



SCOTIABANK PERÚ S.A.A. and SUBSIDIARIES

**Consolidated Interim Financial Statements
September 30, 2016**

**(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, 2016 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, 2016;
- The consolidated income statements for the nine-month period ended September 30, 2016;
- The consolidated statements of comprehensive income for the nine-month period ended September 30, 2016;
- The consolidated statements of changes in shareholders' equity for the nine-month period ended September 30, 2016; and
- The consolidated statements of cash flows for the nine-month period ended September 30, 2016; and
- Notes to the consolidated 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, 2016 consolidated interim financial statements do not present fairly, in all material respects, the financial position, financial performance and cash flows of Scotiabank Perú S.A.A. and Subsidiaries in accordance with accounting standards established by the SBS for financial institutions in Peru.

Lima, Peru

November 30, 2016

Countersigned by:

A handwritten signature in black ink, appearing to read 'Eduardo Alejos P.', with a horizontal line underneath it.

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

A handwritten signature in black ink, appearing to read 'Caipo y Asociados', with a horizontal line underneath it.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Interim Financial Statements

September 30, 2016

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SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Statement of Financial Position

As of September 30, 2016 and December 31, 2015

<i>In thousands of soles</i>	<i>Note</i>	09.30.2016 (Unaudited)	12.31.2015 (Audited)
Assets			
Cash and due from banks:	6		
Cash		1,096,600	1,124,284
Deposits with Banco Central de Reserva del Perú		8,566,978	8,995,007
Deposits with local and foreign banks		288,613	295,963
Clearing		55,005	46,852
Other cash and due from banks		3,425,845	4,394,261
		13,433,041	14,856,367
Interbank funds		114,913	-
Investments at fair value through profit or loss and available-for-sale investments	7	2,723,165	3,995,830
Loan portfolio, net	8	39,920,185	38,333,350
Held-for trading derivative instruments	9	81,483	330,001
Accounts receivable, net	10	2,392,413	804,750
Investments in associates		68,122	69,338
Goodwill	11	565,892	565,892
Property, furniture, and equipment, net	12	407,973	427,202
Deferred tax assets	27	247,186	248,965
Other assets, net	13	619,365	463,511
Total assets		60,573,738	60,095,206
Risks and contingent commitments	19	37,597,083	50,649,266

<i>In thousands of soles</i>	<i>Note</i>	09.30.2016 (Unaudited)	12.31.2015 (Audited)
Liabilities and shareholders' equity			
Deposits and obligations in financial system entities	14		
Demand deposits		11,432,721	10,834,510
Savings deposits		8,306,460	7,509,487
Time deposits		16,199,245	16,190,773
Other obligations		846,231	1,211,006
		36,784,657	35,745,776
Interbank funds		305,035	385,467
Borrowings and financial obligations	15	11,320,850	11,645,777
Held-for trading derivative instruments	9	91,286	207,011
Provisions and other liabilities	16	5,185,208	5,873,468
Total liabilities		53,687,036	53,857,499
Shareholders' equity	17		
Capital stock		4,816,667	4,156,666
Additional paid-in capital		394,463	368,513
Legal reserve		843,801	742,398
Unrealized earnings		22,189	(10,693)
Retained earnings		809,582	980,823
Total shareholders' equity		6,886,702	6,237,707
Total liabilities and shareholders' equity		60,573,738	60,095,206
Risks and contingent commitments	19	37,597,083	50,649,266

The accompanying notes on pages 6 to 70 are 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, 2016 and 2015

<i>In thousands of soles</i>	<i>Note</i>	2016 (Unaudited)	2015 (Unaudited)
Interest income	20	3,306,358	2,852,102
Interest expenses	21	(804,329)	(608,238)
Gross finance income		2,502,029	2,243,864
Provisions for loans, net of recoveries	8	(811,987)	(686,413)
Net finance income		1,690,042	1,557,451
Income from finance services, net	22	499,722	430,114
Net finance income and finance service expenses		2,189,764	1,987,565
Results from financial transactions	23	216,118	334,039
Operating margin		2,405,882	2,321,604
Administrative expenses	24	(1,167,829)	(1,177,594)
Depreciation of property, furniture, and equipment	12	(48,631)	(49,047)
Amortization of intangible assets		(11,645)	(11,335)
Net operating margin		1,177,777	1,083,628
Net provisions for contingent loans, doubtful and other accounts receivable, realizable, repossessed assets, and other assets		(16,914)	(32,471)
Operating results		1,160,863	1,051,157
Other income, net	25	(694)	13,363
Net profit before income tax		1,160,169	1,064,520
Deferred income tax	27	(13,463)	(6,024)
Current income tax	26(a)	(303,915)	(316,504)
Net profit		842,791	741,992

The accompanying notes on pages 6 to 70 are part of these consolidated interim financial statements.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Income Statement and Other Comprehensive Income
For the nine-month periods ended September 30, 2016 and 2015

	2016	2015
<i>In thousands of soles</i>	(Unaudited)	(Unaudited)
Net profit	842,791	741,992
Other comprehensive income		
Unrealized Gains (loss) on available-for-sale investments	30,845	(35,527)
Share in other comprehensive income of associates	(10)	(84)
Income tax effect	2,047	16,730
Other comprehensive income, net of income tax	32,882	(18,881)
Total comprehensive income of the year	875,673	723,111

The accompanying notes on pages 6 to 70 are 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, 2016 and 2015

	Number of shares (note 17.b)	Capital stock (note 17.b)	Additional paid - in capital (note 17.c)	Legal reserve (note 17.d)	Unrealized earnings (note 17.f)	Retained earnings (nota 17.e)	Total shareholders' equity
<i>In thousands of soles</i>							
Balance as of December 31, 2014 (Audited)	365,502,212	3,683,040	368,564	646,777	22,028	925,654	5,646,063
Net profit	-	-	-	-	-	741,992	741,992
Other comprehensive income							
Unrealized loss on available-for-sale investments	-	-	-	-	(32,247)	-	(32,247)
Unrealized loss on investments in associates	-	-	-	-	(83)	-	(83)
Other adjustments	-	-	-	-	13,449	-	13,449
Total comprehensive income	-	-	-	-	(18,881)	741,992	723,111
Application to legal reserve	-	-	-	95,621	-	(95,621)	-
Dividend distribution	-	-	-	-	-	(382,484)	(382,484)
Capitalization of retained earnings	47,362,757	473,627	-	-	-	(473,627)	-
Operations with treasury shares	-	(2)	(51)	-	-	-	(53)
Other adjustments	-	-	-	-	-	(4,306)	(4,306)
Balance as of September 30, 2015 (Unaudited)	412,864,969	4,156,665	368,513	742,398	3,147	711,608	5,982,331
Balance as of December 31, 2015 (Audited)	412,864,969	4,156,666	368,513	742,398	(10,693)	980,823	6,237,707
Net profit	-	-	-	-	-	842,791	842,791
Other comprehensive income							
Unrealized gain on available-for-sale investments	-	-	-	-	32,892	-	32,892
Unrealized gain on investment in associates	-	-	-	-	(10)	-	(10)
Total comprehensive income	-	-	-	-	32,882	842,791	875,673
Application to legal reserve	-	-	-	101,403	-	(101,403)	-
Dividend distribution	-	-	-	-	-	(252,629)	(252,629)
Capitalization of retained earnings	68,801,917	660,000	-	-	-	(660,000)	-
Operations with treasury shares	-	1	25,950	-	-	-	25,951
Balance as of September 30, 2016 (Unaudited)	481,666,886	4,816,667	394,463	843,801	22,189	809,582	6,886,702

The accompanying notes on pages 6 to 70 are part of these consolidated interim financial statements.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Statement of Cash Flows

For the nine-month periods ended September 30, 2016 and 2015

<i>In thousands of soles</i>	2016 (Unaudited)	2015 (Unaudited)
Cash flows from operating activities		
Net profit	842,791	741,992
Adjustments to reconcile net profit to cash from (used in) operating activities		
Provision for doubtful loans, net of recoveries	811,987	686,413
Provision (recovery) for realizable, repossessed and other assets, net	4,337	(33)
Provision for accounts receivable, net	12,520	14,863
Depreciation and amortization	60,276	60,382
Provision for fringe benefits	35,738	35,746
Provision for current and deferred income tax	317,378	322,528
Provision for contingent loans and country risk, net	384	10,401
(Recoveries) other provisions, net	(1,415)	166,792
Loss on sale of property, furniture, and equipment	4,365	309
Gains on sale of realizable and repossessed assets	(4,762)	(1,008)
Gains on sale of investments	-	(22,485)
Net changes in assets and liabilities		
Loans	(2,410,818)	(5,553,527)
Investments at fair value through profit and loss	1,040,798	(95,846)
Available-for-sale investments	261,179	(683,844)
Accounts receivable	(1,347,988)	(47,436)
Other assets	15,578	215,234
Non-subordinated financial liabilities	627,158	4,416,221
Accounts payable	(287,054)	537,887
Provisions and other liabilities	197,723	342,979
Net profit after net changes in assets, liabilities and adjustments	180,175	1,147,568
Income taxes paid	(185,496)	(236,176)
Net cash and cash equivalents (used in) from operating activities	(5,321)	911,392
Cash flows from investing activities		
Proceeds from sale of investments	-	26,500
Sale of property, furniture, and equipment	107	44
Acquisition of other financial assets	(6,709)	(11,960)
Acquisition of property, furniture, and equipment	(33,579)	(27,645)
Outflow from business acquisition	-	(925,466)
Dividends received	10,768	7,015
Net cash and cash equivalents used in investing activities	(29,413)	(931,512)
Cash flows from financing activities		
Repayment of own common shares	(80,340)	-
Issuance of subordinated financial liabilities	-	535,560
Proceeds from sale of treasury shares	25,950	(51)
Dividend paid	(252,629)	(382,484)
Net cash and cash equivalents (used in) from financing activities	(307,019)	153,025
Net (decrease) increase in cash and cash equivalents, before the effect of exchange rate fluctuations	(341,753)	132,905
Exchange rate fluctuations effect on cash and cash equivalents	1,048	(159,551)
Net decrease in cash and cash equivalents	(340,705)	(26,646)
Cash and cash equivalents at beginning of the period	10,467,542	9,333,677
Cash and cash equivalents from business acquisition	-	(16,154)
Cash and cash equivalents at end of the period	10,126,837	9,290,877

The accompanying notes on pages 6 to 70 are part of these consolidated interim financial statements.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

As of September 30, 2016 (unaudited), December 31, 2015 (audited)
and September 30, 2015 (unaudited)

1. Background and Reporting Entity

A. Background

Scotiabank Perú S.A.A. (hereinafter the Bank) is a subsidiary of The Bank of Nova Scotia - BNS (a financial entity from Canada), which holds directly and indirectly 98.05% of the Bank's capital stock as of September 30, 2016 (97.81% as of December 31, 2015). BNS owns directly 2.32% of the Bank's shares, and indirectly through NW Holdings Ltd. and Scotia Perú Holdings S.A. owned 55.32% and 40.41% of shares as of September 30, 2016 (55.32% and 40.17% as of December 31, 2015), respectively.

B. Reporting entity

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

The Bank's registered office address is Av. Dionisio Derteano N° 102, San Isidro, Lima, Peru. As of September 30, 2016, Scotiabank Perú S.A.A. and Subsidiaries performed its activities through a national network of 358 branches, and one branch abroad (as of December 31, 2015, it had 354 Peruvian branches and one branch abroad).

