SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2014 and 2013

(including Independent Auditors' Report)

(TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH)

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(TRANSLATION OF A REPORT ORIGINALLY ISSUED IN SPANISH)

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Scotiabank Perú S.A.A. (a subsidiary of The Bank of Nova Scotia – BNS, an entity established in Canada), and Subsidiaries which comprise the consolidated statement of financial position as of December 31, 2014 and 2013, and the consolidated statements of income and other comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Scotiabank Perú S.A.A. and Subsidiaries as of December 31, 2014 and 2013, its financial performance and its cash flows for the years then ended in conformity with accounting standards established for financial institutions in Peru by the SBS.

Lima, Peru

Caipo y Asociados

February 20, 2015

Countersigned by:

Eduardo Alejos P. (Partner)
Peruvian CPA
Registration number 01-29180

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Consolidated Statement of Financial Position

As of December 31, 2014 and 2013

(Stated in thousands of nuevos soles)

	Note	2014	2013
Assets			
Cash and due from banks	6		
Cash		1,268,834	1,079,942
Deposits with Banco Central de Reserva del Perú		7,466,581	9,563,951
Deposits with local and foreign banks		472,206	446,935
Clearing		51,031	183,267
Other cash and due from banks		1,313,380	97,320
		10,572,032	11,371,415
Interbank funds		70,002	364,224
Investments at fair value through profit or loss and available-for-sale investments	7	2,038,639	2,101,530
Loan portfolio, net	8	31,667,386	27,341,186
Held-for trading derivative instruments	9	171,939	142,288
Accounts receivable, net	10	867,020	612,878
Investments in associates		62,062	55,342
Goodwill	11	278,818	278,818
Property, furniture, and equipment, net	12	453,744	471,646
Deferred income tax	27	252,384	268,901
Other assets, net	13	556,293	626,285
Total assets		46,990,319	43,634,513
Risks and contingent commitments	19	48,496,400	42,953,144

	Note	2014	2013
Liabilities and shareholders' equity			
Deposits and obligations in financial system entities	14		
Demand deposits		10,310,188	11,065,459
Savings deposits		6,394,975	5,107,171
Time deposits		11,435,844	12,219,869
Other obligations		1,199,550	1,422,887
		29,340,557	29,815,386
Borrowings and financial obligations	15	10,924,144	7,716,418
Held-for trading derivative instruments	9	187,158	176,863
Deferred income tax	27	-	808
Provisions and other liabilities	16	892,397	884,672
Total liabilities		41,344,256	38,594,147
Shareholders' equity	17		
Capital stock		3,683,040	3,052,822
Additional paid-in capital		368,564	368,564
Legal reserve		646,777	561,285
Unrealized earnings		22,028	18,493
Retained earnings		925,654	1,039,202
Total shareholders' equity		5,646,063	5,040,366
Total liabilities and shareholders' equity		46,990,319	43,634,513
Risks and contingent commitments	19	48,496,400	42,953,144

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Statement of Income

For the years ended December 31, 2014 and 2013

(Stated in thousands of nuevos soles)

	Note	2014	2013
Interest income	20	3,288,185	3,113,996
Interest expenses	21	(615,496)	(615,994)
Gross finance income		2,672,689	2,498,002
Provisions for loans, net of recoveries		(750,725)	(808,002)
Net finance income		1,921,964	1,690,000
Income from finance services, net	22	551,052	553,819
Net finance income and finance service expenses		2,473,016	2,243,819
Income from financial transactions	23	286,079	308,806
Operating margin		2,759,095	2,552,625
Administrative expenses	24	(1,383,063)	(1,332,958)
Depreciation of property, furniture, and equipment		(64,660)	(61,793)
Amortization of intangible assets		(14,697)	(11,255)
Net operating margin		1,296,675	1,146,619
Net provisions for contingent loans, doubtful and other accounts receivable, realizable, repossessed assets, and other assets		(17,196)	(23,994)
Operating results		1,279,479	1,122,625
Other income, net	25	99,545	102,349
Net profit before income tax		1,379,024	1,224,974
Deferred income tax	27	11,146	28,644
Current income tax	26.a	(447,333)	(395,661)
Net profit		942,837	857,957

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Statement of Income and Other Comprehensive Income

For the years ended December 31, 2014 and 2013

(Stated in thousands of nuevos soles)

	2014	2013
Net profit	942,837	857,957
Other comprehensive income:		
Gain (loss) on available-for-sale investments	37,319	(58,896)
Share in other comprehensive income of associates	(6,631)	5,867
Income tax effect	(27,153)	29,231
Other comprehensive income, net of income tax	3,535	(23,798)
Total comprehensive income of the year	946,372	834,159

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Statement of Changes in Shareholders' Equity

For the years ended December 31, 2014 and 2013

(Stated in thousands of nuevos soles)

