SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Interim Financial Statements

September 30, 2014

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

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INDEPENDENT AUDITORS' REPORT ON REVIEW OF CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying September 30, 2014 consolidated interim 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 comprises:

- The consolidated statement of financial position as at September 30, 2014;
- The consolidated income statements for the nine-month period ended September 30, 2014;
- The consolidated statements of comprehensive income for the nine-month period ended September 30, 2014;
- The consolidated statements of changes in shareholders' equity for the nine-month period ended September 30, 2014; and
- The consolidated statements of cash flows for the nine-month period ended September 30, 2014; and
- Notes to the interim financial statements comprising a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with accounting standards established by Superintendencia de Banca, Seguros y Administradoras Privadas de Fondos de Pensiones - SBS (Banking, Insurance and Pension Plan Agency) for financial institutions in Peru. Our responsibility is to express a conclusion on these consolidated interim financial statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying September 30, 2014 consolidated interim financial statements is not prepared, in all material respects, the financial position, financial performance and cash flows of Scotiabank Perú S.A.A. and Subsidiaries in accordance with accounting standards established by the SBS for financial institutions in Peru.

Lima, Peru

Caipo y Asociados

November 27, 2014

Countersigned by:

Eduardo Alejos P. (Partner)
Peruvian Certified Public Accountant
Registration N° 29180

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Consolidated Statement of Financial Position

As of September 30, 2014 and December 31, 2013

(stated in thousands of nuevos soles)

	Note	09.30.2014 (Unaudited)	12.31.2013 (Audited)
Assets			
Cash and due from banks:	6		
Cash		1,083,576	1,079,942
Deposits with Banco Central de Reserva del Perú		8,306,335	9,563,951
Deposits with local and foreign banks		444,212	446,935
Clearing		64,089	183,267
Other cash and due from banks		984,615	97,320
		10,882,827	11,371,415
Interbank funds		222,019	364,224
Investments at fair value through profit or loss and available-for-sale	7	2,914,832	2,101,530
Loan portfolio, net	8	30,678,926	27,341,186
Held-for trading derivative instruments	9	129,193	142,288
Accounts receivable, net	10	876,072	612,878
Investments in associates		59,262	55,342
Goodwill	11	278,818	278,818
Property, furniture, and equipment, net	12	473,600	471,646
Deferred income tax	28	312,010	268,901
Other assets, net	13	542,734	626,285
Total assets		47,370,293	43,634,513
Contingent and memoranda accounts:	20		
Contingent accounts		45,889,515	42,953,144
Memoranda accounts		268,637,681	217,547,867
		314,527,196	260,501,011

	Note	09.30.2014 (Unaudited)	12.31.2013 (Audited)
Liabilities and shareholders' equity			
Deposits and obligations:	14		
Demand deposits		10,749,559	11,065,459
Savings deposits		5,927,742	5,107,171
Time deposits		12,032,727	12,226,450
Other obligations		921,592	1,422,887
		29,631,620	29,821,967
Interbank funds		132,014	-
Borrowings and financial obligations	15	8,014,829	4,884,722
Securities, bonds, and obligations issued	16	2,741,184	2,825,115
Held-for trading derivative instruments	9	121,896	176,863
Deferred income tax	28	-	808
Provisions and other liabilities	17	1,370,343	884,672
Total liabilities		42,011,886	38,594,147
Shareholders' equity	18		
Capital stock		3,683,040	3,052,822
Additional paid-in capital		368,564	368,564
Legal reserve		646,777	561,285
Unrealized earnings		24,016	18,493
Retained earnings		636,010	1,039,202
Total shareholders' equity		5,358,407	5,040,366
Total liabilities and shareholders' equity		47,370,293	43,634,513
Contingent and memoranda accounts:	20		
Contingent accounts		45,889,515	42,953,144
Memoranda accounts		268,637,681	217,547,867
		314,527,196	260,501,011

The accompanying notes are an integral part of these consolidated interim financial statements.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Income Statement

For the nine-month periods ended September 30, 2014 and 2013

(stated in thousands of nuevos soles)

	Note	2014 (Unaudited)	2013 (Unaudited)
Interest income	21	2,423,566	2,323,996
Interest expense	22	(452,378)	(462,696)
Gross finance income		1,971,188	1,861,300
Provisions for doubtful loans, net of recoveries	8	(639,535)	(585,795)
Net finance income		1,331,653	1,275,505
Income from finance services, net	23	414,571	420,701
Net finance income and finance service expenses		1,746,224	1,696,206
Results from financial transactions	24	202,601	233,857
Operating margin		1,948,825	1,930,063
Administrative expenses	25	(1,027,071)	(1,000,757)
Depreciation of property, furniture, and equipment		(47,169)	(46,389)
Amortization of intangible assets		(10,165)	(8,177)
Net operating margin		864,420	874,740
Provisions for contingent loans, doubtful and other accounts receivable, realizable and repossessed assets, and other assets		(11,119)	(12,286)
Operating results		853,301	862,454
Other income, net	26	95,758	95,747
Net profit before income tax		949,059	958,201
Deferred income tax	28	71,774	5,000
Current income tax	27.a	(367,640)	(298,627)
Net profit		653,193	664,574

(Continued)

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Statement of Comprehensive Income

For the nine-month periods ended September 30, 2014 and 2013

(stated in thousands of nuevos soles)

(Continued)

	2014 (Unaudited)	2013 (Unaudited)
Net profit	653,193	664,574
Other comprehensive income:		
Net profit (loss) on available-for-sale investments	33,478	(54,354)
Share in other comprehensive income of associates	94	(10)
Other	-	2,754
Tax effect	(28,049)	29,405
Other comprehensive income, net	5,523	(22,205)
Total comprehensive income	658,716	642,369

The accompanying notes are an integral part of these consolidated interim financial statements.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Statement of Changes in Shareholders' Equity
For the nine-month periods ended September 30, 2014 and 2013
(Stated in thousands of nuevos soles)

	Number of shares (note 18.b)	Capital stock (note 18.b)	Additional paid –in capital (note 18.c)	Legal reserve (note 18.d)	Unrealized earnings (note 18.f)	Retained earnings (note 18.e)	Total shareholders' equity
Balances as of December 31, 2012 (Audited)	282,480,263	2,852,818	368,553	479,029	42,291	884,788	4,627,479
Net profit	-	-	-	-	-	664,574	664,574
Other comprehensive income:							
Unrealized losses on available-for-sale investments	-	-	-	-	(22,205)	-	(22,205)
Total comprehensive income	-	-	-	-	(22,205)	664,574	642,369
Application to legal reserve	-	-	-	82,256	-	(82,256)	-
Dividend distribution	-	-	-	-	-	(399,356)	(399,356)
Other adjustments	-	4	12	-	-	(21,932)	(21,916)
Balances as of September 30, 2013 (Unaudited)	282,480,263	2,852,822	368,565	561,285	20,086	1,045,818	4,848,576
Balances as of December 31, 2013 (Audited)	302,480,263	3,052,822	368,564	561,285	18,493	1,039,202	5,040,366
Net profit	-	-	-	-	-	653,193	653,193
Other comprehensive income:							
Unrealized losses on available-for-sale investments	-	-	-	-	5,429	-	5,429
Adjustments to other comprehensive income of associates	-	-	-	-	94	-	94
Total comprehensive income	-	-	-	-	5,523	653,193	658,716
Capitalization of retained earnings	63,021,949	630,219	-	-	-	(630,219)	-
Application to legal reserve	-	-	-	85,492	-	(85,492)	-
Dividend distribution	-	-	-	-	-	(341,967)	(341,967)
Operations with treasury shares	-	(1)	-	-	-	-	(1)
Other adjustments	-	-	-	-	-	1,293	1,293
Balances as of September 30, 2014 (Unaudited)	365,502,212	3,683,040	368,564	646,777	24,016	636,010	5,358,407

The accompanying notes are an integral part of these consolidated interim financial statements.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Statement of Cash Flows

For the nine-month period ended September 30, 2014 and 2013

(stated in thousands of nuevos soles)

	2014 (Unaudited)	2013 (Unaudited)
Cash flows from operating activities:		
Net profit	653,193	664,574
Adjustments to reconcile net profit to net cash from operating activities:		
Provisions for doubtful loans, net of recoveries	639,537	585,795
Impairment loss on investments	1	21
Recovery (provisions) on realizable, repossessed and other assets, net	(365)	1,317
Provisions for accounts receivable, net	8,742	3,835
Depreciation and amortization	57,334	54,565
Provisions for fringe benefits	32,823	29,930
Provisions for current and deferred income tax	295,867	293,627
Provisions for contingent loans and country risk, net of recoveries	875	2,860
Other provisions (recoveries)	(28,968)	(439,907)
(Gain) loss on sale of property, furniture, and equipment	(75,345)	(53,711)
Gain on sale of realizable and repossessed assets	(2,327)	(2,296)
Gain on sale of subsidiary shares	-	(33,172)
Net changes in assets and liabilities:		
Loans	(3,980,146)	(3,806,265)
Investments at fair value through profit or loss	(232,539)	(922,367)
Available-for-sale investments	(635,232)	11,935
Accounts receivable	(256,287)	(9,628)
Other assets	339,782	64,458
Non- subordinated financial liabilities	2,010,363	7,839,979
Accounts payable	(513,568)	(242,773)
Provisions and other liabilities	578,140	230,091
Net (loss) profit after net changes in assets, liabilities and adjustments	(1,108,120)	4,272,868
Income taxes paid	(165,084)	(152,453)
Net cash and cash equivalents (used in) from operating activities	(1,273,204)	4,120,415
Cash flows from investing activities:		
Proceeds from sale of property, furniture, and equipment	100,063	89,454
Proceeds from sale of subsidiary shares	-	69,814
Acquisition of other financial assets	(11,285)	(9,001)
Acquisition of property, furniture, and equipment	(78,502)	(79,898)
Dividends received	15,038	9,369
Net cash and cash equivalents from investing activities	25,314	79,738
Proceeds from sale of treasury shares	(1)	16
Dividends paid	(341,967)	(399,356)
Net cash and cash equivalents used in financing activities	(341,968)	(399,340)
Net (decrease) increase in cash and cash equivalents before effect of exchange rate fluctuations	(1,589,858)	3,800,813
Effect of exchange rate fluctuations on cash and cash equivalents	30,823	444,199
Net (decrease) increase in cash and cash equivalents	(1,559,035)	4,245,012
Cash and cash equivalents at beginning of the period	11,684,117	7,675,627
Cash and cash equivalents at end of the period	10,125,082	11,920,639

The accompanying notes are an integral part of these consolidated interim financial statements.

(1) Operations

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 97.75% of the Bank's capital stock as of September 30, 2014 and December 31, 2013. 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 40.11% of shares, respectively, as of those dates.

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). The Bank's operations are governed by the SBS through the Ley General del Sistema Financiero y del Sistema de Seguros y Orgánica, Law 26702 (herein the Banking Law). This law establishes the requirements, rights, obligations, guarantees, restrictions, and other operating conditions to which 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 September 30, 2014, the Bank performed its activities through a national network of 211 branches, and one branch abroad (as of December 31, 2013, it had 196 Peruvian branches and one branch abroad).

As of September 30, 2014 and December 31, 2013, the accompanying consolidated 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), 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; SBP DPR Finance Company and Patrimonio en Fideicomiso sobre Inmuebles Depsa, both considered special purpose entities and Promoción de Proyectos Immobiliarios y Comerciales S.A. engaged in purchasing and selling of goods in general. As of September 30, 2014 and December 31, 2013, the subsidiary Promoción de Proyectos Immobiliarios y Comerciales S.A. is an inactive company.

As indicated in note 2 to the financial statements, on September 27, 2013 Depósitos S.A., engaged in providing warehousing services, ceased to be part of the Group from that date.

Additionally, on August 8, 2013, the Trust Patrimonio en Fideicomiso sobre Inmuebles Depsa 2013-01-D. Leg. 861, Title XI, (hereinafter the Trust), which special-purpose is to maintain properties granted as operating leases, was established, as part of the Group from that date.