As of September 30, 2016 and December 31, 2015, the accompanying financial statements include those corresponding to the Bank and other companies that are part of the consolidated group (hereinafter Scotiabank Perú S.A.A. and Subsidiaries or Scotiabank Group), such as: CrediScotia Financiera S.A., engaged in intermediation operations for the small - business and consumer sectors; Servicios, Cobranzas e Inversiones S.A.C., engaged in collections and domicile verification, among other activities; Scotia Sociedad Agente de Bolsa S.A. (hereinafter SAB), engaged in intermediation activities in the Peruvian securities market; Scotia Fondos Sociedad Administradora de Fondos S.A. (hereinafter SAF), engaged in mutual funds management; Scotia Sociedad Titulizadora S.A., (hereinafter Titulizadora), engaged in the management of trusts as well as special purpose entities called SBP DPR Finance Company, Fideicomiso Crediscotia-Dinero Electrónico and the Patrimonio en Fideicomiso sobre Bienes Inmuebles - Depsa, and finally Promoción de Proyectos Inmobiliarios y Comerciales S.A. which to date is inactive.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements
As of September 30, 2016 (unaudited), December 31, 2015
(audited) and September 30, 2015 (unaudited)

Below are the main balances of the Bank and other companies mentioned in the previous paragraphs as of September 30, 2016 and December 31, 2015 indicating the Bank's shareholding percentages, as well as relevant information in this regards:

09.30.2016					
<i>In thousands of soles</i>	Activity	Shareholding percentage	Assets	Liabilities	Shareholders' equity
Scotiabank Perú S.A.A.	Banking	-	58,116,995	51,194,860	6,922,135
CrediScotia Financiera S.A.	Financing	100.00	4,018,066	3,383,471	634,595
Servicios, Cobranzas e Inversiones S.A.C.	Collection services	100.00	125,931	66,068	59,863
Scotia Sociedad Agente de Bolsa S.A.	Stock market broke	100.00	74,809	3,571	71,238
Scotia Fondos Sociedad Administradora de Fondos S.A.	Administration of Mutual funds	100.00	38,315	5,356	32,959
Scotia Sociedad Titulizadora S.A.	Securitization	100.00	4,473	841	3,632
Patrimonio en Fideicomiso sobre Bienes Inmuebles – Depsa	Special purpose entity	-	2,234	1,328	906
Fideicomiso CrediScotia – Dinero Electrónico	Special purpose entity	-	508	527	(19)
SBP DPR Finance Company	Special purpose entity	-	211,691	211,691	-
12.31.2015					
<i>In thousands of soles</i>	Activity	Shareholding percentage	Assets	Liabilities	Shareholders' equity
Scotiabank Perú S.A.A.	Banking	-	57,168,520	50,896,629	6,271,891
CrediScotia Financiera S.A.	Financing	100.00	4,011,435	3,443,736	567,699
Servicios, Cobranzas e Inversiones S.A.C.	Collection services	100.00	125,306	61,604	63,702
Scotia Sociedad Agente de Bolsa S.A.	Stock market broke	100.00	78,360	3,278	75,082
Scotia Fondos Sociedad Administradora de Fondos S.A.	Administration of Mutual funds	100.00	36,738	5,593	31,145
Scotia Sociedad Titulizadora S.A.	Securitization	100.00	4,047	42	4,005
Patrimonio en Fideicomiso sobre Bienes Inmuebles – Depsa	Special purpose entity	-	6,721	5,580	1,141
SBP DPR Finance Company	Special purpose entity	-	434,869	434,869	-

C. Approval of financial statements

In April 2016, the Audit Committee and Board of Directors approved the consolidated financial statements as of December 31, 2015. On November 14, 2016, the Bank's management approved the consolidated financial statements as of September 30, 2016, and they will be presented to the Board of Directors, within the terms established by law. Also, these consolidated financial statements have been prepared based on the individual financial statements of companies that are part of Scotiabank Perú S.A.A. and Subsidiaries and that will be presented for approval to the corresponding Audit Committee and Board of Directors, within the terms established by law.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements
As of September 30, 2016 (unaudited), December 31, 2015
(audited) and September 30, 2015 (unaudited)

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

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

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

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

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

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

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements
As of September 30, 2016 (unaudited), December 31, 2015
(audited) and September 30, 2015 (unaudited)

3. Basis for the Preparation of Financial Statements

A. Statement of compliance

The accompanying consolidated financial statements have been prepared from the accounting records of Scotiabank Perú S.A.A. and Subsidiaries and are presented in accordance with current legal regulation and accounting principles authorized by the SBS and, in the absence of such applicable SBS standards, the International Financial Reporting Standards (IFRS), made official in Peru by the Peruvian Accounting Board (CNC) are applied. Such standards comprise the Standards and Interpretations issued or adopted by the International Accounting Standards Board (IASB), which include the IFRS, International Accounting Standards (IAS), and the Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), or the former Standing Interpretations Committee (SIC), adopted by the IASB and made official by the CNC for their application in Peru.

B. Basis of measurement

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

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

C. Presentation currency:

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

D. Significant accounting estimates and criteria

The preparation of the consolidated financial statements in conformity with accounting principles requires management to use certain critical accounting estimates and criteria. Estimates and criteria are evaluated continuously according to experience and include reasonable future assumptions for each circumstance. Since these are estimates, final results might differ; however, according to Management opinion, the estimates and assumptions applied do not have significant risk as to produce a material adjustment to the balances of assets and liabilities in the short term.

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements
As of September 30, 2016 (unaudited), December 31, 2015
(audited) and September 30, 2015 (unaudited)

4. Accounting Principles and Practices

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

A. Basis of consolidation

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

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

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

Financial statements of the Subsidiaries and special purpose entity have been included for consolidation purposes and represent 7.15% and 7.59%, respectively, of the total Bank's assets before eliminations as of September 30, 2016 and December 31, 2015. As of those dates, there is non-controlling interest resulting from the consolidation process.

B. Financial instruments

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

Financial instruments are recognized on the date when they are originated and are classified as assets, liabilities or equity instruments according to the substance of the contract. Interest, gains and losses generated by a financial instrument, whether classified as an asset or liability, are recorded as income or expense. The payment to holders of financial instruments classified as equity is recorded directly in shareholders' equity.

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

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are initially recognized at their fair value plus incremental costs directly attributable to the acquisition or issuance of the instrument, except in the case of financial assets or liabilities held at fair value through profit or loss.

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements
As of September 30, 2016 (unaudited), December 31, 2015
(audited) and September 30, 2015 (unaudited)

Derecognition of financial assets and liabilities

i. Financial assets

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

ii. Financial liabilities

A financial liability is removed when the payment obligation is discharged, cancelled or expires. When an existent financial liability is replaced by other of the same borrower in terms significantly different, or terms are significantly modified, such replacement or modification is treated as a derecognition of the original liability and a recognition of a new liability, recognizing the difference between both of them in the results of the period.

Financial instruments offsetting

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

The financial assets and liabilities presented in the consolidated statement of financial position correspond to cash and due from banks, interbank funds, investments at fair value through profit or loss and available-for-sale investments, financial instruments at fair value, loan portfolio, accounts receivable, other assets and liabilities in the consolidated statement of financial position, except as otherwise indicated in the note corresponding to assets or liabilities. Likewise, all derivative products and indirect credits are considered financial instruments. Accounting policies on recognition and valuation of these items are disclosed in corresponding accounting policies described in this note.

C. Derivative instruments

The SBS provides authorizations per type of derivative instrument contract and underlying asset, and may comprise more than one type of contract and underlying asset. Authorization schemes, valuation guidelines and accounting treatment for derivative instruments that financial entities shall apply are established in SBS Resolution 1737-2006 Regulation for Trading and Accounting of Derivative Products in Financial System Enterprises and its amendments which include accounting criteria for held-for-trading, hedging and embedded derivative operations which conform to IAS 39 Financial Instruments: Recognition and Measurement.

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Recognition and measurement

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

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

As of September 30, 2016 and December 31, 2015 and for the years then ended, Scotiabank Perú S.A.A. and Subsidiaries do not hold derivative instruments classified as hedging nor embedded derivatives.

D. Investments

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

i. Investments at fair value through profit and loss

Debt securities and equity shares are classified as investments at fair value through profit or loss if they have been acquired principally for the purpose of selling in the near future, or they form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. These financial assets are recognized on trade date, when Scotiabank Perú S.A.A. and Subsidiaries enter into contractual arrangements with counterparties to purchase securities, and they are normally derecognized when sold.

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

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

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

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ii. Available-for-sale investments

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

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

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

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

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

iii. Investments in associates

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

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

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Investment instruments held by companies can be reclassified. Investment instruments at fair value through profit or loss cannot be reclassified except: (1) for equity shares with no market quote lacking of reliable fair value estimations or (2) investment instruments transferred through a repurchase agreement or given in guarantee. During the nine month period ended in September 30, 2016 and year 2015, the Bank has not reclassified its investment instruments in categories.

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

During the nine month period ended in September 30, 2016 and during the year 2015, the Bank has not recognized impairment losses on investment instruments.

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 become direct loans in the event of making a payment to third parties. Likewise, changes in loan payment conditions due to debtors' payment difficulties are considered as refinancing or restructuring.

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

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

Loan portfolio classification

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

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Credit risk rating categories

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

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

Provisions for doubtful loans

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

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

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

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

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The Bank and CrediScotia Financiera S.A. apply the following percentages to determine provisions for the loan portfolio:

Risk Rating	Without collateral	With preferred collateral	With preferred easily realizable collateral	With preferred readily realizable collateral
Standard				
Corporate loans	0.70	0.70	0.70	0.70
Large-business loans	0.70	0.70	0.70	0.70
Medium-business loans	1.00	1.00	1.00	1.00
Small business loans	1.00	1.00	1.00	1.00
MES loans	1.00	1.00	1.00	1.00
Consumer loans (*)	1.00	1.00	1.00	1.00
Mortgage loans	0.70	0.70	0.70	0.70
Potential problem	5.00	2.50	1.25	1.00
Substandard	25.00	12.50	6.25	1.00
Doubtful	60.00	30.00	15.00	1.00
Loss	100.00	60.00	30.00	1.00

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

Procyclical component

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

Type of credit	Procyclical component %
Corporate loans	0.40
Large-business loans	0.45
Medium-business loans	0.30
Small-business loans	0.50
Micro business loans	0.50
Revolving consumer loans	1.50
No revolving consumer loans	1.00
Mortgage loans	0.40

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

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

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

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

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

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

F. Securities trading transactions carried out by third parties

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

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

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

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

G. Property, furniture, and equipment

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

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

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

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

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

H. Realizable assets, received as payment, repossessed assets

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

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

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

- Realizable assets, received as payment and repossessed assets are initially accounted at cost and at the same time, a provision equivalent to 20% of the cost. If the net realizable value shown in the valuation report demonstrates that the asset is impaired by a percentage higher than 20%, then the required initial provision shall be accounted at an amount equivalent to the amount effectively impaired.
- For furniture and equipment, the Bank records a monthly provision equivalent to 1/18 of the cost in books, less the aforementioned initial provision. Regarding goods that have not been sold or leased within a one-year term and that do not have the extension established in the Banking Act, the provision shall be completed up to 100% of the value upon repossession or recovery less the impairment provision, at the close of the corresponding year.
- A provision shall be accounted for real estate that has not been sold or leased within one year from its recovery or repossession. This provision shall be a uniform monthly provision over a term of three and a half years until there is a 100% provision of the net carrying amount in books obtained in the eighteenth or twelfth month, depending on if there is or is not an extension approved by the SBS, respectively.

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

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

I. Value impairment

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

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

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

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

Impairment losses are recognized in the consolidated income statement.

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

J. Income tax

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

Deferred income tax is accounted using the liability method based on temporary differences derived from tax accounting of assets and liabilities, and their balances in the financial statements of each company that is part of Scotiabank Perú S.A.A. and Subsidiaries based on tax rates and legislation expected to be applied when the deferred tax asset is realized or the deferred tax liability is settled (note 27).

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

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K. Intangible assets

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

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

L. Goodwill

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

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

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

M. Securities, bonds, and obligations issued

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

Interest is recognized in results when accrued.

N. Provisions and Contingencies

i. Provisions

Provisions are recognized when Scotiabank Perú S.A.A. and Subsidiaries have a present obligation, either legal or assumed, as a result of past events, and when it is probable that an outflow of resources will be required to settle the obligation, and it is possible to reliably estimate its amount. Provisions are reviewed and adjusted in each period to reflect the best estimates as of the date of the consolidated statement of financial position. When the effect of the time value of money is material, provisions are discounted using an interest rate reflecting the current market rate for time value of money and specific risks of liabilities.

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

ii. Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements, unless the possibility of an outflow of economic resources is remote.

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

O. Income and expense recognition

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

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

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

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

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

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

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

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

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

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

P. Capital stock

Common shares are classified as equity. Preferred shares, if any, are recorded as other debt instruments; the difference between the redeemable amounts of preferred shares and their par value being recorded in the capital account. Dividends on preferred shares are accounted as liabilities and charged to income of the period. As of September 30, 2016 and December 31, 2015, Scotiabank Perú S.A.A. and Subsidiaries do not hold preferred shares outstanding.

Q. Employees' profit sharing

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

R. Repurchase agreements

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

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

As of September 30, 2016 and December 31, 2015, the Bank conducts repurchase agreements of securities and currency.

S. Statement of cash flows

For presentation purposes of this financial statement, the balances of "Cash and due from banks" and "Interbank funds", of the assets, as of September 30, 2016 and 2015, were considered as cash and cash equivalents except for the restricted cash and due from banks for compliance with foreign currency repurchase commitments with BCRP and reserve funds for compliance with contractual commitments with foreign financial entities (note 6.b).

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T. Trust Funds

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

U. Foreign currency transactions and balances

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

V. Reclassifications

Certain financial statements items of year 2015 have been reclassified to make them comparable to those in this period.