	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 (note 17.e)	Total shareholders' Equity
Balances as of December 31, 2012	282,480,263	2,852,818	368,553	479,029	42,291	884,788	4,627,479
Net profit	-	-	-	-	-	857,957	857,957
Other comprehensive income:							
Unrealized losses on available-for-sale investments	-	-	-	-	(26,567)	-	(26,567)
Adjustments to other comprehensive income of available-for-sale and associates	-	-	-	-	2,769	-	2,769
Total comprehensive income	-	-	-	-	(23,798)	857,957	834,159
Application to legal reserve	-	-	-	82,256	-	(82,256)	-
Dividend distribution	-	-	-	-	-	(399,356)	(399,356)
Capitalization of retained earnings	20,000,000	200,000	-	-	-	(200,000)	-
Operations with treasury shares	-	4	11	-	-	-	15
Other adjustments	-	-	-	-	-	(21,931)	(21,931)
Balances as of December 31, 2013	302,480,263	3,052,822	368,564	561,285	18,493	1,039,202	5,040,366
Net profit	-	-	-	-	-	942,837	942,837
Other comprehensive income:							
Unrealized gain on available-for-sale investments	-	-	-	-	3,654	-	3,654
Unrealized loss on investment in associates	-	-	-	-	(119)	-	(119)
Total comprehensive income	-	-	-	-	3,535	942,837	946,372
Application to legal reserve	-	-	-	85,492	-	(85,492)	-
Dividend distribution	-	-	-	-	-	(341,967)	(341,967)
Capitalization of retained earnings	63,021,949	630,219	-	-	-	(630,219)	-
Operations with treasury shares	-	(1)	-	-	-	-	(1)
Other adjustments	-	-	-	-	-	1,293	1,293
Balances as of December 31, 2014	365,502,212	3,683,040	368,564	646,777	22,028	925,654	5,646,063

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

SCOTIABANK PERÚ S.A.A. AND SUBSIDIARIES

Consolidated Statement of Cash Flows

For the years ended December 31, 2014 and 2013

(Stated in thousands of nuevos soles)

	2014	2013
Cash flows from operating activities		
Net profit	942,837	857,957
Adjustments to reconcile net profit to net cash from operating activities:		
Provision for doubtful loans, net of recoveries	750,725	808,002
Impairment loss on investments	1	21
Provisions on realizable, repossessed and other assets, net	1,605	1,328
Provision for accounts receivable, net	9,994	6,109
Depreciation and amortization	79,357	73,048
Provision for fringe benefits	44,130	39,962
Provision for current and deferred income tax	436,187	367,017
Provision for contingent loans and country risk, net of recoveries	3,193	8,893
Other provisions (recoveries)	45,297	(420,683)
(Gains) on sale of property, furniture, and equipment	(77,329)	(82,210)
(Gains) loss of realizable and repossessed assets	(2,656)	2,569
Gain on sale of investment in subsidiary	-	(31,067)
Net changes in assets and liabilities:		
Loans	(5,084,548)	(5,477,928)
Investments at fair value through profit or loss	1,075,586	(1,286,033)
Available-for-sale investments	(1,006,123)	587,498
Accounts receivable	(291,305)	(253,421)
Other assets	351,988	255,983
Non- subordinated financial liabilities	1,388,496	8,965,474
Accounts payable	(402,475)	(187,472)
Provisions and other liabilities	(2,876)	(73,884)
Net (loss) profit after net changes in assets, liabilities and adjustments	(1,737,916)	4,161,163
Income taxes paid	(249,890)	(235,695)
Net cash and cash equivalents (used in) from operating activities	(1,987,806)	3,925,468
Cash flows from investing activities		
Proceeds from sale of investment in subsidiary	-	67,709
Proceeds from sale of property, furniture, and equipment	102,817	91,361
Outflow from acquisition of other financial assets	(12,811)	(13,490)
Outflow from acquisition of property, furniture, and equipment	(77,663)	(81,968)
Dividends received	9,895	15,957
Net cash and cash equivalents from investing activities	22,238	79,569
Cash flows from financing activities		
Outflow from the recovery of subordinated financial liabilities	-	(25,500)
Inflow from sale of own shares	-	16
Dividends paid	(341,967)	(399,356)
Net cash and cash equivalents used in financing activities	(341,967)	(424,840)
Net (decrease) increase in cash and cash equivalents, before the effect of exchange rate fluctuations	(2,307,535)	3,580,197
Exchange rate fluctuations effect on cash and cash equivalents	(42,905)	428,293
Net (decrease) increase in cash and cash equivalents	(2,350,440)	4,008,490
Cash and cash equivalents at beginning of year	11,684,117	7,675,627
Cash and cash equivalents at end of year	9,333,677	11,684,117

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

(1) Operations

Scotiabank Perú S.A.A. (hereinafter the Bank) is a subsidiary of The Bank of Nova Scotia - BNS (a financial entity from Canada), which holds directly and indirectly 97.75% of the Bank’s capital stock as of December 31, 2014 and 2013. The Bank of Nova Scotia directly owned 2.32% of the Bank’s shares, and indirectly through NW Holdings Ltd. and Scotia Perú Holdings S.A. owned 55.32% and 40.11% of shares, respectively, as of those dates.

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

The Bank’s registered office address is Av. Dionisio Derteano N° 102, San Isidro, Lima, Peru. As of December 31, 2014, Scotiabank Perú S.A.A. and Subsidiaries performed its activities through a national network of 353 branches, and one branch abroad (as of December 31, 2013, it had 337 Peruvian branches and one branch abroad).

As of December 31, 2014 and 2013, 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), 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; Promoción de Proyectos Immobiliarios y Comerciales S.A. engaged in purchasing and selling of goods in general, among other activities and the SBP DPR Finance Company, special purpose entity and Inmuebles Depsa equity trust. As of December 31, 2014 and 2013, the subsidiary Promoción de Proyectos Immobiliarios y Comerciales S.A. is an inactive company.