Below are the main balances of the Bank and other companies mentioned in the previous paragraphs as of September 30, 2014 and December 31, 2013, indicating the Bank's shareholding percentages, as well as relevant information in this regards:

As of September 30, 2014:

			In thousands of S/.		
Entity	Activity	Percentage of shareholding	Assets	Liabilities	Shareholders' equity
Scotiabank Perú S.A.A.	Banking	-	44,518,725	39,151,437	5,367,288
CrediScotia Financiera S.A.	Finance	100.00	3,698,408	3,171,009	527,399
Servicios, Cobranzas e Inversiones S.A.C.	Collection services	100.00	137,642	60,371	77,271
Scotia Sociedad Agente de Bolsa S.A.	Stock market broker	100.00	84,384	6,208	78,176
Scotia Fondos Sociedad Administradora de Fondos S.A.	Administration of mutual funds	100.00	33,091	5,188	27,903
Patrimonio en Fideicomiso sobre Bienes Inmuebles – Depsa	Special purpose entity	100.00	26,118	4,525	21,593
Scotia Sociedad Titulizadora S.A.	Securitization	100.00	3,459	53	3,406
SBP DPR Finance Company	Special purpose entity	-	628,267	628,267	-

As of December 31, 2013:

			In thousands of S/.		
Entity	Activity	Percentage of shareholding	Assets	Liabilities	Shareholders' equity
Scotiabank Perú S.A.A.	Banking	-	40,951,474	35,892,844	5,058,630
CrediScotia Financiera S.A.	Finance	100.00	3,517,074	2,980,840	536,234
Servicios, Cobranzas e Inversiones S.A.C.	Collection services	100.00	125,527	25,289	100,238
Scotia Sociedad Agente de Bolsa S.A.	Stock market broker	100.00	82,930	3,601	79,329
Scotia Fondos Sociedad Administradora de Fondos S.A.	Administration of mutual funds	100.00	31,857	2,286	29,571
Patrimonio en Fideicomiso sobre Bienes Inmuebles – Depsa	Special purpose entity	100.00	18,691	5,130	13,561
Scotia Sociedad Titulizadora S.A.	Securitization	100.00	3,283	33	3,250
SBP DPR Finance Company	Special purpose entity	-	737,438	737,438	-

Approval of Consolidated Financial Statements

The consolidated interim financial statements as of September 30, 2014 were approved by the Bank's management on November 14, 2014. These consolidated interim 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 of the corresponding Board of Directors within the terms established by law. The consolidated financial statements of December 31, 2013 were approved by the corresponding Board of Director's and General Shareholders' meeting within the terms established by law.

(2) Sale of Subsidiary

On September 27, 2013, the Bank sold the total shareholding held as sole shareholder of its subsidiary Depósitos S.A. to a non-related third party, which was represented by 2,776,857 common shares. In the nine months period to the date of sale, Depósitos S.A. contributed income of S/. 225,297 thousand and profit for S/. 123,092 thousand to the Group´s result before disposals. According to the terms of the sale agreement, in exchange of these shares, the Bank received a cash amount of US$ 23,708 thousand (equivalent to S/. 65,604), net of the adjustment for net debt of US$ 757 thousand (equivalent to S/. 2,105 thousand) in favor of the purchaser reimbursed on December 20, 2013. As a result of this transaction, the Bank generated a profit before taxes of S/. 31,067 thousand.

Prior to the sale, Depósitos S.A. established a Trust (note 1); and as Trustee, transferred under fiduciary domain 6 real estate properties with a net carrying amount of S/. 20,926 thousand to the Trust, receiving in exchange two shares certificates. Such certificates were sold to the Bank at an amount of S/. 202,266 thousand and were paid in cash; therefore, since the Bank is the only beneficiary, it will receive the benefits generated by the Trust as a result of the administration and arrangement of such properties.

During the 2014, the Trust sold 3 of the 4 remaining properties to a non-related parties in S/. 45,122 thousand. The net book value of these properties amounted to S/. 11,495 thousand.

In September 2013, the Trust sold one of the real estate properties to a non-related party in S/. 89,269 thousand, obtaining a gain on sale of S/. 53,795 net of taxes; consequently, one of the certificates was cancelled.

(3) Basis for the Preparation of Consolidated Financial Statements

(a) Statement of Compliance

The accompanying consolidated financial statements have been prepared in nuevos soles 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 International Financial Reporting Standards (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 Consejo Normativo de Contabilidad – CNC (Peruvian Accounting Board) for their application in Peru.

As of the date of these financial statement, the CNC has made official through Resolution 055-2014-EF/30 published on July 26, 2014, version 2014 of International Financial Reporting Standards (IAS, IFRS, IFRIC and SIC). Also IFRS 14 “Regulatory Deferral Accounts”; and amendment to IFRS 11 “Joint Arrangement”, IAS 16 “Property, Plant and Equipment”, IFRS 15 “Revenue from Contracts with Customers” were made official. Effectiveness of amendments and International Standards above mentioned shall be standardized in each of them.

The standards and interpretations detailed in note 4 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.

(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 instruments are measured at fair value.

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

(d) Use of Estimates and Judgments
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 for next year.

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 income tax recovery, provision for income tax, and the fair value of derivative instruments, which accounting criteria is described in note 4.

(4) Accounting Principles and Practices
The primary 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 holds shareholding over 50% of its voting shares; likewise, those where they are 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 entities have been included for consolidation purposes and represent 9.39% and 9.97%, respectively, of the total Bank's assets before eliminations as of September 30, 2014 and December 31, 2013. As of those dates, there is non-controlling interest resulting from the consolidation process.

(b) Financial Instruments

Financial instruments are defined as 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 classified as assets, liabilities, or equity according to the substance of the contract. Interest, dividends, gains and losses generated by a financial instrument, whether classified as an asset or liability, are recorded as income or expense in the consolidated income statement, The financial instruments shall be offset when Scotiabank Perú S.A.A. and Subsidiaries have the legally enforceable right and management has the intention 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, loan portfolio, accounts receivable, other assets and liabilities in the 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. The recognition and valuation criteria of those items are disclosed in the accounting principles policies related to those notes herein.

Classification of Financial Assets

Regardless of accounts used for recording, the Bank and Subsidiaries classify non-derivative financial assets for valuation purposes in conformity with IAS 39 in the following categories: i) financial assets at fair value through profit or loss, ii) held-to-maturity financial assets, loans and items receivable and available-for-sale financial assets.

i) Financial assets at fair value through profit or loss.

A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such at initial recognition. Directly attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, including any interests or dividends income, are recognized in profit or loss.

Other financial assets at fair value through profit or loss designated at initial recognition by the Bank as such shall also be included under this category. Such designation shall only be made in cases allowed by the Regulations for Classification and Valuation of Investments of Financial System Entities, and when made, the most relevant information shall be obtained due to:

- By means of the above mentioned, it is possible to significantly reduce inconsistencies in the recognition or valuation that would arise from the valuation of assets or liabilities or from the recognition of gains or losses with different criteria.

- Thus, it is possible to manage and evaluate performance based on the fair value, according to a risk management or investment strategy.

Additionally, in the case of investments, article 5º of the Regulations for Classification and Valuation of Investments of Financial System Entities is considered.

ii) Loans and items receivable
Financial assets whose cash flows have an amount determined or to be determined are included under this category. Through these cash flows, it would be possible to recover disbursements made by Scotiabank Perú S.A.A. and Subsidiaries, excluding reasons attributed to the debtor's solvency. This category includes investments from loan activity, such as cash amounts made available and with pending amortization by clients considered as loans or deposits made in other entities, irrespective of their legal instrument, as well as debts incurred by purchasers of goods or users of services that are part of the business of Scotiabank Perú S.A.A. and Subsidiaries.

iii) Available-for-sale financial assets
Financial assets that are not classified as a) financial assets at fair value through profit or loss or b) loans and items receivable are included under this category.

These assets are initially recognized at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, they are recognized at fair value; and changes other than impairment losses and foreign exchange differences on debt instruments classified as available-for-sale are recognized in other comprehensive income and accumulated in the fair value reserve in equity. When these assets are derecognized, the gain or loss accumulated in equity is reclassified from equity to profit or loss.

As of September 30, 2014 and December 31, 2013 and for the years then ended, Scotiabank Perú S.A.A. and Subsidiaries do not hold held-to-maturity financial assets.

Classification of financial liabilities
Regardless of accounts used for recording, Scotiabank Perú S.A.A. and Subsidiaries classify financial liabilities for valuation purposes in conformity with IAS 39.

In conformity with disclosure requirements established by SBS, Scotiabank Perú S.A.A. and Subsidiaries have classified its financial assets and liabilities under the corresponding categories (note 32).

Financial instruments offsetting
Financial assets and liabilities are offset and the net amount is presented in the 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.

(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 1349-2008 and amendments. Such accounting criteria for held-for-trading, hedging and embedded derivative operations conform to IAS 39 *Financial Instruments 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.

As of September 30, 2014 and December 31, 2013 and for the years then ended, Scotiabank Perú S.A.A. and Subsidiaries do not hold derivative instruments classified as hedging nor embedded derivatives.

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

(d) Investments
Scotiabank Perú S.A.A. and Subsidiaries apply the recording and valuation criteria of investments established in SBS Resolution N° 7033-2012 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 or 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 a 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 investments. 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) 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 arising from the investment purchase date are included in the calculation of its effective interest rates. Dividends are recognized in the consolidated statement of comprehensive income when the right to receive the payment has been established.

iii) Investments in associates

The account includes equity shares acquired to participate as stakeholders and 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 direct and incremental transaction costs. 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 post acquisition date.

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

Investment instruments held by companies can be reclassified within categories of classification. 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 the nine month period ended in September 30, 2014 and 2013, the Bank has not reclassified its investment instruments in categories.

Resolution SBS 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 the nine month period ended in September 30, 2014 and 2013, the Bank has recognized impairment losses on investment instruments for S/. 1 thousand and S/. 21 thousand, respectively.

(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 and generate a liability against third parties. 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

In conformity with SBS Resolution 11356-2008, and its amendments, 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	FCC (%)
(i)	Confirmation of irrevocable letters of credit 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 no disbursed and unused credit lines.	0
(v)	Other 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	With 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 company loans	0.70	0.70	0.70	0.70
- Medium company loans	1.00	1.00	1.00	1.00
- Small business loans	1.00	1.00	1.00	1.00
- Micro business loans	1.00	1.00	1.00	1.00
- Consumer loans (*)	1.00	1.00	1.00	1.00
- Mortgage loans	0.70	0.70	0.70	0.70
Potential 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	60.00	30.00	1.00

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

Procyclical component

The rates of procyclical component to calculate provisions for direct loans and credit risk equivalent exposure of indirect loans for debtors classified as 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 company and mortgage loans that have preferred readily realizable collateral, the procyclical component rate is 0.30%. For all other types of credits 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 Gross Domestic Product (GDP) is above or below 5%. 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 from December 2008 to August 2009, deactivated from September 2009 to August 2010 and re-activated from September 2010.

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 17). Likewise, according to Resolution SBS N°6941-2008 “Regulation on Risk Management on Indebtedness of Retail Debtors”, additional generic provisions of 1% over consumer and micro-business loans required are presented as liabilities, in provisions for contingent loans and country risk account (note 17).

(f) Securities Trading Transactions Carried Out by Third Parties

Scotia Sociedad Agente de Bolsa S.A. (hereinafter the SAB) conducts security trading transactions carried out on behalf of its clients (principals).

Transfers of funds made by clients for purchase/sale transactions in the stock market and over-the-counter market are recorded in consolidated statement of financial position only if they comply with assets definition (accounts receivable) and liabilities definition (accounts payable); otherwise, such balances are presented in memoranda accounts. An account receivable or payable is only recognized when they have not yet been settled at their maturity or if SAB, due to any operating cause, does not have the funds transferred by clients, however, since it is a solvent entity, funds are covered by SAB in an amount equivalent to the acquisition of securities acquired through a loan that is regularized almost immediately.

Since the SAB only manages funds of clients in trust, and because it is not able to use such resources and there is the commitment to return them to clients, these resources are not owned by the entity and shall be recorded in memoranda accounts. Unsettled transactions by the Bolsa de Valores de Lima S.A. are recorded in memoranda accounts, until they are collected or paid.

(g) Property, Furniture and Equipment

Property, furniture, and equipment are recorded at the historical acquisition cost, less accumulated depreciation and impairment losses. Disbursements incurred after acquisition of property, furniture, and equipment are capitalized only 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 income in the period they are incurred. Work-in-progress and in-transit goods are recorded 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	20 and 10
Furniture and fixtures	10
IT equipment	4 and 5
Vehicles	5

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

Useful life and depreciation method are periodically reviewed by management according to the forecasted economic benefits to be provided by the components of property, furniture, and equipment.

(h) Realizable Assets, Received as Payment, and Repossessed Assets

Realizable assets include assets purchased specifically for granting financial leases which are recorded initially at their acquisition cost; further, realizable assets not granted in financial leases are recorded at the lower of its cost or market value. Likewise, realizable assets also include repossessed assets.