These reclassifications were determined based on SBS Resolution 6231-2015, in force from January 2016, through which SBS established changes in the presentation of obligations of repurchase agreements in the statement of financial position and consolidated income statement; therefore, for comparison purposes balances as of December 31, 2015 and September 30, 2015 have been reclassified as follows:

Consolidated Statement of Financial Position –

<i>In thousands of soles</i>	12.31.15	Reclassification	12.31.15
Liabilities			
Deposits and obligations in financial system entities			
Demand deposits	10,834,510	-	10,834,510
Savings deposits	7,509,487	-	7,509,487
Time deposits	16,190,773	-	16,190,773
Other obligations	2,106,401	(895,395)	1,211,006
	36,641,171	(895,395)	35,745,776
Interbank funds	385,467	-	385,467
Borrowings and financial obligations	15,643,459	(3,997,682)	11,645,777
Held-for trading derivative instruments	207,011	-	207,011
Provisions and other liabilities	980,391	4,893,077	5,873,468
	53,857,499	-	53,857,499

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Consolidated Income Statement –

<i>In thousands of soles</i>	09.30.15	Reclassification	09.30.15
Income from finance services, net	419,614	10,500	430,114
Results from financial transactions	344,539	(10,500)	334,039
	764,153	-	764,153
Interest expense			
Deposits and obligations	278,721	(22,544)	256,177
Borrowings and financial obligations	178,158	(82,039)	96,119
Securities, Bonds and obligations issued	114,869	-	114,869
Commissions on borrowings and financial obligations	24,714	-	24,714
Deposits of financial entities	10,110	-	10,110
Interbank funds	1,666	-	1,666
Accounts payable	-	104,583	104,583
	608,238	-	608,238

Consolidated Statement of Cash Flows

<i>In thousands of soles</i>	09.30.15	Reclassification	09.30.15
Cash flows from operating activities			
Net profit	741,992	-	741,992
Adjustments to reconcile net profit to cash from (used in) operating activities			
Provision for doubtful loans, net of recoveries	686,413	-	686,413
Recovery for realizable, repossessed and other assets, net	(33)	-	(33)
Provision for accounts receivable, net	14,863	-	14,863
Depreciation and amortization	60,382	-	60,382
Provision for fringe benefits	35,746	-	35,746
Provision for current and deferred income tax	322,528	-	322,528
Provision for contingent loans and country risk, net	10,401	-	10,401
Other provisions, net	166,792	-	166,792
Loss on sale of property, furniture and equipment	309	-	309
Gains on sale of realizable and repossessed assets	(1,008)	-	(1,008)
Gains on sale of investments	(22,485)	-	(22,485)
Net changes in assets and liabilities			
Loans	(5,553,527)	-	(5,553,527)
Investments at fair value through profit and loss	(95,846)	-	(95,846)
Available-for-sale investments	(683,844)	-	(683,844)
Accounts receivable	(47,436)	-	(47,436)
Other assets	215,234	-	215,234
Non-subordinated financial liabilities	5,191,970	(775,749)	4,416,221
Accounts payable	(241,003)	778,890	537,887
Provisions and other liabilities	346,120	(3,141)	342,979
Adjustments to reconcile net profit to cash from (used in) operating activities	1,147,568	-	1,147,568

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The modification in the comparative information does not imply changes in decisions taken based on them.

W. New accounting pronouncements

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

- IFRS 9 *Financial Instruments*, replaces guides to IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. Mandatory application for annual periods beginning on or after January 1, 2018. Early adoption permitted.
- IFRS 15 *Revenue from Contracts with Customers*, establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces current guidelines for revenue recognition including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programme*. Mandatory application for annual periods beginning on or after January 1, 2018. Early adoption permitted.
- IFRS 16 *Leases* issued on January 13, 2016. This standard requires entities to record all leases in their financial statements. The main impact on entities with operating leases is an increase in assets and the financial debt, as well as in reporting metrics. Mandatory application for annual periods beginning on or after January, 2019. Early adoption permitted.
- Amendments to IAS 12 *Income Taxes - Recognition of deferred tax assets for unrealized losses*. This amendment emphasizes to consider the existence of legal restriction to the use of future tax gains against which the temporary differences can be applied, and also the existence of sufficient evidence of the recovery amount of deferred asset value for an amount higher than the carrying amount. Mandatory application for annual periods beginning on or after January 1, 2017. Early adoption permitted.
- Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations* states that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 *Business Combinations*, is required to apply all of the principles on business combinations accounting in IFRS 3. Mandatory application for annual periods beginning on or after January 1, 2016. Early adoption permitted.
- Amendments to IFRS 10, IFRS 12 and IAS 28: *Investment Entities* - exception to consolidating implementation - a) Consolidation of intermediary entities: It specifies how to record an investment entity that provides related investment services.
b) Except for intermediary parent companies controlled by investment entities.
c) Selection of equity method policy for interests in associated investment entities or joint venture. Mandatory application for annual periods beginning on or after January 1, 2016. Early adoption permitted.

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5. Foreign Currency Balances

Consolidated statements of financial position include balances of foreign currency transactions, mainly in U.S. dollars (US\$), which are recorded in soles (S/) at the exchange rate established by the SBS. As of September 30, 2016 and December 31, 2015, the exchange rate was US\$1 = S/ 3.400 and US\$1 = S/ 3.411 thousand, 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 channelled through an interbank foreign exchange market. As of September 30, 2016, buy and sell exchange rates used were US\$ 1 = S/ 3.397 and US\$ 1 = S/ 3.403, respectively (US\$ 1 = S/ 3.408 buy and US\$ 1 = S/ 3.413 sell, as of December 31, 2015).

Foreign currency balances stated in thousands of U.S. dollars and other currencies as of September 30, 2016 and December 31, 2015, are summarized as follows:

	09.30.2016			12.31.2015		
	US\$ Dollar	Other currencies	Total	US\$ Dollar	Other currencies	Total
Assets						
Cash and due from banks	3,674,029	11,053	3,685,082	4,005,177	23,391	4,028,568
Interbank funds	20,000	-	20,000	-	-	-
Investments at fair value through profit or loss and available-for-sale investments	80,410	-	80,410	603,184	-	603,184
Loan portfolio, net	3,862,444	-	3,862,444	3,759,813	-	3,759,813
Held-for-trading derivative	2,602	-	2,602	2,822	-	2,822
Accounts receivable, net	125,903	-	125,903	14,151	-	14,151
Other assets, net	50,032	4,784	54,816	16,111	5,043	21,154
	7,815,420	15,837	7,831,257	8,401,258	28,434	8,429,692
Liabilities						
Deposits and obligations and other obligations	5,194,829	29,354	5,224,183	5,900,525	29,423	5,929,948
Interbank funds	-	-	-	96,001	-	96,001
Borrowings and financial obligations	2,481,113	-	2,481,113	2,663,509	-	2,663,509
Held-for-trading derivative instruments	1,222	-	1,222	1,274	-	1,274
Other liabilities	197,053	4,484	201,537	110,413	12,685	123,098
	7,874,217	33,838	7,908,055	8,771,722	42,108	8,813,830
Net liability position in the consolidated statement of financial position	(58,797)	(18,001)	(76,798)	(370,464)	(13,674)	(384,138)
Derivative instruments operations	99,167	16,882	116,049	400,939	16,234	417,173

As of September 30, 2016 and 2015, Scotiabank Perú S.A.A. and Subsidiaries recorded gains on exchange difference for various operations amounting to S/ 206,631 thousand and S/ 204,148 thousand, respectively in Results from financial transactions (note 23).

As of September 30, 2016, Scotiabank Perú S.A.A. and Subsidiaries have contingent operations in foreign currency amounting to US\$ 7,798,912 thousand equivalent to S/ 26,516,301 thousand (US\$ 9,585,681 thousand, equivalent to S/ 32,696,757 thousand as of December 31, 2015).

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6. Cash and Due from Banks

This caption comprises the following:

<i>In thousands of soles</i>	09.30.2016	12.31.2015
Cash (a)	1,096,600	1,124,284
Banco Central de Reserva del Perú - BCRP (a)	8,566,978	8,995,007
Restricted cash and due from banks (b)	3,425,624	4,394,186
Deposits with local and foreign banks (c)	288,613	295,963
Clearing	55,005	46,852
Other cash and due from banks	221	75
	13,433,041	14,856,367

- (a) As of September 30, 2016, funds held in cash and deposits with BCRP include US\$ 2,517,385 thousand and S/ 925,533 thousand (US\$ 2,593,939 thousand and S/ 1,010,349 thousand as of December 31, 2015) destined to cover the legal cash reserves that the Bank and CrediScotia Financiera S.A. must maintain for deposits and obligations from third parties according to the limits established by current legislation. These funds are held at BCRP and in the own financial entities' vaults.

Cash reserves held at BCRP do not accrue interest, except for the foreign currency amount that exceeded the minimum legal cash reserve. As of September 30, 2016, the excess of minimum legal cash reserve in foreign currency accrues interest at annual rate of 0.13% (0.09% as of December 31, 2015). Interest accrued from the excess in foreign currency as of September 30, 2016 amounts to US\$ 1,549 thousand (US\$ 662 thousand as of September 30, 2015).

As of September 30, 2016, deposits with BCRP include "overnight" operations of US\$ 72,100 thousand; such operations accrued interest at an annual nominal rate of 0.46% (US\$ 60,000 thousand as of December 31, 2015 at annual nominal rate of 0.30%).

- (b) As of September 30, 2016, restricted cash and due from banks are comprised: i) reserve funds for comply with commitments of repurchase foreign currency to BCRP by US\$ 982,868,thousand (US\$ 1,247,674 thousand as of December 31, 2015); see note 16.a; ii) reserve funds for compliance of contractual commitments with foreign financial entities for US\$ 23,011 thousand (US\$ 38,923 thousand as of December 31, 2015), iii) guarantee funds for treasury transactions by US\$ 64 thousand and S/ 15 thousand same amounts as of December 31, 2015, iv) guarantee funds for lawsuits against the Bank by US\$ 10 thousand and S/ 381 thousand (US\$ 8 thousand and S/ 285 thousand as of December 31, 2015); and v) other operational restrictions by US\$ 1,076 thousand and S/ 1,326 thousand (US\$ 1,103 thousand and S/ 1,295 thousand as of December 31, 2015).
- (c) Deposits in local and foreign banks mainly correspond, to balances in soles and in U.S. dollars, and lower amounts in other currencies, with free withdrawal option and accrue interest at market rates. As of September 30, 2016, deposits in foreign banks, included deposits held at The Bank of Nova Scotia by US\$ 47 thousand and Canadian dollars by \$ 681 thousand (US\$ 2,372 thousand and Canadian dollars by \$ 4,867 thousand as of December 31, 2015).

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As of September 30, 2016 and December 31, 2015, the Bank concentrates 76% and 69% in deposits to foreign banks, in three financial entities, respectively.

As of September 30, 2016 and 2015, interest income from cash and due from banks amounted to S/ 12,813 thousand and S/ 9,096 thousand, respectively, and it is included as interest income in the consolidated income statement (note 20).

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

This caption comprises the following:

<i>In thousands of soles</i>	09.30.2016	12.31.2015
Investments at fair value through profit or loss		
Central Bank indexed certificates of deposit (a)	269,294	1,446,309
Peruvian Treasury Bonds (b)	89,667	91,028
BCRP certificates of deposit (c)	133,672	-
Mutual funds (d)	10,458	6,552
Others	11	11
	503,102	1,543,900
Available-for-sale investments		
BCRP certificates of deposit (c)	2,101,839	1,081,896
Peruvian Treasury Bonds (b)	64,411	702,122
Central Bank indexed certificates of deposit (a)	-	606,773
Listed shares		
BVL – Lima Stock Exchange (e)	47,742	55,054
Other	562	531
Unlisted shares	3,435	3,514
Mutual funds (d)	2,057	2,022
Other shares, net	18	18
	2,220,063	2,451,930
Total investments at fair value through profit or loss and available-for-sale investments	2,723,165	3,995,830

- (a) Central Bank indexed certificates of deposit, recorded at fair value through profit or loss, are securities freely negotiable in foreign 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 November 2016 (between January and March 2016 as of December 31, 2015).
- (b) Peruvian Treasury Bonds correspond to sovereign bond 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, 2016, these bonds accrue interest at annual rates ranging from 4.54% to 6.48% (from 3.85% to 7.77% annually as of December 31, 2015), with maturities between August 2017 and February 2055.

In September 2016, the Peruvian Government made a repurchase of global and sovereign bonds. This operation generated a gain on sale of investments of approximately S/ 19,591 thousands recorded as results from financial transactions in the consolidated income statement (note 23).

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- (c) BCRP certificates of deposit, are securities freely negotiable in local currency; they are acquired through BCRP public bids and traded in the Peruvian secondary market. As of September 30, 2016, these certificates accrue interest based on the BCRP reference rate which ranged from 3.39% to 5.15% annually (between 3.32% and 4.75% of December 31, 2015), and have maturities between October 2016 and March 2018 (between January 2016 and May 2017 as of December 31, 2015). Likewise, as of September 30, 2016, the Bank does not maintain certificates of negotiable deposits issued by BCRP on which it can not exercise its immediate availability (S/ 305,396 thousand as of December 31, 2015).
- (d) As of September 30, 2016, SAF and Titulizadora hold investments in mutual fund in local and foreign currency for S/ 9,625 thousand and US\$ 850 thousand, respectively, which are managed by SAF (S/ 6,251 thousand and US\$ 681 thousand as of December 31, 2015).
- (e) Shares held by SAB in BVL
As of September 30, 2016 shares held by SAB are class "A" shares, they amount to 14,919,321 shares and are listed at S/ 3.20 each (5,586,781 shares and are listed at S/ 9.50 per shares as of December 31, 2015).