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

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

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

As of December 31, 2014:

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

As of December 31, 2013:

			In thousands of S/.		
Entity	Activity	Percentage of shareholding	Assets	Liabilities	Shareholders' equity
Scotiabank Perú S.A.A.	Banking	-	40,951,474	35,892,844	5,058,630
CrediScotia Financiera S.A.	Finance	100.00	3,517,074	2,980,840	536,234
Servicios, Cobranzas e Inversiones S.A.C.	Collection services	100.00	125,527	25,289	100,238
Scotia Sociedad Agente de Bolsa S.A.	Stock market broker	100.00	86,275	3,349	82,926
Scotia Fondos Sociedad Administradora de Fondos S.A.	Administration of mutual funds	100.00	31,857	2,286	29,571
Patrimonio en Fideicomiso sobre Bienes Inmuebles – Depsa	Special purpose entity	-	18,691	5,130	13,561
Scotia Sociedad Titulizadora S.A.	Securitization	100.00	3,283	33	3,250
SBP DPR Finance Company	Special purpose entity	-	737,438	737,438	-

Approval of Financial Statements

The consolidated financial statements as of December 31, 2013 were approved by the Annual Obligatory Shareholders' Meeting on March 25, 2014. The Bank's management approved the consolidated financial statements as of December 31, 2014 in February 2015 and that will be presented for approval of the corresponding Board of Directors' and General Shareholders' Meeting, within the terms established by law. 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 Board of Directors and General Shareholders' Meeting within the terms established by law.

(2) Sale of Subsidiary

On September 27, 2013, the Bank sold the total shareholding held as sole shareholder of its subsidiary Depósitos S.A. to a non-related third party, which was represented by 2,776,857 common shares. In the nine months period to the date of sale, Depósitos S.A. contributed income of S/. 225,297 thousand and profit for S/. 123,092 to the Group's results before eliminations. According to the terms of the sale agreement, in exchange of these shares, the Bank received a cash amount of US$ 24,465 thousand (equivalent to S/. 67,709 thousand), net of the adjustment for net debt of US$ 757 thousand (equivalent to S/. 2,105 thousand) in favor of the purchaser reimbursed on December 20, 2013. As a result of this transaction, the Bank generated a profit before taxes of S/. 31,067 thousand (note 23.a)

Prior to the sale, Depósitos S.A. established a Trust (note 1); and as Trustee, transferred under fiduciary domain 6 real estate properties with a net carrying amount of S/. 20,927 thousand to the Trust, receiving in exchange two shares certificates. Such certificates were sold to the Bank at an amount of S/. 202,267 thousand and were paid in cash; therefore, since the Bank is the only beneficiary, it will receive the benefits generated by the Trust as a result of the administration and arrangement of such properties.

During 2014, the trust sold 3 out of the 4 properties remaining to non- related third parties amounting to S/. 45,122 thousand, generating a net profit of S/. 33,627 thousand (during 2013, sold one of the real estate properties to a non-related party in S/. 89,269 thousand, generating a net profit of S/. 53,795 thousand) included in the net profit of sales of property, furniture and equipment (note 25).

(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 International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), and the Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), or the former Standing Interpretations Committee (SIC), adopted by the IASB and made official by the Consejo Normativo de Contabilidad – CNC (Peruvian Accounting Board) for their application in Peru.

(b) Basis of Measurement

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

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

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

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

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

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

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

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

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

Financial statements of the Subsidiaries and special purpose entity have been included for consolidation purposes and represent 9.51% and 9.97%, respectively, of the total Bank's assets before eliminations as of December 31, 2014 and 2013. As of those dates, there is non-controlling interest resulting from the consolidation process.

(b) Financial Instruments

Financial instruments are classified as assets, liabilities, or equity 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. The financial instruments shall be offset when Scotiabank Perú S.A.A. and Subsidiaries have the legally enforceable right and management has the intention to settle them on a net basis or to realize the asset, and settle the liability simultaneously.

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

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

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

Derecognition of financial assets and liabilities

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 nor substantially retained all risks and rewards of the asset, has relinquished control.

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

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

(c) Derivative Instruments

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

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 recorded in contingent accounts at their notional amounts translated at the spot exchange rate.

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

(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 or Loss

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

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

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

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

(ii) Available-for-sale Investments

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

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

If an available-for-sale security is impaired, the cumulative loss (measured as the difference between the asset's acquisition cost, net of any principal repayments and amortization, and its current fair value, less any impairment loss on that asset previously recognized in the consolidated statement of income 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 direct and incremental transaction costs. They are subsequently measured applying the equity method, meaning; the carrying amount of the investment will be increased or decreased by proportional recognition of the period’s results obtained at the measurement date.

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

Investment instruments held by companies can be reclassified. 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 2014 and 2013, the Bank has not reclassified its investment instruments in categories**.**

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

During 2014 and 2013, the Bank has recognized impairment losses on investment instruments for S/. 1 thousand and S /. 21 thousand, respectively.

(e) Loans, Classification and Provision for Doubtful Loans

Direct loans are recorded when fund disbursements are made to clients. Indirect loans (contingent) are recorded when documents that support such credit facilities are issued and may became direct loans 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. Initial direct costs are recognized immediately as expenses.

