2017.

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

Tax regime applicable to Value Added Tax (VAT)

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

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

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

K. New regulatory concept of accrual: Legislative Decree1425 introduced the definition of "legal accrual" for income tax purposes, stating that: a) income for transfer of goods occurs when i) control has been transferred (in accordance with IFRS 15); or ii) risk has been transferred to the acquirer (Risk Theory set out in the Civil Code), whichever occurs first; and b) income for service provision occurs when realization level of the service provided has been established.

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

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

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

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

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

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

26. Deferred Taxes

Deferred tax assets have been calculated applying the liability method per each entity (note 3.P). The consolidated deferred tax asset as of December 31, 2018 and 2017 mainly comprises:

In thousands of soles	Balances as of 01.01.17	(Debit) credit profit or loss	(Debit) credit equity	Adjustments and reclassifications	Balances as of 12.31.17	(Debit) credit profit or loss	Balances as of 12.31.18
General provision for direct/indirect loans	188,537	13,272	-	-	201,809	18,144	219,953
Provision for accounts receivable	24,575	2,066	-	-	26,641	4,019	30,660
Provision for repossessed assets	9,708	3,619	-	-	13,327	3,305	16,632
Provision for vacations	13,762	2,824	-	-	16,586	(8,933)	7,653
Provision for credit and debit card rewards	5,584	-	-	-	5,584	(311)	5,273
Investment in subsidiaries	940	-	-	-	940	-	940
Finance lease operations, net	15,752	(6,785)	-	-	8,967	(8,536)	431
Valuation of available-for- sale investments	2,533	(2,272)	(261)	-	-	-	-
Intangible assets	(3,591)	(1,706)	-	-	(5,297)	4,359	(938)
Other	(199)	(12,886)	245	110	(12,730	(7,046)	(19,776)
Deferred tax assets, net	**257,601**	**(1,868)**	**(16)**	**110**	**255,827**	**5,001**	**260,828**

27. Employees' Profit Sharing

According to Legislative Decree 677, bank's employees are entitled to a profit-sharing plan computed at 5% of the net profit, similarly to employees of the Scotiabank Group's entities. This profit sharing is considered as a deductible expense for income tax calculation purposes. In 2018, it has determined legal employees' profit sharing of S/ 85,844 thousand (S/ 80,654 thousand in year 2017) included under administrative expenses in the consolidated statement of income.

28. Trust Fund Activities

Scotiabank Group offers structuring and administration services of trust operations and trust fees, and are in charge of the preparation of agreements related to these operations. Assets held in trust are not included in the consolidated financial statements. The Scotiabank Group is responsible for the appropriate management of these trusts based on the limits established by applicable laws and the respective agreement. As of December 31, 2018, the allocated value of assets in trusts and trust fees amounts to S/ 4,599,751 thousand (S/ 3,270,509 thousand in year 2017).

29. Related Party Transactions

As of December 31, 2018 and 2017, the consolidated financial statements include transactions with related parties, which, as established by IAS 24, comprise the parent company, related parties, associates, other related parties, and the Bank's directors and key management. All related party transactions are conducted in accordance with market conditions applicable to non-related third parties.

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

	2018					2017				
In thousands of soles	Parent company	Related parties (i)	Associates	Key personnel & directors	Total	Parent company	Related parties (i)	Associates	Key personnel & directors	Total
Assets										
Cash and due from banks	-	43,076	-	-	43,076	-	60,558	-	-	60,558
Loan portfolio, net	-	505,664	9,450	18,447	533,561	-	10,395	11,365	19,165	40,925
Held-for-trading derivative instruments	-	20,921	-	-	20,921	-	21,314	-	-	21,314
Other assets, net	-	451,473	79,058	15	530,546	-	23,519	76,005	67	99,591
Total assets	**-**	**1,021,134**	**88,508**	**18,462**	**1,128,104**	**-**	**115,786**	**87,370**	**19,232**	**222,388**
Liabilities										
Deposits and obligations with financial institutions	1,175,823	418,135	43,267	22,072	1,659,297	783,293	502,779	16,295	26,015	1,328,382
Borrowings and debts	241,582	4,397,150	-	-	4,638,732	253,630	3,248,913	-	-	3,502,543
Held-for-trading derivative instruments	-	76,979	-	-	76,979	-	45,248	-	-	45,248
Provisions and other liabilities	20	532,093	1,139	149	533,401	-	24,661	5,678	255	30,594
Total liabilities	**1,417,425**	**5,424,357**	**44,406**	**22,221**	**6,908,409**	**1,036,923**	**3,821,601**	**21,973**	**26,270**	**4,906,767**
Off-balance sheet accounts										
Indirect loans	-	588,502	72,300	-	660,802	-	324,690	67,729	-	392,419
Financial derivative instruments	-	7,635,708	-	-	7,635,708	-	2,978,276	-	-	2,978,276

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

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

In thousands of soles	2018 Parent company	2018 Related parties (i)	2018 Associates	2018 Key personnel & directors	2018 Total	2017 Parent company	2017 Related parties (i)	2017 Associates	2017 Key personnel & directors	2017 Total
Interest income	-	30,866	442	1,257	32,565	-	4,010	243	1,213	5,466
Interest expenses	(20,134)	(129,242)	(267)	(422)	(150,065)	(20,086)	(83,318)	(257)	(368)	(104,029)
	(20,134)	**(98,376)**	**175**	**835**	**(117,500)**	**(20,086)**	**(79,308)**	**(14)**	**845**	**(98,563)**
Financial service income	15	5,667	684	193	6,559	22	2,279	690	180	3,171
Financial services expense	-	(2,775)	(16,308)	(19)	(19,102)	-	(1,896)	(17,862)	(15)	(19,773)
	15	**2,892**	**(15,624)**	**174**	**(12,543)**	**22**	**383**	**(17,172)**	**165**	**(16,602)**
Net income from financial transactions	-	(62,617)	15,377	-	(47,240)	-	(6,090)	15,074	-	8,984
Administrative expenses (ii)	-	(5,777)	(693)	(100)	(6,570)	-	(2,890)	(3,408)	(54)	(6,352)
Other income, net	-	13	-	(1)	12	-	(3)	-	-	(3)
Net profit	**(20,119)**	**(163,865)**	**(765)**	**908**	**(183,841)**	**(20,064)**	**(87,908)**	**(5,520)**	**956**	**(112,536)**