Also, during the third trimester 2016 and 2015, BVL has distributed dividends to SAB for S/ 2,841 thousand and S/ 945 thousand, respectively, which are recorded as results from financial transactions in the consolidated income statement.

As of September 30, 2016 and 2015, the accrued interest on investments amounted to S/ 83,634 thousand and S/ 54,956 thousand, respectively, and it is included as interest income item of the consolidated income statement (note 20).

As of September 30, 2016 and December 31, 2015, investment at fair value through profit or loss and available-for-sale, have the following maturities:

<i>In thousands of soles</i>	09.30.2016	12.31.2015
Up to 3 months	517,636	1,780,074
From 3 to 12 months	847,367	682,961
Over 12 months	1,358,162	1,532,795
	2,723,165	3,995,830

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8. Loan Portfolio, Net

This caption comprises the following:

In thousands of S/	09.30.2016	%	12.31.2015	%
Direct loans				
Current loans	39,814,936	95	38,347,309	96
Refinanced loans	385,069	1	266,541	1
Past due loans	926,113	2	848,794	2
Lawsuits loans	623,020	2	446,250	1
	41,749,138	100	39,908,894	100
Plus (less)				
Accrued interest on current loans	286,746		278,763	
Non-accrued interest	(39,707)		(31,684)	
Provision for loan losses	(2,075,992)		(1,822,623)	
	39,920,185		38,333,350	
Contingent loans (note 19)	9,159,611		9,492,743	

As of September 30, 2016 and December 31, 2015, 51% of the direct and indirect loan portfolio of the Bank was concentrated in 706 and 810 clients, respectively. The loan portfolio (direct and indirect) is mainly backed up with collaterals received from clients, mainly consisting of mortgages, industrial and merchant pledges, third-party letters of guarantees and securities. The value of these mortgages and pledges has been determined based on net realizable value in the market, less selling expenses according to SBS regulations.

Annual interest rates are regulated by the market and may be set at Scotiabank Perú S.A.A. and CrediScotia Financiera S.A.'s discretion. As of September 30, 2016 and December 31, 2015, the annual average effective rates of main products fluctuated as follows:

	09.30.2016		12.31.2015	
	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	5.50 – 48.89	1.81 – 27.76	4.75 – 48.46	2.04 – 28.69
Consumer loans	14.13 – 51.88	10.36 – 27.11	14.04 – 61.75	10.43 – 27.58

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

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As of September 30, 2016 and December 31, 2015, according to current SBS regulations, the loan portfolio of the Bank and CrediScotia Financiera S.A. risk-based ratings are as follows:

	09.30.2016				12.31.2015			
	No. of debtors	Direct	Indirect	Total	No. of debtors	Direct	Indirect	Total
<i>In thousands of soles</i>								
Risk Rating								
Standard	935,910	38,345,308	9,063,169	47,408,477	908,970	36,988,306	9,422,997	46,411,303
With potential problems	44,106	978,741	70,391	1,049,132	38,641	895,618	37,252	932,870
Substandard	29,422	483,477	5,621	489,098	25,262	427,225	4,772	431,997
Doubtful	52,309	713,754	11,504	725,258	45,892	634,627	18,602	653,229
Loss	45,353	1,227,858	8,926	1,236,784	38,779	963,118	9,120	972,238
	1,107,100	41,749,138	9,159,611	50,908,749	1,057,544	39,908,894	9,492,743	49,401,637

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As of September 30, 2016 and December 31, 2015, direct loans are distributed among economic sectors as follows:

<i>In thousands of soles</i>	09.30.2016	%	12.31.2015	%
Mortgage and consumer loans	14,486,792	35	13,747,608	35
Trade	6,296,790	15	5,922,596	15
Manufacturing	5,142,150	12	5,366,768	13
Real estate business and lease service	4,720,398	10	3,850,998	10
Transport	2,010,440	5	1,754,151	4
Mining	1,651,637	4	1,846,462	5
Education, services, and other	1,640,371	4	1,194,100	3
Power, gas and water	1,316,605	3	1,366,775	3
Agriculture and livestock	1,117,531	3	837,226	2
Construction	912,302	2	944,993	2
Brokerage service	740,860	2	1,084,759	3
Hotel and restaurants	406,404	1	405,622	1
Fishing	344,026	1	471,793	1
Government services and defense	227,297	1	252,247	1
Other (mainly non-profit, healthcare and automotive)	735,535	2	862,796	2
	41,749,138	100	39,908,894	100

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

<i>In thousands of soles</i>	Specific	Generic	Total
Balance as of January 01, 2015	936,642	478,806	1,415,448
Additions debited to profit or loss	1,360,086	272,002	1,632,088
Recovery of provisions	(428,811)	(191,264)	(620,075)
Transfers of provisions and other	91,571	(24,023)	67,548
Write-offs and forgiveness	(743,729)	-	(743,729)
Exchange differences	49,928	21,415	71,343
Balance as of December 31, 2015	1,265,687	556,936	1,822,623
Balance as of January 01, 2016	1,265,687	556,936	1,822,623
Additions debited to profit or loss	1,423,822	203,381	1,627,203
Recovery of provisions	(574,512)	(198,227)	(772,739)
Transfers of provisions and other	5,945	(4,953)	992
Write-offs and forgiveness	(600,666)	-	(600,666)
Exchange differences	(1,019)	(402)	(1,421)
Balance as of September 30, 2016	1,519,257	556,735	2,075,992

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

<i>In thousands of soles</i>	09.30.2016	09.30.2015
Provisions for doubtful loans of the period	1,627,203	1,290,540
Recovery of provisions	(772,739)	(565,988)
Recovery from written-off portfolio	(42,477)	(38,139)
Provisions for loans, net of recoveries	811,987	686,413

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Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. records regulatory provisions for loan portfolios according to the policy described in note 4.e. Also, these entities record discretionary provisions for doubtful loans included in the generic provision for loans. As of September 30, 2016 and December 31, 2015, discretionary provisions amount to S/ 98,163 thousand and S/ 110,777 thousand, respectively.

As of September 30, 2016, the provision for foreign exchange credit risk amounts to S/ 1,022 thousand (S/ 1,227 thousand as of December 31, 2015).

As indicated in note 4.e, from November 2014, the procyclical component for provisions for doubtful loans calculation was deactivated. As of September 30, 2016, the Bank and CrediScotia Financiera S.A. procyclical provisions did not apply for the registration of specific provisions. During year 2015, the Bank and CrediScotia Financiera S.A. applied procyclical provisions amounting S/ 40,906 thousand for the recording of specific provisions, holding as of September 30, 2016 a procyclical provisions balance amounting to S/ 56,210 thousand (S/ 56,344 thousand as of December 31, 2015). Also, during year 2015, as a result of the business acquisition of the commercial banking related to retail and consumer banking of Citibank del Perú S.A. (described in Note 2), the Bank included procyclical provisions amounting to S/ 7,777 thousand.

As of September 30, 2016 and December 31, 2015, direct loan portfolio had the following maturities:

	09.30.2016			12.31.2015		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
<i>In thousands of soles</i>						
Up to 1 month	2,975,576	2,206,988	5,182,564	2,235,166	1,360,016	3,595,182
From 1 to 3 months	3,171,431	2,087,306	5,258,737	3,438,852	2,436,603	5,875,455
From 3 to 6 months	2,920,411	1,777,276	4,697,687	3,670,495	1,481,618	5,152,113
From 6 to 12 months	3,245,218	1,360,683	4,605,901	3,391,514	1,380,740	4,772,254
Over 12 months	14,967,036	5,774,826	20,741,862	13,259,286	6,238,323	19,497,609
Overdue and lawsuit loans	958,141	590,992	1,549,133	754,881	540,163	1,295,044
Less, accrued interest	(227,998)	(58,748)	(286,746)	(218,150)	(60,613)	(278,763)
	28,009,815	13,739,323	41,749,138	26,532,044	13,376,850	39,908,894

9. Held-for trading derivative instruments

The Bank holds agreements of foreign currency forwards, cross currency swaps (CCS) and interest rate swaps (IRS). As of September 30, 2016 and December 31, 2015, the fair value of these trading financial instruments has generated accounts receivable and payable as described below:

	09.30.2016		12.31.2015	
	Accounts receivable	Accounts payable	Accounts receivable	Accounts payable
<i>In thousands of soles</i>				
Forwards	55,538	30,409	111,282	121,362
Interest Rate Swap – IRS	8,847	4,155	9,625	4,345
Cross Currency Swaps - CCS	17,098	56,722	209,094	81,304
	81,483	91,286	330,001	207,011

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As of September 30, 2016 and 2015 these derivatives generated net loss of S/ 40,480 thousand and net gains S/ 92,041 thousand, respectively (note 23).

10. Accounts Receivable, net

This caption comprises the following:

<i>In thousands of soles</i>	09.30.2016	12.31.2015
Financial Instruments		
Sale of investments (a)	1,576,538	13,747
Collection services	32,846	32,046
Commissions receivable	19,754	17,890
Payments on behalf of thirds parties, net	16,004	11,063
Advances to personnel	13,405	13,888
Sales of goods and services, trust, net	994	1,273
Accounts receivable from brokerage customers	188	400
Other accounts receivable, net	45,858	28,641
	1,705,587	118,948
Non-financial Instruments		
Tax claims (b)	686,826	685,802
	2,392,413	804,750

- (a) As of September 30, 2016, it mainly includes approximately S/ 1,400,513 thousands related to the sale of global and sovereign bonds described in note 7.b, that were settled in October 2016.
- (b) Tax claims comprise tax processes with the Tax Authority (SUNAT) that as of September 30, 2016, amount to S/ 253,011 thousand (S/ 251,987 thousand as of December 31, 2015) corresponding to: i) payments made by the Bank under protest referred to the Temporary Tax on Net Assets (ITAN) of fiscal years 2005 and 2006 which are being challenged in the courts by the Bank as they are considered undue payments and shall be offset with the income tax and other tax credits and, ii) income tax paid in excess by CrediScotia Financiera S.A. for the years 2008, 2009 and 2010. In opinion of the Bank's Management, CrediScotia Financiera S.A. and its legal advisors, these amounts will be returned on the resolution of the case.

Also, this net account receivable of the pertinent provision for doubtful account includes tax claims amounting to S/ 433,815 thousand, as of September 30, 2016 and as of December 31, 2015, which are related to payments made under protest due to a resolution issued by the Tax Authority, which is being challenged in the Judicial Courts by the Bank. In opinion of the Bank's Management and its legal advisors, these amounts will be returned on the resolution of the case.

11. Goodwill

Corresponds to the goodwill determined by the business acquisitions made by the Bank. As of September 30, 2016 and December 31, 2015, it amounts to S/ 565,892 thousand and includes goodwill arising from the acquisitions of CrediScotia Financiera S.A. by S/ 278,818 thousand and Citibank del Perú S.A., note 2, by S/ 287,074 thousand.

According to SBS standards, such goodwill has been assessed by Management, concluding that there is no impairment as of September 30, 2016 and December 31, 2015.

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12. Property, Furniture, and Equipment, Net

This caption comprises the following:

<i>In thousands of soles</i>	Balance as of				Balances as of
	12.31.2015	Additions	Disposals	Adjustments	09.30.2016
Cost					
Land	133,027	-	-	-	133,027
Property and premises	735,302	977	-	6,011	742,290
Furniture, fixture, and IT equipment	426,856	11,939	(18,663)	2,386	422,518
Vehicles	4,120	-	(324)	-	3,796
Units in transit and replacing units	6,732	11,782	(3,426)	(3,035)	12,053
Work-in-progress	2,052	8,881	-	(6,622)	4,311
	1,308,089	33,579	(22,413)	(1,260)	1,317,995
Accumulated depreciation					
Property and premises	550,244	23,077	(3)	(979)	572,339
Furniture, fixture, and IT equipment	326,596	25,431	(17,659)	(582)	333,786
Vehicles	4,047	123	(273)	-	3,897
	880,887	48,631	(17,935)	(1,561)	910,022
	427,202				407,973

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:

<i>In thousands of soles</i>	09.30.2016	12.31.2015
Financial Instruments		
Transactions in progress (a)	287,490	90,399
	287,490	90,399
Non-financial Instruments		
Payments on account of income tax, net	150,811	99,572
Prepaid expenses (b)	105,816	106,454
Realizable and repossessed asset, net of accumulated depreciation and provision for impairment of S/ 130,460 thousand (S/ 131,727 thousand in 2015)	37,890	33,734
Tax credit (VAT) and other (c)	2,247	92,024
Intangible assets, net of amortizations of S/ 243,243 thousand (S/ 231,920 thousand in 2015)	23,461	28,316
Other	11,650	13,012
	331,875	373,112
	619,365	463,511

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- (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, 2016, it includes mainly S/ 245,480 thousand related to treasury transactions, S/ 29,250 thousand for invoices in-transit of services received, S/ 108 thousand for operations to be settled with credit card processors and S/ 344 thousand of operations to be settled by human resources department (as of December 31, 2015, S/ 63,644 thousand, S/ 6,486 thousand, S/ 1,636 thousand and S/ 10,986 thousand, respectively).
- (b) As of September 30, 2016, prepaid expenses include mainly: i) deferred loan origination costs related to commissions paid to the external sales force for S/ 65,717 thousand (S/ 69,820 thousand as of December 31, 2015); ii) prepaid rent for S/ 5,452 thousand (S/ 6,348 thousand as of December 31, 2015); iii) prepaid commissions of received borrowings for S/ 13,517 (S/ 17,035 thousand as of December 31, 2015); and iv) advertising and marketing services for S/ 2,324 thousand (S/ 307 thousand as of December 31, 2015), among other.
- (c) As of September 30, 2016 and December 31, 2015, tax credit of the general sales tax (VAT) comprises S/ 59,690 thousand and S/ 188,605 thousand, respectively, net of sales tax payable for S/ 57,443 thousand and S/ 96,581 thousand, respectively. This tax credit includes the sales tax for the acquisition of assets that has been transferred under finance lease for S/ 33,884 thousand as of September 30, 2016 (S/ 37,407 thousand as of December 31, 2015), which have not yet been applied against taxable transactions.