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

Loan Portfolio Classification

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

Credit Risk Rating Categories

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

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

Provisions for doubtful loans

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

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

	Description	CCF (%)
(i)	Confirmation of irrevocable letters of credit up to one year, when the issuing bank is a first level entity from a foreign financial system.	20
(ii)	Standby letters of credit that support obligations to do or not do.	50
(iii)	Import credit guarantees, and those not included in the previous item, as well as bank acceptances.	100
(iv)	Granted loans no disbursed and unused credit lines.	0
(v)	Other not considered above.	100

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

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

Risk Rating	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 provisions for direct loans and credit risk equivalent exposure of indirect loans for debtors classified as Standard are as follows:

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

For corporate, large company and mortgage loans that have preferred readily realizable collateral, the procyclical component rate is 0.30%. For all other types of credits with preferred readily realizable collateral, the procyclical component rate is 0% for the portion covered by such collateral.

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

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

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

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

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

(f) Securities Trading Transactions Carried Out by Third Parties

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

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

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

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

(g) Property, Furniture, and Equipment

Property, furniture, and equipment are recorded at the historical acquisition cost, less accumulated depreciation and impairment losses. 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 recorded at acquisition cost. These goods are not depreciated until relevant assets are finished and/or received, and are in operative condition.

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

	Years
Property and premises	20 and 10
Furniture, fixtures and IT equipment	10 and 4
Vehicles	5

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

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

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

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

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

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

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

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

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

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

(i) Value Impairment

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

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

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

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 statement of income.

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 recorded using the liability method based on temporary differences derived from tax accounting of assets and liabilities, and their balances in the financial statements of each company that is part of Scotiabank Perú S.A.A. and Subsidiaries 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 income tax assets and liabilities are recognized without considering the estimated time when the temporary differences will disappear. Deferred income tax asset is only recognized if it is probable there would be future tax benefits, so that the deferred asset can be used.

(k) Intangible Assets

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

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

(l) Goodwill

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

Business acquisitions are recorded using the 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 terms of these instruments.

Interest is recognized in results when accrued.

(n) Provisions and Contingencies

(i) Provisions

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

The provision for severance payment (CTS) is calculated according to current legislation, on the total employees' indemnities and should be paid through deposits in authorized financial entities as chosen by them. Calculation is made for the amount that should have to be paid as at the 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 "Provisions and 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.

Resolution SBS 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 recorded in memoranda accounts and recognized as earned when collected. When management considers that the financial situation of the debtor has improved and that the doubt about the collectibility of the principal has dissipated, the recording on accrual basis is restated.

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

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

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

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

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

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

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

(p) Capital Stock

Common shares are classified as equity. Preferred shares, if any, are recorded as other debt instruments; the difference between the redeemable amount of preferred shares and their par value being recorded in the capital account. Dividends on preferred shares are recorded as liabilities and charged to income of the period. As of December 31, 2014 and 2013, 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 liabilities and expenses for employees’ profit sharing in the Consolidate Statement of Income based on 5% of taxable income determined according to the current tax legislation.

(r) Repurchase Agreements

The Bank applies SBS Resolution Nº 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 funds at maturity. Also, reclassifies underlying securities as required by SBS. Accounting records of returns will depend on the agreements between parties. Difference between the final and initial amount will be recognized as expenses against liabilities, within the term of the operation applying the effective interest rate method.

As of December 31, 2014, the Bank conducts repurchase agreements of securities and currency. As of December 31, 2013, the Bank did not hold repurchase agreements.

(s) Statement of cash flows

For presentation purposes of this financial statement, the balances of “Cash and due from banks” and “Interbank funds”, of the assets, as of December 31, 2014 and 2013, were considered as cash and cash equivalents except for the restricted cash and due from banks for compliance with contractual commitments (note 6).

(t) Reclassifications

Certain financial statements items as of December 31, 2013 have been reclassified to make them comparable to those in this period.

These reclassifications were determined in accordance with Resolution SBS 3225-2014 which through SBS establishes that the presentation of "Negotiable Certificates of Deposits" as Obligations issued instead of Time deposits; therefore, for comparison purposes, balances as of December 31, 2013 have been reclassified as follows:

Consolidated Statement of Financial Position -

	In thousands of S/.		
	12.31.13	Reclassification	12.31.13
Liabilities			
Deposits and obligations			
Demand deposits	11,065,459	-	11,065,459
Savings deposits	5,107,171	-	5,107,171
Time deposits	12,489,488	(269,619)	12,219,869
Other obligations	1,422,887	-	1,422,887
	-------------		-------------
	30,085,005		29,815,386
Borrowings and financial obligations	4,884,722	-	4,884,722
Securities, bonds and obligations outstanding	2,562,077	269,619	2,831,696
Trading derivatives	176,863	-	176,863
Deferred income tax	808	-	808
Provisions and other liabilities	884,672	-	884,672
	--------------	---------------	---------------
Total liabilities	38,594,147	-	38,594,147
	========	=========	=========

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

(u) Trust Funds

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

(v) Foreign Currency Transactions and Balances

Foreign currency transactions are those transactions carried out in a currency that is different from the nuevo sol. Foreign currency transactions are translated into nuevo sol using exchange rates established by the SBS reported at the dates of the transactions (note 5). Gains or losses on exchange 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.