(i) Related parties include balances and transactions with 'other related parties' as defined by IAS 24.(
(ii) Excluding personnel expenses.
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C. Remuneration of key personnel and directors for the years ended in December 31, were as follows:

In thousands of soles	2018	2017
Remuneration to key personnel	32,529	30,971
Remuneration to members of the Board of Directors	1,435	1,259
	33,964	**32,230**

As of December 31, 2018 and 2017, the outstanding remuneration to pay to key personnel amounted to S/ 11,920 thousand and S/ 6,415 thousand, respectively.

30. Classification of Financial Instruments

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

		2018						
				Available-for-sale investments				
In thousands of soles	Note	At fair value through profit or loss	Loans and items receivable	At amortized cost (a)	At fair value	Liabilities at amortized cost	Other liabilities (b)	Total
Assets								
Cash and due from banks	*5*	-	10,566,031	-	-	-	-	10,566,031
Interbank funds		-	65,505	-	-	-	-	65,505
Investments at fair value through profit or loss:								
Equity instruments	*6*	11,143	-	-	-	-	-	11,143
Debt instruments	*6*	272,720	-	-	-	-	-	272,720
Available-for-sale investments:								
Equity instruments instrumen	*6*	-	-	7,428	666	-	-	8,094
Debt instruments	*6*	-	-	-	4,193,657	-	-	4,193,657
Loan portfolio	*7*	-	47,348,086	-	-	-	-	47,348,086
Held-for-trading derivative instruments	*8*	99,071	-	-	-	-	-	99,071
Accounts receivable	*9*	-	1,095,094	-	-	-	-	1,095,094
Other assets	*12*	-	950,313	-	-	-	-	950,313
		382,934	**60,025,029**	**7,428**	**4,194,323**	**-**	**-**	**64,609,714**
Liabilities								
Deposits and obligations and other obligations	*13*	-	-	-	-	-	39,482,473	39,482,473
Interbank funds		-	-	-	-	-	438,233	438,233
Deposits with financial institutions and international financial institutions	*13*	-	-	-	-	-	468,620	468,620
Borrowings and debts	*14*	-	-	-	-	11,335,223	-	11,335,223
Held-for-trading derivative instruments	*8*	86,161	-	-	-	-	-	86,161
Accounts payable		-	-	-	-	-	4,538,221	4,538,221
Other liabilities	*15*	-	-	-	-	-	1,247,778	1,247,778
		86,161	**-**	**-**	**-**	**11,335,223**	**46,175,325**	**57,596,709**

(a) Including financial assets measured at costs.

(b) Including financial liabilities whose fair value correspond to carrying amounts as per Official Letter 43078-2014-SBS and Official Letter 1575-2015-SBS.

(c) Including unlisted shares (note 6).

		2017						
				Available-for-sale investments				
In thousands of soles	*Note*	At fair value through profit or loss	Loans and items receivable	At amortized cost (a)	At fair value	Liabilities at amortized cost	Other liabilities (b)	Total
Assets								
Cash and due from banks	*5*	-	9,376,539	-	-	-	-	9,376,539
Interbank funds		-	406,108	-	-	-	-	406,108
Investments at fair value through profit or loss:								
Equity instruments	*6*	11,116	-	-	-	-	-	11,116
Debt instruments	*6*	558,707	-	-	-	-	-	558,707
Available-for-sale investments:								
Equity instruments	*6*	-	-	5,390	556	-	-	5,946
Debt instruments	*6*	-	-	-	4,827,953	-	-	4,827,953
Loan portfolio	*7*	-	42,631,366	-	-	-	-	42,631,366
Held-for-trading derivative instruments	*8*	41,658	-	-	-	-	-	41,658
Accounts receivable	*9*	-	583,783	-	-	-	-	583,783
Other assets	*12*	-	55,815	-	-	-	-	55,815
		611,481	**53,053,611**	**5,390**	**4,828,509**	**-**	**-**	**58,498,991**
Liabilities								
Deposits and obligations and other obligations	*13*	-	-	-	-	-	37,523,236	37,523,236
Interbank funds		-	-	-	-	-	150,040	150,040
Deposits with financial institutions and international financial institutions	*13*	-	-	-	-	-	339,191	339,191
Borrowings and debts	*14*	-	-	-	-	9,691,622	-	9,691,622
Held-for-trading derivative instruments	*8*	68,011	-	-	-	-	-	68,011
Accounts payable		-	-	-	-	-	4,054,333	4,054,333
Other liabilities	*15*	-	-	-	-	-	315,112	315,112
		68,011	**-**	**-**	**-**	**9,691,622**	**42,381,912**	**52,141,545**

(a) Including financial assets measured at cost.

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

(c) Including unlisted shares (note 6).

31. Financial Risk Management

The Scotiabank Group has a strong risk culture throughout the entire entity. Risk management is a responsibility shared by all employees, being a main element the risk diversification across different lines of business, products and industries.

It comprises the management of the following main risks:

A. Credit risk: It is the risk of loss due to debtors, counterparties or third parties' incapacity or weakness of compliance with their contractual obligations.

B. Market risk: It is the risk of loss in on-balance or off-balance sheet positions arising from changes in the market conditions. It generally includes the following types of risk: exchange rate, interest on fair value, price, among other risks.

C. Liquidity risk: It is the risk of loss due to noncompliance with borrowing requirements and applications of funds arising from cash flow mismatches.

