SCOTIABANK PERÚ S.A.A.

SUBSIDIARIES

Consolidated Financial Statements
December 31, 2015 and 2014

(including Independent Auditors' Report)
(TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH)

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Scotiabank Perú S.A.A. (a subsidiary of The Bank of Nova Scotia – BNS, an entity established in Canada), and Subsidiaries which comprise the consolidated statement of financial position as of December 31, 2015 and 2014, and the consolidated income statements and other comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and accompanying notes 1 to 33 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), and for such internal control as management determines is necessary to enable the preparation of the consolidation 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 requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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 Bank'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 Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Scotiabank Perú S.A.A. and Subsidiaries as of December 31, 2015 and 2014, its financial performance and its cash flows for the years then ended in conformity with accounting standards established by the SBS for financial institutions in Peru.

Lima, Peru

Caipo y Asociados

February 24, 2016

Countersigned by:

Eduardo Alejos P. (Partner)
Peruvian Certified Public Accountant
Registration number 01-29180

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2015 and 2014

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SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES
Consolidated Statement of Financial Position
As of December 31, 2015 and 2014

In thousands of soles	***Note***	**2015**	**2014**
Assets			
Cash and due from banks:	*6*		
Cash		1,124,284	1,268,834
Deposits with Banco Central de Reserva del Perú		8,995,007	7,466,581
Deposits with local and foreign banks		295,963	472,206
Clearing		46,852	51,031
Other cash and due from banks		4,394,261	1,313,380
		14,856,367	**10,572,032**
Interbank funds		-	70,002
Investments at fair value through			
profit or loss and available-for-sale investments	*7*	3,995,830	2,038,639
Loan portfolio, net	*8*	38,333,350	31,667,386
Held-for trading derivative instruments	*9*	330,001	171,939
Accounts receivable, net	*10*	804,750	867,020
Investments in associates		69,338	62,062
Goodwill	*11*	565,892	278,818
Property, furniture, and equipment, net	*12*	427,202	453,744
Deferred tax assets	*27*	248,965	252,384
Other assets, net	*13*	463,511	556,293
Total assets		**60,095,206**	**46,990,319**
Risks and contingent commitments	*19*	50,649,266	48,496,400

In thousands of soles	***Note***	**2015**	**2014**
Liabilities and shareholders' equity			
Deposits and obligations in financial			
system entities	*14*		
Demand deposits		10,834,510	10,310,188
Savings deposits		7,509,487	6,394,975
Time deposits		16,190,773	11,435,844
Other obligations		2,106,401	1,199,550
		36,641,171	**29,340,557**
Interbank funds		385,467	-
Borrowings and financial obligations	*15*	15,643,459	10,924,144
Held-for trading derivative instruments	*9*	207,011	187,158
Provisions and other liabilities	*16*	980,391	892,397
Total liabilities		**53,857,499**	**41,344,256**
Shareholders' equity	*17*		
Capital stock		4,156,666	3,683,040
Additional paid-in capital		368,513	368,564
Legal reserve		742,398	646,777
Unrealized earnings		(10,693)	22,028
Retained earnings		980,823	925,654
Total shareholders' equity		**6,237,707**	**5,646,063**
Total liabilities and shareholders' equity		**60,095,206**	**46,990,319**
Risks and contingent commitments	*19*	50,649,266	48,496,400

The accompanying notes on pages 6 to 76 are part of these consolidated financial statements.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES
Consolidated Income Statement
For the years ended December 31, 2015 and 2014

In thousands of soles	***Note***	**2015**	**2014**
Interest income	*20*	3,916,568	3,288,185
Interest expenses	*21*	(855,955)	(615,496)
Gross finance income		**3,060,613**	**2,672,689**
Provisions for loans, net of recoveries	*8*	(959,046)	(750,725)
Net finance income		**2,101,567**	**1,921,964**
Income from finance services, net	*22*	593,752	582,231
Net finance income and finance service expenses		**2,695,319**	**2,504,195**
Results from financial transactions	*23*	444,897	254,900
Operating margin		**3,140,216**	**2,759,095**
Administrative expenses	*24*	(1,577,065)	(1,383,063)
Depreciation of property, furniture, and equipment		(65,872)	(64,660)
Amortization of intangible assets		(15,330)	(14,697)
Net operating margin		**1,481,949**	**1,296,675**
Net provisions for contingent loans, doubtful and other accounts receivable, realizable, repossessed assets, and other assets		(46,408)	(17,196)
Operating results		**1,435,541**	**1,279,479**
Other income, net	*25*	13,478	99,545
Net profit before income tax		**1,449,019**	**1,379,024**
Deferred income tax	*27*	(9,819)	11,146
Current income tax	*26(a)*	(427,992)	(447,333)
Net profit		**1,011,208**	**942,837**

The accompanying notes on pages 6 to 76 are part of these consolidated financial statements.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES
Consolidated Income Statement and Other Comprehensive Income
For the years ended December 31, 2015 and 2014

In thousands of soles	**2015**	**2014**
Net profit	1,011,208	942,837
Other comprehensive income		
(Loss) gains on available-for-sale investments	(35,837)	37,319
Share in other comprehensive income of associates	(83)	(6,631)
Income tax effect	3,199	(27,153)
Other comprehensive income, net of income tax	**(32,721)**	**3,535**
Total comprehensive income of the year	**978,487**	**946,372**

The accompanying notes on pages 6 to 76 are part of these consolidated financial statements.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES
Consolidated Statement of Changes in Shareholders' Equity
For the years ended December 31, 2015 and 2014

In thousands of soles	**Number of shares (note 17)**	**Capital stock (note 17.b)**	**Additional paid in capital (note 17.c)**	**Legal reserve (note 17.d)**	**Unrealized earnings (note 17.f)**	**Retained earnings (nota 17.e)**	**Total shareholders' equity**
Balance as of December 31, 2013	302,480,263	3,052,822	368,564	561,285	18,493	1,039,202	5,040,366
Net profit	-	-	-	-	-	942,837	942,837
Other comprehensive income							
Unrealized gain on available-for-sale investments	-	-	-	-	3,654	-	3,654
Unrealized loss on investment in associates	-	-	-	-	(119)	-	(119)
Total comprehensive income	**-**	**-**	**-**	**-**	**3,535**	**942,837**	**946,372**
Application to legal reserve	-	-	-	85,492	-	(85,492)	-
Dividend distribution	-	-	-	-	-	(341,967)	(341,967)
Capitalization of retained earnings	63,021,949	630,219	-	-	-	(630,219)	-
Operations with treasury shares	-	(1)	-	-	-	-	(1)
Other adjustments	-	-	-	-	-	1,293	1,293
Balance as of December 31, 2014	**365,502,212**	**3,683,040**	**368,564**	**646,777**	**22,028**	**925,654**	**5,646,063**
Balance as of January 1, 2015	365,502,212	3,683,040	368,564	646,777	22,028	925,654	5,646,063
Net profit	-	-	-	-	-	1,011,208	1,011,208
Other comprehensive income							
Unrealized loss on available-for-sale investments	-	-	-	-	(32,638)	-	(32,638)
Unrealized loss on investment in associates	-	-	-	-	(83)	-	(83)
Total comprehensive income	**-**	**-**	**-**	**-**	**(32,721)**	**1,011,208**	**978,487**
Application to legal reserve	-	-	-	95,621	-	(95,621)	-
Dividend distribution	-	-	-	-	-	(382,484)	(382,484)
Capitalization of retained earnings	47,362,757	473,627	-	-	-	(473,627)	-
Operations with treasury shares	-	(1)	(51)	-	-	-	(52)
Other adjustments	-	-	-	-	-	(4,307)	(4,307)
Balance as of December 31, 2015	**412,864,969**	**4,156,666**	**368,513**	**742,398**	**(10,693)**	**980,823**	**6,237,707**

The accompanying notes on pages 6 to 76 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, 2015 and 2014

In thousands of soles	2015	2014
Cash flows from operating activities		
Net profit	1,011,208	942,837
Adjustments to reconcile net profit to cash from (used in) operating activities		
Provision for doubtful loans, net of recoveries	959,046	750,725
Impairment loss on investments	-	1
Provision for realizable, repossessed and other assets, net	4,972	1,605
Provision for accounts receivable, net	17,984	9,994
Depreciation and amortization	81,202	79,357
Provision for fringe benefits	48,189	44,130
Provision for current and deferred income tax	437,811	436,187
Provision for contingent loans and country risk, net of recoveries	16,420	3,193
Other provisions	450,519	45,297
Loss (gains) on sale of property, furniture, and equipment	312	(77,329)
Gains on sale of realizable and repossessed assets	(1,354)	(2,656)
Gains on available-for-sale investments	(22,485)	-
Net changes in assets and liabilities		
Loans	(6,410,598)	(5,084,548)
Investments at fair value through profit and loss	(1,240,395)	1,075,586
Available-for-sale investments	(747,721)	(1,006,123)
Accounts receivable	(108,762)	(291,305)
Other assets	435,927	351,988
Non-subordinated financial liabilities	8,083,530	1,388,496
Accounts payable	(183,007)	(402,475)
Provisions and other liabilities	(71,423)	(2,876)
Net profit (loss) after net changes in assets, liabilities and adjustments	**2,761,375**	**(1,737,916)**
Income taxes paid	(339,509)	(249,890)
Net cash and cash equivalents from (used in) operating activities	**2,421,866**	**(1,987,806)**
Cash flows from investing activities		
Acquisition of equity block (note 2)	(989,840)	-
Sale of available-for-sale investments	26,500	-
Sale of property, furniture, and equipment	48	102,817
Acquisition of other financial assets	(12,055)	(12,811)
Acquisition of property, furniture, and equipment	(37,723)	(77,663)
Dividends received	7,229	9,895
Net cash and cash equivalents (used in) from investing activities	**(1,005,841)**	**22,238**
Cash flows from financing activities		
Issuance of subordinated financial liabilities	535,560	-
Acquisition of own shares	(52)	-
Dividends paid	(382,484)	(341,967)
Net cash and cash equivalents from (used in) financing activities	**153,024**	**(341,967)**
Net increase (decrease) in cash and cash equivalents, before the effect of exchange rate fluctuations	1,569,048	(2,307,535)
Exchange rate fluctuations effect on cash and cash equivalents	**(443,605)**	**(42,905)**
Net increase (decrease) in cash and cash equivalents	1,125,443	(2,350,440)
Cash and cash equivalents at beginning of year	**9,333,677**	**11,684,117**
Cash and cash equivalents from acquisition of equity block (note 2)	**8,422**	**-**
Cash and cash equivalents at end of year	**10,467,542**	**9,333,677**

The accompanying notes on pages 6 to 76 are part of these consolidated financial statements.

1. Background and Reporting Entity

A. Background

Scotiabank Perú S.A.A. (hereinafter the Bank) is a subsidiary of The Bank of Nova Scotia - BNS (a financial entity from Canada), which holds directly and indirectly 97.81% of the Bank's capital stock as of December 31, 2015 (97.75% as of December 31, 2014). The Bank of Nova Scotia directly owned 2.32% of the Bank's shares, and indirectly through NW Holdings Ltd. and Scotia Perú Holdings S.A. owned 55.32% and 40.17% of shares as of December 31, 2015 (55.32% and 40.11% as of December 31, 2014), respectively.

B. Reporting entity

The Bank is a public corporation established on February 2, 1943 and is authorized to operate as a banking entity by Superintendencia de Banca, Seguros y Administradoras Privadas de Fondos de Pensiones (Banking, Insurance and Pension Plan Agency, hereinafter the SBS). Bank's operations are governed by the SBS through the Ley General del Sistema Financiero y del Sistema de Seguros y Orgánica, Law 26702 (hereinafter the Banking Law).This law establishes the requirements, rights, obligations, guarantees, restrictions, and other operating conditions that Peruvian banking and insurance legal entities are governed.

The Bank's registered office address is Av. Dionisio Derteano N° 102, San Isidro, Lima, Peru. As of December 31, 2015, Scotiabank Perú S.A.A. and Subsidiaries performed its activities through a national network of 354 branches, and one branch abroad (as of December 31, 2014, it had 353 Peruvian branches and one branch abroad).

As of December 31, 2015 and 2014, the accompanying financial statements include those corresponding to the Bank and other companies that are part of the consolidated group (hereinafter Scotiabank Perú S.A.A. and Subsidiaries or Scotiabank Group), such as: CrediScotia Financiera S.A., engaged in intermediation operations for the small - business and consumer sectors; Servicios, Cobranzas e Inversiones S.A.C., engaged in collections and domicile verification, among other activities; Scotia Sociedad Agente de Bolsa S.A. (hereinafter SAB), engaged in intermediation activities in the Peruvian securities market; Scotia Fondos Sociedad Administradora de Fondos S.A. (hereinafter SAF), engaged in mutual funds management; Scotia Sociedad Titulizadora S.A., (hereinafter Titulizadora), engaged in the management of trusts as well as special purpose entities called SBP DPR Finance Company, and the Trust Equity Inmuebles Depsa, and finally Promoción de Proyectos Immobiliarios y Comerciales S.A. which to date is inactive.

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

		2015			
In thousands of soles	**Activity**	**Shareholding percentage**	**Assets**	**Liabilities**	**Shareholders' equity**
Scotiabank Perú S.A.A.	Banking	-	57,168,520	50,896,629	6,271,891
CrediScotia Financiera S.A.	Financing	100.00	4,011,435	3,443,736	567,699
Servicios, Cobranzas e Inversiones S.A.C.	Collection services	100.00	125,306	61,604	63,702
Scotia Sociedad Agente de Bolsa S.A.	Stock market broke	100.00	78,360	3,278	75,082
Scotia Fondos Sociedad Administradora de Fondos S.A.	Administration of Mutual funds	100.00	36,738	5,593	31,145
Patrimonio en Fideicomiso sobre Bienes Inmuebles – Depsa	Special purpose entity	-	6,721	5,580	1,141
Scotia Sociedad Titulizadora S.A.	Securitization	100.00	4,047	42	4,005
SBP DPR Finance Company	Special purpose entity	-	434,869	434,869	-

		2014			
In thousands of soles	**Activity**	**Shareholding percentage**	**Assets**	**Liabilities**	**Shareholders' equity**
Scotiabank Perú S.A.A.	Banking	-	44,176,645	38,496,424	5,680,221
CrediScotia Financiera S.A.	Financing	100.00	3,800,522	3,324,700	475,822
Servicios, Cobranzas e Inversiones S.A.C.	Collection services	100.00	114,363	36,927	77,436
Scotia Sociedad Agente de Bolsa S.A.	Stock market broke	100.00	80,012	3,704	76,308
Scotia Fondos Sociedad Administradora de Fondos S.A.	Administration of mutual funds	100.00	35,465	4,897	30,568
Patrimonio en Fideicomiso sobre Bienes Inmuebles – Depsa	Special purpose entity	-	6,329	2,125	4,204
Scotia Sociedad Titulizadora S.A.	Securitization	100.00	3,602	41	3,561
SBP DPR Finance Company	Special purpose entity	-	602,960	602,960	-

C. Approval of financial statements

In April 2015, the Audit Committee and Board of Directors approved the consolidated financial statements as of December 31, 2014. On February 26, 2016, the Bank's management approved the consolidated financial statements as of December 31, 2015, and they will be presented to the Audit Committee and Board of Directors, within the terms established by law. Also, these consolidated financial statements have been prepared based on the individual financial statements of companies that are part of Scotiabank Perú S.A.A. and Subsidiaries and that will be presented for approval to the corresponding Shareholders' Meeting and Board of Directors, within the terms established by law.

2. Citibank del Perú S.A. Retail Business Acquisition

In December 2014, the Bank reached an agreement with Citibank del Perú S.A. to acquire the business of commercial banking, related to retail, and consumer banking of such entity.

This acquisition was approved by SBS through SBS Resolution 2403-2015 and was made official on May 1, 2015.

As of that date, Citibank del Perú S.A. made a simple reorganization and transferred an equity block to its subsidiary Servicios SPV S.A.C., which transferred the 100% of shares representative of capital stock to the Bank, which also absorbed such entity at the same time under a merger process also approved by the SBS.

Considering this purchase on the acquisition date, the carrying amount of assets and liabilities acquired were the following:

In thousands of soles	**2015**
Assets	
Cash and due from banks	8,422
Loan portfolio	1,239,220
Investments in associate	7,000
Accounts receivable	2,948
Property, furniture, and equipment, net	7,247
Deferred tax assets	872
Other assets	9,317
	1,275,026
Liabilities	
Deposits and obligations in financial system entities	535,552
Other liabilities	30,974
	566,526
Total identifiable net assets	708,500
Adjustments to transfer the identifiable net asset to the fair value	(5,734)
Total identifiable net asset at fair value	702,766
Goodwill	287,074
	989,840

This acquisition was accounted using the acquisition method as required by IFRS 3 Business Combinations, applicable on the transaction date. Assets and liabilities were accounted at the estimated fair value as of the acquisition date, except for loans and deposits which are accounted at their carrying amount at the date of acquisition in compliance with SBS regulations for these purposes. For this acquisition, the Bank paid in cash to Citibank del Perú S.A. an amount of S/ 989,840 thousand for an equity block (including 1,563,199 common shares of Servicios Bancarios Compartidos S.A. "Unibanca S.A." with a fair value as of that date amounting to S/ 7,000 thousand) that at the time of purchase presented net assets acquired at fair value amounting to S/ 702,766 thousand; also, the Bank analysis to identify intangible assets as part of the acquisition process, determining no significant amounts.

3. Basis for the Preparation of Financial Statements

A. Statement of compliance

The accompanying consolidated financial statements have been prepared from the accounting records of Scotiabank Perú S.A.A. and Subsidiaries and are presented in accordance with current legal regulation and accounting principles authorized by the SBS and, in the absence of such applicable SBS standards, the International Financial Reporting Standards (IFRS), made official in Peru by the Peruvian Accounting Board (CNC) are applied. Such standards comprise the Standards and Interpretations issued or adopted by the International Accounting Standards Board (IASB), which include the IFRS, 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 conformity 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 are measured at fair value.
- Available-for-sale financial assets are measured at fair value.