(w) New Accounting Pronouncements

(i) Pronouncement of the Peruvian Accounting Board -CNC

A certain number of standards and amendments to standards and interpretations for annual periods beginning from January 1, 2015 and that have not been applied in the preparation of these consolidated financial statements, which are detailed as follows: Items that could have an effect on the consolidated financial statements in the periods when they are applicable are described below:

- IFRS 9, *Financial Instruments*, replaces guides to IAS 39 Financial Instruments: *Recognition and Measurement*. IFRS 9 includes guidelines reviewed for the classification and measurement of financial instruments, including a new model of credit losses expected to calculate the impairment of financial assets and the new general requirements of hedge accounting. It also maintains guides related to the recognition and the disposal of accounts of financial instruments of IAS 39.

- IFRS 15, *Revenue from Contracts with Customers*, establishes a complete framework to determine the nature, amount and timing of revenue.

  It replaces current guidelines for revenue recognition including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs.

- Amendments to IFRS 11 *Acquisition of an interest in a Joint Operation* states the application of accounting principles for Business Combinations when an interest in a joint operation that is a business applies as defined in IFRS 3 *Business Combinations*.

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

As of the date of these financial statement, the CNC has made official through Resolution 054-2014-EF/30 published on July 17, 2014, version 2014 of International Financial Reporting Standards and amendments to IFRS 11. Also, by means of Resolution 055-2014-EF/30 issued on July 24, 2014 made official amendments to IAS 16 and 38, version 2014 of effective IAS, IFRS, IFRIC and SIC, finally, Resolution 056-2014-EF/30 issued on November 6, 2014, made official amendments to IAS 16 and 41, the final version of IFRS 9 and 15. The application of versions is the day following the issuance of the resolution or subsequently, according to the effectiveness stipulated on each specific standard.

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

(iii) SBS pronouncements adopted by the Bank

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

- On November 27, 2014 SBS issued Official Letter B-2224-2014, which established that the procyclical rule has been discontinued for the calculation of provisions for loan losses from November 2014.

- On September 2, 2014, SBS issued Resolution 5790-2014, Regulation for Reporting Operations, which establishes key definitions, accounting matters and applicable prudential measures. It is worth mentioning that this resolution is in conformity with IAS 39 Financial Instruments: Recognition and Measurement and became effective from September 3, 2014.

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

(5) Foreign Currency Balances

Consolidated statements of financial position include balances of foreign currency transactions, mainly in U.S. dollars (US$), which are recorded in nuevos soles (S/.) at the exchange rate established by the SBS. As of December 31, 2014 and 2013, these rates were US$ 1= S/. 2.986 and S/. 2.795 respectively.

Foreign currency transactions in the country and international trade transactions referred to the concepts authorized by Banco Central de Reserva del Perú - BCRP (Central Bank), are channeled through an interbank foreign exchange market. As of December 31, 2014, the buy and sell exchange rates used were US$ 1 = S/. 2.981 and US$ 1 = S/. 2.989, respectively (US$ 1= S/. 2.794 buy rate and US$ 1= S/. 2.796 sell rate as of December 31, 2013).

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

	2014			2013		
	U.S. dollars	Other currencies	Total	U.S. dollars	Other currencies	Total
Assets:						
Cash and due from banks	2,970,312	17,188	2,987,500	3,070,137	24,858	3,094,995
Interbank funds	-	-	-	9,000	-	9,000
Investments at fair value profit or loss and available-for-sale investments	96,998	-	96,998	453,625	-	453,625
Loan portfolio, net	4,917,096	-	4,917,096	4,790,518	-	4,790,518
Held-for-trading derivatives	3,819	-	3,819	4,068	-	4,068
Accounts receivable, net	18,258	-	18,258	15,945	19	15,964
Other assets, net	20,923	-	20,923	8,776	968	9,744
	8,027,406	17,188	8,044,594	8,352,069	25,845	8,377,914

	2014			2013		
	U.S. dollars	Other currencies	Total	U.S. dollars	Other currencies	Total
Liabilities:						
Deposits and obligations	4,974,110	29,296	5,003,406	5,851,644	44,755	5,896,399
Borrowings and financial obligations	2,096,597	-	2,096,597	1,548,557	-	1,548,557
Securities, bonds and obligations issued	487,561	-	487,561	520,769	-	520,769
Held-for-trading derivatives	2,439	-	2,439	4,550	-	4,550
Other liabilities	116,632	14,547	131,179	104,596	1,601	106,197
	7,677,339	43,843	7,721,182	8,030,116	46,356	8,076,472
Net asset (liability) position on the consolidated statement of financial position	350,067	(26,655)	323,412	321,953	(20,511)	301,442
Derivative instruments operations	(311,159)	26,621	(284,538)	(312,597)	20,703	(291,894)

In 2014 and 2013, Scotiabank Perú S.A.A. and Subsidiaries recorded in Results from financial operations, gains amounting to S/. 276,103 thousand and S/. 190,601 thousand, respectively, for exchange difference of various operations (note 23).

As of December 31, 2014, Scotiabank Perú S.A.A. and Subsidiaries have contingent operations in foreign currency amounting to US$ 11,588,675 thousand equivalent to S/. 34,603,785 thousand (US$ 11,587,664 thousand, equivalent to S/. 32,387,520 thousand as of December 31, 2013).