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

Current risk management allows identification, measurement and evaluation of the return on risk, seeking to obtain greater value to shareholders. In order to ensure that strategic objectives are met, risk management is governed by the Risk Appetite Framework approved by the entity, ensuring an appropriate balance between risk and profitability. The Risk Appetite Framework's main purpose is to provide an integrated set of policies, guidelines and principles in order to ensure application of processes to monitor and mitigate the risks to which the Scotiabank Group is exposed, determining the amount and types of risks faced by the Bank.

For proper risk management, the Scotiabank Group has a series of fundamentals, such as (i) adequate corporate governance, (ii) aligned and updated risk policies and limits, and (iii) risk monitoring.

(i) Adequate corporate governance

The bodies supporting corporate governance are:

Board of Directors

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

Executive committees

They are composed by the following committees: The Assets and Liabilities committee (ALCO), Retail Loan Policy committee and the Operational Risk committee.

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

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

(ii) Aligned and updated risk policies and limits
Policies are based on recommendations from the different risk units, internal audit, business lines, industry best practices, regulatory and Parent Company requirements, as well as the recommendations from senior management. Policies 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. These provide a description of the types of exposure, responsibilities and conditions that the Scotiabank Group is able to do business, in order to ensure proper understanding of clients, products, markets and fully understand the risks associated with each activity.

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

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

A. Credit risks

- ***Life cycle: Admission, Monitoring and Collection***
  The Risk Units are responsible for designing and implementing strategies and policies to achieve a credit portfolio in accordance with the parameters of credit quality and Risk Appetite.

Credit adjudication units admit and assess credit proposals from different business segments with different levels of delegation granted to other teams for their approval, from a risk (measured based on a rating or scoring) versus profitability perspective. Also, for portfolio management, loans are monitored in order to minimize future losses. For collection management, these clients are segmented by Corporate and Commercial banking and Retail banking. For Corporate and Commercial Portfolio, collections are managed on a case by case basis, transferring it to the Special Bank unit, as per policies and red flags, resulting from the monitoring of the portfolio. For Retail portfolio, risk-based strategies (score) are established to optimize available resources for collection seeking to reach greater effectiveness.

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

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

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

  Periodical certifications of price, value and fluctuations of the collaterals are conducted by the Scotiabank Group; and, if necessary, actions are taken to mitigate the risk associated with the value of these collaterals.

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

  The types of collateral include mortgages, levies on the business assets, such as inventory, premises and accounts receivable, and levies on financial instruments such as debt and equity securities.

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

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

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

In thousands of soles	**Note**	**2018**	**2017**
Loans with first mortgage collateral or collateral trust on property registered in Public Registry		11,789,707	11,304,922
Loans with non-preferred collaterals		9,813,858	7,684,540
Finance lease loans		3,479,971	3,405,314
Loans with contingent liability		3,432,580	3,201,632
Loans with first real estate collateral or collateral trust registered in Public Registry		1,766,770	2,487,720
Loans with cash deposit collateral		338,087	281,765
Loans with collateral or collateral trust registered in Public Registry – warrants		186,068	105,875
Other collaterals		24,960	25,978
Loans with no collateral		18,828,406	16,140,275
Total loans	***7***	**49,660,407**	**44,638,021**

- ***Credit rating***
  For Corporate and Commercial Loans, the Bank uses the Advanced Internal Rating-Based (AIRB) 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 cleints based on the risk of each one.

  Additionally to these ratings, debtors' regulatory credit rating is used, which determines the provision requirement of clients.

- ***Debtor's regulatory credit rating***
  The debtor regulatory credit rating is conducted in accordance with criteria and parameters established by SBS Resolution 11356 - 2008 "Regulation for Debtor's Assessment and Rating and Provision Requirement", which establishes five debtor's rating: Wholesale Portfolio (corporate, large- and medium-business loans) and Retail Portfolio (small- and micro-business, consumer and mortgage):

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

- ***Loan portfolio impairment loss***

  As of December 31, 2018 and 2017, based on SBS Resolution 7036-2012, the Bank and CrediScotia have classified impaired and not impaired loans considering the following criteria:

  - Neither past-due nor impaired loans
    It comprises those direct loans that currently do not have characteristics of default and relate to client's loans rated as 'standard' or 'potential problems'.

  - Past due but not impaired loan
    It comprises past-due client's loans rated as 'standard' or 'potential problems'.

  - Impaired loans
    Retail banking comprise loans rated as 'substandard', 'doubtful' or 'loss', and the refinanced, restructured and lawsuit loans.

    For wholesale portfolio, it comprises client's loans overdue 90 days or more, with risk rated as 'substandard', 'doubtful' or 'loss', and the refinanced, restructured and lawsuit loans.

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

	2018					
In thousands of soles	**Wholesale loans**	**Small and micro-business loans**	**Consumer loans**	**Mortgage loans**	**Total**	**%**
Neither past due nor impaired loans						
Standard	26,951,848	2,147,568	9,904,134	6,142,650	45,146,200	91%
Potential problems	603,812	86,136	387,428	150,353	1,227,729	2%
Past due but not impaired loan						
Standard	24,685	61	56	-	24,802	-
Potential problems	44,516	11	101	233	44,861	-
Impaired loans						
Standard	5,114	4	37	-	5,155	
Potential problems	91,354	-	8	2	91,364	
Substandard	212,141	68,002	262,251	93,869	636,263	1%
Doubtful	178,396	107,621	421,367	152,692	860,076	2%
Loss	449,821	329,545	500,118	344,473	1,623,957	4%
Gross loan portfolio	**28,561,687**	**2,738,948**	**11,475,500**	**6,884,272**	**49,660,407**	**100%**
Less: provisions	(745,354)	(408,737)	(1,098,422)	(375,053)	(2,627,566)	
Total net	**27,816,333**	**2,330,211**	**10,377,078**	**6,509,219**	**47,032,841**	