C. Presentation currency

The consolidated financial statements are presented in soles (S/) under SBS standards. The information presented in soles (S/) and has been rounded to the nearest thousand (S/ 000), except as otherwise indicated.

D. Significant accounting estimates and criteria

The preparation of the consolidated financial statements in conformity with accounting principles requires management to use certain critical accounting estimates and criteria. Estimates and criteria are evaluated continuously according to experience and include reasonable future assumptions for each circumstance. Since these are estimates, final results might differ; however, according to Management 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.

The significant estimates related to the consolidated financial statements correspond to provision for doubtful loans, valuation of investments, estimation of useful life and the recoverable amount of property, furniture, and equipment, intangible assets, impairment of goodwill, provision for realizable assets, received as payment and repossessed assets, estimate of the deferred sales tax recovery, provision for income tax, and the fair value of derivative instruments. Accounting criteria is described in note 4.

4. Accounting Principles and Practices

The main accounting principles and practices applied to prepare the consolidated financial statements of Scotiabank Perú S.A.A. and Subsidiaries, which have been consistently applied in previous period, unless otherwise indicated, are the following:

A. Basis of consolidation

The consolidated financial statements include the financial statements of entities comprising Scotiabank Perú S.A.A. and Subsidiaries, described in note 1, after eliminating significant balances and transactions among the consolidated companies, and the profits and losses resulting from those transactions. All subsidiaries have been consolidated from its date of incorporation or acquisition.

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

The accounting records of companies of Scotiabank Perú S.A.A. and Subsidiaries comply with the information requirements established by the SBS.

Financial statements of the Subsidiaries and special purpose entity have been included for consolidation purposes and represent 7.59% and 9.51%, respectively, of the total Bank's assets before eliminations as of December 31, 2015 and 2014. As of those dates, there is non-controlling interest 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 substance of the contract. Interest, gains and losses generated by a financial instrument, whether classified as an asset or liability, are recorded as income or expense. The payment to holders of financial instruments classified as equity is recorded directly in shareholders' equity.

Scotiabank Perú S.A.A. and Subsidiaries classify their financial instruments in one of the following categories defined by IAS 39: (i) financial assets and liabilities at fair value through profit or loss, (ii) loans and accounts receivable, (iii) available-for-sale investments, (iv) held-to-maturity investments and (v) other financial liabilities. Scotiabank Perú S.A.A. and Subsidiaries determine the rating of financial instruments at initial recognition and on the basis of instrument by instrument.

The classification of financial instruments at 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 directly attributable to the acquisition or issuance of the instrument, except in the case of financial assets or liabilities held at fair value through profit or loss.

Purchases or sales of financial assets requiring the provision of assets within a time frame established according to regulations or market conventions (regular market terms) are recognized at the contracting date.

Derecognition of financial assets and 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 the cash flows from the asset expire; or (ii) Scotiabank Perú S.A.A. and Subsidiaries have transferred its rights to receive cash flows of assets or have assumed an obligation to pay total cash flows to a third party by virtue of a transfer agreement; and (iii) Scotiabank Perú S.A.A. and Subsidiaries have substantially transferred all of the risks and rewards of the asset, or if they have neither transferred all risks and rewards of the asset nor substantially retained them whether it has relinquished control of the asset or not.

ii. Financial liabilities

A financial liability is removed when the payment obligation is discharged, cancelled or expires. When an existent 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 a derecognition of the original liability and a recognition of a new liability, recognizing the difference between both of them in the results of the period.

Financial instruments offsetting

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position, when, and only when: (i) a current legal right to offset the amounts exists and (ii) there is an intention either to settle them on a net basis or to realize the asset, and settle the liability simultaneously.

The financial assets and liabilities presented in the consolidated statement of financial position correspond to cash and due from banks, interbank funds, investments at fair value through profit or loss and available-for-sale investments, financial instruments at fair value, loan portfolio, accounts receivable, other assets and liabilities in the consolidated statement of financial position, except as otherwise indicated in the note corresponding to assets or liabilities. Likewise, all derivative products and indirect credits are considered financial instruments. 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 contract and underlying asset, and may comprise more than one type of contract and underlying asset. Authorization schemes, valuation guidelines and accounting treatment for derivative instruments that financial entities shall apply are established in SBS Resolution 1737-2006 Regulation for Trading and Accounting of Derivative Products in Financial System Enterprises and its amendments which include accounting criteria for held-for-trading, hedging and embedded derivative operations which conform to IAS 39 Financial Instruments: Recognition and Measurement.

Recognition and measurement

Held-for-trading derivative instruments are initially recognized in the consolidated statement of financial position at fair value; subsequently, any change in the fair value of such derivative generates an asset or liability in the consolidated statement of financial position, as applicable, and will affect the results of the period.

In addition to their recording in the consolidated statement of financial position, derivative instruments described above are accounted in contingent accounts at their notional amounts translated at the spot exchange rate.

As of December 31, 2015 and 2014 and for the years then ended, Scotiabank Perú S.A.A. and Subsidiaries do not hold derivative instruments classified as hedging nor embedded derivatives.

D. Investments

Scotiabank Perú S.A.A. and Subsidiaries apply the recording and valuation criteria of investments established in SBS Resolution 7033-2012 Regulations for Classification and Valuation of Investments of Financial System Companies, which is in line with the classification and valuation criteria stated in IAS 39 Financial Instruments: Recognition and Measurement, except for investments in associates; which are not within the scope of IAS 39, as detailed below:

i. Investments at fair value through profit and loss

Debt securities and equity shares are classified as investments at fair value through profit or loss if they have been acquired principally for the purpose of selling in the near future, or they form 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 financial assets are recognized on trade date, when Scotiabank Perú S.A.A. and Subsidiaries enter into contractual arrangements with counterparties to purchase securities, and they are normally derecognized when sold.

Measurement is initially made at fair value without including transaction costs, which is recognized in the consolidated income statement. Subsequently, fair values are re-measured, and fluctuations generated through profit or loss are recognized in the consolidated income statement.

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

Investment at fair value through profit or loss that are given in guarantee or transferred through a repurchase agreement shall be reclassified as available-for-sale. Once these transactions are concluded, instruments shall be reclassified at their initial category, transferring the unrealized earnings from shareholders' equity to the consolidated income statement.

ii. Available-for-sale investments

Available-for-Sale Investments are all other investment instruments that are not classified as Investments at Fair Value through Profit or Loss, Held-to-Maturity Investments and Investments in Associates. Likewise, investment instruments will be included in this category when the SBS explicitly requires it.

Available-for-Sale Investments are initially recognized on the trade date and measured at fair value plus direct and incremental transaction costs. They are subsequently re-measured at fair value, and changes therein are recognized in equity in the ''unrealized earnings'' account until the securities are either sold or impaired. When available-for-sale securities are sold, cumulative gains or losses previously recognized in equity are recognized in the consolidated income statement.

If an available-for-sale security is impaired, the cumulative loss (measured as the difference between the asset's acquisition cost, net of any principal repayments and amortization, and its current fair value, less any impairment loss on that asset previously recognized in the consolidated income statement and other comprehensive income) is removed from equity and recognized in the consolidated income statement. In the case of unquoted equity shares, the impairment loss shall be the difference between the carrying amount and the present value of estimated future cash flows, discounted using current market rates for similar assets.

Gains or losses from foreign exchange differences related to instruments representing capital shall be recognized in equity in the "unrealized earnings" account while those related to debt instruments shall be recognized in the consolidated income statement.

Interest income is recognized on available-for-sale securities using the effective interest rate method, calculated over the asset's expected life. Premiums and/or discounts originated on the investment purchase date are included in the calculation of its effective interest rates. Dividends are recognized in the consolidated income statement when the right to receive the payment has been established.

iii. Investments in associates

The account includes equity shares acquired to participate with and/or have significant influence over companies and institutions. This category shall include the goodwill determined in the purchase of such investments. Investments in Associates are initially measured at fair value plus transactions costs directly attributable to their acquisition. They are subsequently measured applying the equity method, meaning; the carrying amount of the investment will be increased or decreased by proportional recognition of the period's results obtained at the measurement date.

When variations in the equity are due to concepts other than the results of the year; these variations shall be accounted directly in the shareholders' equity. Dividends are accounted reducing the investment carrying amount.

Investment instruments held by companies can be reclassified. Investment instruments at fair value through profit or loss cannot be reclassified except: (1) for equity shares with no market quote lacking of reliable fair value estimations or (2) investment instruments transferred through a repurchase agreement or given in guarantee. During 2015 and 2014, the Bank has not reclassified its investment instruments in categories.

SBS Resolution 7033-2012 details a standard methodology for the identification of impairment of instruments classified as available-for-sale investments, which considers two filters; the first one contains two conditions: i) significant decrease in the fair value up to under 50% of the cost or, ii) a decrease exceeding the 20% consecutively during the last twelve months; in the event of meeting any of these two conditions of the first filter, it will be necessary to evaluate if these conditions are justified at least concerning two of the qualitative aspects of the issuer indicated in the second filter of such resolution.

During 2015, the Bank has not recognized impairment losses on investment instruments (S/ 1 thousand during year 2014).

E. Loans, classification and provision for doubtful loans

Direct loans are recorded when fund disbursements are made to clients. Indirect loans (contingent) are recorded when documents that support such credit facilities are issued and may became direct loans in the event of making a payment to third parties. Likewise, changes in loan payment conditions due to debtors' payment difficulties are considered as refinancing or restructuring.

Finance lease operations are accounted for using the financial method, recording the amount of the receivable installments as loans. Corresponding finance income is recorded on an accrual basis in conformity with the lease agreement terms. Initial direct costs are recognized immediately as expenses.

The Portfolio Risk Management's Debtor Classification Unit is responsible for conducting, the evaluation and rating of the loan portfolio on a permanent basis. Each debtor receives a credit risk rating according to the guidelines established by the SBS Resolution 11356-2008 and its amendments.

Loan portfolio classification

The Bank and CrediScotia Financiera S.A. classify their loan portfolio in two groups: Wholesale Banking (corporate, large companies and medium companies) and Retail Banking (small business, micro business, revolving consumer, non-revolving consumer and mortgage loans). These classifications are made considering the nature of the client (corporate, government or individual), the purpose of credit, and business size measured by revenues, indebtedness, among other indicators.

Credit risk rating categories

The categories of credit risk rating established by the SBS are as follows: Standard, Potential Problem, Substandard, Doubtful, and Loss, which are assigned according to credit history of the debtor as established in SBS Resolution 11356-2008 and amendments.

For the Wholesale Banking portfolio, the Bank and CrediScotia Financiera S.A. mainly consider the payment capacity of debtor, cash flow, level of compliance with obligations, rating designated by other companies in the financial system, financial position, and quality management. For Retail Banking portfolio, the rating is based mainly on the level of compliance with credit payments, which is reflected by number of delinquent days and their classification in other financial system entities if rating alignment is applicable. Retail Banking portfolio is classified through an automatic rating process. The Bank has included in the automatic rating process, wholesale debtors loan portfolio with credits up to US$100 thousand.

Provisions for doubtful loans

According to current SBS regulations, the Bank and CrediScotia Financiera S.A. determine generic and specific provisions for doubtful loans. The generic provision is recorded in a preventive manner for standard risk direct loans, credit risk equivalent exposure of indirect loans, and additionally the procyclical component when the SBS orders its application. Specific provision is recorded for direct loans and credit risk equivalent exposure of indirect loans for which a specific risk, higher than standard, has been identified.

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

	Description	CCF (%)
(i)	Confirmations of irrevocable letters of credit for up to one year, when the issuing bank is a first level entity from a foreign financial system.	20
(ii)	Standby letters of credit that support obligations to do or not do.	50
(iii)	Import credit guarantees, and those not included in the previous item, as well as bank acceptances.	100
(iv)	Granted loans not disbursed and unused credit lines.	0
(v)	Others not considered above.	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 Financiera S.A. apply the following percentages to determine provisions for the loan portfolio:

Risk Rating	Without collateral	With preferred collateral	With preferred easily realizable collateral	With preferred readily realizable 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
MES 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 problem	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

(*) Include revolving and non-revolving consumer loans.

Procyclical component
The rates of procyclical component to calculate the provisions for direct loans and credit risk equivalent exposure of indirect loans for debtors classified a Standard are as follows:

Type of credit	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 consumer loans	1.50
No revolving consumer loans	1.00
Mortgage loans	0.40

For corporate, large-business and mortgage loans that have preferred readily realizable collateral, the procyclical component rate is 0.3%. For all other types of credit with preferred readily realizable collateral, the procyclical component rate is 0% for the portion covered by such collateral.

For consumer loans supported by payroll discount agreements, the procyclical component rate is 0.25%.

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

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

SBS has established that during the deactivation of the procyclical component, financial institutions cannot, under any circumstances, generate profits caused by the reversals of such provisions, which should only be used to record specific mandatory provisions.

Provisions for direct loans are presented deducting balances from the corresponding asset (note 8), and provisions for indirect loans are presented as liabilities (note 16).

F. Securities trading transactions carried out by third parties
Scotia Sociedad Agente de Bolsa S.A. conducts security trading transactions carried out on behalf of its clients (principals).

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 only if they comply with assets definition (accounts receivable) and liabilities definition (accounts payable); otherwise, such balances are presented more appropriately in control accounts.

An account receivable or payable is only recognized when they have not yet been settled at their maturity or if Scotia Sociedad Agente de Bolsa S.A., due to any operating cause, does not have the funds transferred by principals, however, since it is a solvent entity, funds are covered by Scotia Sociedad Agente de Bolsa S.A. in an amount equivalent to the acquisition of securities acquired through a loan that is regularized almost immediately.

Since Scotia Sociedad Agente de Bola S.A. only manages funds from principals, in its capacity as trustor, cannot use these resources and there is a commitment to return them to the trustees; these resources do not belong to the entity and are accounted in memoranda accounts.

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

G. Property, furniture, and equipment

The property, furniture, and equipment are accounted at the historical acquisition cost, less accumulated depreciation and impairment losses. Disbursements incurred after acquisition of property, furniture, and equipment are recognized as assets when there are probable future economic benefits associated with the asset are generated for Scotiabank Perú S.A.A. and Subsidiaries, and costs can be reliably measured.

Maintenance and repair expenses are charged to profit or loss of the fiscal period in which they are incurred. Work-in-progress and in-transit goods are accounted at acquisition cost. These goods are not depreciated until relevant assets are finished and/or received, and are in operative condition.

Depreciation is determined based on the straight-line method using the following estimated useful lives:

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

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

H. Realizable assets, received as payment, repossessed assets

Realizable assets include assets purchased specifically for granting financial leases which are accounted initially at their acquisition cost. Further, realizable assets not granted as financial leases, including recovered assets, are accounted at the lower of its cost or market value.

Realizable assets, received as payment, and repossessed assets (note 13) are regulated by SBS Resolution 1535-2005. This caption mainly includes property, plant, and equipment received as payment for doubtful loans, and are initially accounted at the lower of value determined by the court, arbitrator, recovery value, estimated market value or the value of unpaid debt amount.

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 accounted at cost and at the same time, a provision equivalent to 20% of the cost. If the net realizable value shown in the valuation report demonstrates that the asset is impaired by a percentage higher than 20%, then the required initial provision shall be accounted at an amount equivalent to the amount effectively impaired.

- For furniture and equipment, the Bank records a monthly provision equivalent to 1/18 of the cost in books, less the aforementioned initial provision. Regarding goods that have not been sold or leased within a one-year term and that do not have the extension established in the Banking Act, the provision shall be completed up to 100% of the value upon repossession or recovery less the impairment provision, at the close of the corresponding year.

- A provision shall be accounted for real estate that has not been sold or leased within one year 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 in books obtained in the eighteenth or twelfth month, depending on if there is or is not an extension approved by the SBS, respectively.

An impairment loss is recognized in the consolidated income statement when the net realizable value is lower than net carrying amount; accordingly, the carrying amount will be reduced and the loss shall be recognized in the consolidated income statement. In cases where the net realizable value is higher than the net carrying amount, the higher value shall not be recognized in the books.

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

I. Value impairment

Scotiabank Perú S.A.A. and Subsidiaries establish criteria for the identification of impaired assets based on the classification of financial and non-financial assets.

On each reporting date, Scotiabank Perú S.A.A. and Subsidiaries review the carrying amounts of financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If such indications exist, then the recoverable amount or the financial asset is estimated. Goodwill owns an indefinite useful life and it is proved through impairment every year or more frequently, when there are events or circumstantial changes indicating that goodwill balance might not be recoverable.

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

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount.

Impairment losses are recognized in the consolidated income statement.

Impairment loss in respect of recognized in goodwill is not reversed. For other assets, an impairment loss is reversed only if the carrying amount of an asset does not exceed the carrying amount that would have been determined, net of amortization or depreciation, if no impairment loss had been recognized.

J. Income tax

Current income tax is determined based on the taxable income and recorded according to tax legislation applicable to the Bank and each company that are part of Scotiabank Perú S.A.A. and Subsidiaries independently (note 26).

Deferred income tax is accounted 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 company that is part of Scotiabank Perú S.A.A. and Subsidiaries based on tax rates and legislation expected to be applied when the deferred tax asset is realized or the deferred tax liability is settled (note 27).

Deferred tax assets and liabilities are recognized without considering the estimated time when the temporary differences will disappear. Deferred tax asset is only recognized if it is probable there would be future tax benefits, so that the deferred asset can be used.

K. Intangible assets

Intangible assets are mainly related to the acquisition and development cost of computing software shown in the "Other assets" item and are amortized using the straight-line method over an average period of 3 years. Likewise, they include depreciable costs coming from commercial activities of Crediscotia Financiera S.A. and are amortized during the effectiveness of the contract.

Costs related to the development or maintenance of computing software are recognized in the income statement when they are incurred. However, costs that are directly related to a single and identifiable computing software, package or program, controlled by Management and that will give future economic benefits higher than their cost in a period exceeding one year, are considered as an intangible asset. Direct costs related to the development of computing programs include personnel costs of the development team and a fractional part of general expenses.