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 recorded 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 recorded 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 recorded at an amount equivalent to the amount effectively impaired.

- For plant 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 recorded 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. 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 establishes criteria for the identification of impaired assets based on the classification of financial or 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 of 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 or cash generating units (hereinafter CGU).

Goodwill arising from a business combination is allocated to CGU or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU 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 reflects current market assessments of time value of money and the risks specific associated to the asset or CGU. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in the profit and loss.

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 27).

Deferred income tax is recorded using the liability method based on temporary differences derived from tax accounting of assets and liabilities, and their balances in the financial statements of each company that is part of Scotiabank Perú S.A.A. and Subsidiaries. Deferred income tax is determined based on tax rates and legislation expected to be applied by Scotiabank Perú S.A.A. and Subsidiaries when the deferred tax asset is realized or the deferred tax liability is settled (note 28).

Deferred income tax assets and liabilities are recognized without considering the estimated time when the temporary differences will disappear. Deferred income tax asset is only recognized if it is probable there would be future tax benefits, so that the deferred income tax 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 recorded using the acquisition method. This means, recognizing identifiable net 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 terms 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 reporting date 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 clients. Commissions for banking services are recognized as income when earned.

The income from indirect loan commissions shall be recognized on an accrual basis during the term of such indirect loans.

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 recorded 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 return on fixed-income investments and trading securities, as well as recognition of discounts and premiums on financial instruments. Dividends are recorded 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 entity; they are recorded in the account "other income, net" on the consolidated statement of comprehensive income. Dividends are recorded as income when declared.

Revenues from warehousing services are recognized when the service is rendered, can be reliably measured and it is probable that economic benefits arising from the rendering of this service will be received.

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.

(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 recorded as liabilities and charged to income of the period. As of September 30, 2014 and December 31, 2013, the Bank does not hold preferred shares outstanding.

(q) Employees' Profit Sharing

The SBS with Official Letter 4049-2011, dated January 21, 2011, established that employees' profit sharing should be recorded according to IAS 19 *Employee Benefits*. As a result, this profit sharing shall be treated as personnel expenses and a liability related to employee benefits.

(r) 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 September 30, 2014 and 2013, were considered as cash and cash equivalents except for the restricted cash and due from banks for compliance with contractual commitments (note 6.c).

(s) 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 recorded in memoranda accounts for corresponding control (note 20). Commissions on those activities are included in income from finance services (note 23).

(t) Foreign Currency Transactions and Balances

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

(u) Reclassifications

Certain figures of the financial statements as of December 2013 have been reclassified to make them comparable to those in this period.

This reclassification was determined in accordance with Resolution SBS Nº 3225-2014, which through SBS establishes the presentation of "Negotiable certificates of deposits" as Obligations issued instead of Time deposits; therefore, for comparison purposes, balances as of December 31, 2013 have been reclassified as follows:

Consolidated Statement of Financial Position

	In thousands of S/.		
	12.31.2013	Reclassification	12.31.2013
Liabilities:			
Deposits and obligations			
Demand deposits	11,065,459	-	11,065,459
Savings deposits	5,107,171	-	5,107,171
Time deposits	12,489,488	(263,038)	12,226,450
Other obligations	1,422,887	-	1,422,887
	30,085,005		29,821,967
Borrowings and financial obligations	4,884,722	-	4,884,722
Securities, bonds, and obligations issued	2,562,077	263,038	2,825,115
Held-for trading derivative instruments	176,863	-	176,863
Deferred income tax	808	-	808
Provisions and other liabilities	884,672	-	884,672
Total liabilities	38,594,147	-	38,594,147

New International Accounting Pronouncements

Amendment to IAS 19 *Employee Benefits*, this modification to the scope of IAS 19 aims at simplifying accounting of contributions that are independent of the years of service of the employees, for example employee contributions calculated according to a fixed percentage of salary. Effective for annual periods beginning on or after July 1, 2014.

(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 nuevos soles (S/.) at the exchange rate established by the SBS. As of September 30, 2014 and December 31, 2013, these rates were US$1 = S/. 2.89 and S/. 2.795 respectively.

Foreign currency transactions in the country and international trade transactions referred to the concepts authorized by Banco Central de Reserva del Perú - BCRP (Central Bank), are channeled through an interbank foreign exchange market. As of September 30, 2014, the buy and sell exchange rates used were US$ 1 = S/. 2.888 and US$ 1= S/. 2.892, respectively (US$ 1= S/. 2.794 buy rate and US$ 1= S/. 2.796 sell rate as of December 31, 2013).

Foreign currency balances stated in thousands of U.S. dollars and other currencies as of September 30, 2014 and December 31, 2013 are summarized as follows:

	09.30.2014		
	U.S. dollars	Other currencies	Total
Assets:			
Cash and due from banks	3,385,549	40,622	3,426,171
Investments at fair value through profit or loss and available-for-sale investments	542,029	-	542,029
Loan portfolio, net	5,116,522	-	5,116,522
Held-for trading derivative instruments	3,862	-	3,862
Accounts receivable, net	19,640	2	19,642
Other assets, net	14,558	8,210	22,768
	9,082,160	48,834	9,130,994
Liabilities:			
Deposits and obligations	5,658,277	39,636	5,697,913
Borrowings and financial obligations	2,213,234	-	2,213,234
Securities, bonds, and obligations issued	500,245	-	500,245
Held-for trading derivative instruments	2,502	-	2,502
Provisions and other liabilities	264,624	8,423	273,047
	8,638,882	48,059	8,686,941
Net asset position on the consolidated statement of financial position	443,278	775	444,053
Derivative instruments operations	(362,527)	-	(362,527)

	12.31.2013		
	U.S. dollars	Other currencies	Total
Assets:			
Cash and due from banks	3,070,137	24,858	3,094,995
Interbank funds	9,000	-	9,000
Investments at fair value through profit or loss and available-for-sale investments	453,625	-	453,625
Loan portfolio, net	4,790,518	-	4,790,518
Held-for trading derivative instruments	4,068	-	4,068
Accounts receivable, net	15,945	19	15,964
Other assets, net	8,776	968	9,744
	8,352,069	25,845	8,377,914
Liabilities:			
Deposits and obligations	5,851,644	44,755	5,896,399
Borrowings and financial obligations	1,548,557	-	1,548,557
Securities, bonds, and obligations issued	520,769	-	520,769
Held-for trading derivative instruments	4,550	-	4,550
Provisions and other liabilities	104,596	1,601	106,197
	8,030,116	46,356	8,076,472
Net asset (liability) position on the consolidated statement of financial position	321,953	(20,511)	301,442
Derivative instruments operations	(312,597)	20,703	(291,894)

As of September 30, 2014 and 2013, Scotiabank Perú S.A.A. and Subsidiaries recorded in Results from financial transactions, gains amounting to S/. 201,104 thousand and S/. 142,993, respectively for exchange difference of various operations (note 24).

As of September 30, 2014, Scotiabank Perú S.A.A. and Subsidiaries have contingent operations in foreign currency amounting to US$ 12,238,393 thousand equivalent to S/. 35,368,955 thousand (US$ 11,587,664 thousand, equivalent to S/. 32,387,520 thousand as of December 31, 2013).

(6) Cash and Due from Banks

This caption comprises the following:

	In thousands of S/.	
	09.30.2014	12.31.2013
Cash (a)	1,083,576	1,079,942
Banco Central de Reserva del Perú (a)	8,306,335	9,563,951
Banks and other local financial system entities (b)	22,233	57,389
Banks and other foreign financial system entities (b)	421,979	389,546
Clearing	64,089	183,267
Restricted cash and due from banks (c)	984,532	96,991
Other cash and due from banks	83	329
	10,882,827	11,371,415

(a) As of September 30, 2014, funds held in cash and Banco Central de Reserva del Peru (BCRP) include US$ 1,728,360 thousand and S/. 939,592 thousand (US$ 1,811,316 thousand and S/. 1,132,588 thousand as of December 31, 2013), of legal cash reserve the Bank and CrediScotia Financiera S.A. these funds should be set aside to cover deposits from third parties, according to limits established by current legislation. These funds are held at BCRP kept in their vaults of such financial entities.

Cash reserves held at BCRP do not accrue interest, except for the amount in local and foreign currency exceeding the minimum legal cash reserve. As of September 30, 2014, the excess of legal cash reserve in local and foreign currency accrued interest at annual rates of 0.44% and 0.04%, respectively (1.25% in local currency and 0.04% in foreign currency as of December 31, 2013). Interest accrued from the excess in foreign currency as of September 30, 2014 amounts to US$ 626 thousand (US$ 626 thousand as of September 30, 2013). Interest accrued for the excess in local currency as of September 30, 2014 amounts to S/. 2,897 thousand (S/. 14,989 thousand as of September 30, 2013).

As of September 30, 2014, deposits with BCRP include US$ 1,204,000 thousand for overnight operations; such operations accrued interest at an annual nominal rate of 0.12% and 0.13%, respectively (US$ 1,089,000 and S/. 1,248,000 thousand as of December 31, 2013 at an annual rate of 0.15% and 3.20%).

(b) Deposits in local and foreign banks mainly correspond, to balances in nuevos soles and in U.S. dollars, and lower amounts in other currencies, with free withdrawal option and accrue interest at market rates. As of September 30, 2014, deposits in foreign banks, included deposits held at The Bank of Nova Scotia by US$ 11,355 thousand and Canadian dollars by $ 175 thousand (US$ 6,329 thousand and Canadian dollars by $ 42 thousand as of December 31, 2013).

As of September 30, 2014, deposits in foreign banks include US$ 26,410 thousand for overnight operations; such operations accrued interest at an annual nominal rate of 0.05%. (As of December 31, 2013, Scotiabank Perú S.A.A. and Subsidiaries do not hold overnight operations).

As of September 30, 2014 and December 31, 2013, the Bank concentrates 61% in deposits to foreign banks, in two financial entities, respectively.

(c) As of September 30, 2014, restricted funds are comprised of: i) reserve funds for comply with commitments to repurchase foreign currency to BCRP by US$ 320,954 thousand, see note 15.a; ii) reserve funds for compliance of contractual commitment and guarantees demanded by foreign and local entities, on which the Bank and Subsidiaries have no immediate availability for US$ 17,951 thousand (US$ 18,354 thousand and S/. 223 thousand as of December 31, 2013, respectively); iii) guarantee funds for treasury transactions by US$ 69 thousands and S/. 15 thousand (US$ 14,591 thousand and S/. 16 thousand as of December 31, 2013); iv) guarantee funds for legal proceedings by US$ 8 thousands and S/. 278 thousands (US$ 11 thousand and S/. 387 thousand as of December 31, 2013); and v) other operational restrictions by US$ 1,000 thousand and S/. 1,655 thousand (US$ 963 thousand and S/. 1,559 thousand as of December 31, 2013).

As of September 30, 2014 and 2013, interest revenue from cash and due from banks amounted to S/. 11,554 thousand and S/. 68,419 thousand, respectively and is included under the interest income item in the income statement (note 21).

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

This caption comprises the following:

	In thousands of S/.	
	09.30.2014	12.31.2013
Investments at fair value through profit or loss:		
Central Bank indexed certificates of deposit (a)	1,431,775	1,265,759
Peruvian Treasury Bonds (b)	148,417	104,035
Central Bank certificates of deposit (c)	19,348	-
Mutual fund (g)	10,123	9,297
Other	1,967	36
	1,611,630	1,379,127
Available-for-sale investments:		
Central Bank certificates of deposit (c)	788,772	269,747
Peruvian Treasury Bonds (b)	315,583	381,644
Peruvian Global Bonds (d)	132,407	-
Listed shares		
BVL-Lima Stock Exchange (e)	45,263	48,837
CAVALI S.A (f)	11,509	11,696
Other	464	1,283
Unlisted shares	7,390	7,440
Mutual fund (g)	1,796	1,740
Other shares, net	18	16
	1,303,202	722,403
Total investment at fair value through profit or loss and available-for-sale investments	2,914,832	2,101,530

(a) Central Bank indexed certificates of deposit, 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 October and November 2014.

(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 September 30, 2014, these bonds accrue interest at annual rates ranging from 3.51% to 6.75% (from 4.12% to 7.08% annually as of December 31, 2013), with maturities between May 2015 and August 2037 as of September 30, 2014 and December 31, 2013).