	2017					
In thousands of soles	**Wholesale loans**	**Small and micro-business loans**	**Consumer loans**	**Mortgage loans**	**Total**	**%**
Neither past due nor impaired loans						
Standard	23,540,594	2,803,123	8,841,195	5,625,864	40,810,776	91%
Potential problems	466,748	98,344	385,808	130,912	1,081,812	2%
Past due but not impaired loan						
Standard	15,976	103	272	3	16,354	-
Potential problems	26,633	5	185	133	26,956	-
Impaired loans						
Standard	1,233	2	6	-	1,241	-
Potential problems	86,316	-	1	-	86,317	-
Substandard	126,093	71,158	234,849	79,557	511,657	1%
Doubtful	162,470	105,445	363,306	130,232	761,453	2%
Loss	334,814	311,955	414,659	280,027	1,341,455	4%
Gross loan portfolio	**24,760,877**	**3,390,135**	**10,240,281**	**6,246,728**	**44,638,021**	**100%**
Less: provisions	(630,150)	(390,698)	(948,150)	(302,002)	(2,271,000)	
Total net	**24,130,727**	**2,999,437**	**9,292,131**	**5,944,726**	**42,367,021**	

As of December 31, 2018 and 2017, refinanced loans amount to S/ 804,150 thousand and S/ 602,918 thousand, respectively, of which S/ 108,904 thousand and S/ 164,069 thousand, respectively, are classified as 'neither past due nor impaired loans', and S/ 695,296 thousand and S/ 438,859 thousand as 'impaired loans', respectively.

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

	Days in arrears					
In thousands of soles	**16 -30**	**31 – 60**	**61 – 90**	**More than 90**	**Total**	**Value of collaterals**
2018						
Type of credit						
Corporate loans	-	-	-	-	-	-
Large-business loans	8,322	2,484	1	-	10,807	16,091
Medium-business loans	27,303	31,078	6	7	58,394	114,709
Subtotal wholesale	**35,625**	**33,562**	**7**	**7**	**69,201**	**130,800**
Small-business loans	67	3	-	-	70	632
Micro-business loans	2	-	-	-	2	-
Revolving loan	46	2	1	-	49	48
Non-revolving loan	98	1	1	8	108	1
Mortgage loans	-	233	-	-	233	305
Subtotal retail	**213**	**239**	**2**	**8**	**462**	**986**
Gross loan portfolio	**35,838**	**33,801**	**9**	**15**	**69,663**	**131,786**

	Days in arrears					
In thousands of soles	**16 -30**	**31 – 60**	**61 – 90**	**More than 90**	**Total**	**Value of collaterals**
2017						
Type of credit						
Corporate loans	-	-	-	-	-	-
Large-business loans	725	7,092	2	-	7,819	8,347
Medium-business loans	18,600	16,185	1	4	34,790	50,564
Subtotal wholesale	**19,325**	**23,277**	**3**	**4**	**42,609**	**58,911**
Small-business loans	91	5	-	-	96	1,712
Micro-business loans	12	-	-	-	12	912
Revolving loans	5	34	4	46	89	45
Non-revolving loans	368	-	-	-	368	450
Mortgage loans	3	131	2	-	136	200
Subtotal retail	**479**	**170**	**6**	**46**	**701**	**3,319**
Total	**19,804**	**23,447**	**9**	**50**	**43,310**	**62,230**

Coverage of impaired loans as of December 31, taking into consideration collaterals and related provisions are presented below:

In thousands of soles	**Wholesale loans**	**Small and micro-business loans**	**Consumer loans**	**Mortgage loans**	**Total**
2018					
Impaired loans	936,826	505,172	1,183,781	591,036	3,216,815
Value of collaterals	1,332,997	640,658	237,377	760,412	2,971,444
Provisions for impairment	(476,485)	(345,983)	(813,852)	(319,372)	(1,955,692)
2017					
Impaired loans	710,926	488,560	1,012,821	489,816	2,702,123
Value of collaterals	1,006,971	758,710	215,192	626,504	2,607,377
Provisions for impairment	(391,227)	(320,224)	(681,921)	(249,480)	(1,642,852)

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

- ***Write-off of loans***
  As of December 31, 2018 and 2017, the Bank and CrediScotia hold written-off loans, which are presented in suspense accounts. The movement of said write-off loans is shown as follows:

In thousands of soles	**2018**	**2017**
Opening balance	3,123,519	2,777,236
Write-offs	956,341	944,070
Cash recovery	(56,523)	(46,720)
Forgiveness	(2,357)	(27,051)
Exchange differences	45,575	(39,536)
Others	(18,518)	(6,727)
Closing balance	**4,048,037**	**3,601,272**

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

			Available for sale		
In thousands of soles	**At fair value through profit or loss**	**Loans and items receivable**	**At amortized cost (*)**	**At fair value**	**Total**
2018					
Peru	363,048	59,781,004	6,146	4,194,323	64,344,521
United States	-	187,003	-	-	187,003
Canada	19,886	15,081	-	-	34,967
Belgium	-	17,501	-	-	17,501
United Kingdom	-	14,583	-	-	14,583
Germany	-	9,279	-	-	9,279
Venezuela	-	-	1,282	-	1,282
Switzerland	-	538	-	-	538
Australia	-	40	-	-	40
Total	**382,934**	**60,025,029**	**7,428**	**4,194,323**	**64,609,714**
2017					
Peru	590,167	52,751,400	4,158	4,828,509	58,174,234
United States	-	237,270	-	-	237,270
Canada	21,314	36,004	-	-	57,318
Belgium	-	17,560	-	-	17,560
United Kingdom	-	7,776	-	-	7,776
Germany	-	3,445	-	-	3,445
Venezuela	-	-	1,232	-	1,232
Switzerland	-	111	-	-	111
Australia	-	45	-	-	45
Total	**611,481**	**53,053,611**	**5,390**	**4,828,509**	**58,498,991**

(*) Including financial assets measured at cost.