L. Goodwill

Goodwill is the difference between the acquisition costs (amount paid) versus identifiable fair values of its subsidiary (note 11).

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

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

M. Securities, bonds, and obligations issued

This includes the liability for the issuance of redeemable subordinated bonds and corporate bonds; those are measured at their amortized cost using the effective interest method. Discounts granted or income generated during the bonds issuance is amortized during the maturity term of these instruments.

Interest is recognized in results when accrued.

N. Provisions and Contingencies

i. Provisions

Provisions are recognized when Scotiabank Perú S.A.A. and Subsidiaries have a present obligation, either legal or assumed, as a result of past events, and when 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. When the effect of the time value of money is material, provisions are discounted using an interest rate reflecting the current market rate for time value of money and specific risks of liabilities.

The provision for severance payment (CTS) is calculated according to current legislation, on the total employees' indemnities and should be paid through deposits in authorized financial entities as chosen by them. Calculation is made for the amount that should have to be paid as at the date of the consolidated statement of financial position and it is included in the "Provision for fringe benefits" account. It is presented in the consolidated statement of financial position under "Other liabilities".

ii. Contingencies

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

O. Income and expense recognition

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

SBS Resolution 7036-2012 establishes that this 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 income based on the accrual within the term of the corresponding contracts.

When management considers that there are reasonable doubts about the collectibility of the principal of a loan, the Bank and CrediScotia Financiera S.A. suspend the recognition of interest in the income statement. Interest in suspense is accounted in memoranda accounts and recognized as earned when collected. When management considers that the financial situation of the debtor has improved and that the doubt about the collectibility of the principal has dissipated, the recording on accrual basis is restated.

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

Brokerage service fees for buying and selling securities on the stock market are recorded in the "finance services income" account when these transactions have been performed through generation and acceptance of operation policies by clients.

Revenues from sales of securities and its cost are recognized when the seller has transferred all the risks and rewards of ownership to the buyer and it is probable that economic benefits associated to the transaction will flow to the Company; they are recorded in the entity "other income, net" on the consolidated income statement. Dividends are accounted as income when declared.

Income from remunerations of funds managed by Sociedad Administradora de Fondos, are estimated daily as an equity percentage of each of the funds.

Income generated by fees from redemption of shares is recognized as income when such redemption is carried out.

Fees for trust management services are recognized in profit or loss of the period to the extent the service is rendered and accrued.

Other income and expenses of Scotiabank Perú S.A.A and Subsidiaries are recognized as earned or incurred in the period when they are accrued.

P. Capital stock

Common shares are classified as equity. Preferred shares, if any, are recorded as other debt instruments; the difference between the redeemable amounts of preferred shares and their par value being recorded in the capital account. Dividends on preferred shares are accounted as liabilities and charged to income of the period. As of December 31, 2015 and 2014, Scotiabank Perú S.A.A. and Subsidiaries do not hold preferred shares outstanding.

Q. Employees' profit sharing

Scotiabank Perú S.A.A. and Subsidiaries recognize a liability and an expense for employees' profit sharing in the consolidated income statement based on 5% of taxable base determined according to the current tax legislation.

R. Repurchase agreements

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

The Bank recognizes received cash and liability for the obligation to return such cash at maturity. Also, reclassifies underlying securities as required by SBS. Accounting records of returns will depend on the agreements between the parties. Difference between the final amount and initial amount will be recognized as expenses against liabilities, within the term of the operation applying the effective interest rate method.

As of December 31, 2015 and 2014, the Bank conducts repurchase agreements of securities and currency.

S. Statement of cash flows

For presentation purposes of this financial statement, the balances of "Cash and due from banks" and "Interbank funds", of the assets, as of December 31, 2015 and 2014, 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 entities (note 6.c).

T. Trust Funds

Assets and income from trust operations, where there is an obligation to return the assets to clients and the Bank and Scotia Sociedad Titulizadora S.A. act as trustee, are not included in the consolidated financial statements since they belong to neither the Bank nor Scotia Sociedad Titulizadora S.A., and are accounted in memoranda accounts for corresponding control and commissions on those activities are included in income from finance services (note 22).

U. Foreign currency transactions and balances

Foreign currency transactions are those transactions carried out in a currency that is different from the sol. Foreign currency transactions are translated into sol using exchange rates established by the SBS reported at the dates of the transactions (note 5). Gains or losses on exchange differences resulting from the payment of such transactions and from the translation of monetary assets and liabilities stated in foreign currency at exchange rates reported at the closing of the period are recognized in the consolidated income statement.

V. New accounting pronouncements

i. New accounting pronouncements not early adopted

The following standards have been published for application to periods beginning after the presentation date of these consolidated financial statements:

- IFRS 9 *Financial Instruments*, replaces guides to IAS 39 *Financial Instruments*: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. Mandatory application for annual periods beginning on or after January 1, 2018. Early adoption permitted.

- IFRS 15 *Revenue from Contracts with Customers,* establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces current guidelines for revenue recognition including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programme.* Mandatory application for annual periods beginning on or after January 1, 2018. Early adoption permitted.

- IFRS 16 *Leases* issued on January 13, 2016. This standard requires entities to record all leases in their financial statements. The main impact on entities with operating leases is an increase in assets and the financial debt, as well as in reporting metrics. Mandatory application for annual periods beginning on or after January 2019. Early adoption permitted.

- Amendments to IAS 12 *Income Taxes - Recognition of deferred tax assets for unrealized losses*. This amendment emphasizes to consider the existence of legal restriction to the use of future tax gains against which the temporary differences can be applied, and also the existence of sufficient evidence of the recovery amount of deferred asset value for an amount higher than the carrying amount. Mandatory application for annual periods beginning on or after January 1, 2017. Early adoption permitted.

- Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations* states that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 *Business Combinations*, is required to apply all of the principles on business combinations accounting in IFRS 3. Mandatory application for annual periods beginning on or after January 1, 2016. Early adoption permitted.

- Amendments to IFRS 10, IFRS 12 and IAS 28: *Investment Entities* - exception to consolidating implementation - a) Consolidation of intermediary entities: It specifies how to record an investment entity that provides related investment services. b) Except for intermediary parent companies controlled by investment entities. c) Selection of equity method policy for interests in associated investment entities or joint venture. Mandatory application for annual periods beginning on or after January 1, 2016. Early adoption permitted.

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

As of the date of the financial statements, the CNC has made official, through Resolution 059-2015-EF/30 issued on August 7, 2015, the 2015 version of the International Financial Reporting Standards (IAS, IFRS, IFRIC and SIC). Also, Resolution 060-2016-EF/30 issued on February 4, 2016 made official amendments to IFRS 15, IFRS 10 and IAS 28.

As indicated in note 3.a, the standards and interpretations detailed above in i) and ii) will only be applicable to the Bank, in absence of applicable SBS regulations for situations not covered in the Accounting Manual. Management has not determined the effect on the preparation of its financial statements in case such standards were adopted by the SBS.

iii. SBS pronouncements

- On January 14, 2015, the SBS issued Official Letter 1205-2015, which stated that the amount of deferred tax assets and liabilities shall be recognized taking into consideration tax rates effective in the period when assets are realized or liabilities settled. As indicated in note 27, the Bank and CrediScotia Financiera included the effect of such change of the income tax rate in the profit or loss of period 2014.

- By means of Official Letter 42423-2014-SBS, the SBS approved the treatment of the accounting record of accrued interests (generated from the last date of payment) of a current credit which is paid by granting a new credit under the denomination of "extended or renewed" or other related denomination. According with this Official Letter, the interest accrued and not collected of a current credit which is paid with a new loan, shall be accounted as a deferred income in the account 2901 “Deferred Income”. This amount will be subsequently recognized in the profit or loss account based on the new loan extended or renewed and to the extent the pertinent installments are paid.

  In Management's opinion, these changes do not have significant impact on financial information.

- By means of Official Letter 43078-2014 and 1575-2014-SBS, SBS stated that for minimum disclosure purposes, financial companies shall include a note referred to the fair value of financial instruments as established in the Accounting Manual. Such Official letter states that since it is a loan and deposits portfolio, their fair value corresponds to the accounting value or carrying amount.

5. Foreign Currency Balances

Consolidated statements of financial position include 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, 2015 and 2014, the exchange rate was US$1 = S/ 3.411 and S/ 2.986, respectively.

Foreign currency transactions in the country and international trade transactions referred to the concepts authorized by Banco Central de Reserva del Peru - BCRP (Central Bank), are channelled through an interbank foreign exchange market. As of December 31, 2015, buy and sell exchange rates used were US$ 1 = S/ 3.408 and US$ 1 = S/ 3.413, respectively (US$ 1 = S/ 2.981 buy and US$ 1 = S/ 2.989 sell, as of December 31, 2014).

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

	2015			**2014**		
	US$ Dollar	**Other currencies**	**Total**	**US$ Dollar**	**Other currencies**	**Total**
Assets						
Cash and due from banks	4,005,177	23,391	4,028,568	2,970,312	17,188	2,987,500
Investments at fair value through profit or loss and available-for-sale investments	603,184	-	603,184	96,998	-	96,998
Loan portfolio, net	3,759,813	-	3,759,813	4,917,096	-	4,917,096
Held-for-trading derivative	2,822	-	2,822	3,819	-	3,819
Accounts receivable, net	14,151	-	14,151	18,258	-	18,258
Other assets, net	16,111	5,043	21,154	20,923	-	20,923
	8,401,258	**28,434**	**8,429,692**	**8,027,406**	**17,188**	**8,044,594**
Liabilities						
Deposits and obligations and other obligations	5,900,525	29,423	5,929,948	4,974,110	29,296	5,003,406
Interbank funds	96,001	-	96,001	-	-	-
Borrowings and financial obligations	2,663,509	-	2,663,509	2,584,158	-	2,584,158
Held-for-trading derivative instruments	1,274	-	1,274	2,439	-	2,439
Other liabilities	110,413	12,685	123,098	116,632	14,547	131,179
	8,771,722	**42,108**	**8,813,830**	**7,677,339**	**43,843**	**7,721,182**
Net asset (liability) position in the consolidated statement of financial position	**(370,464)**	**(13,674)**	**(384,138)**	**350,067**	**(26,655)**	**323,412**
Derivative instruments operations	**400,939**	**16,234**	**417,173**	**(311,159)**	**26,621**	**(284,538)**

In 2015 and 2014, Scotiabank Perú S.A.A. and Subsidiaries recorded gains on exchange difference for various operations amounting to S/ 178,627 thousand and S/ 276,103 thousand, respectively in Results from financial transactions (note 23).

As of December 31, 2015, Scotiabank Perú S.A.A. and Subsidiaries have contingent operations in foreign currency amounting to US$ 9,585,681 thousand equivalent to S/ 32,696,757 thousand (2014: US$ 11,588,675 thousand, equivalent to S/ 34,603,785 thousand).

6. Cash and Due from Banks

This caption comprises the following:

In thousands of soles	**2015**	**2014**
Cash (a)	1,124,284	1,268,834
Banco Central de Reserva del Perú - BCRP (a)	8,995,007	7,466,581
Banks and other local financial system entities (b)	23,818	21,104
Banks and other foreign financial system entities (b)	272,145	451,102
Clearing	46,852	51,031
Restricted cash and due from banks (c)	4,394,186	1,313,234
Other cash and due from banks	75	146
	14,856,367	**10,572,032**

(a) As of December 31, 2015, funds held in cash and deposits with BCRP include US$ 2,593,939 thousand and S/ 1,010,349 thousand (2014: US$ 1,535,271 thousand and S/ 1,510,156 thousand) destined to cover the legal cash reserves that the Bank and CrediScotia Financiera S.A. must maintain for deposits and obligations from third parties according to the limits established by current legislation. These funds are held at BCRP and in the own financial entities' vaults.

Cash reserves held at BCRP do not accrue interest, except for the amount in local and foreign currency that exceeded the minimum legal cash reserve. As of December 31, 2015, the excess of minimum legal cash reserve in foreign currency accrues interest at annual rate of 0.09% (2014: 0.04% in foreign currency). Interest accrued from the excess in foreign currency as of December 31, 2015 amounts to US$ 967 thousand (2014: US$ 812 thousand).

Until to December 31, 2014, excess funds held in local currency in BCRP for the minimum legal cash reserve accrued interests at an annual effective rate of 0.35% for the year 2014; such accrued interests amounted to S/ 3,017 thousand.

As of December 31, 2015, deposits with BCRP include "overnight" operations of US$ 60,000 thousand; such operations accrued interest at an annual nominal rate of 0.30% (2014: US$ 850,700 thousand at annual nominal rates of 0.13%).

(b) Deposits in local and foreign banks mainly correspond, to balances in soles and in U.S. dollars, and lower amounts in other currencies, with free withdrawal option and accrue interest at market rates. As of December 31, 2015, deposits in foreign banks, included deposits held at The Bank of Nova Scotia by US$ 2,372 thousand and Canadian dollars by $ 4,867 thousand (2014: US$ 6,861 thousand and Canadian dollars by $ 253 thousand).

As of December 31, 2015 and 2014, the Bank concentrates 69% and 64% in deposits to foreign banks, in three financial entities, respectively.

(c) As of December 31, 2015, restricted cash and due from banks are comprised: i) reserve funds for comply with commitments of repurchase foreign currency to BCRP by US$ 1,247,674,thousand (2014: US$ 420,233 thousand); see note 15.a; ii) reserve funds for compliance of contractual commitments with foreign financial entities for US$ 38,923 thousand (2014: US$ 17,821 thousand), iii) guarantee funds for treasury transactions by US$ 64 thousand and S/ 15 thousand (2014: US$ 64 thousand and S/ 15 thousand), iv) guarantee funds for lawsuits against the Bank by US$ 8 and S/ 285 thousand (2014: US$ 24 thousand and S/ 278 thousand); and v) other operational restrictions by US$ 1,103 and S/ 1,295 thousand (2014: US$ 999 thousand and S/ 1,666 thousand).

During year 2015 and 2014, interest income from cash and due from banks amounted to S/ 14,344 thousand and S/ 13,348 thousand, respectively, and it is included as interest income in the consolidated income statement (note 20).

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

This caption comprises the following:

In thousands of soles	**2015**	**2014**
Investments at fair value through profit or loss		
Central Bank indexed certificates of deposit (a)	1,446,309	263,580
Peruvian Treasury Bonds (b)	91,028	5,176
Mutual funds (c)	6,552	13,742
BCRP certificates of deposit (d)	-	19,522
Others	11	1,486
	1,543,900	**303,506**
Available-for-sale investments		
BCRP certificates of deposit (d)	1,081,896	1,054,403
Peruvian Treasury Bonds (b)	702,122	593,863
Central Bank indexed certificates of deposit (a)	606,773	-
Listed shares		
BVL – Lima Stock Exchange (e)	55,054	45,263
CAVALI S.A. (f)	-	8,631
Other	531	479
Unlisted shares	3,514	7,435
Mutual funds (c)	2,022	1,836
Global bonds (g)	-	23,205
Other shares, net	18	18
	2,451,930	**1,735,133**
Total investments at fair value through profit or loss and available-for-sale investments	**3,995,830**	**2,038,639**

(a) Central Bank indexed certificates of deposit, recorded at fair value through profit or loss, are securities freely negotiable in local currency; they are acquired through BCRP public bids and traded in the Peruvian secondary market. These certificates are subject to a readjustment based on an average exchange rate variation between the date of issuance and the date of maturity, and mature in January and March 2016 (2014: between January and March 2015). Likewise, as of December 31, 2015, the Bank holds certificates of readjustable deposits issued by BCRP which cannot be withdrawn since they warrant repurchase agreements for an amount of S/ 606,753 thousand.

(b) Peruvian Treasury Bonds correspond to sovereign bonds issued in local currency by the Peruvian Ministry of Economy and Finance and represent internal public debt instruments of the Republic of Peru. As of December 31, 2015, these bonds accrue interest at annual rates ranging from 3.85% to 7.77% (2014: from 3.35% to 6.44% annually), with maturities between August 2017 and August 2037 (2014: between May 2015 and February 2042).

(c) As of December 31, 2015, SAF and Titulizadora hold investments in mutual fund in local and foreign currency for S/ 6,251 thousand and US$ 681 thousand, respectively, which are managed by SAF (2014: S/ 11,783 thousand and US$ 1,271 thousand).

(d) BCRP certificates of deposit, are securities freely negotiable in local currency; they are acquired through BCRP public bids and traded in the Peruvian secondary market. As of December 31, 2015, these certificates accrue interest based on the BCRP reference rate which ranged from 3.32% to 4.75% annually (2014: between 3.20% and 4.03% annually), and have maturities between January 2016 and May 2017 (2014: between January 2015 and April 2016). Likewise, as of December 31, 2015, the Bank holds certificates of negotiable deposits issued by BCRP which cannot be withdrawn since they warrant repurchase agreement for an amount of S/ 305,396 thousand (2014: S/ 202,557 thousand).

(e) Shares held by SAB in BVL
As of December 31, 2015, SAB holds 5,856,781 class "A" shares in BVL that are listed at S/ 9.40 each (2014: shares held by SAB are class "A" shares, and amount to 4,764,577 shares listed at S/ 9.50 each).

Also, during year 2015 and 2014, BVL has distributed dividends to SAB for S/ 1,128 thousand and S/ 1,120 thousand, respectively, which are recorded as Results for financial transactions in the consolidated income statement.

As of December 31, 2015, SAB holds under guarantee, BVL shares for S/ 1,995,694 in favor of SMV (2014: S/ 447,869).

(f) In March 2015, SAB participated in the public offer for exchange of CAVALI shares, where by delivered on a permanent basis, 1,438,572 CAVALI'S shares; and received in compensation class "A" shares of BVL with an exchange value of S/ 10.40 per share. This exchange of shares generated a profit before tax of S/ 10,949 thousand recorded as gain from sale of investments, include in the "Results from Financial Transactions". As of December 31, 2014, SAB held such shares from CAVALI as an available-for-sale investment and listed at S/ 6.00 each.