14. Deposits and Obligations in Financial System Entities

This caption comprises the following:

<i>In thousands of soles</i>	09.30.2016	%	12.31.2015	%
Corporate clients	18,958,170	52	17,438,947	48
Individuals	11,846,851	32	11,615,120	32
Non-profit organizations	3,738,355	10	4,560,101	12
Others	2,241,281	6	2,131,608	8
	36,784,657	100	35,745,776	100

Deposits and other obligations in U.S. dollars represent 48% and 55% of the total deposits as of September 30, 2016 and December 31, 2015, respectively. Deposits includes accounts pledged in favor of Scotiabank Perú S.A.A. and Subsidiaries for credit operations for S/ 541,539 thousand and US\$ 152,823 thousand as of September 30, 2016 (S/ 592,261 thousand and US\$ 256,515 thousand as of December 31, 2015).

As of September 30, 2016 and December 31, 2015, the total deposits and obligations from individuals and non-profit legal entities for S/ 8,932,959 thousand and S/ 8,404,398 thousand, respectively, are covered by the Peruvian Deposit Insurance Fund, according to current legal regulations.

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

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

The maximum amount covered for each individual as of September 30, 2016 and December 31, 2015, amounted to S/ 96 thousand.

The Bank and CrediScotia Financiera S.A. freely establish deposits interest rates based on supply and demand, and the type of deposits. Effective rates as of September 30, 2016 and as of December 31, 2015 fluctuated as follow:

	09.30.2016		12.31.2015	
	Local currency	Foreign currency	Local currency	Foreign currency
Savings deposits	0.50 - 1.60	0.17 - 0.21	0.47 - 1.71	0.18 - 0.21
Time deposits	3.40 - 5.86	0.26 - 1.23	2.99 - 5.45	0.17 - 1.50
Severance payment deposits	2.95 - 6.36	1.12 - 3.33	2.87 - 6.02	1.13 - 4.00

As of September 30, 2016 and December 31, 2015, the scheduled maturity dates of the time deposits were as follows:

	09.30.2016			12.31.2015		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
<i>In thousands of soles</i>						
Up to 1 month	2,717,440	1,585,615	4,303,055	2,264,555	3,114,782	5,379,337
From 1 to 3 months	3,075,741	2,103,620	5,179,361	2,011,412	2,588,346	4,599,758
From 3 to 6 months	1,706,667	1,171,652	2,878,319	1,222,831	1,585,474	2,808,305
From 6 to 12 months	1,405,280	595,346	2,000,626	1,030,629	742,502	1,773,131
Over 12 months	1,057,628	640,335	1,697,963	956,274	567,073	1,523,347
	9,962,756	6,096,568	16,059,324	7,485,701	8,598,177	16,083,878
Interest	132,411	7,510	139,921	95,306	11,589	106,895
	10,095,167	6,104,078	16,199,245	7,581,007	8,609,766	16,190,773

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

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15. Borrowings and Financial Obligations

This caption comprises the following:

<i>In thousands of soles</i>	09.30.2016	12.31.2015
Borrowings and financial obligations		
Obligations in the country:		
COFIDE (a)	1,201,342	861,170
Other local banks	114,000	134,000
Ordinary loans from abroad		
Related banks (b)	3,230,000	3,496,275
Other banks (c)	3,631,414	3,948,526
	8,176,756	8,439,971
Interest payable	35,935	15,822
	8,212,691	8,455,793
Securities and obligations (d)	3,108,159	3,189,984
	11,320,850	11,645,777

- (a) Corporación Financiera de Desarrollo S.A. (Finance Development Corporation - COFIDE) in the Bank and CrediScotia Financiera S.A. correspond to resources obtained for loans granting, mainly for mortgage financing programs of MiVivienda Fund, which accrue a fixed interest rate adjusted to the VAC index. As of September 30, 2016 and December 31, 2015, amounted to S/ 971,342 thousand and S/ 631,170 thousand, respectively.

Additionally, CrediScotia Financiera S.A. holds credit lines of COFIDE in local currency to be used as working capital on a short term basis and are subject to specific agreements on the manner of using received funds, financial conditions that should be held and other administrative matters. As of September 30, 2016 and December 31, 2015, obligations for this item amount to S/ 230,000 thousand.

As of September 30, 2016, the credit lines of the mortgage financing programs are guaranteed with mortgage loan portfolio as follows:

<i>In thousands of S/ and US\$</i>	Currency	Net loans	Collateralized debt
Mortgage loans-Fondo MiVivienda (*)	Soles	866,875	809,242
Mortgage loans-Fondo MiVivienda (*)	U.S. dollars	27,056	31,161

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

- (b) As of September 30, 2016, ordinary loans with related banks include debts payable to Scotiabank Ltd. Bahamas amounting to US\$ 950,000 thousand, which accrue interest at annual rates ranging between 1.36% and 1.84% and have maturities between November 2016 and August 2018 (as of December 31, 2015, US\$ 1,025,000 thousand, accrue interest at annual rates ranging between 0.82% and 1.13% and have maturities between January 2016 and December 2017).

These borrowings do not have guarantees nor compliance covenants.

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- (c) As of September 30, 2016, it also includes borrowings and financial obligations negotiated with other banks for US\$ 1,024,313 thousand (US\$ 1,076,336 thousand as of December 31, 2015) accruing interest at average rates that range between 0.86% and 4.00% (0.56% and 3.31% as of December 31, 2015).

Also, as of September 30, 2016, the Bank negotiated borrowings with foreign financial institutions for approximately US\$ 43,750 thousand (US\$ 81,250 thousand as of December 31, 2015) maturing between June and September 2017. From this amount, US\$ 12,500 thousand (US\$ 21,875 thousand as of December 31, 2015) accrue interest at a fixed rate of 3.88% and US\$ 31,250 thousand (US\$ 59,375 thousand as of December 31, 2015) at variable rates of 3-month LIBOR plus a spread of 2.95% and 3.10% (2.44% and 2.76% as of December 31, 2015). 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, 2016 and December 31, 2015, the scheduled maturity dates of borrowings from banks and other financial institutions were as follows:

<i>In thousands of soles</i>	09.30.2016	12.31.2015
Up to 1 month	793,277	432,270
From 1 to 3 months	1,967,851	1,234,475
From 3 to 6 months	1,447,590	2,080,234
From 6 to 12 months	785,223	1,187,619
Over 12 months	3,218,750	3,521,195
	8,212,691	8,455,793

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(d) The detail of securities and bonds is as follows:

<i>In thousands of soles</i>	Annual interest	Maturity	09.30.2016	12.31.2015
Issuance				
Redeemable Subordinated Bonds:				
1st Issuance, single series (i)	4.50%	2027	1,360,000	1,364,400
1st Issuance A – 1st Program - SBP (ii)	7.34%	2025	535,560	535,560
1st Issuance A – 1st Program - CSF (iii)	7.41%	2027	130,000	130,000
			2,025,560	2,029,960
Negotiable Notes (iv)				
Series A	5.25%	2017	17,894	44,882
	LIBOR 3m +			
Series B	2.75%	2017	44,737	112,205
			62,631	157,087
Corporate bonds (v)				
4th Issuance A – 1st Program	4.72%	2017	50,000	50,000
7th issuance A – 1st Program	7.19%	2017	60,000	60,000
8th issuance A – 1st Program	7.31%	2017	100,000	100,000
1st Issuance A – 2nd Program	5.72%	2017	100,000	100,000
2nd Issuance B – 2nd Program	5.19%	2017	50,000	50,000
2nd Issuance C – 2nd Program	5.16%	2017	50,000	50,000
3rd Issuance A – 2nd Program	6.78%	2018	75,920	75,920
3rd Issuance B – 2nd Program	5.56%	2019	100,000	100,000
5th Issuance A – 2nd Program	5.09%	2017	58,000	58,000
5th Issuance B – 2nd Program	6.19%	2018	38,500	38,500
9th Issuance A – 2nd Program	5.50%	2017	69,480	69,480
9th Issuance B – 2nd Program	5.44%	2017	100,000	100,000
9th Issuance C – 2nd Program	5.03%	2018	100,000	100,000
			951,900	951,900
Other instruments representing debt				
Negotiable certificates of deposits (vi)			20,047	23,359
			20,047	23,359
			3,060,138	3,162,306
Interest payable and obligations			48,021	27,678
			3,108,159	3,189,984

- i. In December 2012, the Bank issued subordinated bonds for US\$ 400,000 thousand which under SBS Resolution 8093-2012, qualifies as tier 2 capital. These bonds mature on December 2027 and accrue interest at annual fixed rate of 4.50% during the first ten years; from the eleventh year, they will accrue interest at a variable rate of 3-month LIBOR rate plus a spread of 3.856% to be paid each six months. After the eleventh year, all these bonds can be redeemed without penalties. This issuance was performed in the international market and contains certain standard clauses of compliance with financial ratios and other operating matters, which in the opinion of the management they do not affect the Bank's operations and are being met.

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- ii. Through SBS Resolution 2315-2015, dated April 24, 2015, the SBS authorized the issuance of the First Subordinated Bonds Program Scotiabank Perú up to an amount of US\$ 400,000 thousand or the equivalent in soles; these bonds qualifies as a tier 2 capital. On May 22, 2015, the Bank issued 53,556 subordinated bonds in local currency with a face value of S/ 10,000 each and a term of 10 years from the date of issuance. These bonds accrue an annual interest rate of 7.34375% to be paid each semester. This issue was private and held in the local market.
- iii. On July 31, 2012, CrediScotia Financiera S.A. issued, through public auction, subordinated bonds in local currency for S/ 130,000 thousand denominated Subordinated Bonds - First Issuance with SBS authorization - Resolution 4873 - 2012, such series comprise 13,000 bonds at a par value of S/ 10 thousand each, with maturity in July 2027 and a put option from the tenth year if the terms and conditions of such issuance are met. The proceeds were exclusively destined to credit operations financing.
- iv. In January 2010, SBP DPR Finance Company (special purpose entity established in Grand Cayman and consolidated by Scotiabank Group) made a securitization agreement of Diversified Payment Rights (DPR), in which SBP DPR Finance Company acquired the rights and future flows from remittances received from correspondent banks up to the deadline specified in the contract. SBP DPR Finance Company issued two series of long-term notes: Series A for US\$ 50,000 thousand and Series B for US\$ 125,000 thousand, both series with maturities in 2017. As of September 30, 2016, Series A notes amounted to US\$ 5,263 thousand (US\$ 13,158 thousand as of December 31, 2015) and Series B notes amounted to US\$ 13,158 thousand (US\$ 32,895 thousand as of December 31, 2015). The notes are guaranteed by remittances received through SWIFT messages and transferred to SBP DPR Finance Company. These contracts and transactions contain standard clauses of compliance with financial ratios and other administrative matters. In the opinion of the management, those clauses do not affect the Bank's operations and are being met.
- v. From year 2007 to date, Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. have issued Corporate Bonds by S/ 901,900 thousand and S/ 50,000 thousand, respectively, at terms that range between 3 and 5 years. The proceeds were exclusively destined to credit operations financing.
- vi. As of September 30, 2016, this amount includes Negotiable Certificates of Deposit issued by Scotiabank Perú S.A. amounting to S/ 20,047 thousand (S/ 23,359 thousand as of December 31, 2015). Additionally, Negotiable Certificates of Deposit of CrediScotia Financiera S.A. expired and were liquidated between January and February 2015.

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.

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As of September 30, 2016 and December 31, 2015, the maturities of issued securities were as follows:

<i>In thousands of soles</i>	09.30.2016	12.31.2015
Up to 3 months	72,904	49,890
From 3 to 6 months	257,228	40,626
From 6 to 12 months	433,639	42,014
Over 12 months	2,344,388	3,057,454
	3,108,159	3,189,984

As of September 30, 2016 and 2015, interest expenses on borrowings and financial obligations of Scotiabank Perú S.A.A. and Subsidiaries amount to S/ 255,544 thousand and S/ 210,988 thousand, respectively (note 21).