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

In thousands of soles	2018		2017	
Mortgage and consumer loans	18,677,270	38%	16,487,015	37%
Trading	6,572,862	13%	5,204,978	12%
Manufacturing	5,330,058	11%	4,814,886	11%
Real estate, business and leasing services	4,521,658	9%	5,152,024	12%
Mining	3,835,207	8%	2,815,775	6%
Education, services, and other	2,403,897	5%	2,335,538	5%
Transport	2,241,030	4%	1,907,881	4%
Power, gas and water	1,998,538	4%	1,593,213	4%
Agriculture and livestock	1,246,165	2%	1,097,347	2%
Financial intermediation	894,783	2%	918,512	2%
Hotel and restaurants	370,114	1%	395,670	1%
Construction	316,750	1%	560,176	1%
Fishing	275,755	1%	258,636	1%
Public administration and defense	261,416	-	320,419	1%
Other (mainly non-profit, healthcare and automotive)	714,904	1%	775,951	1%
	49,660,407	**100%**	**44,638,021**	**100%**

B. Market risk

Market risk is the risk arising from changes in market prices, such as interest rates, equity shares prices, exchange rates and credit spreads that affect the income or the value of its financial instrument portfolio. The objective of the market risk management is to identify, assess and control market risk exposure within risk tolerance and appetite parameters, acceptable for the Board of Directors. It in order to ensure the solvency while optimizing the return adjusted by risk.

i. Management of market risk

The Scotiabank Group separates its exposure to market risk between trading and non-trading portfolio. Trading portfolios are managed by the Trading unit, and include positions arising from market making and own positions, together with financial assets and financial liabilities which are managed on a market value basis.

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

Management employs different tools to monitor market risk exposures. These are shown below, separately for trading and non-trading portfolios:

ii. Exposure to market risks – Trading portfolio

The main tool used to measure and control market risk exposure within the Group's trading portfolio is value at risk (VaR). The VaR is the estimated loss that will arise on the portfolio over the holding period or specific time horizon, due to an adverse market movement with a probability determined by the confidence level, under normal market conditions. The VaR model used by the Scotiabank Group is a Historical Simulation approach at a 99% 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 model generates a wide range of various future scenarios for market price movements.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based generate some limitations, including the following:

- A 1-day holding period assumes that it is possible to hedge or dispose of positions within that period. This may not be the case for liquid assets or in situations in which there is severe general market illiquidity.
- A 99% confidence level does not reflect losses that may occur beyond this level. Even within the model used, there is a 1% probability that losses may exceed the VaR.
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.
- The VaR measure depends upon the Scotiabank Group's position and the market prices volatility. The VaR of a static position reduces if market price volatility declines and vice versa.

The Scotiabank Group uses VaR limits for total market risk and interest rate and exchange rate risks. The overall structure of VaR limits is subject to ALCO's approval and is allocated to trading portfolios. VaR is daily measured 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.

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

The VaR models are subject to regular validation to ensure that they continue to perform as expected and that assumptions used in model development are still appropriate. As part of the validation process, the potential weaknesses of the models are analyzed using statistical techniques, such as back-testing.

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

In thousands of soles	**2018**	**2017**
Total VaR Peru	810	1,368

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. Market risk exposure – 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 market interest rates. Interest rate risk is managed through monitoring interest mismatch and establishing limits by currency for each term. ALCO monitors compliance with these limits and is assisted by Market Risk unit.

Equity price risk is subject to periodical monitoring by the Board of Directors, through the Risk Management Committee, but is not significant related to the Scotiabank Group’s income and financial position.

The effect of structural positions in foreign currency is managed from the trading unit within its current position limits per currency.

The main market risks to which the Scotiabank Group is exposed are interest rate risk, 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, trough Treasury, actively manages interest rate risk exposure risk in order to improve the net interest income according to established risk tolerance policies.

Market risk arising from financing and investment activities are identified, managed, and controlled as part of the Scotiabank Group's assets and liabilities management process, specially liquidity and interest rate risks. The sensitivity analysis evaluates the effect on income and on equity value, changes in interest rates, both positive and negative parallel movements, as well as non-parallel changes. .

Gap analysis is used to assess the sensitivity of repricing mismatches in the non-trading portfolio. Under gap analysis, assets, liabilities and other positions off-consolidated statement of financial position are distributed within repricing dates. Financial instruments with a contractual maturity are assigned to an interest rate gap term based on the shorter of the contractual maturity date and the next repricing date. Financial instruments without contractual maturity are assigned an interest rate gap based on observed historical client's behavior.

Interest rate risks in the non-trading portfolios mainly arise from terms and currency mismatches of the loan portfolio. The interest rate risk is managed within the framework of policies approved by the Board of Directors and global limits, included in the Risk Appetite Framework's document, which 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 the ALCO to the Risk Control Committee and the Board of Directors, detailing the exposure to such exchange rate risk, as well as the results of measurement tools, use of limits and interest rate risk stress tests, among other issues related to market risk management in compliance with regulatory provisions of the Parent Company and the Scotiabank Group.

Mismatch gap analysis, sensitivity analysis, and alternative simulations and stress testing are used in this management process for monitoring and planning purposes.