During year 2015, CAVALI has distributed dividends to SAB for S/ 41 thousand (S/ 222 thousand during year 2014), which are recorded as Results for financial services in the consolidated income statement.

(g) Global bonds from the Republic of Peru are bonds issued in foreign currency by the Peruvian Government, accrue interests at an annual rate of 0.63% and matured in February 2015. As of December 31, 2015, global bonds were held.

As of December 31, 2015 and 2014, the accrued interest on investments amounted to S/ 73,057 thousand and S/ 46,622 thousand, respectively, and it is included as interest income item of the consolidated income statement (note 20).

As of December 31, investment at fair value through profit or loss and available-for-sale investments have the following maturities:

In thousands of soles	**2015**	**2014**
Up to 3 months	1,780,074	378,865
From 3 to 12 months	682,961	748,189
Over 12 months	1,532,795	911,585
	3,995,830	**2,038,639**

8. Loan Portfolio, Net

This caption comprises the following:

	2015		**2014**	
	In thousands of S/	**%**	**In thousands of S/**	**%**
Direct loans				
Current loans	38,347,309	96	31,723,550	97
Refinanced loans	266,541	1	216,677	-
Restructured loans	-	-	3,307	-
Past due loans	848,794	2	605,595	2
Lawsuits loans	446,250	1	337,502	1
	39,908,894	**100**	**32,886,631**	**100**
Plus (less)				
Accrued interest on current loans	278,763		224,145	
Non-accrued interest	(31,684)		(27,942)	
Provision for loan losses	(1,822,623)		(1,415,448)	
	38,333,350		**31,667,386**	
Contingent loans (note 19)	**9,492,743**		**7,815,071**	

As of December 31, 2015 and 2014, fifty-one percent of the direct and indirect loan portfolio of the Bank was concentrated in 810 and 996 clients, respectively. The loan portfolio (direct and indirect) is mainly backed up with collaterals received from clients, mainly consisting of mortgages, industrial and merchant pledges, third-party letters of guarantees and securities. The value of these mortgages and pledges has been determined based on net realizable value in the market, less selling expenses according to SBS regulations.

Annual interest rates are regulated by the market and may be set at Scotiabank Perú S.A.A. and CrediScotia Financiera S.A.'s discretion. As of December 31, the annual average effective rates of main products fluctuated as follows:

	2015		**2014**	
	Local currency	**Foreign currency**	**Local currency**	**Foreign currency**
Overdrafts (*)	55.00 – 85.00	30.00 – 55.00	55.00 - 85.00	35.00 - 55.00
Discounts and commercial loans	4.75 – 48.46	2.04 – 28.69	4.82 - 47.13	1.75 - 28.78
Consumer loans	14.04 – 61.75	10.43 – 27.58	14.03 - 52.63	9.89 - 28.16

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

As of December 31, according to current SBS regulations, the loan portfolio of the Bank and CrediScotia Financiera S.A. risk-based ratings:

	2015				2014			
In thousands of soles	**No. of debtors**	**Direct**	**Indirect**	**Total**	**No. of debtors**	**Direct**	**Indirect**	**Total**
Risk Rating								
Standard	908,970	36,988,306	9,422,997	46,411,303	859,093	30,669,150	7,763,303	38,432,453
With potential problems	38,641	895,618	37,252	932,870	42,297	745,011	32,411	777,422
Substandard	25,262	427,225	4,772	431,997	24,739	327,359	10,889	338,248
Doubtful	45,892	634,627	18,602	653,229	45,990	458,043	5,911	463,954
Loss	38,779	963,118	9,120	972,238	39,147	687,068	2,557	689,625
	1,057,544	**39,908,894**	**9,492,743**	**49,401,637**	**1,011,266**	**32,886,631**	**7,815,071**	**40,701,702**

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

In thousands of soles	**Specific**	**Generic**	**Total**
Balance as of January 1, 2014	769,473	473,396	1,242,869
Additions debited to profit or loss	1,079,744	294,465	1,374,209
Recovery of provisions	(366,967)	(219,829)	(586,796)
Transfers of provisions and other	102,589	(81,020)	21,569
Write-offs and forgiveness	(667,141)	-	(667,141)
Exchange differences	18,944	11,794	30,738
Balance as of December 31, 2014	**936,642**	**478,806**	**1,415,448**
Balance as of January 01, 2015	936,642	478,806	1,415,448
Additions debited to profit or loss	1,360,086	272,002	1,632,088
Recovery of provisions	(428,811)	(191,264)	(620,075)
Transfers of provisions and other	91,571	(24,023)	67,548
Write-offs and forgiveness	(743,729)	-	(743,729)
Exchange differences	49,928	21,415	71,343
Balance as of December 31, 2015	**1,265,687**	**556,936**	**1,822,623**

Provision for doubtful loans, net, as shown in the consolidated income statement is as follows:

In thousands of soles	**2015**	**2014**
Provisions for doubtful loans of the period	1,632,088	1,374,209
Recovery of provisions	(620,075)	(586,796)
Income from portfolio recovery	(52,967)	(36,688)
Provisions for loans, net of recoveries	**959,046**	**750,725**

Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. records regulatory provisions for loan portfolios according to the policy described in note 4e. Also, these entities record discretionary provisions for doubtful loans included in the generic provision for loans. As of December 31, 2015 and 2014, discretionary provisions amount to S/ 110,777 thousand and S/ 67,678 thousand, respectively.

As of December 31, 2015, the provision for foreign exchange credit risk amounts to S/ 1,227 thousand (2014: S/ 1,266 thousand).

As indicated in note 4.e, from November 2014, the procyclical component for provisions for doubtful loans calculation was deactivated. During year 2015, the Bank and Crediscotia Financiera S.A. applied procyclical provisions amounting to S/ 40,906 thousand for the recording of specific provisions (2014: S/ 72,618 thousand), holding as of December 31, 2015 a procyclical provisions balance amounting to S/ 56,344 thousand (2014: S/ 58,843 thousand). Also, during year 2015, as a result of the business acquisition of the commercial banking related to retail and consumer banking of Citibank del Perú S.A. (described in Note 2), the Bank included procyclical provisions amounting to S/ 7,777 thousand.

As of December 31, direct loan portfolio had the following maturities:

	2015			2014		
In thousands of soles	**Local currency**	**Foreign currency**	**Total**	**Local currency**	**Foreign currency**	**Total**
Up to 1 month	2,235,166	1,360,016	3,595,182	1,938,465	1,633,778	3,572,243
From 1 to 3 months	3,438,852	2,436,603	5,875,455	2,400,973	3,048,138	5,449,111
From 3 to 6 months	3,670,495	1,481,618	5,152,113	2,429,842	1,693,985	4,123,827
From 6 to 12 months	3,391,514	1,380,740	4,772,254	2,642,771	1,520,549	4,163,320
Over 12 months	13,259,286	6,238,323	19,497,609	7,939,665	6,919,513	14,859,178
Overdue and lawsuit loans	754,881	540,163	1,295,044	573,433	369,664	943,097
Less, accrued interest	(218,150)	(60,613)	(278,763)	(154,382)	(69,763)	(224,145)
	26,532,044	**13,376,850**	**39,908,894**	**17,770,767**	**15,115,864**	**32,886,631**

9. Held-for trading derivative instruments

The Bank holds agreements of foreign currency forwards, cross currency swaps (CCS) and interest rate swaps (IRS). As of December 31, the fair value of these trading financial instruments has generated accounts receivable and payable as described below:

	2015		2014	
In thousands of soles	**Trade accounts**	**Accounts payable**	**Accounts receivable**	**Accounts payable**
Forwards	111,282	121,362	112,095	143,217
Interest Rate Swap - IRS	9,625	4,345	11,402	7,282
Cross Currency Swaps - CCS	209,094	81,304	48,442	36,659
	330,001	**207,011**	**171,939**	**187,158**

As of December 31, 2015 and 2014 these derivatives generated net gains of S/ 255,031 and a net loss of S/ 33,351 thousand, respectively (note 23).

10. Accounts Receivable, net

This caption comprises the following:

In thousands of soles	**2015**	**2014**
Financial Instruments		
Collection services	32,046	21,306
Commissions receivable	17,890	12,946
Advances to personnel	13,888	8,720
Sale of investments	13,747	33,729
Payments on behalf of thirds parties, net	11,063	14,232
Sales of goods and services, trust, net	1,273	1,080
Accounts receivable from brokerage customers	400	610
Other accounts receivable, net	28,641	39,850
	118,948	**132,473**
Non-financial Instruments		
Tax claims (a)	685,802	734,547
	804,750	**867,020**

(a) Tax claims comprise tax processes with the Tax Authority (SUNAT) that as of December 31, 2015 and 2014 amount to S/ 251,987 thousand (2014: S/ 252,701 thousand) corresponding to: i) payments made by the Bank under protest referred to the Temporary Tax on Net Assets (ITAN) of fiscal years 2005 and 2006 which are being challenged in the courts by the Bank as they are considered undue payments and shall be offset with the income tax and other tax credits and, ii) income tax paid in excess by CrediScotia Financiera S.A. for the years 2008, 2009 and 2010. In opinion of the Bank's Management, CrediScotia Financiera S.A. and its legal advisors, these amounts will be returned on the resolution of the case.

Also, this net account receivable of the pertinent provision for doubtful account includes tax claims amounting to S/ 433,815 thousand (2014: S/ 481,846 thousand), which are related to payments made under protest due to a resolution issued by the Tax Authority, which is being challenged in the Judicial Courts by the Bank. In opinion of the Bank's Management and its legal advisors, these amounts will be returned on the resolution of the case.

11. Goodwill

Corresponds to the goodwill determined by the business acquisitions made by the Bank. As of December 31, 2015, goodwill amounts to S/ 565,892 thousand which includes goodwill arising from the acquisition of CrediScotia Financiera S.A. which amounts to S/ 278,818 thousand. Also, the acquisition of Servicios SPV S.A.C. (note 2) resulted in additional goodwill for S/ 287,074 thousand.

As of December 31, 2014, the Bank held S/ 278,818 thousand corresponding to goodwill arising from the acquisition of CrediScotia Financial S.A.

According to SBS standards, such goodwill has been assessed by Management, concluding that there is no impairment as of December 31, 2015 and 2014.

12. Property, Furniture, and Equipment, Net

This caption comprises the following:

In thousands of soles	**Balance as of 12.31.2014**	**Additions**	**Disposals**	**Acquisition (a)**	**Reclas. and/or adjustments**	**Balances as of 12.31.2015**
Cost						
Land	133,027	-	-	-	-	133,027
Property and premises	716,513	3,564	(1,959)	9,694	7,490	735,302
Furniture, fixture, and IT equipment	398,629	26,308	(6,813)	4,997	3,735	426,856
Vehicles	4,120	-	-	-	-	4,120
Units in transit and replacing units	9,618	4,713	-	-	(7,599)	6,732
Work-in-progress	8,989	3,138	-	-	(10,075)	2,052
	1,270,896	**37,723**	**(8,772)**	**14,691**	**(6,449)**	**1,308,089**
Accumulated depreciation						
Property and premises	517,046	30,392	(1,970)	4,901	(125)	550,244
Furniture, fixture, and IT equipment	296,431	35,108	(6,442)	2,543	(1,044)	326,596
Vehicles	3,675	372	-	-	-	4,047
	817,152	**65,872**	**(8,412)**	**7,444**	**(1,169)**	**880,887**
	453,744					**427,202**

(a) It corresponds to the addition for acquisition of premises and equipment from Citibank del Perú S.A., as part of the transaction described in note 2.

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

13. Other Assets, net

This caption comprises the following:

In thousands of soles	**2015**	**2014**
Financial Instruments		
Transactions in progress (a)	90,399	115,313
	90,399	**115,313**
Non-financial Instruments		
Prepaid expenses (b)	106,454	108,659
Payments on account of income tax, net	99,572	28,709
Tax credit (VAT) and other (c)	92,024	244,626
Realizable and repossessed asset, net of accumulated depreciation and provision for impairment of S/ 131,727 thousand (S/ 126,760 thousand in 2014)	33,734	19,466
Intangible assets, net of amortizations of S/ 231,920 thousand (S/ 222,575 thousand in 2014)	28,316	26,533
Other	13,012	12,987
	373,112	**440,980**
	463,511	**556,293**

(a) Transactions in progress are those carried out during the last days of the month and are reclassified in the following month to their definitive respective accounts in the consolidated statement of financial position. These transactions do not affect the results of Scotiabank Perú S.A.A. and Subsidiaries. As of December 31, 2015, it includes mainly S/ 63,644 thousand related to treasury transactions, S/ 6,486 thousand for invoices in-transit of services received, S/ 1,636 thousand for operations to be settled with credit card processors and S/ 10,986 thousand of operations to be settled by human resources department (2014: S/ 99,943 thousand, S/ 2,865 thousand, S/ 3,634 thousand and S/ 4,015 thousand, respectively).

(b) As of December 31, 2015, prepaid expenses include mainly: i) deferred loan origination costs related to commissions paid to the external sales force for S/ 69,820 thousand (2014: S/ 72,100 thousand); ii) prepaid rent for S/ 6,348 thousand (2014: S/ 6,341 thousand); iii) prepaid commissions of received borrowings for S/ 17,035 (2014: S/ 17,418 thousand); and iv) advertising and marketing services for S/ 307 thousand (2014: S/ 842 thousand), among other.

(c) As of December 31, 2015 and 2014, tax credit of the general sales tax (VAT) comprises S/ 188,393 thousand and S/ 285,420 thousand, respectively, net of sales tax payable for S/ 96,581 thousand and S/ 40,794 thousand, respectively. This tax credit includes the sales tax for the acquisition of assets that has been transferred under finance lease for S/ 37,407 thousand as of December 31, 2015 (2014: S/ 23,070 thousand), which have not yet been applied against taxable transactions.

14. Deposits and Obligations in Financial System Entities

This caption comprises the following:

	2015		2014	
	In thousands of S/	*%*	*In thousands of S/*	*%*
Corporate clients	17,438,947	48	15,039,383	52
Individuals	11,615,120	32	9,629,534	33
Non-profit organizations	4,560,101	12	2,472,151	8
Others	3,027,003	8	2,199,489	7
	36,641,171	**100**	**29,340,557**	**100**

Deposits and other obligations in U.S. dollars represent 55% and 51% of the total deposits as of December 31, 2015 and 2014, respectively. Deposits includes accounts pledged in favor of Scotiabank Perú S.A.A. and Subsidiaries for credit operations for S/ 592,261 thousand and US$ 256,515 thousand as of December 31, 2015 (2014: S/ 563,617 thousand and US$ 217,331 thousand).

As of December 31, 2015 and 2014, the total deposits and obligations from individuals and non-profit legal entities for S/ 8,404,398 thousand and S/ 7,141,835 thousand, respectively, are covered by the Peruvian Deposit Insurance Fund, according to current legal regulations.

According to article 4 of SBS Resolution 0657-99, deposits covered by the FSD are the following:

- Registered deposits, under any modality, from individuals and private non-profit legal entities;
- Accrued interest on the above-mentioned deposits, as from their respective opening dates or their last renewal date; and
- Demand deposits corresponding to legal entities.

The maximum amount covered for each individual as of December 31, 2015, amounted to S/ 96 thousand (2014: S/ 94 thousand).

The Bank and CrediScotia Financiera S.A. freely establish deposits interest rates based on supply and demand, and the type of deposits. Effective rates as of December 31 fluctuated for the main products as follows (annual effective rate):

	2015		2014	
	Local currency	**Foreign currency**	**Local currency**	**Foreign currency**
Savings deposits	0.47 - 1.71	0.18 - 0.21	0.37 - 1.70	0.22 - 1.00
Time deposits	2.99 - 5.45	0.17 - 1.50	3.29 - 5.64	0.14 - 2.60
Severance payment deposits	2.87 - 6.02	1.13 - 4.00	2.90 - 6.00	1.52 - 4.00

As of December 31, the scheduled maturity dates of the time deposits were as follows:

	2015			2014		
In thousands of soles	**Local currency**	**Foreign currency**	**Total**	**Local currency**	**Foreign currency**	**Total**
Up to 1 month	2,264,555	3,114,782	5,379,337	1,565,682	1,780,342	3,346,024
From 1 to 3 months	2,011,412	2,588,346	4,599,758	1,669,492	1,571,751	3,241,243
From 3 to 6 months	1,222,831	1,585,474	2,808,305	1,061,498	808,169	1,869,667
From 6 to 12 months	1,030,629	742,502	1,773,131	1,157,792	529,838	1,687,630
Over 12 months	956,274	567,073	1,523,347	722,546	494,148	1,216,694
	7,485,701	**8,598,177**	**16,083,878**	**6,177,010**	**5,184,248**	**11,361,258**
Interest	**95,306**	**11,589**	**106,895**	**66,166**	**8,420**	**74,586**
	7,581,007	**8,609,766**	**16,190,773**	**6,243,176**	**5,192,668**	**11,435,844**

Demand deposits, savings deposits and severance indemnities (CTS) have no contractual maturities.

15. Borrowings and Financial Obligations

This caption comprises the following:

In thousands of soles	**2015**	**2014**
Borrowings and financial obligations		
Obligations in the country:		
BCRP (a)	3,905,800	1,206,900
COFIDE (b)	861,170	772,004
Other local banks	134,000	100,000
Ordinary loans from abroad		
Related banks (c)	3,496,275	3,568,270
Other banks (d)	3,948,526	2,590,243
	12,345,771	**8,237,417**
Interest payable	107,704	33,888
	12,453,475	**8,271,305**
Securities and obligations (e)	3,189,984	2,652,839
	15,643,459	**10,924,144**

(a) Corresponds to obligations for foreign currency purchase transactions with commitments of repurchase made with BCRP. Maturities of these operations range between January 2016 and March 2016 and accrue interests that range between 3.20% and 6.56% (see note 6.c) (2014: maturities range between October 2015 and June 2016 and accrue interests between 3.95% and 4.85%).