16. Provisions and Other Liabilities

This caption comprises the following:

<i>In thousands of soles</i>	09.30.2016	12.31.2015
Accounts payable		
Repurchase agreements (a)	3,671,317	4,893,077
Other accounts payable (b)	645,555	249,795
Vacations, remunerations and profit sharing payable	42,970	48,050
Put option (c)	-	84,294
	4,359,842	5,275,216
Provisions		
Provisions for litigations and legal claims (d)	87,048	98,073
Various provisions (e)	52,068	35,826
Provision for contingent loans and country risk	91,158	91,844
Other provisions (f)	152,872	118,676
	383,146	344,419
Other liabilities		
Transactions in progress (g)	372,135	184,843
Deferred income on portfolio sale and other	70,085	68,990
	442,220	253,833
	5,185,208	5,873,468

- (a) Corresponds to obligations for foreign currency purchase transactions with commitments of repurchase made with Central Bank. As of September 30, 2016 the maturities of these operations fluctuate between October 2016 and March 2019 (between January 2016 and March 2019) and accrues interest payable ranged from 3.20% to 6.56%.
- (b) As of September 30, 2016, this item is composed mainly of accounts payable: (i) suppliers for S/ 97,696 thousand; ii) purchases of investment for S/ 422,111 thousand; iii) insurance companies for services agreed-upon by customers for S/ 11,496 thousand; iv) taxes and contributions for S/ 10,846 thousand and v) merchants for purchases with credit cards issued for S/ 11,243 thousand (S/ 101,336 thousand, S/ 34,232 thousand, S/ 14,800 thousand, S/ 14,920 and S/ 12,809 thousand, respectively as of December 31, 2015).

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- (c) As of December 31, 2015, the Bank maintained put option contract to sell its own common shares held in a trust fund, which entitling the trustee the right to sell to the Bank all of these shares. On April 22, 2016, it was settled and the Bank paid an amount of US\$ 24,690 thousand.
- (d) As of September 30, 2016 and December 31, 2015, Scotiabank Perú S.A.A. and Subsidiaries have legal actions underway, which are related to civil and labor claims, among others. These legal actions resulted from activities and operations performed during the normal course of Scotiabank Perú S.A.A. and Subsidiaries' operations, it is not anticipated they will have a significant impact on operations or results.
- (e) As of September 30, 2016, this account mainly comprises reversals and recoveries of provisions recorded in prior years charged to equity accounts for S/ 12,893 thousand (S/ 5,137 thousand as of December 31, 2015) which, according to SBS Official Letter 23797-2003, they should be reassigned to other deficits in Bank's asset accounts. Also, the balance as of September 30, 2016 includes provisions made charged to profit or loss for i) various contingencies for S/ 31,741 thousand (S/ 22,607 thousand as of December 31, 2015); and ii) rewards to clients for S/ 7,369 thousand (S/ 8,017 thousand as of December 31, 2015).
- (f) As of September 30, 2016, the balance of other provisions mainly include: i) provisions for personnel expenses for S/ 131,017 thousand (S/ 96,230 thousand as of December 31, 2015); ii) provisions for marketing campaigns of liability products for S/ 2,451 thousand (S/ 2,451 thousand as of December 31, 2015), iii) provisions for credit card awards for S/ 4,060 thousand (S/ 4,721 thousand as of December 31, 2015).
- (g) Transactions in progress are mainly those carried out during the last days of the month and are reclassified in the following month to their definitive accounts of the consolidated statement of financial position. These operations do not affect the results of Scotiabank Perú S.A.A. and Subsidiaries. As of September 30, 2016, liability transactions in transit include mainly: i) S/ 219,140 thousand related to Treasury operations (S/ 63,671 thousand as of December 31, 2015), ii) S/ 27,319 thousand related to the clearing house in the Electronic Clearinghouse (S/ 2,656 thousand as of December 31, 2015), iii) S/ 10,394 thousand related to debt purchase operations (S/ 8,292 thousand as of December 31, 2015), iv) S/ 44,062 thousand corresponding client deposits in transit (S/ 48,501 thousand as of December 31, 2015); and v) S/ 14,317 thousand related to third party insurance (S/ 12,895 thousand as of December 31, 2015).

17. Shareholders' Equity

A. General

The regulatory capital of Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. is determined in accordance with the Banking Law and as of September 30, 2016, it amounts to S/ 7,420,390 thousand and S/ 646,687, respectively (S/ 6,998,469 thousand and S/ 629,965, respectively as of December 31, 2015). 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.

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As of September 30, 2016, 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/ 47,691,324 thousand and S/ 3,765,783 thousand, respectively (S/ 46,962,232 thousand and S/ 3,862,048 thousand, respectively as of December 31, 2015).

As of September 30, 2016 and December 31, 2015, 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, 2016, the regulatory net capital of Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. represents 14.41% and 14.75% respectively, of the minimum capital requirements per market, operational and credit risk (13.97% and 15.09%, respectively as of December 31, 2015).

Likewise, by means of SBS Resolution 2115-2009, the SBS approved the rules for the Additional Regulatory Net Capital for Operational Risk, effective as from July 1, 2009. On this respect, as of September 30, 2016 and December 31, 2015, 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, 2016, amounted to S/ 1,106,334 thousand and S/ 122,695 thousand, respectively (S/ 998,971 thousand and S/ 90,293 thousand, respectively as of December 31, 2015).

B. Capital stock

As of September 30, 2016, the Bank's capital stock comprises 481,666,886 common shares (412,864,969 common shares as of December 31, 2015). All shares have voting rights and a par value of S/ 10.00 each. As of those dates, the quotation value of common shares of the Bank was S/ 30.80 and S/ 20.70 per share, respectively.

The General Meeting of Shareholders held on March 28, 2016 approved the capital increase as a result of capitalization of currency adjustment for inflation corresponding to years 2001 to 2004 for S/ 28,019 thousands. Also the Board of Directors held at the same date approved the increase of the capital stock arising from the capitalization of 2015 retained earnings S/ 660,000 thousand. Product of these capitalizations, capital stock increased to S/ 4,816,669 thousand.

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

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Shares participation on the Bank's capital stock as of September 30, 2016 and December 31, 2015, is as follows:

Percentage of interest in capital	09.30.2016		12.31.2015	
	Number of shareholders	%	Number of shareholders	%
0.01 to 1	1,595	1.95	1,679	2.19
From 1.01 to 50	2	42.73	2	42.49
From 50.01 to 100	1	55.32	1	55.32
	1,598	100.00	1,682	100.00

Under the Banking Law, it is required that as of September 30, 2016, the capital stock reaches the minimum amount of S/ 26,224 thousand (S/ 26,080 thousand as of December 31, 2015), at constant value. This amount is annually updated at the closing date of every fiscal year, based on the wholesale price index (WPI), as published by the Instituto Nacional de Estadística e Informática (National Institute of Statistics).

C. Additional paid-in capital

This additional paid-in capital balance comprises:

<i>In thousands of soles</i>	09.30.2016	12.31.2015
Issuance premium	393,159	368,522
Loss on treasury shares	1,304	(9)
	394,463	368,513

On June 14, 2016 the Bank sold 985,442 treasury share to Scotia Perú Holding an amount of S/ 25,950 thousand. As result for this transaction as of September 30, 2016 Scotia Peru Holding's participation increase from 40.17% to 40.41%.

As of September 30, 2016 the Bank holds 143 treasury shares (313 treasury shares as of December 31, 2015).

D. Legal reserve

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

At the Annual Obligatory General Shareholders' meeting, held on March 28, 2016, it was decide to apply to legal reserve an amount of S/ 101,403 thousand corresponding to 10% of net profit for the year 2015. At the Annual Obligatory General Shareholders' meeting, held on March 24, 2015, it was decided to apply to legal reserve an amount of S/ 95,621 thousand, corresponding to 10% of net profit for the year 2014.

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E. Retained earnings

At the Bank's General Shareholders' meeting, held on March 28, 2016, the distribution of 2015 net profit for a total of S/ 1,014,032 thousand was approved, as follows:

- i Cash dividends payment for S/ 252,629 thousand.
- ii Allocate 10% of net profit, amounting to S/ 101,403 thousand to increase the legal reserve.
- iii Remaining balance, amounting to S/ 660,000 thousand, will be held in 'retained earnings'.

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

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

F. Other Comprehensive Income

As of September 30, 2016 and December 31, 2015, it mainly includes unrealized results of available-for-sale investments and share in other comprehensive income of associates, net of its deferred income tax effects.

18. Contingencies

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

19. Risks and Contingent Commitments

In the normal course of business, the Bank and CrediScotia Financiera S.A. perform contingent transactions under off-statement of financial position credit risk (contingent assets). These transactions expose the Bank and CrediScotia Financiera S.A. to additional credit risk, beyond the amounts presented in the consolidated statement of financial position. Credit risk for contingent transactions are accounted in memoranda accounts of the consolidated statement of financial position and they relate to the probability that one of the participants of the respective contract does not comply with the agreed terms.

The related contracts consider the amounts that the Bank and CrediScotia Financiera S.A. would assume for credit losses in contingent transactions. The Bank and CrediScotia Financiera S.A. apply the same credit policies to evaluate and grant direct loans as indirect loans.

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

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As of September 30, 2016 and December 31, 2015 the contingent accounts comprise the following:

<i>In thousands of soles</i>	09.30.2016	12.31.2015
Contingent loans (note 8)		
Guarantees and stand-by letters of credit	8,457,633	8,678,287
Issued letters of credit	658,698	733,932
Due from bank acceptances	43,280	80,524
	9,159,611	9,492,743
Unused credit lines	22,127,032	21,621,720
Financial derivative instruments	6,309,940	19,534,252
Other	500	551
	37,597,083	50,649,266

20. Interest Income

This caption comprises the following:

<i>In thousands of soles</i>	09.30.2016	09.30.2015
Direct loan portfolio	3,201,615	2,780,591
Available-for-sale investments (note 7)	79,178	50,695
Cash and due from banks and deposits in banks (note 6)	12,813	9,096
Interbank funds	4,976	4,086
Investments at fair value through profit or loss (note 7)	4,456	4,261
Other finance income	3,320	3,373
	3,306,358	2,852,102

21. Interest Expenses

This caption comprises the following:

<i>In thousands of soles</i>	09.30.2016	09.30.2015
Deposits and obligations	358,830	256,177
Borrowings and financial obligations (note 15)	255,544	210,988
Accounts payable	140,961	104,583
Commissions on borrowings and financial obligations	33,108	24,714
Deposits of financial entities	11,348	10,110
Interbank funds	4,538	1,666
	804,329	608,238

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22. Income from Finance Services, net

This caption comprises the following:

<i>In thousands of soles</i>	09.30.2016	09.30.2015
Income		
Income from commissions from collections services	127,788	114,547
Other fees and commissions from banking services	114,166	109,693
Income from deposit transactions, services and transfer fees	88,105	87,032
Income from purchased portfolio recoveries	74,546	89,831
Income from structuring and administration services	30,618	16,334
Income from teleprocessing services	30,359	25,670
Income from remunerations of mutual funds and administration fees	22,094	22,177
Income from commissions and brokerage services, net	6,756	6,685
Other various income	254,463	177,432
	748,895	649,401
Expenses		
Credit / debit cards expenses	65,033	48,915
Deposit insurance fund premiums	29,041	25,564
Insurance services expenses	3,706	2,711
Other expenses	151,393	142,097
	249,173	219,287
	499,722	430,114

23. Results from Financial Transactions

This caption comprises the following:

<i>In thousands of soles</i>	09.30.2016	09.30.2015
Gain on exchange difference (note 5)	206,631	204,148
Available-for-sale investments	30,826	3,422
Investments at fair value through profit and loss	9,690	(5,673)
Gain in associates	9,451	8,429
Trading derivatives (note 9)	(40,480)	92,041
Proceeds on sale of investments	-	34,814
Other	-	(3,142)
	216,118	334,039

24. Administrative Expenses

This caption comprises the following:

<i>In thousands of soles</i>	09.30.2016	09.30.2015
Personnel and board of directors expenses	634,504	638,803
Expenses for services received from third parties	473,892	476,509
Taxes and contributions	59,433	62,282
	1,167,829	1,177,594

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25. Other Income, net

This caption comprises the following:

<i>In thousands of soles</i>	09.30.2016	09.30.2015
Sales of services	9,718	8,049
Leasing of own goods	2,428	3,169
Reimbursements and recoveries	162	611
Gain (losses) in proceeds from sale of repossessed assets	995	(120)
Losses in sale of property, furniture, and equipment and other	(1,331)	(1,566)
Other (expenses) income, net	(12,666)	3,220
	(694)	13,363

26. Tax Matters

- A. In accordance with current tax legislation, corporate income tax for the years 2016 and 2015 is calculated applying the statutory income tax rate of 28%. The income tax of each company composing Scotiabank Perú S.A.A. and Subsidiaries has been determined as follows:

<i>In thousands of soles</i>	09.30.2016	09.30.2015
Scotiabank Perú S.A.A.	243,869	257,538
CrediScotia Financiera S.A.	54,210	46,855
Scotia Fondos Sociedad Administradora de Fondos S.A.	2,671	2,675
Servicios, Cobranzas e Inversiones S.A.	2,560	7,569
Scotia Sociedad Agente de Bolsa S.A.	415	1,675
Scotia Sociedad Titulizadora S.A.	190	192
	303,915	316,504

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

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

Company	Tax returns subject to audit	Tax returns being (audited)
Scotiabank Perú S.A.A.	2011 through 2015	2009 and 2010
CrediScotia Financiera S.A.	2012 through 2015	2013
Scotia Sociedad Agente de Bolsa S.A.	2011 through 2015	2010
Scotia Fondos Sociedad Administradora de Fondos S.A.	2011 through 2015	2011
Scotia Sociedad Titulizadora S.A.	2011 through 2015	-
Trust Property on real estate – Depsa	2011 through 2015	-
Servicios, Cobranzas e Inversiones S.A.C.	2011 through 2015	-

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

For 2003 to 2008 years, the Bank received resolutions from tax authorities related to the determination of income tax for years 2003 to 2008.