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

	2018						2017					
In thousands of soles	**Up to 1 month**	**Over 1 to 3 months**	**Over 3 to 12 months**	**Over 12 months**	**Not accrue interest**	**Total**	**Up to 1 month**	**Over 1 to 3 months**	**Over 3 to 12 months**	**Over 12 months**	**Not accrue interest**	**Total**
Assets												
Cash and due from banks	1,709,995	769,224	-	6,907,105	1,179,707	10,566,031	1,676,400	1,506,937	235,250	4,914,144	1,043,808	9,376,539
Interbank funds	65,505	-	-	-	-	65,505	406,108	-	-	-	-	406,108
Investments at fair value through profit or loss and available-for-sale investments	911,913	69,326	1,418,709	2,085,666	-	4,485,614	293,453	1,822,605	2,301,965	985,699	-	5,403,722
Loan portfolio	5,771,484	6,697,019	13,843,885	21,035,698	-	47,348,086	4,411,941	6,585,086	12,570,812	19,063,527	-	42,631,366
Held-for-trading derivative instruments	-	-	-	-	99,071	99,071	-	-	-	-	41,658	41,658
Accounts receivable	-	-	-	-	1,791,354	1,791,354	7,495	11,876	532	10,724	1,250,024	1,280,651
Other assets	-	-	-	-	2,517,280	2,517,280	25	10,281	-	367	1,638,710	1,649,383
Total assets	**8,458,897**	**7,535,569**	**15,262,594**	**30,028,469**	**5,587,412**	**66,872,941**	**6,795,422**	**9,936,785**	**15,108,559**	**24,974,461**	**3,974,200**	**60,789,427**
Liabilities												
Deposits and obligations	10,571,959	4,512,018	16,954,134	7,430,651	13,712	39,482,474	10,451,095	4,180,298	16,148,315	6,727,129	16,399	37,523,236
Interbank funds	438,233	-	-	-	-	438,233	150,040	-	-	-	-	150,040
Deposits with financial institutions and international financial institutions	263,033	202,945	2,547	94	-	468,619	287,602	19,386	31,901	302	-	339,191
Borrowings and debts	2,344,394	5,417,851	2,684,028	884,938	4,012	11,335,223	2,060,727	4,733,611	1,593,705	1,299,567	4,012	9,691,622
Held-for-trading derivative instruments	-	-	-	-	86,161	86,161	-	-	-	-	68,011	68,011
Accounts payable	-	-	-	-	4,634,854	4,634,854	418	18,423	6,464	81	4,056,793	4,082,179
Provisions	-	-	-	-	323,611	323,611	-	-	-	682	342,503	343,185
Other liabilities	-	-	-	-	1,292,341	1,292,341	-	60	-	1,907	401,381	403,348
Total liabilities	**13,617,619**	**10,132,814**	**19,640,709**	**8,315,683**	**6,354,691**	**58,061,516**	**12,949,882**	**8,951,778**	**17,780,385**	**8,029,668**	**4,889,099**	**52,600,812**
Off- consolidated statement of financial position accounts:												
Derivative instruments	8,911,672	6,738,529	1,473,854	7,815	-	17,131,870	4,911,718	5,076,642	3,145,042	683,836	-	13,817,238
Marginal gap	(5,158,722)	(2,597,245)	(4,378,115)	21,712,787	(767,279)	8,811,426	(6,154,460)	985,007	(2,671,826)	16,944,793	(914,899)	8,188,615
Accumulated gap	(5,158,722)	(7,755,967)	(12,134,082)	9,578,705	8,811,426	-	(6,154,460)	(5,169,453)	(7,841,279)	9,103,514	8,188,615	-

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

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

%	2018	2017
EVAR (i)	8.71	7.47
EaR (ii)	1.87	1.21

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

ii This indicator measures the percentage of regulatory capital exposed to interest rate risk as a result of mismatches accumulated up to one year. It shall not exceed 5%.

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

Exchange rate risk
It comprises the risk of loss due to adverse change rates of currencies in which the Scotiabank Group negotiates. This risk is managed by the Trading Unit.

The Trading Unit is responsible for managing exchange rate operations and forwards portfolio in accordance with policies, procedures and controls designed to ensure profitable business opportunities. This while considering adequate risk levels and volatility of the market variables professionally and cautiously.

Market risks associated with this management are conducted within internal limits of net position, VaR and stress tests based on market variables. The consistency of these results is validated through periodical backtesting analysis, which compares actual gains or losses with those obtained through the model.

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

In thousands of soles	2018	2017
Exchange rate VaR	355	3,976

Management calculates the VaR using historical simulation method on 300 days of market data to measure the estimated maximum loss from changes in the exchange rate, considering as variables the net asset position in foreign currency and exchange rate volatility.

As of December 31, 2018 and 2017, the Scotiabank Group records net liability position in the consolidated statement of financial position in foreign currency amounted to US$ 47,204 thousand and net asset position on balance amounted to US$ 427,121 thousand, respectively (note 4).

As of December 31, 2018, global position of overbought in the Bank amounted to S/ 340,648 thousand (S/ 221,691 thousand as of December 31, 2017).

Investment portfolio risk
The own investment portfolio and trading portfolio are managed by the Scotiabank Group in the ALM Unit and Trading Unit, respectively.

The own investment portfolio is administered in order to manage liquidity and the interest rate risks, and long-term capital investment with attractive returns, and administered within approved policies and limits: limits per type and terms of investment. On the other hand, trading portfolio is acquired with the intention of short- term profit-taking, arising from fluctuations prices.

Investment portfolios are composed of liquid instruments, mainly certificates of deposits issued by the Peruvian Central Reserve Bank and Peruvian Government Treasury Bonds issued in local and foreign currency.

C. Liquidity risk
Liquidity risk is the risk of being unable to meet in the short-term financial obligations; therefore, the Bank is forced to incur in debt or sell assets in unusually unfavorable conditions.

The Scotiabank Group's approach to managing liquidity is to ensure, as far as possible, that it will always have enough liquidity to meet its obligations when due, under both normal and stressed conditions, without incurring unacceptable losses or damage to the reputation of the Scotiabank Group. The key elements of the liquidity strategy are as follows:

- Maintaining a diversified funding base, which consists in client’s deposits (both retail and corporate), wholesale banking deposits and maintaining contingent credit lines.
- Carrying a portfolio of highly liquid assets diversified by currency and maturity.
- Monitoring liquidity ratios, maturity mismatches, behavior characteristics of the financial assets and financial liabilities, and the extent to which their assets are available as potential collateral for obtaining funding.
- Carrying out stress tests on the liquidity position.

Regular liquidity stress tests are conducted under different scenarios covering normal and stress market conditions. The scenarios are developed using group- specific events (e.g. a rating downgrade) and market-related events (e.g. ling-term market illiquidity, reduced liquidity of currencies, natural disasters or other catastrophes).

Treasury management's ratios are indicators that relate liquid assets to short-term liabilities under one year. The SBS has determined that this relation shall be greater than 8% and 20%, in the case of local and foreign currency, respectively. As of December 31, 2018, the Bank's ratios in local and foreign currencies were 15.47% and 43.44% respectively (24.9% and 38.7% respectively, as of December 31, 2017).