(b) Corporación Financiera de Desarrollo S.A. (Finance Development Corporation - COFIDE) in the Bank and CrediScotia Financiera S.A. correspond to resources obtained for loans granting, mainly for mortgage financing programs of MiVivienda Fund, which accrue a fixed interest rate adjusted to the VAC index. As of December 31, 2015 and 2014, amounted to S/ 631,170 thousand and S/ 542,004 thousand, respectively.

Additionally, CrediScotia Financiera S.A. holds credit lines of COFIDE in local currency to be used as working capital on a short term basis and are subject to specific agreements on the manner of using received funds, financial conditions that should be held and other administrative matters. As of December 31, 2015 and 2014, obligations for this item amount to S/ 230,000 thousand.

As of December 31, 2015, the credit lines of the mortgage financing programs are guaranteed with mortgage loan portfolio as follows:

In thousands of S/ and US$	**Currency**	**Net loans**	**Backed debt**
Mortgage loans-Fondo MiVivienda (*)	Soles	819,760	540,806
Mortgage loans-Fondo MiVivienda (*)	U.S. dollars	31,639	26,492

(*) The Bank and CrediScotia Financiera S.A. signed specific agreements on these mortgage financing programs which maintain standard clauses of compliance operational issues that, in the opinion of Management, are being met.

(c) As of December 31, 2015, ordinary loans with related banks include debts payable to Scotiabank Ltd. Bahamas amounting to US$ 1,025,000 thousand, which accrue interest at annual rates ranging between 0.82% and 1.13% and have maturities between January 2016 and December 2017 (2014: US$ 1,115,000 thousand, accrue interest at annual rates ranging between 0.73% and 1.13% and have maturities between October 2015 and December 2017).

Also, the balance with related banks as of December 31, 2014, included a borrowing from The Bank of Nova Scotia for US$ 80,000 thousand, which accrued interest at annual rates ranging between 0.48% and 0.57% and matured in January 2015.

These borrowings do not have guarantees nor compliance covenants.

(d) As of December 31, 2015, it also includes borrowings and financial obligations negotiated with other banks for US$ 1,076,336 thousand (2014: US$ 748,712 thousand) accruing interest at average rates that range between 0.56% and 3.31% (2014: 0.53% and 3.13%).

Also, as of December 31, 2015, the Bank negotiated borrowings with foreign financial institutions for approximately US$ 81,250 thousand (2014: US$ 118,750 thousand) maturing between June and September 2017. From this amount, US$ 21,875 thousand (2014: US$ 34,375 thousand) accrue interest at a fixed rate of 2.612% and US$ 59,375 thousand (2014: US$ 84,375 thousand) at variable rates of 3-month LIBOR plus a spread of 2.44% and 2.76% (2014: 2.34% and 2.99%). These transactions contain standard clauses of compliance with financial ratios and other administrative matters. In the opinion of the management those clauses do not affect the Bank's operations and are being met.

As of December 31, the scheduled maturity dates of borrowings from banks and other financial institutions were as follows:

In thousands of soles	**2015**	**2014**
Up to 1 month	678,970	826,574
From 1 to 3 months	1,234,475	1,082,835
From 3 to 6 months	3,183,534	76,905
From 6 to 12 months	1,487,619	1,605,446
Over 12 months	5,868,877	4,679,545
	12,453,475	**8,271,305**

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

In thousands of soles	**Annual interest**	**Maturity**	**2015**	**2014**
Issuance				
Redeemable Subordinated Bonds:				
1st Issuance, single series (i)	4.50%	2027	1,364,400	1,194,400
1st Issuance A – 1st Program - SBP (ii)	7.34%	2025	535,560	-
1st Issuance A – 1st Program - CSF (iii)	7.41%	2027	130,000	130,000
			2,029,960	**1,324,400**
Negotiable Notes (iv)				
Series A	5.25%	2017	44,882	70,720
Series B	LIBOR 3m + 2.75%	2017	112,205	176,804
			157,087	**247,524**
Corporate bonds (v)				
4th Issuance A – 1st Program	4.72%	2017	50,000	50,000
7th issuance A – 1st Program	7.19%	2017	60,000	60,000
8th issuance A – 1st Program	7.31%	2017	100,000	100,000
2nd Issuance C – 1st Program	5.53%	2015	-	50,000
1st Issuance A – 2nd Program	5.72%	2017	100,000	100,000
2nd Issuance B – 2nd Program	5.19%	2017	50,000	50,000
2nd Issuance C – 2nd Program	5.16%	2017	50,000	50,000
3rd Issuance A – 2nd Program	6.78%	2018	75,920	75,920
3rd Issuance B – 2nd Program	5.56%	2019	100,000	100,000
5th Issuance A – 2nd Program	5.09%	2017	58,000	58,000
5th Issuance B – 2nd Program	6.19%	2018	38,500	38,500
9th Issuance A – 2nd Program	5.50%	2017	69,480	69,480
9th Issuance B – 2nd Program	5.44%	2017	100,000	100,000
9th Issuance C – 2nd Program	5.03%	2018	100,000	-
			951,900	**901,900**
Other instruments representing debt				
Negotiable certificates of deposits (vi)			23,359	152,096
			23,359	**152,096**
			3,162,306	**2,625,920**
Interest payable and obligations			27,678	26,919
			3,189,984	**2,652,839**

i. In December 2012, the Bank issued subordinated bonds for US$ 400,000 thousand which under SBS Resolution 8093-2012, qualifies as tier 2 capital. These bonds mature on December 2027 and accrue interest at annual fixed rate of 4.500% during the first ten years; from the eleventh year, they will accrue interest at a variable rate of 3-month LIBOR rate 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 the opinion of the management they do not affect the Bank's operations and are being met.

ii. Through SBS Resolution 2315-2015, dated April 24, 2015, the SBS authorized the issuance of the First Subordinated Bonds Program Scotiabank Peru up to an amount of US$ 400,000 thousand or the equivalent in soles; these bonds qualifies as a tier 2 capital. On May 22, 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 date of issuance. 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. On July 31, 2012, CrediScotia Financiera S.A. issued, through public auction, subordinated bonds in local currency for S/ 130,000 thousand denominated Subordinated Bonds - First Issuance with SBS authorization - Resolution 4873 - 2012, such series comprise 13,000 bonds at a par value of S/ 10 thousand each, with maturity in July 2027 and a 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. In January 2010, SBP DPR Finance Company (special purpose entity established in Grand Cayman and consolidated by Scotiabank Group) made a securitization agreement of Diversified Payment Rights (DPR), in which SBP DPR Finance Company acquired the rights and future flows from remittances received from correspondent banks up to the deadline specified in the contract. SBP DPR Finance Company issued two series of long-term notes: Series A for US$ 50,000 thousand and Series B for US$ 125,000 thousand, both series with maturities in 2017. As of December 31, 2015, Series A notes amounted to US$ 13,158 thousand (2014: US$ 23,684 thousand) and Series B notes amounted to US$ 32,895 thousand (2014: US$ 59,211 thousand). The notes are guaranteed by remittances received through SWIFT messages and transferred to SBP DPR Finance Company. These contracts and transactions contain standard clauses of compliance with financial ratios and other administrative matters. In the opinion of the management, those clauses do not affect the Bank's operations and are being met.

v. From year 2007 to date, Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. have issued Corporate Bonds for S/ 901,900 thousand and S/ 50,000 thousand, respectively (2014: S/ 801,900 thousand and S/ 100,000 thousand, respectively), at terms that range between 3 and 5 years. The proceeds were exclusively destined to credit operations financing.

vi. As of December 31, 2015, this amount includes Negotiable Certificates of Deposit issued by Scotiabank Peru S.A. amounting to S/ 23,359 thousand (2014: S/ 30,096 thousand). Additionally, Negotiable Certificates of Deposit of CrediScotia Financiera S.A. matured and were settled between January and February, 2015. As of December 31, 2014, the Negotiable Certificates of Deposits issued by CrediScotia Financiera S.A. for S/ 122,000 thousand accrued interest at an annual rate between 4.25% and 4.63%. Based on SBS Resolution 3225-2014, since July 2014, the Bank and CrediScotia Financiera S.A. have reclassified the total balance of the Negotiable Certificates of Deposit from 'deposits and obligations' to 'securities and obligations issued'.

Subordinated bonds issued by the Bank and CrediScotia Financiera S.A. do not have specific collateral; however, they have a generic guarantee on the net shareholders' equity of those entities.

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

In thousands of soles	**2015**	**2014**
Up to 3 months	49,890	170,365
From 3 to 6 months	40,626	83,562
From 6 to 12 months	42,014	80,748
Over 12 months	3,057,454	2,318,164
	3,189,984	**2,652,839**

As of December 31, 2015 and 2014, interest expenses on borrowings and financial obligations of Scotiabank Perú S.A.A. and Subsidiaries amount to S/ 419,781 thousand and S/ 256,347 thousand, respectively (note 21).

16. Provisions and Other Liabilities

This caption comprises the following:

In thousands of soles	**2015**	**2014**
Accounts payable		
Other accounts payable (a)	249,795	214,342
Vacations, remunerations and profit sharing payable	125,167	117,938
Put option (b)	84,294	69,777
	459,256	**402,057**
Provisions		
Provisions for litigations and legal claims (c)	98,073	100,047
Various provisions (d)	35,826	75,571
Provision for contingent loans and country risk	91,844	71,609
Other provisions (e)	41,559	50,912
	267,302	**298,139**
Other liabilities		
Transactions in progress (f)	184,843	156,092
Deferred income on portfolio sale and other	68,990	36,109
	253,833	**192,201**
	980,391	**892,397**

(a) As of December 31, 2015, this item is composed mainly of accounts payable: (i) suppliers for S/ 101,336 thousand; ii) purchases of investment for S/ 34,232 thousand; iii) insurance companies for services agreed-upon by customers for S/ 14,800 thousand; iv) current taxes for S/ 14,920 thousand and v) merchants for purchases with credit cards issued for S/ 12,809 thousand (2014: S/ 77,948 thousand, S/ 24,958 thousand, S/ 11,337 thousand, S/ 11,397 thousand and S/ 10,164 thousand, respectively).

(b) As of December 31, 2015 and 2014, the Bank has signed a put option contract on its own common shares held in a trust, entitling the trustee the right to sell to the Bank all of these shares at a price calculated based on that contract. This put option is effective from January 1 through March 31, 2016, and its carrying amount does not differ significantly from its fair value.

(c) As of December 31, 2015 and 2014, Scotiabank Perú S.A.A. and Subsidiaries have various 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 Scotiabank Perú S.A.A. and Subsidiaries' operations, it is not anticipated they will have a significant impact on operations or results.

(d) As of December 31, 2015, this account mainly comprises reversals and recoveries of provisions recorded in prior years charged to equity accounts for S/ 5,137 thousand (2014: S/ 44,745 thousand) which, according to SBS Official Letter 23797-2003, they should be reassigned to other deficits in Bank's asset accounts. Also, the balance as of December 31, 2015 includes provisions made charged to profit or loss for i) various contingencies for S/ 22,607 thousand (2014: S/ 23,272 thousand); and ii) rewards to clients for S/ 8,017 thousand (2014: S/ 7,491 thousand).

(e) As of December 31, 2015, the balance of other provisions mainly include: i) provisions for personnel expenses for S/ 19,113 thousand (2014: S/ 32,493 thousand); ii) provisions for marketing campaigns of liability products for S/ 2,451 thousand (2014: S/ 2,362 thousand), iii) provisions for campaigns of credit and debit cards for S/ 14,008 thousand (2014: S/ 13,642 thousand) and iv) provisions for credit card awards for S/ 4,721 thousand.

(f) 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 Perú S.A.A. and Subsidiaries. As of December 31, 2015, liability transactions in transit include mainly: i) S/ 63,671 thousand related to Treasury operations (2014: S/ 97,449 thousand), ii) S/ 2,656 thousand related to the clearing house in the Electronic Clearinghouse (2014: S/ 2,349 thousand), iii) S/ 8,292 thousand related to debt purchase operations (2014: S/ 3,658 thousand), iv) S/ 48,501 thousand corresponding client deposits in transit (2014: S/ 16,394 thousand); and v) S/ 12,895 thousand related to third party insurance (2014: S/ 10,744 thousand).

17. Shareholders' Equity

A. General

The regulatory capital of Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. is determined in accordance with the Banking Law and as of December 31, 2015, it amounts to S/ 6,998,469 thousand and S/ 629,965, respectively (2014: S/ 5,377,863 thousand and S/ 550,339 respectively). This figure is used to calculate certain legal limits and restrictions according to the Peruvian Banking Law applicable to the financial institutions' operations in Peru.

At the Board of Directors' Meeting held on July and December 2015, based on the authority conferred by the Shareholders' Meeting held on March 24, 2015, a total of S/ 660,000 thousand, corresponding to profits of 2015, were committed to be capitalized and included as part of the regulatory capital of the Bank. This agreement shall be formalized within 90 days after the approval of year 2015 financial statements.

As of December 31, 2015, credit risk weighted assets and contingent credits determined by Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. according to the legislation applicable to financial institutions amounted to S/ 46,62,232 thousand and S/ 3,862,048 thousand, respectively (2014: S/ 39,060,041 thousand and S/ 3,620,629 thousand, respectively).

As of December 31, 2015 and 2014, 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 contingent credits, 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 risk weighted credit related assets and contingencies. As of December 31, 2015, the regulatory net capital of Scotiabank Perú S.A.A. and Crediscotia Financiera S.A. represents 13.97% and 15.09% respectively, of the minimum capital requirements per market, operational and credit risk (2014: 12.89% and 14.09% respectively).

Likewise, by means of Resolution 2115-2009, the SBS approved the rules for the Additional Regulatory Net Capital for Operational Risk, effective as from July 1, 2009. On this respect, as of December 31, 2015 and 2014, Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. have applied the alternative standard method for the calculation of the regulatory capital requirement for operational risk.

Finally, by means of SBS Resolution 8425-2011 and 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. Such additional requirement determined by Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. as of December 31, 2015, amounted to S/ 998,971 thousand and S/ 90,293 thousand, respectively (2014: S/ 835,198 thousand and S/ 101,701 thousand, respectively).

B. Capital stock

As of December 31, 2015, the Bank's capital stock comprises 412,864,969 common shares (2014: 365,505,212 common shares). All shares have voting rights and a par value of S/ 10.00 each. As of those dates, the quotation value of common shares of the Bank was S/ 20.70 and S/ 26.00 per share, respectively; also, the capitalization of the currency adjustment for inflation is still pending corresponding to years 2001 to 2004 for S/ 28,019.thousand.

Pursuant to the delegation conferred by the General Shareholders' meeting during April and June 2015, the board approved the increase of capital stock arising from the capitalization of year 2013 and 2014 retained earnings for S/ 473,638 thousand. As a result of the capitalization of the capital stock, it increased to S/ 4,128,650 thousand and is represented by 412,864,969 common shares with a par value of S/ 10.00 each as of December 31, 2015.

Pursuant to the delegation conferred by the General Shareholders' meeting during July and September 2014, the board approved the increase of capital stock arising from the capitalization of year 2012 and 2013 retained earnings for S/ 630,219 thousand. As a result of the capitalization of the capital stock, it increased to S/ 3,655,022 thousand and is represented by 365,502,212 common shares with a par value of S/ 10.00 each as of December 31, 2014.

Shares participation on the Bank's capital stock as of December 31, is as follows:

	2015		2014	
Percentage of interest in capital	*Number of shareholders*	*%*	*Number of shareholders*	*%*
0.01 to 1	1,679	2.19	1,773	2.25
From 1.01 to 50	2	42.49	2	42.43
From 50.01 to 100	1	55.32	1	55.32
	1,682	**100.00**	**1,776**	**100.00**

Under the Banking Law, it is required that as of December 31, 2015, the capital stock reaches the minimum amount of S/ 26,080 thousand (2014: S/ 25,602 thousand), 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	2015	2014
Issuance premium	368,522	368,522
(Loss) gain on treasury shares	(9)	42
	368,513	**368,564**

As of December 31, 2015, the Bank holds 313 treasury shares (2014: it held 97 treasury shares).

D. Legal reserve

In accordance with the Banking Law, the Bank is required to have a legal reserve of at least 35% of its capital stock. 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 Companies Act. 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.

At the Annual Obligatory General Shareholders' meeting, held on March 24, 2015, it was decide to apply to legal reserve an amount of S/ 95,621 thousand corresponding to 10% of net profit for the year 2014. At the Annual Obligatory General Shareholders' meeting, held on March 25, 2014, it was decided to apply to legal reserve an amount of S/ 85,492 thousand, corresponding to 10% of net profit for the year 2013.

E. Retained earnings

At the Bank's General Shareholders' meeting, held on March 24, 2015, the distribution of 2014 net profit for a total of S/ 956,210 thousand was approved, as follows:

i Cash dividends payment for S/ 382,484 thousand.
ii Allocate 10% of net profit, amounting to S/ 95,621 thousand to increase the legal reserve.
iii Remaining balance, amounting to S/ 478,105 thousand, will be held in 'retained earnings'.

At the Bank's General Shareholders' meeting, held on March 25, 2014, the distribution of 2013 net profit for a total of S/ 854,917 thousand was approved, as follows:

i Cash dividends payment for S/ 341,967 thousand.
ii Allocate 10% of net profit, amounting to S/ 85,492 thousand to increase the legal reserve.
iii Remaining balance, amounting to S/ 427,458 thousand, will be held in 'retained earnings'.

F. Other comprehensive income

As of December 31, 2015 and 2014, it mainly includes unrealized results of available-for-sale investments and share in other comprehensive income of associates, net of its deferred income tax effects.

18. Contingencies

Scotiabank Perú S.A.A. and Subsidiaries have several pending court claims related to their ongoing activities. In the opinion of management and their internal legal advisors, these claims will not result in additional liabilities to those recorded by the Bank and Subsidiaries; therefore, management considers that no additional provision is necessary for these contingencies (note 16.c).