(c) Central Bank certificates of deposits, are securities freely negotiable in local currency; they are acquired through BCRP public bids and traded in the Peruvian secondary market. As of September 30, 2014, these certificates accrue interest based on the BCRP reference rate which ranged from 3.40% to 4.15% annually (between 3.78% and 4.30% as of December 31, 2013), and have maturities between November 2014 and March 2016 (between March and November 2014, as of December 31, 2013). Likewise, as of September 30, 2014 and December 31, 2013, the Bank did not have certificates of deposit issued by BCRP with restricted availability.

(d) Peruvian Global Bonds are issued in foreign currency by the Peruvian Government, accrue annual interest of 0.63% and 1.00%, and mature in February 2015 and May 2016.

(e) Shares held by SAB in the Lima Stock Exchange (BVL), entity that, by means of the agreement its General Shareholders' Meeting dated April 21, 2003, changed from civil association to corporation, with a capital stock of 47,772,672 shares from which 32,843,712 corresponded to class "A" shares and 14,928,960 corresponded to Class "B" shares. As of September 30, 2014 shares held by SAB are class "A" shares, they amount to 4,764,577 shares and are listed at S/. 9.50 each (as of December 31, 2013 the same amount of shares was held and it was listed at S/. 10.25 each).

    As of September, 2014 and 2013, BVL has distributed dividends to SAB for S/. 953 thousand and S/. 1,800 thousand respectively, which are recorded as income from dividends in the consolidated income statement.

(f) Shares held by SAB in CAVALI as per law, from April 30, 1997 clearing and settlement of securities recorded by the BVL were transferred to CAVALI S.A. I.C.L.V. (CAVALI); therefore, shares in CAVALI grant the right to the Corporation for clearing and settlement of securities listed in the BVL.

    CAVALI's shares are presented at fair value or are listed. As of September 30, 2014, such shares amounted to 1,438,572 and are listed at S/. 8.00 each (as of December 31, 2013 maintained 1,299,534 shares was held and it was listed at S/. 9.00 each).

As of September, 2014 and 2013, CAVALI has distributed dividends to SAB for S/. 179 thousand and S/. 383 thousand, respectively, which are recorded as income from dividends in the consolidated income statement.

(g) As of September 30, 2014, SAF and Titulizadora hold investments in mutual funds in local and foreign currency for S/. 10,691 thousand and US$ 425 thousand, respectively, which are managed by SAF (S/. 9,978 thousand and US$ 379 thousand as of December 31, 2013, held by the Bank, SAF and Titulizadora).

As of September 30, 2014 and 2013, the accrued interest on investments amounted to S/. 30,294 thousand and S/. 35,831 thousand, respectively and is included under the interest income item in the income statement (note 21).

Investment at fair value through profit or loss and available-for-sale investments as of September 30, 2014 and December 31, 2013, have the following maturities:

	In thousands of S/.	
	09.30.2014	12.31.2013
Up to 3 months	1,531,448	1,280,686
From 3 to 12 months	478,322	264,152
Over 12 months	905,062	556,692
	2,914,832	2,101,530

(8) Loan Portfolio, net

This caption comprises the following:

	In thousands of S/.			
	09.30.2014	%	12.31.2013	%
Direct loans:				
Current loans	30,823,151	97	27,491,530	97
Refinanced loans	202,175	-	166,227	-
Restructured loans	3,285	-	4,153	-
Past due loans	574,132	2	514,925	2
Lawsuits loans	295,025	1	220,779	1
	31,897,768	100	28,397,614	100
Plus (less):				
Accrued interest on current loans	231,392		214,816	
Non-accrued interest	(27,991)		(28,375)	
Provision for loan losses	(1,422,243)		(1,242,869)	
	30,678,926		27,341,186	
Contingent loans (note 20)	7,230,828		6,727,349	

As of September 30, 2014 and December 31, 2013, fifty-one percent of the direct and indirect loan portfolio of the Bank and CrediScotia Financiera S.A. was concentrated in 1,021 and 1,078 clients, respectively.

The loan portfolio (direct and indirect) of the Bank and CrediScotia Financiera S.A. 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 the SBS regulations.

The Bank and CrediScotia Financiera S.A. freely establish the interest rates of loan portfolio based on the supply and demand and type of loan. The annual average effective of main products at September 30, 2014 and December 31, 2013 fluctuated as follows:

	%			
	09.30.2014		12.31.2013	
	Local currency	Foreign currency	Local currency	Foreign currency
Overdrafts (*)	55.00 - 85.00	30.00 - 55.00	55.00 - 85.00	30.00 - 55.00
Discounts and commercial loans	4.83 - 47.83	1.91 - 28.87	4.81 - 46.14	3.39 - 29.41
Consumer loans	14.01 - 54.20	9.75 - 25.53	14.06 - 50.88	9.26 - 21.95

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

As of September 30, 2014 and December 31, 2013 according to current SBS regulations, the loan portfolio of the Bank and CrediScotia Financiera S.A. risk-based ratings are as follows:

	09.30.2014				12.31.2013			
Risk Rating	N° of debtors	In thousands of S/. Direct	Contingent	Total	N° of debtors	In thousands of S/. Direct	Contingent	Total
Standard	979,822	29,749,551	7,185,252	36,934,803	853,353	26,451,267	6,702,607	33,153,874
Potential problem	40,685	743,780	34,775	778,555	43,056	676,176	14,787	690,963
Substandard	26,685	309,364	4,624	313,988	30,110	328,858	5,027	333,885
Doubtful	51,649	456,138	3,591	459,729	55,586	428,790	3,088	431,878
Loss	48,935	638,935	2,586	641,521	32,860	512,523	1,840	514,363
	1,147,776	31,897,768	7,230,828	39,128,596	1,014,965	28,397,614	6,727,349	35,124,963

As of September 30, 2014 and December 31, 2013 direct loans are distributed among economic sectors as follows:

	In thousands of S/.			
	09.30.2014	%	12.31.2013	%
Mortgage and consumer loans	10,437,519	33%	9,346,500	33%
Trade	4,636,320	15%	3,745,767	13%
Manufacturing	3,972,209	12%	3,332,140	12%
Real estate business and lease service	2,792,886	9%	2,404,597	8%
Mining	1,594,300	5%	1,548,857	5%
Transport	1,282,022	4%	1,232,754	4%
Power, gas, and water	957,918	3%	1,029,277	4%
Education, services, and other	842,129	3%	814,884	3%
Brokerage service	711,126	2%	793,346	3%
Agriculture and livestock	660,013	2%	536,368	2%
Construction	455,411	1%	300,416	1%
Fishing	451,017	1%	452,371	2%
Hotel and restaurants	295,788	1%	225,529	1%
Public administration and defense	225,106	1%	139,305	0%
Other (mainly non-profit, healthcare and automotive)	2,584,004	8%	2,495,503	9%
	31,897,768	100%	28,397,614	100%

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

	In thousands of S/.		
	Specific	Generic	Total
Balances as of December 31, 2012	643,617	435,479	1,079,096
Additions debited to results	1,078,933	236,743	1,315,676
Recovery of provisions	(280,763)	(210,693)	(491,456)
Transfers of provisions and other	14,119	(3,192)	10,927
Write-offs and forgiveness	(705,928)	-	(705,928)
Foreign exchange differences	19,495	15,059	34,554
Balances as of December 31, 2013	769,473	473,396	1,242,869
Additions debited to results	961,452	256,176	1,217,628
Recovery of provisions	(348,126)	(203,320)	(551,446)
Transfers of provisions and other	14,217	(2,938)	11,279
Write-offs and forgiveness	(513,257)	-	(513,257)
Foreign exchange differences	9,157	6,013	15,170
Balances as of September 30, 2014	892,916	529,327	1,422,243

Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. record regulatory provisions for loan portfolios according to the policy described in note 4.e. Additionally, these entities record discretionary provisions for doubtful loans which are included under the generic provision for doubtful loans. As of September 30, 2014 and December 31, 2013, voluntary provisions amount to S/. 56,505 thousand and S/. 49,579 thousand, respectively.

As of September 30, 2014, the provision for foreign exchange credit risk and the procyclical provision amount to S/. 1,140 thousand and S/. 157,030 thousand, respectively (S/. 1,013 thousand and S/. 141,461 thousand, respectively as of December 31, 2013).

As of September 30, 2014 and December 31, 2013 direct loan portfolio had the following maturities:

	In thousands of S/.					
	09.30.2014			12.31.2013		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Up to 1 month	1,624,720	1,981,691	3,606,411	1,152,214	1,432,359	2,584,573
From 1 to 3 months	2,121,790	2,627,757	4,749,547	2,394,071	2,157,526	4,551,597
From 3 to 6 months	2,543,867	2,157,553	4,701,420	1,972,328	1,878,534	3,850,862
From 6 to 12 months	2,628,361	1,404,810	4,033,171	2,492,316	1,666,074	4,158,390
Over 12 months	7,386,559	6,782,895	14,169,454	6,290,279	6,441,025	12,731,304
Overdue and loans in litigation process	551,272	317,885	869,157	482,221	253,483	735,704
Less, accrued interest	(159,444)	(71,948)	(231,392)	(145,716)	(69,100)	(214,816)
	16,697,125	15,200,643	31,897,768	14,637,713	13,759,901	28,397,614

(9) Held-for Trading Derivative Instruments

The Bank holds agreements of foreign currency forwards, cross currency swaps (CCS) and interest rate swaps (IRS) agreements. As of September 30, 2014 and December 31, 2013, the fair value of these trading financial instruments has generated accounts receivable and payable as described below:

	In thousands of S/.			
	09.30.2014		12.31.2013	
	Accounts receivable	Accounts payable	Accounts receivable	Accounts payable
Forwards	116,195	88,564	130,491	143,968
Interest Rate Swap (IRS)	11,161	7,231	11,371	12,717
Cross Currency Swaps (CCS)	1,837	26,101	426	20,178
	129,193	121,896	142,288	176,863

As of September 30, 2014 and 2013 these derivatives generated a net losses of S/. 22,204 thousand and a net gains of S/. 24,254 thousand, respectively (note 24).

(10) Accounts Receivable, net

This caption comprises the following:

	In thousands of S/.	
	09.30.2014	12.31.2013
Financial Instruments:		
Accounts receivable from sale of investments	76,974	74,793
Collection services	18,733	15,001
Payments on behalf of thirds parties, net	13,827	10,727
Commissions receivable	12,849	11,453
Advances to personnel	10,497	6,920
Sales of goods and services, trust, net	978	854
Accounts receivable from brokerage customers	632	1,079
Other accounts receivable, net	29,642	53,568
	164,132	174,395
Non-financial Instruments:		
Tax proceedings (a)	711,940	438,483
	876,072	612,878

(a) Tax proceedings with SUNAT as of September 30, 2014, include S/. 230,094 thousand (S/. 228,483 thousand as of December 31, 2013) corresponding to payments under protest of Temporary Net Assets Tax (ITAN for its acronym in Spanish) for fiscal years 2005 and 2006, which are being challenged in the courts by the Bank as they are considered undue payments; and balances related to income tax and other credits subject to offsetting against ITAN. The Bank expects these amounts will be returned on resolution of the case in its favor.

As of September 30, 2014, the financial statements include S/. 481,846 thousands (S/. 210,000 thousand as of December 31, 2013) corresponding to payments under protest in respect of a resolution from the Tax Authority which is being challenged in the Judicial Courts by the Bank. The Bank expects these amounts will be returned on resolution of the case in its favor.

(11) Goodwill

In 2008, the Bank acquired 100% of the capital stock of Banco del Trabajo S.A., currently CrediScotia Financiera S.A., and recognized goodwill as of September 30, 2014 and December 31, 2013 of S/. 278,818 thousand which includes a purchase price adjustment (earn-out) of S/. 83,290 thousand, calculated in accordance with the purchase agreement.

According to SBS standards, such goodwill has been assessed by management, concluding that there is no impairment as of September 30, 2014 and December 31, 2013.