(6) Cash and Due From Banks

As of December 31 it comprises the following:

	In thousands of S/.	
	2014	2013
Cash (a)	1,268,834	1,079,942
Banco Central de Reserva del Perú (a)	7,466,581	9,563,951
Banks and other local financial system entities (b)	21,104	57,389
Banks and other foreign financial system entities (b)	451,102	389,546
Clearing	51,031	183,267
Restricted cash and due from banks (c)	1,313,234	96,991
Other cash and due from banks	146	329
	10,572,032	11,371,415

(a) As of December 31, 2014, funds held in cash and deposits with Banco Central de Reserva del Peru (BCRP) include US$ 1,535,271 thousand and S/. 1,510,156 thousand (US$ 1,811,316 thousand and S/. 1,132,588 thousand as of December 31, 2013), of legal cash reserve the Bank and CrediScotia Financiera S.A. these funds should be set aside to cover deposits from third parties, according to limits established by current legislation. These funds are held at BCRP and kept in their vaults of such financial entities.

Cash reserves held at BCRP do not accrue interest, except for the amount in local and foreign currency that exceeding the minimum legal cash reserve. As of December 31, 2014, the excess of legal cash reserve in local and foreign currency accrued interest at an annual rates of 0.35% and 0.04%, respectively (1.25% in local currency and 0.04% in foreign currency as of December 31, 2013). Interest accrued from the excess in foreign currency in 2014 amounts to US$ 812 thousand (US$ 849 thousand for year 2013). Interest accrued for the excess in local currency in 2014 amounts to S/. 3,017 thousand (S/. 18,000 thousand as of December 31, 2013).

As of December 31, 2014, balance of BCRP includes US$ 850,700 thousand corresponding to “overnight”; such operations accrued interest at an annual nominal rate of 0.13% (US$ 1,089,000 thousand and S/. 1,248,000 thousand as of December 31, 2013 at an annual rate of 0.15% and 3.20%, respectively).

(b) Deposits in local and foreign banks mainly correspond, to balances in nuevos soles and in U.S. dollars, and lower amounts in other currencies, with free withdrawal option and accrue interest at market rates. As of December 31, 2014, deposits in foreign banks, included deposits held at The Bank of Nova Scotia by US$ 6,861 thousand and Canadian dollars by $ 253 (US$ 6,329 thousand and Canadian dollars by $ 42 thousand as of December 31, 2013).

As of December 31, 2014 and 2013, the Bank concentrates 64% and 61% in deposits to foreign banks, in three financial entities, respectively.

(c) As of December 31, 2014, restricted cash and due from banks are comprised: i) reserve funds for comply with commitments to repurchase foreign currency to BCRP by US$ 420,233 thousand, see note 15.a; ii) reserve funds for compliance of contractual commitments and guarantees demanded by foreign and local entities, on which the Bank and Subsidiaries have no immediate availability for US$ 17,821 thousand (US$ 18,354 thousand and S/. 223 as of December 31, 2013), iii) guarantee funds for treasury transactions by US$ 64 thousand and S/. 15 thousand (US$ 14,591 thousand and S/. 16 as of December 31, 2013), iv) guarantee funds for legal proceedings by US$ 24 and S/. 278 thousand (US$ 11 thousand and S/. 387 as of December 31, 2013); and v) other operational restrictions by US$ 999 thousand and S/. 1,666 thousand (US$ 963 thousand and S/. 1,559 thousand as of December 31, 2013).

During year 2014 and 2013, interest revenue from cash and due from banks amounted to S/. 13,348 thousand and S/. 81,832 thousand, respectively, and it is included as finance income item in the consolidated income statement (note 20).

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

As of December 31 comprises the following:

	In thousands of S/.	
	2014	2013
Investments at fair value through profit or loss:		
Central Bank indexed certificates of deposit (a)	263,580	1,265,759
BCRP certificates of deposit (b)	19,522	-
Mutual funds (c)	13,742	9,297
Peruvian Treasury Bonds (d)	5,176	104,035
Others	1,486	36
	303,506	1,379,127
Available-for-sale investments:		
BCRP certificates of deposit (b)	1,054,403	269,747
Peruvian Treasury Bonds (d)	593,863	381,644
Global bonds (e)	23,205	-
Listed shares		
BVL – Lima Stock Exchange (f)	45,263	48,837
CAVALI S.A. (g)	8,631	11,696
Other	479	1,283
Unlisted shares	7,435	7,440
Mutual funds (c)	1,836	1,740
Other shares, net	18	16
	1,735,133	722,403
Total investment at fair value through profit or loss and available-for-sale investments	2,038,639	2,101,530

(a) Central Bank indexed certificates of deposit, recorded at fair value through profit or loss, are securities freely negotiable in local currency; they are acquired through BCRP public bids and traded in the Peruvian secondary market. These certificates are subject to a readjustment based on an average exchange rate variation between the date of issuance and the date of maturity, and mature in January and March, 2015 (between January and February 2014 as of December 31, 2013).

(b) Central Bank certificates of deposit, are securities freely negotiable in local currency; they are acquired through BCRP public bids and traded in the Peruvian secondary market. As of December 31, 2014, these certificates accrue interest based on the BCRP reference rate which ranged from 3.20% to 4.03% annually (between 3.78% and 4.30% annually as of December 31, 2013), and have maturities between January 2015 and April 2016 (between March and November 2014, as of December 31, 2013) Likewise, as of December 31, 2014, the Bank did not have certificates of deposit issued by BCRP with restricted availability since they are granted in reporting operations for an amount of S/. 202,557 thousand. As of December 31, 2013 the Bank did not hold reporting operations.

(c) As of December 31, 2014, SAF and Titulizadora hold investments in mutual funds in local and foreign currency for S/. 11,783 thousand and US$ 1,271 thousand, respectively, which are managed by SAF (S/. 9,978 thousand and US$ 379 thousand as of December 31, 2013).