19. Risks and Contingent Commitments

In the normal course of business, the Bank and CrediScotia Financiera S.A. perform contingent transactions under off-statement of financial position credit risk (contingent assets). These transactions expose the Bank and CrediScotia Financiera S.A. to additional credit risk, beyond the amounts presented in the consolidated statement of financial position. Credit risk for contingent transactions are accounted in memoranda accounts of the consolidated statement of financial position and they relate 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 Financiera S.A. would assume for credit losses in contingent transactions. The Bank and CrediScotia Financiera S.A. apply the same credit policies to evaluate and grant direct loans as indirect loans.

Many of the indirect loans are expected to expire without any withdraw required by the Bank and CrediScotia Financiera S.A. The total committed amounts do not necessarily represent future cash outflows for the Bank and CrediScotia Financiera S.A. Also, documentary credits, like export and import letters of credit and guarantees and stand-by letters of credit are conditional commitments issued by the Bank and CrediScotia Financiera S.A. to guarantee a customer obligation before a third party.

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

In thousands of soles	2015	2014
Contingent loans (note 8)		
Guarantees and stand-by letters of credit	8,678,287	7,021,475
Issued letters of credit	733,932	729,718
Due from bank acceptances	80,524	63,878
	9,492,743	**7,815,071**
Unused credit lines	21,621,720	20,926,130
Financial derivative instruments	19,534,252	19,754,654
Other	551	545
	50,649,266	**48,496,400**

20. Interest Income

This caption comprises the following:

In thousands of soles	2015	2014
Direct loan portfolio	3,819,511	3,216,858
Available-for-sale investments (note 7)	68,299	41,364
Cash and due from banks and deposits in banks (note 6)	14,344	13,348
Interbank funds	5,227	7,299
Investments at fair value through profit or loss (note 7)	4,758	5,258
Other finance income	4,429	4,058
	3,916,568	**3,288,185**

21. Interest Expenses

This caption comprises the following:

In thousands of soles	**2015**	**2014**
Deposits and obligations	382,012	326,296
Borrowings and financial obligations (note 15)	419,781	256,347
Commissions on borrowings and financial obligations	35,562	25,964
Deposits of financial entities	16,156	4,636
Interbank funds	2,444	2,253
	855,955	**615,496**

22. Income from Finance Services, net

This caption comprises the following:

In thousands of soles	**2015**	**2014**
Income		
Income from commissions from collections services	159,123	139,876
Other fees and commissions from banking services	147,647	122,350
Income from deposit transactions, services and transfer fees	117,920	120,245
Income from purchased portfolio recoveries	112,009	142,029
Income from teleprocessing services	35,918	33,867
Income from remunerations of mutual funds and administration fees	30,025	26,999
Income from structuring and administration services	25,135	38,165
Income from commissions and brokerage services	11,090	82,841
Other various income	256,173	203,438
	895,040	**909,810**
Expenses		
Credit / debit cards expenses	75,548	50,814
Deposit insurance fund premiums	34,747	30,033
Insurance services expenses	3,581	3,109
Brokerage services expenses	2,936	73,218
Other expenses	184,476	170,405
	301,288	**327,579**
	593,752	**582,231**

23. Results from Financial Transactions

This caption comprises the following:

In thousands of soles	2015	2014
Trading derivatives (note 9)	225,031	(33,351)
Gain on exchange difference (note 5)	178,627	276,103
Proceeds on sale of investments (a)	34,814	5,914
Gain in associates	10,890	12,674
Available-for-sale investments	3,430	3,622
Investments at fair value through profit and loss	(4,299)	(3,681)
Other	(3,596)	(6,381)
	444,897	**254,900**

(a) During 2015, the Bank sold to a third party the 100% of shares held in Hermes Transportes Blindados S.A. (an unlisted company) for S/ 26,500 thousand, recognizing a gain on sale of investments for S/ 23,786 thousand.

24. Administrative Expenses

This caption comprises the following:

In thousands of soles	2015	2014
Personnel and board of directors expenses	848,489	744,515
Expenses for services received from third parties	645,100	566,578
Taxes and contributions	83,476	71,970
	1,577,065	**1,383,063**

25. Other Income, net

This caption comprises the following:

In thousands of soles	2015	2014
Sales of services	10,198	10,152
Leasing of own goods	2,941	12,218
Reimbursements and recoveries	614	42
(Losses in) proceeds from sale of property, furniture, and equipment and other (a)	(1,568)	79,934
Net loss from sale of repossessed assets	(488)	(93)
Other income (expenses), net	1,781	(2,708)
	13,478	**99,545**

(a) Results of the period 2014 mainly includes S/ 76,676 thousand, corresponding to profit before taxes generated from the sale of properties whose sales values amounted to S/ 101,430 thousand and their carrying amount was S/ 24,754 thousand.

26. Tax Matters

A. In accordance with current tax legislation, corporate income tax for the years 2015 and 2014 is calculated applying the statutory income tax rate of 28% and 30%, respectively. The income tax of Scotiabank Perú S.A.A. and Subsidiaries has been determined for fiscal years 2015 and 2014 as follows:

In thousands of soles	**2015**	**2014**
Scotiabank Perú S.A.A.	348,020	371,658
CrediScotia Financiera S.A.	65,428	23,248
Servicios, Cobranzas e Inversiones S.A.	8,668	18,691
Scotia Fondos Sociedad Administradora de Fondos S.A.	4,009	3,172
Scotia Sociedad Agente de Bolsa S.A.	1,517	1,556
Scotia Sociedad Titulizadora S.A.	300	208
Trust Property on real estate – Depsa	50	28,800
	427,992	**447,333**

On December 15, 2014, Law 30296 was enacted, establishing the progressive reduction of the income tax in the next five years. This law established the following rates: 28% for 2015 and 2016, 27% for 2017 and 2018, and 26% for 2019 onwards.

The tax authority has the right to audit and, if applicable, to modify the income tax calculated by the Bank during the next four years after the year of the income tax return was filed. Income tax returns of Scotiabank Perú S.A.A. and Subsidiaries that have not yet been reviewed or are under review by the tax authority are the following:

Company	**Tax returns subject to audit**	**Tax returns being (audited)**
Scotiabank Perú S.A.A.	2011 through 2014	2008, 2009, 2010 and 2011
CrediScotia Financiera S.A.	2014	2010, 2011 and 2012
Scotia Sociedad Agente de Bolsa S.A.	2010 through 2014	-
Scotia Fondos Sociedad Administradora de Fondos S.A.	2010 through 2014	-
Scotia Sociedad Titulizadora S.A.	2010 through 2014	-
Trust Property on real estate – Depsa	2010 through 2014	-
Servicios, Cobranzas e Inversiones S.A.C.	2010 through 2014	-

As of the date of this report, the Tax Authority is reviewing at the Bank the income tax returns for periods 2008, 2009 and 2010; the non-domiciled income tax return for periods 2008 and 2011, and Essalud for period 2012.

For 2003 to 2007 years, the Bank received resolutions from tax authorities related to the determination of income tax for years 2003, 2004, 2005 and 2006, for which the Bank filed appeals corresponding to each year, which are pending resolution by the Tax Court.

To date, fiscal periods 2003, 2004 and 2005 have been regularized without any significant impact to the Bank. Resolution related to year 2006 is being litigated at the Tax Court. In relation to year 2007, the Bank has filed an appeal which is pending resolution by the SUNAT. Likewise, SUNAT also issued Assessment and Fine resolutions for the determination of Essalud contributions for period 2011. The Bank and its tax advisors estimate that the results would be favorable to the Bank and no significant liabilities will arise that should be reported in the consolidated statement of financial position.

Due to the possibility of various interpretations of the current legal 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 Scotiabank Perú S.A.A. and Subsidiaries; therefore, any major tax, surcharges, and sanctions that might arise from eventual tax audits would be applied to profit or loss of the period in which they are determined. However, it is the opinion of management and its legal advisors that, any possible additional settlement of taxes would not be significant for the financial statements of Scotiabank Perú S.A.A. and Subsidiaries.

B. Law 30296 established that dividends and any other form of profit distribution, are taxable affected with 6.8% for the years 2015-2016, 8.0% for the years 2017-2018 and with 9.3% from year 2019 onwards.

C. For income tax purposes, transfer pricing for transactions carried out with economically-related parties, and with companies domiciled in territories with low or null taxation, shall be supported with documentation and information about the valuation methods used, and the criteria considered, for the pricing. Management considers that pricing regarding transactions such as those aforementioned has been made in accordance with tax legislation; consequently, no significant liabilities will arise as of December 31, 2015.

D. Beginning 2010, capital gains are subject to income tax. In this regard, it has been established, among others that the tax cost of securities whose disposition was tax-exempt until December 31, 2009 will be the higher between: (i) market value as of December 31, 2009, (ii) acquisition cost, or (iii) increase in the equity value.

However, according to the Law that promotes liquidity and integration of Securities Market, since January 1, 2016, income tax exemption was established until December 31, 2018, on the income obtained from the disposal of shares and other securities representing shares made through a centralized trading mechanism supervised by the Peruvian Company and Securities Regulator - SMV.

To be eligible for this exemption, the following requirements shall be met:

- In a period of 12 months prior to the disposal, the taxpayer and its related parties may not transfer ownership of 10% or more of total shares issued by the company.

- Shares shall be traded at stock exchange.

Beginning 2014, only interest and capital gains from bonds issued by the Republic of Peru are income tax-exempt upon compliance of certain conditions.

E. Under Laws 29663 and 29757, from year 2011, Peruvian source income is the income arising from indirect disposal of shares of Peruvian companies. An indirect share transfer occurs when the following assumptions are met:

   i 10% of more of shares of the off-shore company will be sold in any twelve-month period and,

   ii Market value of the Peruvian company's shares shall represent 50% or more of the market value of the off-shore company, within any twelve-month period.

F. In 2005, a new tax named Temporary Tax on Net Assets (ITAN, for its Spanish acronym) was established. The taxable base is the prior period adjusted net asset value less depreciations, amortizations, legal cash reserve, and specific provisions for credit risk. From year 2009, the tax rate applicable to the amount of assets exceeding S/ 1,000 thousand is 0.4%.

   For periods 2005 and 2006, the Bank has filed appeals at the administrative level and judicial authority, against SUNAT's Compliance Resolutions whereby it coercively requested the non-compensated ITAN (principal and interest) for those years. The Bank decided to pay under protest the ITAN amounting to S/ 137,069 thousand which includes principal and interest. It is the opinion of the Bank's management and its external advisors that the corresponding appeal on the refund of this payment, plus interest may be definitely resolved in favor of the Bank.

G. Tax on Financial Transactions (ITF) since April 2011 was 0.005%. This tax is applied on each deposit and withdrawal made to and from a banking account, unless the account is tax-exempt.

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

	2015		2014	
	In thousands of S/	*%*	*In thousands of S/*	*%*
Profit before taxes	**1,449,019**	**100.00**	**1,379,024**	**100.00**
Income tax (theoretical)	405,725	28.00	413,707	30.00
Effect in estimation of deferred income tax (note 27)	-	-	18,512	1.34
Tax effect on additions and deductions				
Permanent differences	32,086	2.21	3,968	0.29
Current and deferred income tax recorded as per effective rate	**437,811**	**30.21**	**436,187**	**31.63**

27. Deferred Income Taxes

Deferred income tax has been calculated applying the liability method (note 4.j), and is attributed to the following items:

		(Debit) credit to results		(Debit) credit to equity						
In thousands of soles	Balance as of 12.31.13	Origination and/or reversal of temporary differences	Reduction in tax rate (1)	Origination and/or reversal of temporary differences	Reduction in tax rate	Balance as of 12.31.14	(Debit) credit to profit or loss	(Debit) credit to equity	(Debit) credit for acquisition (2)	Balance as of 12.31.15
Assets										
Generic provision for direct/indirect loans	154,263	7,056	(10,536)	-	-	150,783	20,485	-	4,566	175,834
Transferred loan portfolio	18,939	(18,939)	-	-	-	-				
Fixed assets	15,255	48,083	(4,249)	-	-	59,089	(25,492)	-	-	33,597
Provision for doubtful accounts	9,737	1,031	(638)	-	-	10,130	4,546	-	-	14,676
Provision for vacations	14,162	(614)	(836)	-	-	12,712	(430)	-	-	12,282
Provision for repossessed assets	9,327	274	(640)	-	-	8,961	1,356	-	-	10,317
Provision for credit and debit card rewards	3,622	247	(258)	-	-	3,611	127	-	-	3,738
Valuation of available-for-sale investments	283	-	(152)	4,213	(2,954)	1,390	-	1,247	-	2,637
Investment in subsidiaries	30,133	-	-	(29,176)	63	1,020	-	(127)	-	893
Intangible assets	(1,546)	12	347	-	-	(1,187)	(430)	-	-	(1,617)
Others	14,726	(7,492)	(1,550)	191	-	5,875	(9,981)	2,230	(1,516)	(3,392)
	268,901	**29,658**	**(18,512)**	**(24,772)**	**(2,891)**	**252,384**	**(9,819)**	**3,350**	**3,050**	**248,965**
Liabilities										
Other deferred charges	(808)	-	-	(2,222)	3,030	-	-	-	-	-
Deferred tax assets, net	**268,093**	**29,658**	**(18,512)**	**(26,994)**	**139**	**252,384**	**(9,819)**	**3,350**	**3,050**	**248,965**

(1) As of December 31, 2014, Scotiabank Group registered in the results of the period, the effect resulting from the modification of the tax rates applicable for the realization of deferred income tax assets or settlement of deferred income tax liabilities; this effect has been estimated applying the tax rate corresponding to the period in which it is expected that such assets or liabilities will be realized or settled, as applicable and represented a lower net deferred income tax assets for S/ 18,512 thousand recorded in deferred income tax expense.

(2) *Corresponds to the addition for acquisition of an equity block from Citibank del Perú S.A., as part of the transaction described in note 2.*

28. 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 companies of Scotiabank Perú S.A.A. and Subsidiaries. This profit sharing is considered as a deductible expense for income tax calculation purposes. In 2015, Scotiabank Perú S.A.A. and Subsidiaries has determined a legal employees' profit sharing for S/ 79,654 thousand (2014: S/ 78,717 thousand) included under administrative expenses in the consolidated income statement.

29. Trust Fund Activities

Scotiabank Perú S.A.A. and Subsidiaries offer structuring and administration services of trust operations and trust fees, and are in charge of the preparation of agreements related to these operations. Assets kept in trust are not included in the consolidated financial statements. Scotiabank Perú S.A.A. and Subsidiaries are responsible for the appropriate management of these trusts based on the limits established by applicable laws and the respective agreement. As of December 31, 2015, the allocated value of assets in trusts and trust fees amounted to S/ 3,478,396 thousand (2014: S/ 2,398,710).

30. Related Party Transactions

As of December 31, 2015 and 2014, the Bank's financial statements include transactions with related parties, which, as established by IAS 24, comprise the parent company, related parties, associates, other related parties, 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 consolidated statement of financial position arising from related parties as of December 31, were as follows:

	2015					2014				
In thousands of soles	**Parent company**	**Related parties (i)**	**Associates**	**Key personnel and directors**	**Total**	**Parent company**	**Related parties (i)**	**Associates**	**Key personnel and directors**	**Total**
Assets										
Cash and due from banks	-	72,617	-	-	72,617	-	21,137	-	-	21,137
Loan portfolio, net	-	2,560	2	11,532	14,094	-	2,926	6	9,278	12,210
Held-for trading derivative instruments	-	57,113	-	-	57,113	-	58,103	-	-	58,103
Other assets, net	-	58,186	2,816	141	61,143	-	32,611	2,732	331	35,674
Total assets	**-**	**190,476**	**2,818**	**11,673**	**204,967**	**-**	**114,777**	**2,738**	**9,609**	**127,124**
Liabilities										
Deposits and obligations in financial system entities	251,918	1,536,040	12,009	18,629	1,818,596	220,398	304,657	10,007	16,164	551,226
Borrowings and financial obligations	-	3,498,918	-	-	3,498,918	-	3,571,137	-	-	3,571,137
Held-for trading derivative instruments	-	179,608	-	-	179,608	-	134,972	-	-	134,972
Provisions and other liabilities	-	60,112	842	8	60,962	-	46,405	457	4	46,866
Total liabilities	**251,918**	**5,274,678**	**12,851**	**18,637**	**5,558,084**	**220,398**	**4,057,171**	**10,464**	**16,168**	**4,304,201**
Off-balance sheet accounts										
Contingent loans	-	270,593	71,861	-	342,454	-	247,091	54,133	149	301,373
Financial derivative instruments	-	8,735,604	-	-	8,735,604	-	10,296,405	-	-	10,296,405

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

B. Effects of related party transactions on the consolidated income statement of Scotiabank Perú S.A.A. and Subsidiaries for the year December 31:

	2015					2014				
In thousands of soles	**Parent company**	**Related parties (i)**	**Associates**	**Key personnel and directors**	**Total**	**Parent company**	**Related parties (i)**	**Associates**	**Key personnel and directors**	**Total**
Interest income	-	148	-	601	749	-	146	-	552	698
Interest expenses	(3,004)	(36,444)	(2,239)	(188)	(41,875)	-	(23,877)	(2,034)	(211)	(26,122)
	(3,004)	**(36,296)**	**(2,239)**	**413**	**(41,126)**	**-**	**(23,731)**	**(2,034)**	**341**	**(25,424)**
Income from financial services	17	4,262	591	117	4,987	16	2,030	1,141	95	3,282
Expenses on finance services	-	(41)	(12,045)	(19)	(12,105)	-	(47)	(8,010)	(6)	(8,063)
	17	**4,221**	**(11,454)**	**98**	**(7,118)**	**16**	**1,983**	**(6,869)**	**89**	**(4,781)**
Results from financial transactions	-	(282,594)	-	-	(282,594)	-	(127,649)	-	-	(127,649)
Administrative expenses	-	(1,336)	(3,956)	-	(5,292)	-	(1,094)	(3,761)	(1)	(4,856)
Other income and expenses	-	-	-	-	-	-	2	-	-	2
Net profit	**(2,987)**	**(316,005)**	**(17,649)**	**511**	**(336,130)**	**16**	**(150,489)**	**(12,664)**	**429**	**(162,708)**

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

C. Remuneration of key management for the years ended December 31, amounted to:

In thousands of soles	**2015**	**2014**
Remuneration of key personnel	27,149	30,309
Remuneration of members of the Board of Directors	674	534
	27,823	**30,843**

As of December 31, 2015 and 2014, the remuneration pending to pay to key management amounted to S/ 5,342 thousand and S/ 6,107 thousand, respectively.