(12) Property, Furniture, and Equipment, net

This caption comprises the following:

	In thousands of S/.				
	Balances as of 12.31.13	Additions	Disposals	Reclas and adjustment	Balances as of 09.30.14
Cost:					
Land	141,044	-	(7,373)	-	133,671
Property and premises	720,406	3,723	(34,645)	15,203	704,687
Furniture, fixture, and IT equipment	369,498	26,190	(9,429)	5,240	391,499
Vehicles	4,332	-	(212)	-	4,120
Units in transit and replacing units	3,674	24,504	-	(7,365)	20,813
Work-in-progress	11,562	24,085	-	(15,839)	19,808
	1,250,516	78,502	(51,659)	(2,761)	1,274,598
Accumulated depreciation:					
Property and premises	506,195	21,270	(17,792)	843	510,516
Furniture, fixture, and IT equipment	269,328	25,567	(9,039)	1,057	286,913
Vehicles	3,347	332	(110)	-	3,569
	778,870	47,169	(26,941)	1,900	800,998
	471,646				473,600

During the 2014 Scotiabank Peru S.A.A. and Subsidiaries sold properties to unrelated third parties for approximately S/. 98,677 thousand. The net book value of these properties amounted to S/. 24,111 thousand (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 S/.	
	09.30.2014	12.31.2013
Financial Instruments:		
Transactions in progress (a)	73,826	26,365
	73,826	26,365
Non-financial Instruments:		
Tax credits (VAT) and other (b)	278,451	360,098
Prepaid expenses (c)	111,423	105,070
Income tax prepayments, net	19,738	75,364
Intangible assets, net of amortization of S/. 218,237 thousand (S/. 207,984 thousand in 2013)	29,222	25,231
Realizable and repossessed asset, net of accumulated depreciation and provision for impairment for S/. 124,790 thousand (S/. 125,244 thousand in 2013)	17,164	21,860
Inventories	4,947	4,334
Other assests	7,963	7,963
	468,908	599,920
	542,734	626,285

(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 September 30, 2014, they comprise S/. 65,064 thousand related to treasury transactions, S/. 3,938 thousand for invoices in transit for services received and S/. 295 thousand of operations to be settled by human resources department (as of December 31, 2013 for S/. 11,140 thousand, S/. 7,536 thousand and S/. 3,154 thousand respectively).

(b) As of September 30, 2014 and December 31, 2013, tax credits mainly include the value added tax (VAT) for S/. 316,471 thousand and S/. 529,080 thousand respectively; these amounts are net of the value added tax (VAT) payable by amounting to S/. 38,021 thousand and S/. 168,982 respectively. This tax credits mainly includes: the value added tax from acquisition of assets that have been transferred under finance leases for S/. 21,437 thousand as of September 30, 2014 (S/. 36,595 thousand as of December 31, 2013) which have not yet been applied to taxable operations.

(c) As of September 30, 2014, prepaid expenses include mainly: (i) deferred loan origination costs, mainly fees paid to external sales force for S/. 60,138 thousand; (ii) prepaid rent of S/. 7,517 thousand; (iii) prepaid fees of received borrowings for S/. 18,020 thousand; (iv) advertising and marketing services for S/. 4,006 thousand (as of December 31, 2013 for S/. 58,970 thousand, S/. 6,043 thousand, S/. 22,241 thousand and S/. 2,124 thousand respectively); among others.

(14) Deposits and Obligations

This caption comprises the following:

	In thousands of S/.			
	09.30.2014	%	12.31.2013	%
Corporate clients	16,104,909	55	16,048,911	54
Individuals	9,017,683	30	8,615,495	29
Non-profit organizations	3,097,707	10	3,700,209	12
Other	1,411,321	5	1,457,352	5
	29,631,620	100	29,821,967	100

Deposits and other obligations in U.S. dollars represent 56% and 55% of the total deposits as of September 30, 2014 and December 31, 2013, respectively. Deposits included accounts pledged in favor of Scotiabank Perú S.A.A. and Subsidiaries for credit operations for S/. 498,217 thousand and US$ 213,166 thousand as of September 30, 2014 (S/. 488,878 thousand and US$ 421,052 thousand as of December 31, 2013).

Likewise, as of September 30, 2014 and December 31, 2013, from the total of deposits and obligations from individuals and non-profit legal entities, the amounts of S/. 6,737,986 thousand and S/. 6,408,831 thousand, respectively, are covered by the Peruvian Deposit Insurance Fund (FSD, for its acronym in Spanish), according to current legal regulations.

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

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

The maximum amount covered for each individual as of September 30, 2014 and December 31, 2013, amounted to S/. 93 thousand.

The Bank and CrediScotia Financiera S.A. freely establish deposits interest rates based on supply and demand, and the type of deposits. Effective annual rates for main products at September 30, 2014 and December 31, 2013, fluctuated as follows:

	%			
	09.30.2014		12.31.2013	
	Local currency	Foreign currency	Local currency	Foreign currency
Savings deposits	0.42 - 1.70	0.24 - 1.00	0.67 - 1.72	0.30 - 0.86
Time deposits	3.62 - 4.83	0.42 - 2.57	3.22 - 5.94	0.81 - 2.88
Bank certificates	-	0.36	-	0.26 - 0.75
Severance indemnities deposits (CTS)	2.93 - 6.00	1.69 - 4.00	2.96 - 6.00	1.85 - 4.00

As of September 30, 2014 and December 31, 2013 the scheduled maturity dates of the term deposits were as follows:

	In thousands of S/					
	09.30.2014			12.31.2013		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Up to 1 month	1,259,831	2,286,535	3,546,366	1,654,108	2,827,226	4,481,334
From 1 to 3 months	1,795,994	1,397,119	3,193,113	1,567,774	1,294,595	2,862,369
From 3 to 6 months	1,355,931	1,053,091	2,409,022	1,161,986	779,236	1,941,222
From 6 to 12 months	968,141	677,029	1,645,170	1,000,760	642,780	1,643,540
Over 12 months	652,990	508,671	1,161,661	678,621	531,433	1,210,054
	6,032,887	5,922,445	11,955,332	6,063,249	6,075,270	12,138,519
Interest	68,742	8,653	77,395	77,317	10,614	87,931
	6,101,629	5,931,098	12,032,727	6,140,566	6,085,884	12,226,450

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 S/.	
	09.30.2014	12.31.2013
Obligations in the country:		
BCRP (a)	901,000	-
COFIDE (b)	758,117	644,346
Other local banks	30,000	13,975
Ordinary loans from abroad:		
Related banks (c)	3,453,550	2,529,475
Other banks (d)	2,843,558	1,678,772
	7,986,225	4,866,568
Interest payable	28,604	18,154
	8,014,829	4,884,722

(a) Corresponds to obligations for foreign currency purchase transactions with commitments of repurchase made with BCRP during the year 2014 with maturities between October 2015 and June 2016. The balance in local currency accrues interest payable ranged from 3.75% to 4.85%.

(b) COFIDE - Corporación Financiera de Desarrollo S.A. (Finance Development Corporation) credit lines correspond to resources obtained for loans granting, mainly for Fondo Mivivienda mortgage financing programs, which accrue a fixed interest rate adjusted to the VAC index. As of September 30, 2014 these lines amount to S/. 493,117 thousand (S/. 379,346 thousand as of December 31, 2013).

As of September 30, 2014 these credit lines are secured with mortgage loan portfolio as follows:

		In thousands of S/. and US$	
Concept	Currency	Loans, net	Hedged debt
Mortgage loans - Fondo MiVivienda (*)	Nuevos soles	725,855	665,685
Mortgage loans - Fondo MiVivienda (*)	Dólares americanos	33,758	31,453

(*) The Bank signed specific agreements on these mortgage financing programs which maintain standard clauses of compliance operational issues that, in the opinion of management, those clauses do not affect the Bank's operations and are being met.

Additionally the financing from COFIDE included credit lines obtained in local currency to be used for working capital in the short term, which as of September 30, 2014 accrue interest at a rate of 5.48% (5.40% as of December 31, 2013) and are subject to specific agreements on the use of the funds received, the financial conditions that shall be maintained and other administrative matters. As of Sepptember 30, 2014 and December 31, 2013 these lines amount to S/. 265,000. In Management’s opinion, as of September 30, 2014 and December 31, 2013, the aforementioned conditions have been met by the Group.

(c) As of September 30, 2014, ordinary loans with related banks include debts payable to Scotiabank Ltd. Bahamas for US$ 1,115,000 thousand, which accrue annual interest rates ranging from 0.74% to 1.13% and mature between October 2015 and December 2017 (as of December 31, 2013, these amounted to US$ 865,000 thousand, accrued annual interest rates ranging from 0.74% to 1.14% and mature between January 2014 and March 2017).

Likewise, the balance with related banks as of September 30, 2014 and December 31, 2013, includes loans received from The Bank of Nova Scotia for US$ 80,000 thousand and US$ 40,000 thousand, respectively. This loan as of September 30, 2014 accrues an annual interest rate ranging from 0.48% to 0.57% and matures in January 2015 (0.50% and matures in March 2014, respectively as of December 31, 2013).

(d) As of September 30, 2014, this line includes borrowings agreed with various foreign financial institutions for US$ 858,930 thousand (US$ 461,884 thousand as of December 31, 2013), which accrue interest at annual average rates ranging from 0.52% to 5.96% in foreign currency (0.39% to 5.55% in foreign currency as of December 31, 2013).

Also, as of September 30, 2014, the Bank negotiated borrowings with foreign financial institutions for approximately US$ 125,000 thousand (US$ 143,750 thousand as of December 31, 2013) with maturity between June and September 2017. From this amount, US$ 37,500 thousand (US$ 46,875 thousand as of December 31, 2013) accrue interest at a fixed rate of 3.88% and US$ 87,500 thousand (US$ 96,875 thousand as of December 31, 2013) accrue interest at a variable rate of 3-month LIBOR plus a spread between 2.10% and 2.25% (2.34% and 2.49% as of December 31, 2013). 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 September 30, 2014 and December 31, 2013, the scheduled maturity dates of borrowings from banks and other financial institutions were as follows:

	In thousands of S/.	
	09.30.2014	12.31.2013
Up to 1 month	679,875	215,859
From 1 to 3 months	1,133,066	972,638
From 3 to 6 months	854,892	160,089
From 6 to 12 months	121,089	49,333
Over 12 months	5,225,907	3,486,803
	8,014,829	4,884,722

(16) Securities, Bonds and Obligations Issued

This caption comprises the following:

Issuance	Annual interest	Maturity	Outstanding balances in thousands of S/. 09.30.2014	Outstanding balances in thousands of S/. 12.31.2013
Redeemable subordinated bonds				
1st issuance single series (a)	4.50%	2027	1,156,400	1,118,000
1st issuance A – 1st Program (b)	7.41%	2027	130,000	130,000
			1,286,400	1,248,000
Corporate bonds (c)				
2nd issuance A – 1st Program	7.72%	2014	-	60,000
2nd issuance B – 1st Program	6.28%	2014	50,000	50,000
2nd issuance C – 1st Program	5.53%	2015	50,000	50,000
4th issuance A – 1st Program	4.72%	2017	50,000	50,000
5th issuance A – 1st Program	6.44%	2014	-	40,900
5th issuance B – 1st Program	6.59%	2014	-	25,150
5th issuance C – 1st Program	6.31%	2014	49,290	49,290
7th issuance A – 1st Program	7.19%	2017	60,000	60,000
8th issuance A – 1st Program	7.31%	2017	100,000	100,000
1st issuance A – 2nd Program	5.72%	2017	100,000	100,000
1st issuance B – 2nd Program	5.19%	2017	50,000	50,000
1st 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
9na issuance A – 2nd Program	5.50%	2017	69,480	-
9na issuance B – 2nd Program	5.44%	2017	100,000	-
			1,001,190	957,760
Negotiable notes (d)				
Series A	5.25%	2017	76,053	95,618
Series B	3m LIBOR + 2.75%	2017	190,130	239,046
			266,183	334,664
Other debt instruments				
Negotiable certificates of deposits (e)			151,527	263,038
			151,527	263,038
			2,704,900	2,803,462
Interest payable and obligations			36,284	21,653
			2,741,184	2,825,115

(a) 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

(b) In July 31, 2012, CrediScotia Financiera S.A. issued, through public auction, subordinated bonds 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 years if the terms and conditions of such issuance are met. The proceeds were exclusively destined to credit operations financing.

(c) From 2007 to date, Scotiabank Perú S.A.A and CrediScotia Financiera S.A. have issued Corporate Bonds for S/. 851,190 thousand and S/. 150,000 thousand, respectively (S/. 747,760 thousand and S/. 210,000 thousand, respectively as of December 31, 2013) within terms ranging from 1 to 5 years. The proceeds were exclusively destined to credit operations financing.

(d) 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, for its acronym in English), 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 September 30, 2014, Series A notes amounted to US$ 26,316 thousand (US$ 34,211 thousand as of December 31, 2013) and Series B notes amounted to US$ 65,789 thousand (US$ 85,526 thousand as of December 31, 2013). The notes are guaranteed by remittances received through SWIFT messages and are 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.