(d) Peruvian Treasury Bonds correspond to sovereign bonds issued in local currency by the Peruvian Ministry of Economy and Finance and represent internal public debt instruments of the Republic of Peru. As of December 31, 2014, these bonds accrue interest at annual rates ranging from 3.35% to 6.44% (from 4.12% to 7.08% annually as of December 31, 2013), with maturities between May 2015 and February 2042 (between May 2015 and August 2037 as of December 31, 2013).

(e) Peruvian Global Bonds are issued in foreign currency by the Peruvian Government, accrue interests at an annual rate of 0.63% and have maturities by February 2015.

(f) Shares held by SAB in BVL -
As of December 31, 2014 shares held by SAB are class “A” shares, they amount to 4,764,577 shares and are listed at S/. 9.50 each (as of December 31, 2013 the same amount of shares was held and it was listed at S/. 10.25 per share.

Likewise, during year 2014 and 2013, BVL has distributed dividends to SAB for S/. 1,120 thousand and for S/. 2,035 thousand, respectively, which are recorded as income from dividends in the consolidated income statement.

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

CAVALI's shares are presented at fair value or are listed. As of December 31, 2014, such shares amounted to 1,438,572 and are listed at S/. 6.00 each (as of December 31, 2013 the same amount of shares was held and it was listed at S/. 9.00 per share).

During the year ended December 31, 2014, CAVALI has distributed dividends to SAB for S/. 222 thousand (S/. 408 thousand during year 2013), which are recorded as income from financial services in the consolidated income statement.

As of December 31, 2014 and 2013, the accrued interest on investments amounted to S/. 46,622 thousand and S/. 47,126 thousand, respectively, and it is included as interest income item in the consolidated income statement (note 20).

Investment at fair value through profit or loss and available-for-sale investments have the following maturities:

	In thousands of S/.	
	2014	2013
Up to 3 months	378,865	1,280,686
From 3 to 12 months	748,189	264,152
Over 12 months	911,585	556,692
	2,038,639	2,101,530

(8) Loan Portfolio, net

As of December 31 it comprises the following:

	In thousands of S/.			
	2014	%	2013	%
Direct loans:				
Current loans	31,723,550	97	27,491,530	97
Refinanced loans	216,677	-	166,227	-
Restructured loans	3,307	-	4,153	-
Past due loans	605,595	2	514,925	2
Lawsuits loans	337,502	1	220,779	1
	32,886,631	100	28,397,614	100
Plus (less):				
Accrued interest on current loans	224,145		214,816	
Non-accrued interest	(27,942)		(28,375)	
Provision for loan losses	(1,415,448)		(1,242,869)	
	31,667,386		27,341,186	
Contingent loans (note 19)	7,815,071		6,727,349	

As of December 31, 2014 and 2013, fifty-one percent of the direct and indirect loan portfolio of the Bank was concentrated in 996 and 1,078 clients, respectively.

The loan portfolio (direct and indirect) of the Bank and CrediScotia Financiera S.A. is mainly backed up with collaterals received from clients, mainly consisting of mortgages, industrial and merchant pledges, third-party letters of guarantees and securities. The value of these mortgages and pledges has been determined based on net realizable value in the market, less selling expenses according to SBS regulations.

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

	%			
	2014		2013	
	Local currency	Foreign currency	Local currency	Foreign currency
Overdrafts (*)	55.00 - 85.00	35.00 - 55.00	55.00 - 85.00	30.00 - 55.00
Discounts and commercial loans	4.82 - 47.13	1.75 - 28.78	4.81 - 46.14	3.39 - 29.41
Consumer loans	14.03 - 52.63	9.89 - 28.16	14.06 - 50.88	9.26 - 21.95

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

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

	2014				2013			
		In thousands of S/.				In thousands of S/.		
Risk rating	N° of Debtors	Direct	Contingent	Total	N° of debtors	Direct	Contingent	Total
Standard	859,093	30,669,150	7,763,303	38,432,453	853,353	26,451,267	6,702,607	33,153,874
With potential problems	42,297	745,011	32,411	777,422	43,056	676,176	14,787	690,963
Substandard	24,739	327,359	10,889	338,248	30,110	328,858	5,027	333,885
Doubtful	45,990	458,043	5,911	463,954	55,586	428,790	3,088	431,878
Loss	39,147	687,068	2,557	689,625	32,860	512,523	1,840	514,363
	1,011,266	32,886,631	7,815,071	40,701,702	1,014,965	28,397,614	6,727,349	35,124,963

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

	In thousands of S/.		
	Specific	Generic	Total
Balances as of December 31, 2012	643,617	435,479	1,079,096
Additions debited to profit or loss	1,078,933	236,743	1,315,676
Recovery of provisions	(280,763)	(210,693)	(491,456)
Transfers and other	14,119	(3,192)	10,927
Write-offs and forgiveness	(705,928)	-	(705,928)
Exchange differences	19,495	15,059	34,554
Balances as of December 31, 2013	769,473	473,396	1,242,869
Additions debited to profit or loss	1,079,744	294,465	1,374,209
Recovery of provisions	(366,967)	(219,829)	(586,796)
Transfers of provisions and other	102,589	(81,020)	21,569
Write-offs and forgiveness	(667,141)	-	(667,141)
Exchange differences	18,944	11,794	30,738
Balances as of December 31, 2014	936,642	478,806	1,415,448

Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. records regulatory provisions for loan portfolios according to the policy described in note 4e. Additionally, these entities record discretionary provisions for doubtful loans which are included under the generic provision for loans and as of December 31, 2014 and 2013 amount to S/. 67,678 thousand and S/. 49,579 thousand, respectively.