31. Classification of Financial Instruments

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

	2015						
			Available-for-sale investments				
In thousands of soles	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	-	14,856,367	-	-	-	-	14,856,367
Investments at fair value through profit or loss							
Capital instruments	6,563	-	-	-	-	-	6,563
Debt instruments	1,537,337	-	-	-	-	-	1,537,337
Available-for-sale investments							
Instruments representing capital	-	-	3,514 (c)	57,625	-	-	61,139
Instruments representing debt	-	-	-	2,390,791	-	-	2,390,791
Loan portfolio, net	-	38,333,350	-	-	-	-	38,333,350
Held-for trading derivative instruments	330,001	-	-	-	-	-	330,001
Trade accounts	-	118,948	-	-	-	-	118,948
Other assets	-	90,399	-	-	-	-	90,399
Total	**1,873,901**	**53,399,064**	**3,514**	**2,448,416**	**-**	**-**	**57,724,895**
Liabilities							
Deposits and obligations	-	-	-	-	-	35,706,973	35,706,973
Interbank funds	-	-	-	-	-	385,467	385,467
Deposits of financial entities and international financial entities	-	-	-	-	-	934,198	934,198
Borrowings and financial obligations	-	-	-	-	15,643,459	-	15,643,459
Held-for trading derivative instruments	207,011	-	-	-	-	-	207,011
Accounts payable	-	-	-	-	-	444,336	444,336
Other liabilities	-	-	-	-	-	184,843	184,843
Total	**207,011**	**-**	**-**	**-**	**15,643,459**	**37,655,817**	**53,506,287**

(a) Including financial assets measured at cost.

(b) Including financial liabilities whose fair value correspond to carrying amounts as per Official Letter 1575-2014-SBS (note 3.d)

(c) Correspond to unlisted shares (note 7).

	2014						
	At fair value through	Loans and items	Available-for-sale investments		Liabilities at	Other liabilities	
In thousands of soles	profit or loss	receivable	At amortized cost (a)	At fair value	amortized cost	(b)	Total
Assets							
Cash and due from banks	-	10,572,032	-	-	-	-	10,572,032
Interbank funds	-	70,002	-	-	-	-	70,002
Investments at fair value through profit or loss							
Capital instruments	13,753	-	-	-	-	-	13,753
Debt instruments	289,753	-	-	-	-	-	289,753
Available-for-sale investments					-	-	
Instruments representing capital	-	-	7,435 (c)	56,227	-	-	63,662
Instruments representing debt	-	-	-	1,671,471	-	-	1,671,471
Loan portfolio	-	31,667,386	-	-	-	-	31,667,386
Held-for trading derivative instruments	171,939	-	-	-	-	-	171,939
Accounts receivables	-	132,473	-	-	-	-	132,473
Other assets	-	115,313	-	-	-	-	115,313
Total	**475,445**	**42,557,206**	**7,435**	**1,727,698**	**-**	**-**	**44,767,784**
Liabilities							
Deposits and obligations	-	-	-	-	-	29,044,785	29,044,785
Deposits of financial entities and international financial entities	-	-	-	-	-	295,772	295,772
Borrowings and financial obligations	-	-	-	-	10,924,144	-	10,924,144
Held-for trading derivative instruments	187,158	-	-	-	-	-	187,158
Accounts payable	-	-	-	-	-	390,660	390,660
Other liabilities	-	-	-	-	-	156,092	156,092
Total	**187,158**	**-**	**-**	**-**	**10,924,144**	**29,887,309**	**40,998,611**

(a) Including financial assets measured at cost.

(b) Including financial liabilities whose fair value correspond to carrying amounts as per Official Letter 1575-2014-SBS (note 3.d).

(c) Correspond to unlisted shares (note 7).

32. Financial Risk Management

Scotiabank Perú S.A.A. and Subsidiaries have a strong risk culture throughout the entire organization; the 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:

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

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

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

- Operational risk: It is the direct or indirect risk of loss to which Scotiabank Perú S.A.A. and Subsidiaries are 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 organization, 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 Scotiabank Perú S.A.A. and Subsidiaries are exposed, determining the amount and types of risks faced by the Bank.

For proper risk management, the Bank has a series of fundamentals, such as (A) adequate corporate governance, (B) aligned and updated risk policies and limits, and (C) risk monitoring.

A. Adequate corporate governance

The bodies supporting corporate governance are:

Board of Directors

The Board of Directors is responsible to set the main guidelines to maintain an effective risk management supported by the Parent Company, establishing an integral 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.

Risk Senior Management

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 Scotiabank Perú S.A.A. and Subsidiaries are exposed.

Also, it is involved in the definition and design of the strategy and communicates and strengthens risk culture throughout the Group.

Risk Senior Management has the following units: Corporate and Commercial Loans, Retail Loans, Special Banking, Integral Risk Management, Following and Retail Collection, Market Risk, and Operational and Technological Risk.

B. Aligned and updated risk policies and limits

Policies are based on recommendations from the different risk units, internal audit, business lines, and industry best practices, regulatory requirements and BNS', as well as the recommendations of top management. Policies are guided by the Risk Appetite Framework, and set the limits and controls within which it 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 they are able to do business, in order to ensure proper understanding of customers, products, markets and fully understand the risks associated with each activity.

C. 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 allow anticipation of impairment loss of any portfolio in order to take corrective actions.

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

Credit risks

A. Life cycle: Admission, monitoring and collection

Credit adjudication units analyze and evaluate credit approval from different business segments, with different levels of delegation to other teams for their approval, from a risk (measured based on a rating or score) versus profitability perspective. Also, for portfolio managing purposes, the loans are monitored in order to minimize future losses. Concerning the collection models, these customers 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 recovery area maximum after 90 days overdue in order to have time to take legal action, if necessary. For Retail portfolio, risk-based strategies are established (collection score) to optimize available resources for collection seeking to reach greater effectiveness.

B. Credit risk mitigation - collateral

Management 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 guarantees but for the debtor's repayment ability. While the guarantees reduce the risk of loss, they should not be linked to the primary source of repayment.

The value of collaterals is established by means of updated appraisals, which are held regularly and consider market fluctuations. Such valuations are performed by qualified independent experts; they 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 of the collaterals are conducted; and for the fluctuations, 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 residential mortgages, special liens on the business assets, such as inventory, premises and accounts receivable, and special liens on financial instruments such as debt instruments and equity securities.

Additionally, collaterals are classified as established in SBS Resolution 11356 - 2008 Regulation for the Evaluation and Classification of the Debtor and Provisions Requirement, as follows:

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

A summary of the portions of credits covered by each type of collateral as of December 31, is presented below:

In thousands of soles	**2015**	**2014**
Loans with first mortgage or collateral trust on property registered in Public Records	9,545,261	7,486,086
Loans with non-preferred guarantees	7,275,908	5,953,472
Financial lease loans	3,814,911	3,886,836
Loans with subsidiary responsibility	2,383,375	1,848,002
Loans with first real estate collateral or collateral trust registered in Public Records	1,559,821	977,185
Secured loans with cash deposits	336,058	339,737
Loans with collateral or collateral trust registered in Public Records – warrants	303,093	286,371
Other collaterals	33,423	31,696
Loans without collateral	14,657,044	12,077,246
	39,908,894	**32,886,631**

C. Credit rating

Scotiabank Perú S.A.A. and Subsidiaries operate an internal credit rating differentiated by banking, which is in line with BNS. For Corporate and Commercial loans, the Bank utilizes internal grade codes, which is based on quantitative and qualitative indicators that reflect the strength of the client. Also, this rating determines the levels of approval for customers.

For Retail segment, an internal score that reflects the strength of customers based on the probability of default and repay is used. Also, this score determines the strategies to be used with customer based on the risk of each.

With this qualifications, regulatory debtors' credit rating is used, which determines the provision requirement of customers.

D. Debtor regulatory credit rating

The debtor regulatory credit rating is conducted in accordance with criteria and parameters established by SBS through SBS Resolution 11356 - 2008 Regulation for the Evaluation and Classification of the Debtor and Provisions Requirement, which establishes five categories to classify: Wholesale loan portfolio (corporate, large and medium companies) and Retail loan portfolios (small-business loans, micro-business loans, consumer and mortgage) debtors:

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

E. Loan portfolio impairment loss

As of December 31, 2015 and 2014, based on SBS Resolution 7036-2012, the Bank and CrediScotia Financiera S.A. have classified impaired and not impaired loans considering the following criteria:

- Neither past due nor impaired loans
  It comprises loans with risk category rated as "standard" or "potential problem" and classified in books as current loans.

- Past due but not impaired loan
  It comprises client's loans with risk category rated as "standard" or "potential problem" and classified in books as past due.

- Impaired loans
  For wholesale portfolio, it comprises loans rated as substandard, doubtful or loss, and the refinanced, restructured and lawsuit loans. For Retail portfolio, it comprises loans overdue 90 days or more and those classified as lawsuit loans.

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

	2015					
In thousands of soles	**Wholesale loans**	**Small & medium business loans**	**Consumer loans**	**Residential mortgage**	**Total**	**%**
Neither past due nor impaired loans						
Standard	22,058,456	3,071,167	6,959,141	4,886,356	36,975,120	93
Potential problem	271,808	117,479	308,830	148,416	846,533	2
Past due but not impaired loan						
Standard	11,231	55	7	-	11,293	-
Potential problem	17,000	6	2	187	17,195	-
Impaired loans:						
Standard	1,453	12	23	405	1,893	-
Potential problem	31,885	2	3	-	31,890	-
Substandard	109,591	83,221	165,100	69,313	427,225	1
Doubtful	189,168	110,540	241,074	93,846	634,628	2
Loss	218,898	289,314	324,237	130,668	963,117	2
Gross loan portfolio	**22,909,490**	**3,671,796**	**7,998,417**	**5,329,191**	**39,908,894**	**100**
Less: provisions	(551,388)	(351,952)	(739,404)	(179,879)	(1,822,623)	
Total net	**22,358,102**	**3,319,844**	**7,259,013**	**5,149,312**	**38,086,271**	

	2014					
In thousands of soles	**Wholesale loans**	**Small & medium business loans**	**Consumer loans**	**Residential mortgage**	**Total**	**%**
Neither past due nor impaired loans						
Standard	17,750,348	3,393,120	5,234,137	4,279,171	30,656,776	94
Potential problem	249,719	136,573	243,041	73,400	702,733	2
Past due but not impaired loan						
Standard	11,288	30	19	-	11,337	-
Potential problem	13,457	39	22	102	13,620	-
Impaired loans:						
Standard	985	13	38	-	1,036	-
Potential problem	28,653	2	2	-	28,657	-
Substandard	93,536	80,855	117,037	35,931	327,359	1
Doubtful	119,921	103,941	185,703	48,478	458,043	1
Loss	130,035	256,472	235,829	64,734	687,070	2
Gross loan portfolio	**18,397,942**	**3,971,045**	**6,015,828**	**4,501,816**	**32,886,631**	**100**
Less: provisions	(390,922)	(351,835)	(561,582)	(111,109)	(1,415,448)	
Total net	**18,007,020**	**3,619,210**	**5,454,246**	**4,390,707**	**31,471,183**	

As of December 31, 2015 and 2014, refinanced and restructured loans amounts to S/ 266,541 thousand and S/ 219,984 thousand, respectively, of which S/ 29,252 thousand and S/ 23,088 thousand, respectively, are classified as “neither past due not impaired loans”, and S/ 237,292 thousand and S/ 196,896 thousand as “impaired loans”, respectively.

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

Delinquency days			**2015**		
In thousands of soles	**16 -30**	**31 – 60**	**61 – 90**	**Total**	**Value of collaterals**
Type of credit					
Large-business loans	3,837	79	-	3,916	2,167
Medium-business loans	25,099	17,608	100	42,807	68,160
Subtotal Wholesale banking	**28,936**	**17,687**	**100**	**46,723**	**70,327**
Small-business loans	14	7	17	38	1,428
Micro-business loans	1	-	-	1	1
Revolving consumer loan	-	3	31	34	907
Non-revolving consumer loan	-	-	2	2	1
Mortgage loans	1	174	-	175	364
Subtotal retail banking	**16**	**184**	**50**	**250**	**2,701**
Total	**28,952**	**17,871**	**150**	**46,973**	**73,028**

Delinquency days			**2015**		
In thousands of soles	**16 -30**	**31 – 60**	**61 – 90**	**Total**	**Value of collaterals**
Type of credit					
Large-business loans	199	91	-	290	123
Medium-business loans	13,674	10,770	10	24,454	32,330
Subtotal Wholesale banking	**13,873**	**10,861**	**10**	**24,744**	**32,453**
Small-business loans	40	8	9	57	28
Micro-business loans	-	11	-	11	-
Revolving consumer loan	14	23	2	39	1
Non-revolving consumer loan	2	1	-	3	-
Mortgage loans	-	102	-	102	404
Subtotal retail banking	**56**	**145**	**11**	**212**	**433**
Total	**13,929**	**11,006**	**21**	**24,956**	**32,886**

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

			2015		
In thousands of soles	**Wholesale loans**	**Small & medium business loans**	**Consumer loans**	**Residential mortgage loans**	**Total**
Impaired loans	550,996	483,090	730,438	294,230	2,058,754
Value of collaterals	727,924	616,232	159,668	390,906	1,894,730
Provisions for impairment	(303,554)	(306,685)	(504,004)	(129,683)	(1,243,926)

	2014				
In thousands of soles	**Wholesale loans**	**Small & medium business loans**	**Consumer loans**	**Residential mortgage loans**	**Total**
Impaired loans	373,130	441,282	538,609	149,142	1,502,163
Value of collaterals	441,517	428,285	83,615	199,079	1,152,496
Provisions for impairment	(197,392)	(283,105)	(371,006)	(67,997)	(919,500)

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

F. Write-off of loans

As of December 31, 2015 and 2014, the Bank and CrediScotia Financiera S.A. hold written-off loans, which are presented in memoranda accounts. The table below shows the movement of these write-off loans:

In thousands of soles	**2015**	**2014**
Opening balance	1,802,600	1,453,363
Write-offs	773,953	667,178
Cash recovery	(19,339)	(18,773)
Forgiveness	(1,314)	(1,404)
Portfolio sale	(291,641)	(348,783)
Foreign exchange differences	136,714	59,551
Other	(19,726)	(8,532)
Final balance	**2,381,247**	**1,802,600**

G. Financial assets exposed to credit risk concentration

As of December 31, financial assets are distributed among geographical areas as follows:

	2015				
			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**
Peru	1,816,788	53,124,381	2,217	2,448,416	57,391,802
United States	-	202,246	-	-	202,246
Canada	57,113	20,070	-	-	77,183
Germany	-	33,069	-	-	33,069
Belgium	-	18,155	-	-	18,155
Venezuela	-	-	1,297	-	1,297
Brazil	-	1,129	-	-	1,129
Australia	-	14	-	-	14
Panama	-	-	-	-	-
Italy	-	-	-	-	-
United Kingdom	-	-	-	-	-
Japan	-	-	-	-	-
Total	**1,873,901**	**53,399,064**	**3,514**	**2,448,416**	**57,724,895**

	2014				
	At fair value	Loans and	Available for sale		
	through profit	items	At amortized		
In thousands of soles	or loss	receivable	cost (*)	At fair value	Total
Peru	431,949	42,083,846	6,300	1,727,698	44,249,793
United States	-	323,422	-	-	323,422
Panama	-	89,442	-	-	89,442
Canada	43,496	21,118	-	-	64,614
Germany	-	37,172	-	-	37,172
Venezuela	-	-	1,135	-	1,135
Australia	-	560	-	-	560
Belgium	-	498	-	-	498
Brazil	-	490	-	-	490
Italy	-	476	-	-	476
United Kingdom	-	167	-	-	167
Japan	-	15	-	-	15
Total	**475,445**	**42,557,206**	**7,435**	**1,727,698**	**44,767,784**

(*) It includes financial assets measured at cost.

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

In thousands of soles	2015	%	2014	%
Mortgage and consumer loans	13,747,608	34	10,882,660	33
Trade	5,922,596	15	4,418,270	13
Manufacturing	5,366,768	13	4,330,101	13
Real estate business and lease service	3,850,998	10	3,117,684	9
Mining	1,846,462	5	1,566,056	5
Transport	1,754,151	4	1,346,297	4
Power, gas and water	1,366,775	3	1,035,451	3
Education, services, and other	1,194,100	3	851,264	3
Brokerage service	1,084,759	3	671,483	2
Construction	944,993	2	715,821	2
Agriculture and livestock	837,226	2	615,364	2
Fishing	471,793	1	355,107	1
Hotel and restaurants	405,622	1	302,195	1
Government services and defense	252,247	1	252,236	1
Other (mainly non-profit, healthcare and automotive)	862,796	2	2,426,642	8
	39,908,894	**100**	**32,886,631**	**100**

Market risk

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

A. Management of market risk

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

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

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

B. Exposure to market risks – Trading portfolio

The principal tool used to measure and control market risk exposure within the Group's trading portfolio is value at risk (VaR). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) due to an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based upon a 99 percent 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 plausible 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 illiquid assets or in situations in which there is severe general market illiquidity.
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used, there is a one percent probability that losses could 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 Scotiabank Perú S.A.A and Subsidiaries' position and the volatility of market prices. The VaR of a static position reduces if market price volatility declines and vice versa.

Management uses VaR limits for total market risk and interest rate and foreign exchange risks. The overall structure of VaR limits is subject to review and approval by ALCO and is allocated to trading portfolios. VaR is measured at least daily and monitored through daily reports of use which are submitted from local Market Risk Unit to Treasury and parent company, and monthly reports are submitted to ALCO.

VaR methodology limitations are recognized by complementing VaR 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, for example, prolonged market illiquidity periods, reduced fungibility of currencies, natural disasters and other catastrophes. The analysis of scenarios and stress tests are reviewed by ALCO.