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

As of December 31, 2018, CrediScotia ratios in local and foreign currencies were 21.17% and 188.00% respectively (21.2% and 134.7% respectively, as of December 31, 2017).

Liquidity Coverage Ratio (LCR) is an indicator of liquidity level in a hypothetical stress scenario. It indicates if the entity have sufficient liquidity to withstand liquidity disruptions for up to 30 days, without the need of turning to the market for founds.

As of December 31, 2018, the minimum amount required by the regulator was 90%, in 2017, it was 80%. The Bank presented levels of liquidity reaching 104.99% in local currency and 106.86% in foreign currency (107.3% in local currency and 114.5% in foreign currency as of December 31, 2017).

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

In thousands of soles	**Demand deposits of less than 1 month**	**Over 1 to 3 months**	**Over 3 to 12 months**	**Over 1 year**	**Total**
2018					
Deposits and obligations	27,673,168	4,594,630	5,320,336	1,894,339	39,482,473
Interbank funds	438,233	-	-	-	438,233
Deposits of financial institutions and international financial institutions	263,037	202,943	2,545	95	468,620
Borrowings and debts	1,146,834	1,323,133	3,196,854	5,668,402	11,335,223
Held-for-trading derivative instruments	34,337	14,026	4,818	32,980	86,161
Accounts payable and other liabilities	2,305,927	1,492,019	1,809,091	228,176	5,835,213
Total liabilities	**31,861,536**	**7,626,751**	**10,333,644**	**7,823,992**	**57,645,923**
Off-consolidated statement of financial position credit risk					
Liability position in derivative instruments through delivery	2,082,010	1,731,348	1,080,706	775,593	5,669,657
2017					
Deposits and obligations	26,284,963	4,226,820	5,169,199	1,842,254	37,523,236
Interbank funds	150,040	-	-	-	150,040
Deposits with financial institutions and international financial institutions	287,603	19,386	31,901	301	339,191
Borrowings and debts	691,813	2,001,788	2,064,632	4,933,389	9,691,622
Held-for-trading derivative instruments	7,293	3,999	10,203	46,516	68,011
Accounts payable and other liabilities	1,642,543	-	2,042,965	683,937	4,369,445
Total liabilities	**29,064,255**	**6,251,993**	**9,318,900**	**7,506,397**	**52,141,545**
Off-consolidated statement of financial position credit risk					
Liability position in derivative instruments through delivery	976,252	4,162,805	2,128,984	523,796	7,791,837

D. Operational and technological risk

The Operational Risk Management Framework sets out an integrated approach to identify, assess, control, mitigate and report operational risks based on key components such as the Internal Governance, Risk Appetite, Measurement, Monitoring and Reporting, among others.

The Scotiabank Group recognizes that an efficient and integrated operational risk management is a key component of risk management best practices; therefore, in order to have a solid internal governance of operational risk, the Bank adopted a three-lines of defense model, establishing the responsibilities of operational risk management.

During 2018, the development of operational risk management methodologies for the Scotiabank Group was reached in order to incorporate aspects to strengthen management. Also, the new third party risk management policy and methodology has been adopted. Moreover, in order to strength the three- lines of defense model, the Operational Governance Unit is responsible for providing support and assistance to the first line of defense to operational risk management and other non-financial risks.

In this period, it was renewed the regulatory authorization to apply the alternative standard method to calculate the regulatory capital due to operational risk. This for a 18-month period in accordance with current legislation.

During 2018, the Scotiabank Group's profit or loss reports were periodically presented to the Global Operational Risk of the Parent Company, Risk Control Committee, Board of Directors of the Bank, as well as the first-line Vice Chairs and Management of the Bank and CrediScotia.

Operational risk appetite
During 2018, as in previous years, the operational risk appetite was determined based on limits of losses for operational risk at the level of the entire Scotiabank Group, which was in turn distributed at the level of the entities that compose it, among them, the Bank and CrediScotia. Likewise, a distribution of this loss limit was made to the main Vice Chairs of the Bank and first-line Management of CrediScotia. These loss limits also are included within the balance scorecards of each management areas indicated above.

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 of new initiatives and/or significant changes, among others, methodology
(f) Risk management with third parties methodology, 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 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, as per Basel definitions and according to the 'Regulations for Operational Risk Management' approved by the local regulator.

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

(b) KRI methodology.
The KRI methodology is a measure to report on potential risks, current status or trend of operational risk exposures.

The KRI methodology provides information to the first two lines of defense in order to promote proactive managing of risk exposures through the monitoring and communication of risks and trends to ensure adequate and timely response of management. The existence of efficient KRI shall serve as an early warning system of possible changes in the operational risk profile of the business.

The KRI methodology provides a systematic approach to coordinate the supervision of the key factors of operational risks and provides a focus, structure and terminology in common to implement and manage the selection of KRIs across the Scotiabank Group.

During 2018, the activities developed within the methodology were:

- Monitoring of the 22 executive risk indicators of the Bank and 17 of CrediScotia was carried out. KRIs have risk thresholds, which, in case where the accepted risk levels were exceeded, they generated the implementation of action plans and corrective measures.
- Monitoring of the 48 informative indicators of the Bank and 23 of CrediScotia was carried out.
- Indicators were analyzed, and if necessary, their accepted risk levels (risk thresholds) were assessed with the business owners/managers per appetite levels: acceptable (green), with potential risk (amber), critical (red).
- Following-up and monitoring of the action plans derived from the Risk Indicators methodology was carried out.

(c) Business Continuity Management - methodology
The Bank has 85 current Business Continuity Plans (BCPs) in its Vice-chairs and/or main management areas and subsidiaries.

In October 2018, face-to-face trainings and workshops were given to business continuity planners. The objective of these trainings was to strengthen the Business Continuity culture in the entity and also to assist them in the process of updating and executing annual tests of their BCPs. To date, BCM is part of the Bank's general induction program.