(e) As of September 30, 2014 this amount mainly includes Negotiable Certificates of Deposit issued by Crediscotia Financiera S.A. per S/. 122,000 thousand (S/. 208,790 thousand as of December 31, 2013). These Certificates of Deposit are nominative, indivisible and accrue interest at annual rate ranged from 4.25% to 4.63% (from 3.81% to 3.97% as of December 31, 2013) (Note 4u).

As of September 30, 2014 and 2013, interest expenses on issued securities, bonds and obligations of Scotiabank Perú S.A.A. and Subsidiaries amount to S/. 105,715 thousand and S/. 105,879 thousand, respectively (note 22).

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 September 30, 2014 and December 31, 2013, the maturities of issued securities were as follows:

	In thousands of S/.	
	09.30.2014	12.31.2013
Up to 3 month	153,075	159,716
From 3 to 6 months	207,660	218,964
From 6 to 12 months	78,000	222,379
Over 12 months	2,302,449	2,224,056
	2,741,184	2,825,115

(17) <u>Provisions and Other Liabilities</u>

This caption comprises the following:

	In thousands of S/.	
	09.30.2014	12.31.2013
Accounts payable:		
Other accounts payable (a)	194,975	257,616
Vacations, profit sharing and remunerations payable	51,736	111,397
Put option (b)	66,436	61,627
	313,147	430,640
Provisions:		
Provisions for litigations and legal claims (c)	99,485	99,924
Provisions for various contingencies (d)	74,728	74,146
Provision for contingent loans and country risk	75,538	69,581
Other provisions (e)	168,062	71,226
	417,813	314,877
Other liabilities:		
Transactions in progress (f)	602,654	103,366
Deferred income on portfolio sale and other	36,729	35,789
	639,383	139,155
	1,370,343	884,672

(a) As of September 30, 2014, this account was composed mainly of accounts payable to: (i) suppliers for S/. 109,938 thousand; (ii) purchase of investments for S/. 26,767 thousand; iii) insurance companies for services agreed-upon by customers for S/. 10,124 thousand; and iv) merchants for purchases with credit cards issued for S/. 7,118 thousand (S/. 119,363 thousand, S/. 74,181 thousand, S/. 10,138 thousand and S/. 16,831 thousand; respectively as of December 31, 2013).

(b) As of September 30, 2014 and December 31, 2013, 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 this contract. This option is effective from September 15, 2006 through December 31, 2015 and its carrying amount does not differ significantly from its estimated market value.

(c) As of September 30, 2014 and December 31, 2013, 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 no significant impact on operations or results.

(d) As of September 30, 2014, this account was composed mainly of: i) reversals or recoveries of provisions recorded since 2002 charged to equity accounts, which, according to SBS Official Letter 23797-2003, shall be reallocated to deficits of provisions in other asset accounts of the Bank for S/. 44,228 thousand (S/. 43,413 thousand as of December 31, 2013); and ii) provision for various contingencies charged to profit or loss for S/. 23,272 thousand (S/. 23,281 thousand as of December 31, 2013).

(e) As of September 30, 2014, the balance of other provisions mainly include: i) provisions for personnel expenses for S/. 140,806 thousand (S/. 42,989 thousand as of December 31, 2013), ii) provisions for campaigns of products to attract funds for S/. 2,286 thousand (S/. 2,211 thousand as of December 31, 2013), and iii) provisions for debit and credit cards campaigns for S/. 13,203 thousand (S/. 12,798 thousand as of December 31, 2013).

(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 accounts. These operations do not affect the results of Scotiabank Perú S.A.A. and Subsidiaries. As of September 30, 2014, liability transactions in progress mainly include: i) S/. 58,734 thousand related to Treasury operations (S/. 11,584 thousand as of December 31, 2013), ii) S/. 1,089 thousand related to credit card operations (S/. 3,278 thousand as of December 31, 2013), iii) S/. 18,445 thousand related to the clearing process at the electronic clearinghouse (S/. 487 thousand as of December 31, 2013); iv) S/. 5,179 thousand related to debt purchase transactions (S/. 5,563 thousand as of December 31, 2013), v) S/. 475,514 thousand related to client's deposits in-transit (S/. 32,658 thousand as of December 31, 2013), and vi) S/. 9,246 thousand related to third party insurance (S/. 11,351 thousand as of December 31, 2013).

(18) 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 September 30, 2014 amounts to S/. 5,359,070 thousand and S/. 543,979 thousand; respectively (S/. 4,500,773 thousand and S/. 532,805 thousand, respectively as of December 31, 2013). 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.

As of September 30, 2014, 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/. 37,314,026 thousand and S/. 3,108,714 thousand, respectively (S/. 32,011,827 thousand and S/. 2,910,696 thousand, respectively as of December 31, 2013).

As of September 30, 2014 and December 31, 2013, 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 September 30, 2014, the regulatory capital of Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. represents 13.39% and 16.04% respectively, of the regulatory capital requirements for market, operative and credit risk (13.24% and 17.09% respectively as of December 31, 2013).

Likewise, by means of Resolution 2115-2009, the SBS approved the rules for the regulatory capital requirement for operational risk, effective July 1, 2009. On this respect, as of September 30, 2014 and December 31, 2013, 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 September 30, 2014, amounted to S/. 817,437 thousand and S/. 102,760 thousand, respectively (S/. 550,826 thousand and S/. 70,874 thousand as of December 31, 2013, respectively).

(b) Capital Stock

As of September 30, the Bank's capital stock comprised 365,502,212 common shares (302,480,263 common shares as of December 31, 2013). All shares have voting rights and a par value of S/. 10.00 each. As of those dates, the quoted value of common shares of the Bank was S/. 30.75 and S/. 30.40 per share, respectively; likewise, the monetary inflation adjustment of 2001 through 2004 amounting to S/. 28,019 thousand is pending of capitalization.

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 2013 retained earnings for S/. 630,219 thousand. As of September 30, 2014, issuance of such shares is under process. As a result of the capitalization, the capital stock increased to S/. 3,655,022 thousand and will be represented by 365,502 thousand common shares with a par value of S/. 10.00 each.

Pursuant to the delegation conferred by the General Shareholders' meeting during December 2013, the board approved the increase of capital stock arising from the capitalization of year 2012 retained earnings for S/. 200,000 thousand. As a result of the capitalization, the capital stock increased to S/. 3,024,803 thousand and represented by 302,480 thousand common shares with a par value of S/. 10.00 each.

Shares participation on the Bank's capital stock as of September 30, 2014 and December 31, 2013, is as follows:

	09.30.2014		12.31.2013	
Percentage of shareholding	Number of shareholders	%	Number of Shareholders	%
0.01 to 1	1,791	2.25	1,875	2.25
1.01 to 50	2	42.43	2	42.43
50.01 to 100	1	55.32	1	55.32
	1,794	100.00	1,878	100.00

As of September 30, 2014, the Banking Law requires that capital stock shall reach the minimum amount of S/. 25,435 thousand (S/. 25,493 thousand as of December 31, 2013), which is a constant value and shall be updated annually at the closing of each period, 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

The additional paid-in capital balance comprises:

	In thousands of S/.	
	09.30.2014	12.31.2013
Issuance premium	368,522	368,522
Gain on treasury shares	42	42
	368,564	368,564

During 2013, the Bank sold 4,470 treasury shares at the value of S/. 34.46 per share; thus generating a profit of S/. 11 thousand.

(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 Bank's 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. At the Bank's Annual Obligatory General Shareholders' meeting, held on March 26, 2013, it was decided to apply to legal reserve an amount of S/. 82,256 thousand, corresponding to 10% of net profit for the year 2012.

(e) Retained Earnings

At the Bank's General Shareholders' meeting, held on March 25, 2014, the distribution of net profit 2013 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 the retained earnings account.

At the Bank's General Shareholders' meeting, held on March 26, 2013, the distribution of net profit 2012 for a total of S/. 822,560 thousand was approved, as follows:

(i) Cash dividends payment for S/. 329,024 thousand.
(ii) Allocate 10% of net profit, amounting to S/. 82,256 thousand to increase the legal reserve.
(iii) Remaining balance, amounting to S/. 411,280 thousand; will be held in the retained earnings account.

Likewise, the meeting agreed on the Scotiabank Perú S.A.A.'s dividend distribution though cash payments of the non-distributed balance of 2011 net profit which amounted to S/. 70,332 thousand.

(f) Other Comprehensive Income
As of September 30, 2014 and December 31, 2013, it mainly includes unrealized results of available-for-sale investments and share in other comprehensive income of subsidiaries and associates, net of its deferred income tax effects.

(19) Contingencies
In February 2006, previous to Banco Wiese Sudameris (BWS) acquisition by The Bank of Nova Scotia ("BNS") from Banca Intesa S.p.A, BNS reached an agreement with Banca Intesa S.p.A. to not include the subsidiary Wiese Sudameris Leasing S.A. (currently denominated Gestiones y Recuperaciones de Activos S.A. "GYRASA") in the acquisition of BWS due to possible contingencies, and also transferred assets and liabilities from Wiese Sudameris Leasing S.A. to the Bank's leasing business.

In March 2006, BNS, BWS and Banca Intesa S.p.A. signed an indemnity agreement through which Scotiabank Perú S.A.A. would assume the costs resulting from any potential legal or tax contingency that may arise for GYRASA and/or Banca Intesa S.p.A with regards to transferred assets.

Additionally, 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 17.c).

(20) Contingent and Memoranda Accounts
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 recorded 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 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. 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 September 30, 2014 and December 31, 2013 the contingent and memoranda accounts comprise the following:

	In thousands of S/.	
	09.30.2014	12.31.2013
Contingent loans:		
Guarantees and stand-by letters of credit	6,555,310	5,947,893
Issued letters of credit	633,206	660,510
Due from bank acceptances	42,312	118,946
	7,230,828	6,727,349
Unused credit lines	20,413,043	18,355,910
Financial derivative instruments	18,245,101	17,869,343
Other	543	542
	45,889,515	42,953,144
Memoranda accounts:		
Guarantee received (a)	108,245,219	63,011,522
Securities in collection	17,781,273	15,728,837
Written-off loans	9,424,697	8,955,505
Securities held in custody	8,567,228	6,237,260
Trust and debt trust commissions	3,580,385	2,316,981
Suspended interest on loans	1,670,687	1,407,607
Notified letters of credit	1,578,607	1,473,476
Own securities in custody	1,557,319	3,291,316
Securities granted as warranties	807,735	694,444
Goods transferred in trust	465,977	392,676
	153,679,127	103,509,624
Controlling account for transactional use: (b)		
Control of loan transactions	47,041,807	48,105,325
Control of returned checks	26,688,331	24,359,911
Control of financial derivative instruments	18,180,615	17,805,287
Other controlling account for transactional use	23,047,801	23,767,720
	268,637,681	217,547,867
	314,527,196	260,501,011

(a) Guarantees received from credit operations are recorded at the value of the collateral agreed as of the date of the loan contract. This balance does not necessarily represent the market value of guarantees received by the Bank and CrediScotia Financiera S.A. As of September 30, 2014, loan balances covered by guarantees amount to S/. 15,574,276 thousand (S/. 14,428,196 thousand as of December 31, 2013).

(b) Controlling accounts for tracking of transactions are automatically generated by the Bantotal system, which is an operational and accounting platform that records internal controlling accounts per transaction at face value. These accounts are used by the operating areas for managing and monitoring the processing operations.