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:

In thousands of soles	**2015**	**2014**
Total VaR Peru	3,705	2,715

Sensitivity analysis in trading portfolio is used to measure the effect of change in the risk factors, including rates and differentials on products and portfolios. These measures are applied by type of product and allow appropriate monitoring, reporting and management.

C. Exposure to market risks – Non-trading portfolio
The principal risk to which non-trading portfolios are exposed is the risk of loss due to future cash flows or financial instruments fair values fluctuations because of a change in market interest rates. Interest rate risk is managed through monitoring interest rate gaps and establishing limits by currency for each term. ALCO monitors compliance of these limits and is assisted by Risk unit.

Equity price risk is subject to periodical monitoring by the Board of Directors, through the Risk Management Committee, but is not significant in relation to the results and financial position.

The effect of structural foreign exchange positions is managed from the Trading Unit within its limits of position by currency.

The main market risks to which it is exposed are: interest rate risk, currency risk and risk in investment portfolios, which are detailed below:

Interest rate risk
This comprises the risk of loss due to interest rates variations. Treasury Unit of Scotiabank Perú S.A.A. and Subsidiaries, actively manages interest rate exposure risk in order to improve the net interest income according to risk tolerance pre-established policies.

Market risk arising from financing and investment activities are identified, managed, and controlled as part of Scotiabank Perú S.A.A. and Subsidiaries' assets and liabilities management process, specially liquidity and interest rate risks. Sensitivity analysis assesses the effect of interest rates changes on earnings and the economic value of shareholders' equity. This sensitivity analysis uses variations of interest rate curves originated by positive and negative parallel shifts, as well as by changes in non-parallel shifts.

Gap analysis is used to assess the interest rate sensitivity of re-pricing mismatches in non-trading operations. Under gap analysis, off-balance sheet assets and liabilities are distributed within repricing dates. Products with a contractual maturity are assigned to an interest rate gap term based on the shorter of the contractual maturity date and the next re-pricing date. Products without contractual maturity are assigned an interest rate gap based on observed historical consumer behavior.

Interest rate risks in the non-trading portfolios are mainly driven by the terms and currency of the loan portfolio mismatches. 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 and aims to keep under control the risk originated by the effects of net interest income and equity value fluctuations.

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 risk by currency, 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 Scotiabank Perú S.A.A. and Subsidiaries.

Gap analysis, sensitivity analysis, simulation modeling, and stress testing are used 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 the earlier of the contractual repricing or maturity dates.

	2015						2014					
In thousands of soles	Up to 1 month	1 to 3 months	3 to 12 months	Over 12 months	Not accrue interest	Total	Up to 1 month	1 to 3 months	3 to 12 months	Over 12 months	Not accrue interest	Total
Assets												
Cash and due from banks	9,099,519	1,427,286	1,570,813	1,634,280	1,124,470	14,856,368	6,556,412	23,139	1,692,908	992,877	1,306,696	10,572,032
Interbank funds	-	-	-	-	-	-	70,002	-	-	-	-	70,002
Investments at fair value through profit or loss and available-for-sale investments	173,317	1,606,744	674,389	1,532,806	8,574	3,995,830	135,272	300,113	745,581	857,673	-	2,038,639
Loan portfolio	3,738,225	6,427,312	11,214,119	16,953,694	-	38,333,350	3,897,563	6,027,861	8,623,641	13,118,321	-	31,667,386
Held-for trading derivative instruments	-	-	-	-	330,001	330,001	-	-	-	-	171,939	171,939
Accounts receivable	2,025	47	-	5,957	796,721	804,750	21,887	107	1,246	15,536	828,244	867,020
Other assets	-	6,056	1,842	44,102	1,722,907	1,774,907	229	-	3,598	17,187	1,582,287	1,603,301
Total Assets	**13,013,086**	**9,467,445**	**13,461,163**	**20,170,839**	**3,982,673**	**60,095,206**	**10,681,365**	**6,351,220**	**11,066,974**	**15,001,594**	**3,889,166**	**46,990,319**
Liabilities												
Deposits and obligations	11,777,960	4,705,877	13,463,602	5,756,743	2,791	35,706,973	8,732,041	3,330,574	11,783,552	5,185,907	12,711	29,044,785
Interbank funds	385,467	-	-	-	-	385,467	-	-	-	-	-	-
Deposits of financial entities and international financial organizations	326,296	56,633	551,175	94	-	934,198	245,183	14,467	24,414	11,708	-	295,772
Borrowings and financial obligations	1,723,119	6,527,848	1,378,924	6,013,568	-	15,643,459	1,352,628	5,011,842	1,367,907	3,191,767	-	10,924,144
Held-for trading derivative instruments	-	-	-	-	207,011	207,011	-	-	-	-	187,158	187,158
Accounts payable	-	(36,965)	35	-	496,186	459,256	790	7,373	2,202	-	391,692	402,057
Provisions	-	-	-	1,008	266,294	267,302	-	-	-	-	298,139	298,139
Other liabilities	-	28,439	18,277	6,351	200,766	253,833	206	976	1,124	-	189,895	192,201
Total Liabilities	**14,212,842**	**11,281,832**	**15,412,013**	**11,777,764**	**1,173,048**	**53,857,499**	**10,330,848**	**8,365,232**	**13,179,199**	**8,389,382**	**1,079,595**	**41,344,256**
Off-statement of financial position credit risk												
Derivative instruments	3,599,455	6,172,830	2,459,556	992,003	-	13,223,844	11,026,007	4,760,161	2,572,415	285,618	-	18,644,201
Marginal gap	(1,199,756)	(1,814,387)	(1,950,850)	8,393,075	2,809,625	6,237,707	350,517	(2,014,012)	(2,112,225)	6,612,211	2,809,570	5,646,061
Accumulated gap	(1,199,756)	(3,014,143)	(4,964,993)	3,428,082	6,237,707	486,897	350,517	(1,663,495)	(3,775,720)	2,836,491	5,646,061	-

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 potential impact of interest rate changes on value generation, specifically through the financial margin, and the entity's equity value. These methodologies are applied under both normal and stressed market conditions. As of December 31, the interest rate indicators are the following:

In thousands of soles	**2015**	**2014**
VaR (i)	7.12	5.76
EaR (ii)	1.34	1.53

(i) This indicator is focused on the potential impact of interest rate changes on value generation, specifically, through the financial margin, and the Bank's equity value; 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; this should not exceed 5%.

These methodologies have been determined by the SBS and apply under normal and stressed market conditions.

Exchange rate risk
This is the risk of loss due to exchange rates adverse variations of currencies negotiated by Scotiabank Perú S.A.A. and Subsidiaries. This risk is managed by the Trading Unit.

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

Market risks are measured and managed within VaR internal limits of global net position in combination with stress tests based on market variables. The consistency of these results is validated through periodical backtesting analysis which compared actual gains or losses with those obtained through the model.

The table below set outs the VaR results (expected maximum loss for exchange rate fluctuations) as of December 31:

In thousands of soles	**2015**	**2014**
Foreign exchange VaR	1,243	1,088

Management calculates the VaR using historical simulation based on 300 days of market data to measure the maximum expected loss from fluctuations in the exchange rate, considering as variables the net asset position in foreign currency and exchange rate volatility. As of December 31, 2015, the net asset position of the consolidated statement of financial position in foreign currency amounted to US$ 384,138 thousand (2014: net asset position for US$ 323,412 thousand), see note 5.

As of December 31, 2015, global position of global overbought position in the Group amounted to S/ 112,682 thousand (2014: S/ 116,078 thousand).

Investment portfolio risk
The own investment portfolio and trading portfolio are managed by 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, 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 Banco Central de Reserva del Perú and Peruvian Government Bonds issued in local and foreign currency.

Liquidity risk
Liquidity risk is the risk that the Bank is unable to meet its short-term financial obligations and is obliged to borrow money or sell assets in unusually unfavorable conditions.

The 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 Scotiabank Perú S.A.A and Subsidiaries. The key elements of the liquidity strategy are as follows:

- Maintaining a diversified funding base which consist in customer deposits (both retail and corporate) and wholesale market deposits and maintaining contingent facilities;
- Carrying a portfolio of highly liquid assets, diversified by currency and maturity;
- Monitoring liquidity ratios, maturity mismatches, behavior characteristics of the financial assets and liabilities, and the extent to which the own assets are encumbered and so available as potential collateral for obtaining funding; and
- Carrying out stress testing of the liquidity position.

Regular liquidity stress testing is 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. prolonged market illiquidity, reduced fungibility of currencies, natural disasters or other catastrophes).

Central Treasury 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, 2015, Scotiabank Perú S.A.A.' ratios in local and foreign currencies were 19.11% and 42.73% respectively (2014: 23.31% and 49.05%).

Liquidity Coverage Ratio 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. As of December 31, 2015, the minimum amount required by the regulator was 80% and Scotiabank presented comfortable levels of liquidity reaching 100.33% in local currency and 143.84% in foreign currency.

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

	2015					
In thousands of soles	**Demand deposits**	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**Over 1 year**	**Total**
Deposits and obligations	18,147,190	6,634,890	4,768,724	4,561,945	1,594,224	35,706,973
Interbank funds	385,467	-	-	-	-	385,467
Deposits of financial entities and international financial entities	317,779	8,516	56,633	551,176	94	934,198
Borrowings and Financial Obligations	-	690,004	1,256,676	5,149,270	8,547,509	15,643,459
Held-for trading derivative instruments	-	48,730	55,840	29,053	73,388	207,011
Accounts payable	-	75,314	-	301,992	67,030	444,336
Other liabilities	-	137,326	-	24,624	22,893	184,843
Total liabilities	**18,850,436**	**7,594,780**	**6,137,873**	**10,618,060**	**10,305,138**	**53,506,287**
Off-consolidated statement of financial position credit risk						
Contingent liabilities	**879,435**	**1,118,968**	**673,573**	**544,022**	**3,215,998**	**6,431,996**

	2014					
In thousands of soles	**Demand deposits**	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**Over 1 year**	**Total**
Deposits and obligations	16,657,179	3,778,431	3,385,432	2,535,258	2,688,485	29,044,785
Deposits of financial entities and international financial entities	134,292	78,954	46,404	2,190	33,932	295,772
Borrowings and financial obligations	-	546,637	1,227,938	679,236	8,470,333	10,924,144
Held-for trading derivative instruments	-	64,533	37,918	22,001	62,706	187,158
Accounts payable	-	47,289	-	-	343,371	390,660
Other liabilities	-	156,092	-	-	-	156,092
Total liabilities	**16,791,471**	**4,671,936**	**4,697,692**	**3,238,685**	**11,598,827**	**40,998,611**
Off-consolidated statement of financial position credit risk						
Contingent liabilities	**-**	**1,877,399**	**1,180,283**	**258,697**	**346,675**	**3,663,054**

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 other approaches.

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

During 2015, the development and consolidation of operational risk management methodologies for Scotiabank Perú S.A.A. and Subsidiaries have continued, providing an adequate identification, management and control of operational risk, being the main ones:

- Event Loss methodology.
- Key Risk Indicators -KRIs- methodology.
- Business Continuity Management – BCM- methodology.
- Risk Control Assessment (RCA) and risk matrices methodology.
- Risk assessment of new initiatives and/or significant changes, among others.

i. Loss event methodology

The Scotiabank Group follows up relevant data of operational risk losses established per Business Line, in accordance with the Basel loss event types. Losses are reported by Operational Risk Managers designated in the various centralized and specialized units of the Bank and identified by the Accounting area through reviews by the Operational and Technological Risk Unit, which are included in the centralized database of the Operational Risk Losses. This database is used to determine trends, conduct analysis 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 Bank and its subsidiaries which allows classifying loss event data per line of business, 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 Bank's standard inventory of operational risks. On the other hand, database allows identifying connections between losses data, Risk and Control Assessment and Key Risk Indicators, providing analysis and generating awareness on internal and external operational risks.

ii. Key risk indicators (KRIs)

The Key Risk Indicator methodology is a measure to report on potential risks, current status or trend of operational risk exposures.

The Key Risk Indicators program 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 operational trends to ensure adequate and timely response of Management. The existence of efficient Key Risk Indicators will serve as an early warning system of possible changes in the operational risk profile of the business.

The Key Risk Indicators 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 Key Risk Indicators across the Scotiabank Group.

iii. Business Continuity Management – BCM

The Scotiabank Group has a methodology whereby all units may develop the ability to maintain the continuity of their respective functions according to the standards of the Parent Company and guidelines established by the superintendency.

There is a testing and simulation program to ensure the continued viability of these plans. There are data recovery and backup plans in case of disaster (DBR), documenting the critical nature of resources and supporting and testing mechanisms of all major banking systems. Each year the critical nature of these systems is revalued and tests are performed under the DBR plan.

At process level, Business Continuity Plans (BCPs) are deployed throughout the organization.

The Scotiabank Group has an alternate site to support their most critical processes; which remains ready and operational 24 hours a day, 365 days a year providing support to the most sensitive processes.

iv. Operational risk assessment methodology - Risk Control Assessment (RCA) and Risk Matrices

The Operational Risk and Controls Assessment methodology is the tool that identifies and categorizes existing operational risks in the activities conducted by the Bank's significant units, with the purpose of determining the adequacy or effectiveness of adopted controls and/or the need to adopt additional mitigating actions.

It provides a systematic approach to identify risks and related internal controls, as well as deficiencies that affect the achievement of defined business objectives. Moreover, this process represents a means to monitor Management activities aimed at solving the identified deficiencies.

During 2015, methodology application was scheduled and executed over ten significant units of Scotiabank Group, and an evaluation was conducted in Scotiabank at entity level; also update was performed through the RCA process in a short version, to 5 units. On the other hand, 20 new risk matrices and 27 matrices updates has been managed. The Scotiabank Group's methodology for the Assessment of Risk and Controls Assessment was applied through two procedures.

v. Management of new initiatives and major changes in the operating and systems environment

- The Scotiabank Group has established policies for comprehensive risk assessment of new products and in case of major changes in the business, operational or systems environment; 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.

- 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.

vi. Training and awareness

Throughout 2015, training on Technological and Operational Risk and Business Continuity has been provided to personnel of agencies, business officers, specialized units, operational risk managers and new staff joining the Scotiabank Group.

33. Fair Value

The table below shows a comparison of carrying amounts and fair values of Scotiabank Perú S.A.A. and Subsidiaries' financial instruments per item in the consolidated statement of financial position as of December 31:

	Carrying amount		**Fair value**	
In thousands of soles	**2015**	**2014**	**2015**	**2014**
Assets				
Cash and due from banks	14,856,367	10,572,032	14,856,367	10,572,032
Interbank funds	-	70,002	-	70,002
Investments at fair value through profit or loss				
Capital instruments	6,563	13,753	6,563	13,753
Debt instruments	1,537,337	289,753	1,537,337	289,753
Available-for-sale investments				
Instruments representing capital	61,139	63,662	61,139	63,662
Instruments representing debt	2,390,791	1,671,471	2,390,791	1,671,471
Loan portfolio, net	38,333,350	31,667,386	38,333,350	31,667,386
Held-for trading derivative instruments	330,001	171,939	330,001	171,939
Accounts receivable	118,948	132,473	118,948	132,473
Other assets	90,399	115,313	90,399	115,313
Total	**57,724,895**	**44,767,784**	**57,724,895**	**44,767,784**

	Carrying amount		**Fair value**	
In thousands of soles	**2015**	**2014**	**2015**	**2014**
Liabilities				
Deposits and obligations	35,706,973	29,044,785	35,706,973	29,044,785
Interbank funds	385,467	-	385,467	-
Deposits of financial entities and international financial entities	934,198	295,772	934,198	295,772
Borrowings and financial obligations	15,643,459	10,924,144	15,290,072	10,843,649
Held-for trading derivative instruments	207,011	187,158	207,011	187,158
Accounts payable	444,336	390,660	444,336	390,660
Other liabilities	184,843	156,092	184,843	156,092
Total	**53,506,287**	**40,998,611**	**53,152,900**	**40,918,116**

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 estimation techniques. Due to 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:

(a) Cash due from banks and interbank funds represent cash and short-term deposits that are not considered to be a significant credit risk.
(b) Investments at fair value through profit or loss are recorded at their estimated market value, which is the same as the carrying amount.
(c) Available-for-sale investments are generally listed or have a market value through future discounted cash flows.
(d) Market values of loan portfolio are the same as the carrying amount.
(e) Market values of deposits and obligations are the same as the carrying amount.
(f) 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.
(g) 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).
(h) 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, 2015 and 2014, fair or estimated market values of the financial instruments do not differ significantly from their corresponding carrying amount.

Fair value hierarchy
Scotiabank Perú S.A.A. and Subsidiaries classify financial instruments carried 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 estimation that are directly or not directly observable in the market.
Level 3: Valuation technique, where some of the input data 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:

	2015			
In thousands of soles	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Investments at fair value through profit or loss				
Instruments representing capital	11	6,552	-	6,563
Instruments representing debt	-	1,537,337	-	1,537,337
Available-for-sale investments				
Instruments representing capital	57,625	-	3,514	61,139
Instruments representing debt	-	2,390,791	-	2,390,791
Held-for trading derivative instruments	-	330,001	-	330,001
Total	**57,636**	**4,264,681**	**3,514**	**4,325,831**
Liabilities				
Held-for trading derivative instruments	-	207,011	-	207,011
Total	**-**	**207,011**	**-**	**207,011**

	2014			
In thousands of soles	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Investments at fair value through profit or loss				
Instruments representing capital	11	13,742	-	13,753
Instruments representing debt	-	289,753	-	289,753
Available-for-sale investments				
Instruments representing capital	54,373	1,836	7,453	63,662
Instruments representing debt	-	1,671,471	-	1,671,471
Held-for trading derivative instruments	-	171,939	-	171,939
Total	**54,384**	**2,148,741**	**7,453**	**2,210,578**
Liabilities				
Held-for trading derivative instruments	-	187,158	-	187,158
Total	**-**	**187,158**	**-**	**187,158**