The process of updating the BCPs was carried out in a massive way, meeting the Scorecard of April and October of 2018. The business units updated their plan strategy, BIA analysis and guide to pandemic. They also performed corresponding tests (walkthrough exercise, call chain test, quarterly review of the call chain and complete simulation test at the alternate site).

The Scotiabank Group has an alternate site to support their most critical processes; which remains ready and operational 24 hours a day, 7 days a week providing support to the most sensitive processes. To date, there are 103 physical working positions. During the fourth quarter, simulation tests of continuity plans TYPE I and II (containing critical process sensitive to the time) were favorably completed. The objective of these tests is to ensure the proper functioning of the working positions in case these were required due to a contingency, disaster or emergency.

In January, September and December 2018, crisis management plan tests and exercises were conducted, whose scenarios were fire, cyber crime and 8.5 earthquake in Lima, respectively. This with the participation of the Local Incident Management Team from the Emergency Operations Center and Crisis Support Team.

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

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

To complement this, the RCSA tool is being used to report operational risks to the Parent Company.

The process is a basic component and an efficient tool that provides advantages such as:

- It strengthens the risk and control culture in the organization by promoting an understanding of business risks and responsibilities in the mitigation process.
- It promotes a continuous critical thinking, motivating the support and business units to design, construct and maintain more effective control systems.
- It contributes to increase the quantity and quality of reliable information on the situation of control of the existing risks.
- It contributes to strengthening the internal control system; thus minimizing distrust of subsequent audits.
- It allows to focus on the most significant risks for the entity and to reduce costs in recurring reviews.

The universe for the application of risk and control assessment is composed by:

- Business lines: approach per product family
- Support units approach: per units

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

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

During 2018, methodological improvements were incorporated in order to strengthen the risk assessment program and local controls. During this year, 69 matrix of the Bank and 23 of CrediScotia were carried out.

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

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

The Scotiabank Group has established policies for comprehensive risk assessment of new initiatives; these policies describe the general principles applicable to the review, approval and implementation of new products and services within the Bank. The principles are intended to provide guidance to Business Lines in the development of processes and guidelines of risk assessment to be integrated into the policies and procedures on new products. All new products or major change in the business, operational or system environment shall have a comprehensive risk assessment prior to its development, and it shall be updated after its implementation.

In order for an initiative to be approved, it is required that the initiative has a risk self-assessment conducted by the Leader or Sponsor, being the Operational and Technological Risk Unit the responsible for contrasting / challenging the results and other control functions such as Compliance and Legal Advisory units, among others.

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

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

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

By the end of 2017, the risk management with third parties policy was adopted and, during 2018, the methodology was introduced for its execution. 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 aim of reducing the potential risk of hiring third parties to provide services to the Scotiabank Group is to guarantee the risk identification, measurement and management with third parties.

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

32. Fair Value

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

	Carrying amount		Fair value	
In thousands of soles	**2018**	**2017**	**2018**	**2017**
Assets				
Cash and due from banks	10,566,031	9,376,539	10,566,031	9,376,539
Interbank funds	65,505	406,108	65,505	406,108
Investments at fair value through profit or loss				
Equity instruments	11,143	11,116	11,143	11,116
Debt instruments	272,720	558,707	272,720	558,635
Available-for-sale investments				
Equity instruments	8,094	5,946	8,094	5,946
Debt instruments	4,193,657	4,827,953	4,193,657	4,827,510
Loan portfolio	47,348,086	42,631,366	47,348,086	42,631,366
Held-for-trading derivative instruments	99,071	41,658	99,071	41,658
Accounts receivable	1,095,094	583,783	1,095,094	583,783
Other assets	950,313	55,815	950,313	55,815
Total	**64,609,714**	**58,498,991**	**64,609,714**	**58,498,476**

	Carrying amount		Fair value	
In thousands of soles	**2018**	**2017**	**2018**	**2017**
Liabilities				
Deposits and obligations	39,482,473	37,523,236	39,482,473	37,523,236
Interbank funds	438,233	150,040	438,233	150,040
Deposits with financial institutions and international financial institutions	468,620	339,191	468,620	339,191
Borrowings and debts	11,335,223	9,691,622	11,352,866	9,838,689
Held-for-trading derivative instruments	86,161	68,011	86,161	68,011
Accounts payable	4,538,221	4,054,333	4,521,023	4,112,687
Other liabilities	1,247,778	315,112	1,247,778	315,112
Total	**57,596,709**	**52,141,545**	**57,597,154**	**52,346,966**

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

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

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

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

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

Consequently, as of December 31, 2018 and 2017, fair or estimated market values of the financial instruments do not differ significantly from their corresponding carrying amount.

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

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

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

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

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

In thousands of soles	**Level 1**	**Level 2**	**Level 3**	**Total**
2018				
Assets				
Investments at fair value through profit or loss:				
Equity instruments	-	11,143	-	11,143
Debt instruments	-	272,720	-	272,720
Available-for-sale investments:				
Equity instruments	-	-	8,094	8,094
Debt instruments	-	4,193,657	-	4,193,657
Held-for-trading derivative instruments	-	99,071	-	99,071
	-	**4,576,591**	**8,094**	**4,584,685**
Liabilities				
Held-for-trading derivative instruments	-	86,161	-	86,161
	-	**86,161**	**-**	**86,161**
2017				
Assets				
Investments at fair value through profit or loss:				
Equity instrument	-	11,116	-	11,116
Debt instrument	-	558,635	-	558,635
Available-for-sale investments:				
Equity instrument	538	-	5,408	5,946
Debt instrument	-	4,827,510	-	4,827,510
Held-for-trading derivative instruments	-	41,658	-	41,658
	538	**5,438,919**	**5,408**	**5,444,865**
Liabilities				
Held-for-trading derivative instruments	-	68,011	-	68,011
	-	**68,011**	**-**	**68,011**

33. Subsequent Events

The Bank is not aware of any significant subsequent events occurring between the closing date of these consolidated financial statements and the authorization date of their issuance that may affect them significantly.