(21) Interest Income

This caption comprises the following:

	In thousands of S/.	
	09.30.2014	09.30.2013
Direct loan portfolio	2,373,059	2,212,435
Investments at fair value through profit or loss (note 7)	26,135	33,407
Cash and due from banks and deposits in banks (note 6)	11,554	68,419
Interbank funds	5,703	5,023
Available-for-sale investments (note 7)	4,159	2,424
Other finance income	2,956	2,288
	2,423,566	2,323,996

(22) Interest Expenses

This caption comprises the following:

	In thousands of S/.	
	09.30.2014	09.30.2013
Obligations	243,085	251,023
Securities, Bonds and Obligations issued (note 16)	105,715	105,879
Interest on borrowings from banks and other financial institutions	79,177	78,866
Commissions on borrowings and financial obligations	19,446	21,619
Deposits of financial entities	3,095	4,252
Interbank funds	1,860	1,057
	452,378	462,696

(23) Income from Finance Services, net

This caption comprises the following:

	In thousands of S/. 09.30.2014	In thousands of S/. 09.30.2013
Income:		
Income from commissions from collections services	103,041	85,056
Income from deposit transactions, services and transfer fees	90,663	101,096
Other fees and commissions from banking services	89,257	70,563
Income from brokerage services	75,365	35,909
Income from purchased portfolio recoveries	100,250	105,403
Income from teleprocessing services	25,203	33,295
Income from warehousing	-	42,155
Income from remunerations of mutual funds and administration fees	19,999	27,212
Income from structuring and administration services	17,168	8,616
Other income	149,454	155,167
	670,400	664,472
Expenses:		
Other expenses	(125,457)	(122,894)
Brokerage services expenses	(68,277)	(28,192)
Credit / debit cards expenses	(37,586)	(35,086)
Warehousing expenses	-	(36,255)
Deposit insurance fund premiums	(22,230)	(19,582)
Insurance services expenses	(2,279)	(1,762)
	(255,829)	(243,771)
Total income from finance services, net	414,571	420,701

(24) Results from Financial Transactions

This caption comprises the following:

	In thousands of S/. 09.30.2014	In thousands of S/. 09.30.2013
Gain on foreign exchange (note 5)	201,104	142,993
Trading derivatives (note 9)	(22,204)	24,254
Proceeds on sale of subsidiary shares (note 2)	-	33,172
Gain on loan portfolio sales	18,283	-
Gain in associates	9,661	11,173
Available-for-sale investments	(699)	1,776
Investments at fair value through profit or loss	(4,746)	(7,474)
Other	1,202	27,963
Total results from financial transactions, net	202,601	233,857

(25) Administrative Expenses

This caption comprises the following:

	In thousands of S/.	
	09.30.2014	09.30.2013
Personnel and board of directors expenses	555,447	520,817
Expenses for services received from third parties	417,486	420,141
Taxes and contributions	54,138	59,799
	1,027,071	1,000,757

(26) Other Income, net

This caption comprises other income net of:

	In thousands of S/.	
	09.30.2014	09.30.2013
Leasing of own goods	9,617	4,835
Sales of services	7,343	1,400
Proceeds from sale of property, furniture, and equipment (a)	75,203	80,880
Proceeds from sale of repossessed assets	177	2,266
Reimbursements and recoveries	31	274
Other income, net	3,387	6,092
	95,758	95,747

(a) As of September 30, 2014 it mainly comprises S/. 74,566 thousand for the profit before taxes arising from the sale of a properties (S/. 80,895 thousand as of September 30, 2013), see note 2.

(27) Tax Matters

(a) In accordance with current tax legislation, corporate income tax is calculated applying the statutory income tax rate of 30%. The income tax of each company composing Scotiabank Perú S.A.A. and Subsidiaries has been determined, as follows:

	In thousands of S/.	
	09.30.2014	09.30.2013
Scotiabank Perú S.A.A.(*)	307,802	235,094
CrediScotia Financiera S.A.	28,871	20,384
Depósitos S.A. (**)	-	24,321
Servicios, Cobranzas e Inversiones S.A.	17,683	14,993
Scotia Fondos Sociedad Administradora de Fondos S.A.	2,412	3,567
Scotia Sociedad Agente de Bolsa S.A.	1,218	179
Trust Patrimonio Fideicomiso sobre inmuebles	9,500	-
Scotia Sociedad Titulizadora S.A.	154	89
	367,640	298,627

(*) It includes S/. 10,800 thousand for adjustment to the provision for income tax of 2013 period according to Income Tax Return of March 2014.

(**) Income tax expense recognized for Depósitos S.A. for the nine (9) months of operations in 2013 as part of the Group, do not represent the total obligation of the entity for the fiscal period, according to income tax law (Note 2).

(b) The tax authority has the right to audit and, if applicable, to modify the income tax calculated by each company composing Scotiabank Perú S.A.A. and Subsidiaries 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 2013	2007 through 2010
CrediScotia Financiera S.A.	2010 and 2013	2011 and 2012
Scotia Sociedad Agente de Bolsa S.A	2010 through 2013	-
Scotia Fondos Sociedad Administradora de Fondos S.A.	2009, 2011 through 2013	-
Scotia Sociedad Titulizadora S.A.	2009 through 2013	-
Depósitos S.A.	2010 through 2013	-
Servicios, Cobranzas e Inversiones S.A.C	2010 through 2013	2011

Due to the possibility of various interpretations by the tax authority of the current legal regulation, it is not possible to determine, to date, whether a future tax audit will result or not in future liabilities; therefore, any taxes, surcharges and sanctions that might arise from eventual tax audits would be applied to results of the period in which they are determined. However, it is the opinion of management and its legal advisors that any possible additional tax settlement would not be significant to the financial statements of Scotiabank Perú S.A.A. and Subsidiaries.

(c) The total or partial distribution of dividends, or other types of profit distribution, is subject to a 4.1% income tax withholding, except for the distribution of profits made in favor of domiciled entities.

(d) As from 2001, 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 pricing. Scotiabank Perú S.A.A. and Subsidiaries' management consider that for income tax purposes, pricing regarding transactions such as those aforementioned have been made in accordance with tax legislation; consequently, no significant liabilities will arise as of September 30, 2014.

(e) 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 since they were traded at stock exchange, will be the higher between: (i) market value as of December 31, 2009, (ii) acquisition cost, or (iii) increase in the equity value, following the procedures described in Executive Order 011-2010-EF. This rule is applicable to legal entities when securities are negotiated through or outside centralized trading mechanisms in Peru.

Beginning January 1, 2010, only interest and capital gains from bonds issued by the Republic of Peru are income tax-exempt if: (i) under Executive Order 007-2002-EF, (ii) under the Market-Makers program or the replacing mechanism, or (iii) in the international market since 2002; as well as interest and capital gains from obligations from the Peruvian Central Reserve Bank (except for those from legal cash reserve requirements deposited by credit institutions); and those coming from the direct or indirect disposition of securities that are traded or underlying Exchange Traded Fund (ETF) that replicate indexes constructed having as reference national investment instruments, when such disposition is made for the creation, payment or management of an investment portfolio of ETFs. Interest and capital gains from corporate bonds issued before March 11, 2007 are also tax-exempt, under certain conditions.

(f) In conformity with the Income Tax Law, as modified by Law 29663 and 29757, as from fiscal period 2011, income arising from indirect disposition of shares of Peruvian companies shall be subject to the aforementioned tax. 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 (assumption effective on February 16, 2011) 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 (assumption effective on July 22, 2011).

(g) In 2005, a tax named Temporary Tax on Net Assets (ITAN, for its acronyms in Spanish) was established. Taxable base is composed of the net asset value adjusted as of the closing of the period before the payment was made, deducting the depreciations, amortizations, legal cash reserve, and specific provisions for credit risk. Since 2009, the tax rate applicable to the amount of assets exceeding S/. 1,000 thousand is 0.4 %. It may be paid in cash or in nine consecutive monthly instalments. The amount actually paid may be used as partial payments of income tax for taxable periods March to December of the fiscal period for which the tax was paid until maturity of each of the partial payments and against the payment for regularization of income tax of the corresponding taxable period.

Tax refunds can be requested only in the cases where it can be demonstrated that tax loss has been incurred or where a lower payment of Income Tax has been determined based on general regime norms.

The Bank requested the compensation of the ITAN 2005 and 2006 against previous years tax credits (balances in favour). These requests were resolved in favour of the Bank by the Tax Court. However, the SUNAT on a misinterpretation of the rules only partially offset the ITAN, applying only part of the Bank’s tax credits and without considering the legal procedures and precedents applicable to the case, which strongly support the Bank’s position.

The mentioned SUNAT compensation resulted in a coercive collection of the uncompensated debt, and the Bank decided to make a payment under protest of S/. 135,459 thousand; an amount which according to the Bank's management and its advisors will be returned by the tax authority, plus interest, when they receive the Tax Court's favourable findings regarding the applied compensation methodology.

(h) 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.

(i) Administrators of Mutual Funds of Investment in Securities are withholding agents with respect to income arising from the funds they administer; therefore, they are obliged to determine and allocate the revenues generated at each managed fund, which retain its original status of taxable, tax-exempt and exonerated according to law.

Likewise from 2013, Legislative Decree 1120 came into force thus resulting in a change in the fiscal transparency regime applicable to mutual funds.

The profit arising from redemption will be subject to a withholding effective rate of 5 % for individuals domiciled in Peru, regardless of the instruments where the fund invested.

(j) The reconciliation of the tax statutory rate and the effective tax rate of Scotiabank Perú S.A.A. and Subsidiaries is as follows:

	09.30.2014		09.30.2013	
	In thousands of S/.	%	In thousands of S/.	%
Profit before taxes	949,059	100.00	958,201	100.00
Income tax (theoretical)	274,718	30.00	287,460	30.00
Tax effect on additions and (deductions):				
Permanent differences	21,148	1.17	6,167	0.64
Current and deferred income tax, recorded as per effective rate	295,866	31.17	293,627	30.64

(28) Deferred Income Tax

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

	In thousands of S/.						
	Balances as of 12.31.12	(Debit) credit to equity	(Debit) credit to results	Balances as of 12.31.13	(Debit) credit to equity	(Debit) credit to results	Balances as of 09.30.14
Assets:							
Generic provision for direct loans	125,847	-	12,601	138,448	-	18,947	157,395
Investment in subsidiary	-	30,133	-	30,133	(29,176)	-	957
Transferred loan portfolio	18,939	-	-	18,939	-	-	18,939
Generic provision for contingent loans	9,781	-	6,034	15,815	-	4,680	20,495
Fixed assets	5,974	-	9,281	15,255	-	48,182	63,437
Provision for vacations	13,002	-	1,160	14,162	-	(1,483)	12,679
Doubtful loans provision	7,833	-	1,904	9,737	-	927	10,664
Provision for repossessed assets	9,082	-	245	9,327	-	(408)	8,919
Provision for credit card rewards	2,697	-	226	2,923	-	123	3,046
Provision for debit card rewards	645	-	54	699	-	-	699
Valuation of available-for-sale investments	2,420	-	(2,137)	283	320	-	603
Intangible assets	341	-	(1,887)	(1,546)	-	1,494	(52)
Other	15,785	-	(1,059)	14,726	191	(688)	14,229
	212,346	30,133	26,422	268,901	(28,665)	71,774	312,010
Liabilities:							
Valuation of available-for-sale investments	-	(3,030)	2,222	(808)	808	-	-
	-	(3,030)	2,222	(808)	808	-	-
Deferred income tax asset, net	212,346	27,103	28,644	268,093	(27,857)	71,774	312,010

(29) Employees' Profit Sharing

According to Legislative Decree 677, a 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 treated as deductible expenses for income tax calculation purposes. As of September 30, 2014 and 2013 a consolidated legal employees' profit sharing of S/. 64,456 thousand and S/. 51,879 thousand was determined and is presented in 'administrative expenses' in the consolidated income statement.

(30) Trust Fund Activities

Scotiabank Perú S.A.A. and Subsidiaries offer structuring and administration services of trust operations and trust fees, and is 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 September 30, 2014, the allocated value of assets in trusts and trust fees amounted to S/. 1,544,071 thousand (S/. 1,323,611 thousand as of December 31, 2013).