To date, fiscal periods 2003, 2004 and 2005 have been regularized without any significant impact to the Bank. Resolution related to year 2006 is being litigated at the Tax Court. In relation to year 2007 and 2008, the Bank has filed a claim which is pending of resolution by the SUNAT. Likewise, SUNAT also issued Assessment and Fine resolutions for the determination of Essalud contributions for period 2011. The Bank and its tax advisors estimate that the results would be favorable to the Bank and no significant liabilities will arise that should be reported in the consolidated statement of financial position.

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

- B. Remains in force the Law 30296 that establishes that dividends, and any other form of profit distribution, are taxable affected with 6.8% for the years 2015-2016, 8.0% for years 2017-2018 and with 9.3% from year 2019 onwards.
- C. For income tax purposes, transfer pricing for transactions carried out with economically-related parties, and with companies domiciled in territories with low or null taxation, shall be supported with documentation and information about the valuation methods used, and the criteria considered, for the pricing. Management considers that pricing regarding transactions such as those aforementioned has been made in accordance with tax legislation; consequently, no significant liabilities will arise as of September 30, 2016.
- D. Beginning 2010, capital gains are subject to income tax. In this regard, it has been established, among others that the tax cost of securities whose disposition was tax-exempt until December 31, 2009 will be the higher between: (i) market value as of December 31, 2009, (ii) acquisition cost, or (iii) increase in the equity value.

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

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

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

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

- E. Under Laws 29663 and 29757, from year 2011, Peruvian source income is the income arising from indirect disposal of shares of Peruvian companies. An indirect share transfer occurs when the following assumptions are met:
- i 10% of more of shares of the off-shore company will be sold in any twelve-month period and,
 - ii Market value of the Peruvian company's shares shall represent 50% or more of the market value of the off-shore company, within any twelve-month period.
- F. In 2005, a new tax named Temporary Tax on Net Assets (ITAN, for its Spanish acronym) was established. The taxable base is the prior period adjusted net asset value less depreciations, amortizations, legal cash reserve, and specific provisions for credit risk. From year 2009, the tax rate applicable to the amount of assets exceeding S/ 1,000 thousand is 0.4%.

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

- G. Tax on Financial Transactions (ITF) since April 2011 was 0.005%. This tax is applied on each deposit and withdrawal made to and from a banking account, unless the account is tax-exempt.
- H. The reconciliation of the tax rate and the effective tax rate is as follows:

	09.30.2016		09.30.2015	
	In thousands of S/	%	In thousands of S/	%
Profit before taxes	1,160,169	100.00	1,064,520	100.00
Income tax (theoretical)	324,847	28.00	319,356	30.00
Tax effect on additions and deductions				
Permanent differences	(7,469)	(0.64)	3,172	0.30
Current and deferred income tax recorded as per effective rate	317,378	27.36	322,528	30.30

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27. Deferred Income Taxes

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

<i>In thousands of soles</i>	Balance as of 12.31.14	(Debit) credit to profit or loss	(Debit) credit to equity	(Debit) credit for acquisition (1)	Balance as of 12.31.15	(Debit) credit to profit or loss	(Debit) Other	Balance as of 09.30.16
Assets								
Generic provision for direct/indirect loans	150,783	20,485	-	4,566	175,834	1,407	(1,380)	175,861
Provision for doubtful accounts	10,130	4,546	-	-	14,676	4,793	8,309	27,778
Provision for vacations	12,712	(430)	-	-	12,282	(820)	-	11,462
Provision for repossessed assets	8,961	1,356	-	-	10,317	1,196	(3,140)	8,373
Fixed assets	59,089	(25,492)	-	-	33,597	(22,933)	(3,333)	7,331
Valuation of available-for-sale investments	1,390	-	1,247	-	2,637	-	1,803	4,440
Provision for credit and debit card rewards	3,611	127	-	-	3,738	-	-	3,738
Investment in subsidiaries	1,020	-	(127)	-	893	-	-	893
Intangible assets	(1,187)	(430)	-	-	(1,617)	707	14	(896)
Others	5,875	(9,981)	2,230	(1,516)	(3,392)	2,187	9,411	8,206
Deferred tax assets	252,384	(9,819)	3,350	3,050	248,965	(13,463)	11,684	247,186

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

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28. Employees' Profit Sharing

According to Legislative Decree 677, bank's employees are entitled to a profit-sharing plan computed at 5% of the net profit, similarly to employees of the companies of Scotiabank Perú S.A.A. and Subsidiaries. This profit sharing is considered as a deductible expense for income tax calculation purposes. As of September 30, 2016 and 2015, a consolidated legal employees' profit sharing for S/ 56,443 thousand and S/ 58,954 thousand, respectively, it was determined and presented in administrative expenses in the consolidated income statement.

29. Trust Fund Activities

Scotiabank Perú S.A.A. and Subsidiaries offer structuring and administration services of trust operations and trust fees, and are in charge of the preparation of agreements related to these operations. Assets kept in trust are not included in the consolidated financial statements. Scotiabank Perú S.A.A. and Subsidiaries are responsible for the appropriate management of these trusts based on the limits established by applicable laws and the respective agreement. As of September 30, 2016, the allocated value of assets in trusts and trust fees amounted to S/ 3,454,853 thousand (S/ 3,478,396 thousand as of December 31, 2015).

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30. Related Party Transactions

As of September 30, 2016 and December 31, 2015, 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:

	09.30.2016					12.31.2015				
	Parent company	Related parties (i)	Associates	Key personnel and directors	Total	Parent company	Related parties (i)	Associates	Key personnel and directors	Total
<i>In thousands of soles</i>										
Assets										
Cash and due from banks	-	1,926	-	-	1,926	-	72,617	-	-	72,617
Loan portfolio, net	-	59,397	2	8,612	68,011	-	2,560	2	11,532	14,094
Held-for trading derivative instruments	-	47,502	-	-	47,502	-	57,113	-	-	57,113
Other assets, net	11	180,812	72,650	16	253,489	-	58,186	71,690	141	130,017
Total assets	11	289,637	72,652	8,628	370,928	-	190,476	71,692	11,673	273,841
Liabilities										
Deposits and obligations in financial system entities	476,151	832,586	12,841	6,525	1,328,103	251,918	1,536,040	12,009	18,629	1,818,596
Borrowings and financial obligations	-	3,234,895	-	-	3,234,895	-	3,498,918	-	-	3,498,918
Held-for trading derivative instruments	-	62,932	-	-	62,932	-	179,608	-	-	179,608
Provisions and other liabilities	-	160,122	648	7	160,777	-	60,112	842	8	60,962
Total liabilities	476,151	4,290,535	13,489	6,532	4,786,707	251,918	5,274,678	12,851	18,637	5,558,084
Off-balance sheet accounts										
Contingent loans	-	271,430	71,845	-	343,275	-	270,593	71,861	-	342,454
Financial derivative instruments	-	3,547,417	-	-	3,547,417	-	8,735,604	-	-	8,735,604

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

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B. Consolidated income statement arising from related party transactions were as follows:

	09.30.2016					09.30.2015				
	Parent company	Related parties (i)	Associates	Key personnel and directors	Total	Parent company	Related parties (i)	Associates	Key personnel and directors	Total
<i>In thousands of soles</i>										
Interest income	-	4,771	1	420	5,192	-	309	-	238	547
Interest expenses	(1,905)	(39,839)	(1,707)	(87)	(43,538)	(2,368)	(26,010)	(1,528)	(119)	(30,025)
	(1,905)	(35,068)	(1,706)	333	(38,346)	(2,368)	(25,701)	(1,528)	119	(29,478)
Income from financial services	13	2,999	461	70	3,543	13	3,256	450	47	3,766
Expenses on finance services	-	(44)	(10,539)	(5)	(10,588)	-	(32)	(8,054)	(5)	(8,091)
	13	2,955	(10,078)	65	(7,045)	13	3,224	(7,604)	42	(4,325)
Results from financial transactions	-	232,616	9,145	-	241,761	-	(113,496)	-	-	(113,496)
Administrative expenses	-	(2,573)	(3,070)	(4)	(5,647)	-	(1,003)	(2,952)	-	(3,955)
Other expenses, net	-	-	(46)	(9)	(55)	-	-	-	-	-
Net profit	(1,892)	197,930	(5,755)	385	190,668	(2,355)	(136,976)	(12,084)	161	(151,254)

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

C. Remuneration of key management were as follows:

<i>In thousands of soles</i>	09.30.2016	09.30.2015
Remuneration of key personnel	22,482	22,813
Remuneration of members of the Board of Directors	797	674
	23,279	23,487

As of September 30, 2016 and December 31, 2015, the remuneration pending to pay to key management amounted to S/ 6,504 thousand and S/ 5,342 thousand, respectively.

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31. Classification of Financial Instruments

Management classifies its financial assets and liabilities in categories as described in note 4.B. As of September 30, 2016 and December 31, 2015, financial assets and liabilities are classified as follows:

	09.30.2016						
	At fair value through profit or loss	Loans and items receivable	Available-for-sale investments		Liabilities at amortized cost	Other liabilities (b)	Total
			At amortized cost (a)	At fair value			
<i>In thousands of soles</i>							
Assets							
Cash and due from banks	-	13,433,041	-	-	-	-	13,433,041
Interbank funds	-	114,913	-	-	-	-	114,913
Investments at fair value through profit or loss							
Capital instruments	10,469	-	-	-	-	-	10,469
Debt instruments	492,633	-	-	-	-	-	492,633
Available-for-sale investments							
Instruments representing capital	-	-	3,450 (c)	50,363	-	-	53,813
Instruments representing debt	-	-	-	2,166,250	-	-	2,166,250
Loan portfolio, net	-	39,920,185	-	-	-	-	39,920,185
Held-for trading derivative instruments	81,483	-	-	-	-	-	81,483
Trade accounts	-	1,705,587	-	-	-	-	1,705,587
Other assets	-	287,490	-	-	-	-	287,490
Total	584,585	55,461,216	3,450	2,216,613	-	-	58,265,864
Liabilities							
Deposits and obligations	-	-	-	-	-	36,421,023	36,421,023
Interbank funds	-	-	-	-	-	305,035	305,035
Deposits of financial entities and international financial entities	-	-	-	-	-	363,634	363,634
Borrowings and financial obligations	-	-	-	-	11,320,850	-	11,320,850
Held-for trading derivative instruments	91,286	-	-	-	-	-	91,286
Accounts payable	-	-	-	-	-	4,348,370	4,348,370
Other liabilities	-	-	-	-	-	372,135	372,135
Total	91,286	-	-	-	11,320,850	41,810,197	53,222,333

(a) Including financial assets measured at cost.

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

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

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	31.12.2015						
	At fair value through	Loans and items	Available-for-sale investments		Liabilities at	Other liabilities	
<i>In thousands of soles</i>	profit or loss	receivable	At amortized cost (a)	At fair value	amortized cost	(b)	Total
Assets							
Cash and due from banks	-	14,856,367	-	-	-	-	14,856,367
Investments at fair value through profit or loss							
Capital instruments	6,563	-	-	-	-	-	6,563
Debt instruments	1,537,337	-	-	-	-	-	1,537,337
Available-for-sale investments							
Instruments representing capital	-	-	3,514 (c)	57,625	-	-	61,139
Instruments representing debt	-	-	-	2,390,791	-	-	2,390,791
Loan portfolio	-	38,333,350	-	-	-	-	38,333,350
Held-for trading derivative instruments	330,001	-	-	-	-	-	330,001
Accounts receivables	-	118,948	-	-	-	-	118,948
Other assets	-	90,399	-	-	-	-	90,399
Total	1,873,901	53,399,064	3,514	2,448,416	-	-	57,724,895
Liabilities							
Deposits and obligations	-	-	-	-	-	34,811,578	34,811,578
Interbank funds	-	-	-	-	-	385,467	385,467
Deposits of financial entities and international financial entities	-	-	-	-	-	934,198	934,198
Borrowings and financial obligations	-	-	-	-	11,645,777	-	11,645,777
Held-for trading derivative instruments	207,011	-	-	-	-	-	207,011
Accounts payable	-	-	-	-	-	5,326,062	5,326,062
Other liabilities	-	-	-	-	-	184,843	184,843
Total	207,011	-	-	-	11,645,777	41,642,148	53,494,936

(a) Including financial assets measured at cost.