(31) Related Party Transactions

As of September 30, 2014 and December 31, 2013, the consolidated financial statements include transactions with related parties, which, as established by IAS 24, comprise the parent company, related parties, associates 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 were as follows:

	In thousands of S/.									
	09.30.2014					12.31.2013				
	Parent company	Related parties (i)	Associates	Key management	Total	Parent company	Related parties (i)	Associates	Key management	Total
Assets:										
Cash and due from banks	-	33,323	-	-	33,323	-	17,799	-	-	17,799
Loan portfolio, net	-	856	3	9,199	10,058	-	13	5	9,291	9,309
Held-for trading derivatives instruments	-	47,249	-	-	47,249	-	47,329	-	-	47,329
Other assets	11	8,723	2,732	313	11,779	16	4,682	-	262	4,960
Total assets	11	90,151	2,735	9,512	102,409	16	69,823	5	9,553	79,397
Liabilities:										
Deposits and obligations	219,181	285,760	11,384	9,065	525,390	2,991	1,183,367	11,896	13,760	1,212,014
Borrowings	-	3,456,160	-	-	3,456,160	-	2,531,428	-	-	2,531,428
Held-for trading derivatives instruments	-	96,693	-	-	96,693	-	75,030	-	-	75,030
Other liabilities	-	12,741	566	152	13,459	-	3,507	367	3,516	7,390
Total liabilities	219,181	3,851,354	11,950	9,217	4,091,702	2,991	3,793,332	12,263	17,276	3,825,862
Off-balance accounts:										
Contingent loans	-	271,222	60,452	145	331,819	-	250,265	22,801	140	273,206
Financial derivative instruments	-	10,803,724	-	-	10,803,724	-	10,209,374	-	-	10,209,374
Memoranda accounts	-	355,430	-	13,457	368,887	-	1,290,523	-	-	1,290,523

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

(b) Consolidated income statement arising from related party transactions were as follows:

	In thousands of S/.									
	09.30.2014					09.30.2013				
	Parent company	Related parties (i)	Associates	Key management	Total	Parent company	Related parties (i)	Associates	Key management	Total
Interest income	-	62	-	411	473	273	76	3	396	748
Interest expenses	-	(16,133)	(1,733)	(175)	(18,041)	(14)	(20,127)	(2,638)	(172)	(22,951)
	-	(16,071)	(1,733)	236	(17,568)	259	(20,051)	(2,635)	224	(22,203)
Income from finance services	12	1,332	241	69	1,654	97	1,052	160	60	1,369
Expenses from finance services	-	(36)	(5,966)	(4)	(6,006)	-	(7)	(6,014)	(4)	(6,025)
	12	(14,775)	(7,458)	301	(21,920)	356	(19,006)	(8,489)	280	(26,859)
Results of financial transactions	-	(44,233)	8,000	-	(36,233)	-	(33,702)	11,170	-	(22,532)
Administrative expenses	-	(775)	(1,541)	(1)	(2,317)	-	(1,136)	(1,950)	(4)	(3,090)
Other income and expenses	-	1,825	-	-	1,825	-	201	-	-	201
Net profit	12	(57,958)	(999)	300	(58,645)	356	(53,643)	731	276	(52,280)

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

(c) Remuneration of key management were as follows:

	In thousands of S/.	
	09.30.2014	09.30.2013
Remuneration of key management	26,401	23,859
Remuneration of members of the board of directors	407	175
	26,808	24,034

As of September 30, 2014 and December 31, 2013, the remuneration pending to pay to key management amounted to S/. 11,938 thousand and S/. 3,499 thousand, respectively.

(32) Classification of Financial Instruments

Management classifies its financial assets and liabilities in categories as described in note 4.b. As of September 30, 2014 and December 31, 2013, financial assets and liabilities are classified as follows:

	In thousands of S/. 09.30.2014						
	At fair value through profit or loss	Loans & items receivable	Available-for-sale investments At amortized cost (a)	Available-for-sale investments At fair value	Liabilities at amortized cost	Other liabilities (b)	Total
Assets:							
Cash and due from banks	-	10,882,827	-	-	-	-	10,882,827
Interbank funds	-	222,019	-	-	-	-	222,019
Investment at fair value through profit or loss							
Capital instruments	10,123	-	-	-	-	-	10,123
Debt instruments	1,601,507	-	-	-	-	-	1,601,507
Available-for-sale investments							
Instruments representing capital	-	-	7,390 (c)	59,050	-	-	66,440
Instruments representing debt	-	-	-	1,236,762	-	-	1,236,762
Loan portfolio, net	-	30,678,926 (b)	-	-	-	-	30,678,926
Held-for trading derivatives instruments	129,193	-	-	-	-	-	129,193
Accounts receivable	-	164,121	-	-	-	-	164,121
Other assets	-	73,826	-	-	-	-	73,826
Total	1,740,823	42,021,719	7,390	1,295,812	-	-	45,065,744
Liabilities:							
Deposits and obligations	-	-	-	-	-	29,631,005	29,631,005
Interbank funds	-	-	-	-	-	132,014	132,014
Borrowings and financial obligations	-	-	-	-	10,756,013	-	10,756,013
Held-for trading derivatives instruments	121,896	-	-	-	-	-	121,896
Accounts payable	-	-	-	-	-	313,147	313,147
Provisions	-	-	-	-	-	417,813	417,813
Other liabilities	-	-	-	-	-	639,382	639,382
Total	121,896	-	-	-	10,756,013	31,133,361	42,011,270

(a) Including financial assets measured at cost.
(b) Including financial assets and liabilities whose fair value correspond to carrying amounts as per Official Letter 1575-2014-SBS.
(c) Correspond to unlisted shares (note 7).

	In thousands of S/.						
	12.31.2013						
	At fair value through profit or loss	Loans items receivable	Available-for-sale investments: At amortized cost (a)	Available-for-sale investments: At fair value	Liabilities at amortized cost	Other liabilities (b)	Total
Assets:							
Cash and due from banks	-	11,371,415	-	-	-	-	11,371,415
Interbank funds	-	364,224	-	-	-	-	364,224
Investment at fair value through profit or loss							
Capital instruments	9,333	-	-	-	-	-	9,333
Debt instruments	1,369,794	-	-	-	-	-	1,369,794
Available-for-sale investments							
Instruments representing capital	-	-	7,440 (c)	63,572	-	-	71,012
Instruments representing debt	-	-	-	651,391	-	-	651,391
Loan portfolio, net	-	27,341,186 (b)	-	-	-	-	27,341,186
Held-for trading derivatives instruments	142,288	-	-	-	-	-	142,288
Accounts receivable	-	174,395	-	-	-	-	174,395
Other assets	-	26,365	-	-	-	-	26,365
Total	1,521,415	39,277,585	7,440	714,963	-	-	41,521,403
Liabilities:							
Deposits and obligations	-	-	-	-	-	29,821,967	29,821,967
Borrowings and financial obligations	-	-	-	-	7,709,837	-	7,709,837
Held-for trading derivatives instruments	176,863	-	-	-	-	-	176,863
Accounts payable	-	-	-	-	-	430,640	430,640
Provisions	-	-	-	-	-	314,877	314,877
Other liabilities	-	-	-	-	-	139,155	139,155
Total	176,863	-	-	-	7,709,837	30,706,639	38,593,339

(a) Including financial assets measured at cost.
(b) Including financial assets and liabilities whose fair value corresponds to carrying amounts as per Official Letter 1575-2014-SBS.
(c) Correspond to unlisted shares (note 7).

(33) Financial Risk Management

Scotiabank Perú 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.

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 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 BNS as well as the approval of policies, limits and strategies for risk managing of risks to which Scotiabank Perú and Subsidiaries are exposed as Credit, Liquidity, Market, Operational and Technological risks, among others. For the development of risk management, the Board of Directors relies on the Risk Management Committee and the Audit Committee.

Executive Committees

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

Risk Senior Management

It is responsible for implementing the policies, methodologies and procedures to identify, monitor, mitigate and control the different types of risks to which Scotiabank Perú 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, Portfolio Risk, Risk Policies and Projects, 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:

A. Credit Risk

(i) 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.

(ii) 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.

(iii) Credit Rating

Scotiabank Perú 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.

Scotiabank Perú and Subsidiaries also utilize the regulatory debtors' credit rating, which determines the provision requirement of customers.

(iv) Debtor Regulatory Credit Rating

The debtor regulatory credit rating is conducted in accordance with criteria and parameters established by SBS through 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 small 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)

B. Market Risk

Market risk is the risk that changes in market prices, such as interest rates, equity shares prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's credit rating) will 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 acceptable risk tolerance and appetite parameters, in order to ensure the solvency while optimizing the return adjusted by risk.

(i) 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.

(ii) 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 rage 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.

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.

(iii) 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.

Exposure to market risks includes mainly:

(a) 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 Bank 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 statement of financial position 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 others 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.

Models defined by the SBS for interest rate risk assessment for the ALM 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.

(b) <u>Exchange Rate Risk</u>

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.

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 September 30, 2014 and December 31, 2013, the net asset position of the consolidated statement of financial position in foreign currency amounted to US$ 444,053 thousand and US$ 301,442 thousand respectively (note 5).

As of September 30, 2014, the oversold position amounted to S/. 220,131 thousand (overbought/oversold position amounted to S/. 18,019 thousand and S/. 13 thousand, respectively as of December 31, 2013).

(c) <u>Investments Portfolio Risk</u>

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. It is managed in accordance with approved policies and limits for investments by type and term. 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 Peru and Peruvian Government Bonds issued in local and foreign currency.

(d) Liquidity Risk

Liquidity risk is the risk to not meet the 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 September 30, 2014, the ratios in local and foreign currencies were 21.49% and 55.20% respectively (28.2% and 61.5% as of December 31, 2013).

(e) Operational and Technological Risk

It is the risk of loss to which the Bank is exposed due to inadequate or failed processes or systems, human error, or external events. This risk includes legal risk, but excludes the strategic and reputational risks.

The Operational Risk Appetite is a combination of qualitative and quantitative terms that expresses the acceptable level of exposure to operational risk that it is expected to be assumed in achieving its strategy and business objectives.

There is also a model that allows the identification of operational risks through Risk Control Assessment methodology and analysis of loss database and monitoring of operational risk key indicators.

The purpose of the operational risk management is to manage and control operational risk within acceptable levels, which are aligned to Risk Appetite Framework.

Management has a set of tools and controls for proper operational risk management through business units and control functions, as well as evaluating the controls effectiveness and monitoring action plans.

(34) 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 statement of financial positions as of September 30, 2014 and December 2013:

	In thousands of S/.			
	Carrying amount		Fair Value	
	09.30.2014	12.31.2013	09.30.2014	12.31.2013
Assets:				
Cash and due from banks	10,882,827	11,371,415	10,882,827	11,371,415
Interbank funds	222,019	364,224	222,019	364,224
Investment at fair value through profit or loss				
Capital instruments	10,123	9,333	10,123	9,333
Debt instruments	1,601,507	1,369,794	1,601,507	1,369,794
Available-for-sale investments				
Instruments representing capital	66,440	71,012	66,440	71,012
Instruments representing debt	1,236,762	651,391	1,236,762	651,391
Loan portfolio, net	30,678,926	27,341,186	30,678,926	27,341,186
Held-for trading derivatives instruments	129,193	142,288	129,193	142,288
Accounts receivable	164,132	174,395	164,132	174,395
Other assets	73,826	26,365	73,826	26,365
Total	45,065,755	41,521,403	45,065,755	41,521,403

	In thousands of S/.			
	Carrying amount		Fair Value	
	09.30.2014	12.31.2013	09.30.2014	12.31.2013
Liabilities:				
Deposits and obligations	28,982,415	29,363,845	28,982,415	29,363,845
Interbank funds	132,014	-	132,014	-
Deposits in financial system companies and international	649,205	458,122	649,205	458,122
Borrowings and financial obligations	10,756,013	7,709,837	10,755,028	7,926,381
Held-for trading derivatives instruments	121,896	176,863	121,896	176,863
Accounts payable	313,147	430,640	313,147	430,640
Provisions	417,813	314,877	417,813	314,877
Other liabilities	639,383	139,155	639,383	139,155
Total	42,011,886	38,593,339	42,010,901	38,809,883

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 methodology applied could have a material effect on the fair values of financial instruments. Even though management has used its best judgment to estimate the fair values of these financial instruments, the fair value is not an indicator of net realizable 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) Purchase and sale agreements in foreign currency at a future date are recorded at their estimated market values; therefore, no differences with their respective carrying values exist.

Consequently, as of September 30, 2014 and December 31, 2013, fair or estimated market values of the financial instruments do not differ significantly from their corresponding carrying amount.

Fair Value Hierarchy

Scotiabank Perú 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 September 30, 2014 and December 31, 2013, to determine the fair value of financial instruments:

	In thousands of S/.			
	09.30.2014			
	Level 1	Level 2	Level 3	Total
Assets:				
Investment at fair value through profit or loss:				
Capital instruments	1,967	10,123	-	12,090
Debt instruments	-	1,599,540	-	1,599,540
Available-for-sale investments:				
Instruments representing capital	57,236	1,796	7,408	66,440
Debt instruments	-	1,236,762	-	1,236,762
Held-for trading derivatives instruments	-	129,193	-	129,193
Total	59,203	2,977,414	7,408	3,044,025
Liabilities:				
Held-for trading derivatives instruments	-	121,896	-	121,896
Total	-	121,896	-	121,896

	In thousands of S/.			
	12.31.2013			
	Level1	Level 2	Level 3	Total
Assets:				
Investment at fair value through profit or loss:				
Capital instruments	36	9,297	-	9,333
Debt instruments	-	1,369,794	-	1,369,794
Available-for-sale investments:				
Instruments representing capital	61,816	1,740	7,456	71,012
Instruments representing debt	-	651,391	-	651,391
Held-for trading derivatives instruments	-	142,288	-	142,288
Total	61,852	2,174,510	7,456	2,243,818
Liabilities:				
Held-for trading derivatives instruments	-	176,863	-	176,863
Total	-	176,863	-	176,863