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

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

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32. Financial Risk Management

Scotiabank Perú S.A.A. and Subsidiaries have a strong risk culture throughout the entire organization; the risk management is a responsibility shared by all employees, being a main element the risk diversification across different lines of business, products and industries.

It comprises the management of the following main risks:

- Credit risk: It is the risk of loss due to debtors, counterparties or third parties' incapacity or weakness of compliance with their contractual obligations.
- Market risk: It is the risk of loss in on-balance or off-balance sheet positions arising from the market conditions variations. It generally includes the following types of risk: exchange rate, interest on fair value, price, among other risks.
- Liquidity risk: It is the risk of loss due to noncompliance with borrowing requirements and applications of funds arising from cash flow mismatches.
- Operational risk: It is the direct or indirect risk of loss to which Scotiabank Perú S.A.A. and Subsidiaries are exposed due to external events, human error or deficiencies or failures in processes, procedures, systems or controls. This operational risk includes legal risk, but excludes the strategic and reputational risks.

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

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

A. Adequate corporate governance

The bodies supporting corporate governance are:

Board of Directors

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

Executive Committees

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

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Risk Senior Management

It is responsible for proposing and implementing the policies, methodologies and procedures for an integral risk management to identify, monitor, mitigate and control the different types of risks to which Scotiabank Perú S.A.A. and Subsidiaries are exposed. Also, it is involved in the definition and design of the strategy and communicates and strengthens risk culture throughout the Group.

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

B. Aligned and updated risk policies and limits

Policies are based on recommendations from the different risk units, internal audit, business lines, and industry best practices, regulatory requirements and BNS', as well as the recommendations of top management. Policies are guided by the Risk Appetite Framework, and set the limits and controls within which it can operate.

The policies are reviewed and approved by the Board of Directors, either directly or through its committees. These provide a description of the types of exposure, responsibilities and conditions that they are able to do business, in order to ensure proper understanding of customers, products, markets and fully understand the risks associated with each activity.

C. Risk monitoring

Risk Division has developed a set of policies to identify measure and communicate the evolution of risk in different products and banking, which allow anticipation of impairment loss of any portfolio in order to take corrective actions.

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

Credit risks

A. Life cycle: admission, monitoring and collection

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

B. Credit risk mitigation - collateral

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

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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.

C. Credit rating

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

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

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

D. Debtor regulatory credit rating

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

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

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- E. Loan portfolio impairment loss
As of September 30, 2016 and December 31, 2015, based on SBS Resolution 7036-2012, the Bank and CrediScotia Financiera S.A. have classified impaired and not impaired loans considering the following criteria:
- Neither past due nor impaired loans
It comprises loans with risk category rated as "standard" or "potential problem" and classified in books as current loans.
 - Past due but not impaired loan
It comprises client's loans with risk category rated as "standard" or "potential problem" and classified in books as past due.
 - Impaired loans
For wholesale portfolio, it comprises loans rated as substandard, doubtful or loss, and the refinanced, restructured and lawsuit loans. For Retail portfolio, it comprises loans overdue 90 days or more and those classified as lawsuit loans.

Market risk

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

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

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

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

- B. Exposure to market risks – Trading portfolio
The principal tool used to measure and control market risk exposure within the Group's trading portfolio is value at risk (VaR). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) due to an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based upon a 99 percent confidence level and assumes a 1-day holding period. Considering market data from the previous 300 days, relationships between different markets and prices are observed, the model generates a wide range of plausible future scenarios for market price movements.

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

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

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

VaR methodology limitations are recognized by complementing VaR limits with other position and sensitivity limits structures. In addition, a wide range of stress tests is used to model the financial impact of different trading portfolio scenarios.

Management determines hypothetical scenarios considering potential macroeconomic events, for example, prolonged market illiquidity periods, reduced fungibility of currencies, natural disasters and other catastrophes. The analysis of scenarios and stress tests are reviewed by ALCO.

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

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

C. Exposure to market risks – Non-trading portfolio

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

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

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

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

Interest rate risk

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

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

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

Interest rate risks in the non-trading portfolios are mainly driven by the terms and currency of the loan portfolio mismatches. The interest rate risk is managed within the framework of policies approved by the Board of Directors and global limits included in the Risk Appetite Framework and aims to keep under control the risk originated by the effects of net interest income and equity value fluctuations.

Interest rate risk report is presented on a monthly basis by the ALCO to the Risk Control Committee and the Board of Directors, detailing the exposure to such risk by currency, as well as the results of measurement tools, use of limits and interest rate risk stress tests, among other issues related to market risk management in compliance with regulatory provisions of the Parent Company and Scotiabank Perú S.A.A. and Subsidiaries.

Gap analysis, sensitivity analysis, simulation modeling, and stress testing are used for monitoring and planning purposes.

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

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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.

- (i) *This indicator is focused on the potential impact of interest rate changes on value generation, specifically, through the financial margin, and the Bank's equity value; measures the percentage of regulatory capital exposed to interest rate risk as a result of marginal mismatches weighted by their respective sensitivity for all temporary bands.*
- (ii) *This indicator measures the percentage of regulatory capital exposed to interest rate risk as a result of mismatches accumulated up to one year; this should not exceed 5%.*

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

Exchange rate risk

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

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

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

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, 2016 and December 31, 2015, the net asset position of the consolidated statement of financial position in foreign currency amounted to US\$ 76,798 and US\$ 384,138 thousand, respectively, see note 5.

As of September 30, 2016 and December 31, 2015, the global position of global oversold/bought position in the Bank amounted to S/ 118,888 thousand and S/ 77,480 thousand, respectively.

Investment portfolio risk

The own investment portfolio and trading portfolio are managed by the ALM Unit and Trading Unit, respectively.

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

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Investment portfolios are composed of liquid instruments, mainly certificates of deposits issued by the Banco Central de Reserva del Perú and Peruvian Government Bonds issued in local and foreign currency.

Liquidity risk

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

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

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

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

Central Treasury ratios are indicators that relate liquid assets to short-term liabilities under one year. The SBS has determined that this relation shall be greater than 8% and 20%, in the case of local and foreign currency, respectively. As of September 30, 2016, Scotiabank Perú S.A.A.' ratios in local and foreign currencies were 21.97% and 39.09%, respectively (19.11% and 42.73% as of December 31, 2015).

Liquidity Coverage Ratio is an indicator of liquidity level in a hypothetical stress scenario; it indicates if the entity have sufficient liquidity to withstand liquidity disruptions for up to 30 days, without the need of turning to the market. As of September 30, 2016, the minimum amount required by the regulator was 80% and Scotiabank presented comfortable levels of liquidity reaching 105.03% in local currency and 127.34% in foreign currency (100.33% and 143.84% as of December 31, 2015).

Operational and technological risk

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

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

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During 2016, the development and consolidation of operational risk management methodologies for Scotiabank Perú S.A.A. and Subsidiaries have continued, providing an adequate identification, management and control of operational risk, being the main ones:

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

i. Loss event methodology

The Scotiabank Group follows up relevant data of operational risk losses established per Business Line, in accordance with the Basel loss event types. Losses are reported by Operational Risk Managers designated in the various centralized and specialized units of the Bank and identified by the Accounting area through reviews by the Operational and Technological Risk Unit, which are included in the centralized database of the Operational Risk Losses. This database is used to determine trends, conduct analysis and prepare reports of operational risk losses intended for senior management and the Board of Directors.

Loss data collection exercise ensures consistent management across the Bank and its subsidiaries which allows classifying loss event data per line of business, type of event and effect type, as per Basel definitions and according to the Regulations for Operational Risk Management approved by the local regulator. Losses are also classified by significant internal units and types of risk, according to the Bank's standard inventory of operational risks. On the other hand, database allows identifying connections between losses data, Risk and Control Assessment and Key Risk Indicators, providing analysis and generating awareness on internal and external operational risks.

ii. Key risk indicators (KRIs)

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

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

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

iii. Business Continuity Management – BCM

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

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

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

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

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

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

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

During 2016, methodology application was scheduled and executed over ten significant units of Scotiabank Group, and an evaluation was conducted in Scotiabank at entity level; also update was performed through the RCA process in a short version, to 5 units. On the other hand, 20 new risk matrices and 27 matrices updates has been managed. The Scotiabank Group's methodology for the Assessment of Risk and Controls Assessment was applied through two procedures.

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

- The Scotiabank Group has established policies for comprehensive risk assessment of new products and in case of major changes in the business, operational or systems environment; these policies describe the general principles applicable to the review, approval and implementation of new products and services within the Bank. The principles are intended to provide guidance to Business Lines in the development of processes and guidelines of risk assessment to be integrated into the policies and procedures on new products. All new products or major change in the business, operational or system environment shall have a comprehensive risk assessment prior to its development, and it shall be updated after its implementation.
- The Operational Risk Committee provides oversight to ensure that all Business Lines implement principles and conduct products risk assessments consistently.
- The Operational and Technological Risk Unit also provides advice to the owner of the initiative during the Integral Risk Assessment process.

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vi. Training and awareness

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

33. Fair Value

The table below shows a comparison of carrying amounts and fair values of Scotiabank Perú S.A.A. and Subsidiaries' financial instruments per item in the consolidated statement of financial position as of September 30, 2016 and December 31, 2015:

<i>In thousands of soles</i>	Carrying amount		Fair value	
	09.30.2016	12.31.2015	09.30.2016	12.31.2015
Assets				
Cash and due from banks	13,433,041	14,856,367	13,433,041	14,856,367
Interbank funds	114,913	-	114,913	-
Investments at fair value through profit or loss				
Capital instruments	10,469	6,563	10,469	6,563
Debt instruments	492,633	1,537,337	492,633	1,537,337
Available-for-sale investments				
Instruments representing capital	53,813	61,139	53,813	61,139
Instruments representing debt	2,166,250	2,390,791	2,166,250	2,390,791
Loan portfolio, net	39,920,185	38,333,350	39,920,185	38,333,350
Held-for trading derivative instruments	81,483	330,001	81,483	330,001
Accounts receivable	1,705,587	118,948	1,705,587	118,948
Other assets	287,490	90,399	287,490	90,399
Total	58,265,864	57,724,895	58,265,864	57,724,895

<i>In thousands of soles</i>	Carrying amount		Fair value	
	09.30.2016	12.31.2015	09.30.2016	12.31.2015
Liabilities				
Deposits and obligations	36,421,023	34,811,578	36,421,023	34,811,578
Interbank funds	305,035	385,467	305,035	385,467
Deposits of financial entities and international financial entities	363,634	934,198	363,634	934,198
Borrowings and financial obligations	11,320,850	11,645,777	11,356,777	11,277,871
Held-for trading derivative instruments	91,286	207,011	91,286	207,011
Accounts payable	4,348,370	5,326,062	4,348,370	4,456,537
Other liabilities	372,135	184,843	372,135	184,843
Total	53,222,333	53,494,936	53,258,260	52,257,505

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.

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

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

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

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

Consequently, as of September 30, 2016 and December 31, 2015, fair or estimated market values of the financial instruments do not differ significantly from their corresponding carrying amount.

Fair value hierarchy

Scotiabank Perú S.A.A. and Subsidiaries classify financial instruments carried at fair value based on their hierarchy or valuation techniques applied. This classification has three levels as described below:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Valuation techniques that use significant inputs data and variables with material effect on fair value estimation that are directly or not directly observable in the market.
- Level 3: Valuation technique, where some of the input data and variables are not observable in the market.

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The table below shows the valuation levels applied as of September 30, 2016 and December 31, 2015, to determine the fair value of financial instruments:

<i>In thousands of soles</i>	09.30.2016			
	Level 1	Level 2	Level 3	Total
Assets				
Investments at fair value through profit or loss				
Instruments representing capital	-	10,458	11	10,469
Instruments representing debt	-	492,633	-	492,633
Available-for-sale investments				
Instruments representing capital	47,742	2,057	4,014	53,813
Instruments representing debt	-	2,166,250	-	2,166,250
Held-for trading derivative instruments	-	81,483	-	81,483
Total	47,742	2,752,881	4,025	2,804,648
Liabilities				
Held-for trading derivative instruments	-	91,286	-	91,286
Total	-	91,286	-	91,286

<i>In thousands of soles</i>	12.31.2015			
	Level 1	Level 2	Level 3	Total
Assets				
Investments at fair value through profit or loss				
Instruments representing capital	11	6,552	-	6,563
Instruments representing debt	-	1,537,337	-	1,537,337
Available-for-sale investments				
Instruments representing capital	57,625	-	3,514	61,139
Instruments representing debt	-	2,390,791	-	2,390,791
Held-for trading derivative instruments	-	330,001	-	330,001
Total	57,636	4,264,681	3,514	4,325,831
Liabilities				
Held-for trading derivative instruments	-	207,011	-	207,011
Total	-	207,011	-	207,011