As of December 31, 2014, the provision for foreign exchange credit risk and the procyclical provision amount to S/. 1,266 thousand and S/. 83,903 thousand, respectively (S/. 1,013 thousand and S/. 141,461 thousand respectively, as of December 31, 2013).

As indicated in note 4.e, from November 2014, the procyclical rule was discontinued for the calculation of provisions. As of December 31, 2012, the Bank applied S/. 72,618 of the balance of procyclical provisions.

As of December 31, 2014 and 2013, Scotiabank Perú S.A.A. and Crediscotia Financiera S.A. hold a balance of S/. 58,843 thousand and S/. 117,613 thousand, respectively.

In 2014 and 2013, Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. recognized provisions for contingent loans in the result of the period for S/. 54,750 thousand and S/. 48,227 thousand, respectively. Also, provisions for contingent loans have been recovered for an amount of S/. 51,540 thousand and S/. 39,333 thousand, respectively.

These provisions include net provisions for recovery of country risk over contingent loans amounting to S/. 4,915 thousand in 2014 (net recovery amounting to S/. 648 thousand in 2013).

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

	In thousands of S/.					
	2014			2013		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Up to 1 month	1,938,465	1,633,778	3,572,243	1,152,214	1,432,359	2,584,573
From 1 to 3 months	2,400,973	3,048,138	5,449,111	2,394,071	2,157,526	4,551,597
From 3 to 6 months	2,429,842	1,693,985	4,123,827	1,972,328	1,878,534	3,850,862
From 6 to 12 months	2,642,771	1,520,549	4,163,320	2,492,316	1,666,074	4,158,390
Over 12 months	7,939,665	6,919,513	14,859,178	6,290,279	6,441,025	12,731,304
Overdue and lawsuit loans	573,433	369,664	943,097	482,221	253,483	735,704
Less, accrued interest	(154,382)	(69,763)	(224,145)	(145,716)	(69,100)	(214,816)
	17,770,767	15,115,864	32,886,631	14,637,713	13,759,901	28,397,614

(9) Held-for trading derivative instruments

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

	In thousands of S/.			
	2014		2013	
	Accounts receivable	Accounts payable	Accounts receivable	Accounts payable
Forwards	112,095	143,217	130,491	143,968
Interest Rate Swap (IRS)	11,402	7,282	11,371	12,717
Cross Currency Swaps (CCS)	48,442	36,659	426	20,178
	171,939	187,158	142,288	176,863

As of December 31, 2014 and 2013, these derivatives generated net loss of S/. 33,351, generating a net profit of S/. 42,240 thousand, respectively (note 23).

(10) Accounts Receivable, net

As of December 31 it comprises the following:

	In thousands of S/.	
	2014	2013
Financial Instruments:		
Accounts receivable from sale of investments	33,729	74,793
Collection and warehousing services	21,306	15,001
Payments on behalf of thirds parties, net	14,232	10,727
Commissions receivable	12,946	11,453
Advances to personnel	8,720	6,920
Sales of goods and services, trust, net	1,080	854
Accounts receivable from brokerage customers	610	1,079
Other accounts receivable, net	39,850	53,568
	132,473	174,395
Non-financial Instruments:		
Tax proceedings (a)	734,547	438,483
	867,020	612,878

(a) Tax proceedings with SUNAT as of December 31, 2014, include S/. 252,701 thousand (S/. 228,483 thousand as of December 2013) corresponding to payments under protest of Temporary Net Assets Tax (ITAN for its acronym in Spanish) for fiscal years 2005 and 2006, which are being challenged in the courts by the Bank as they are considered undue payments; and balances related to income tax and other tax credits subject to offsetting against ITAN. The Bank expects these amounts will be returned on resolution of the case in its favor.

As of December 31, 2014, the consolidated financial statements include S/. 481,846 thousand (S/. 210,000 as of December 31, 2013), corresponding to payments under protest in respect of a resolution from the Tax Authority which is being challenged in the Judicial Courts by the Bank. In opinion of the Bank's Management and its legal advisors, these amounts will be returned to the Bank on the resolution of the case.

(11) Goodwill

It corresponds to the goodwill determined in the purchase of Banco de Trabajo S.A. capital stock, currently CrediScotia Financiera S.A.

According to SBS standards, such goodwill has been assessed by Management, and no impairment is required as of December 31, 2014 and 2013.

(12) Property, Furniture, and Equipment, Net

As of December 31 comprises the following:

	In thousands of S/.				
	Balances as of 12.31.13	Additions	Disposals	Reclas. and/or adjustments	Balances as of 12.31.14
Cost:					
Land	141,044	-	(8,017)	-	133,027
Property and premises	720,406.	4,087	(36,865)	28,885	716,513
Furniture, fixture, and IT equipment	369,498	31,273	(9,428)	7,286	398,629
Vehicles	4,332	-	(212)	-	4,120
Units in transit and replacing units	3,674	13,479	-	(7,535)	9,618
Work-in-progress	11,562	28,824	-	(31,397)	8,989
	1,250,516	77,663	(54,522)	(2,761)	1,270,896
Accumulated Depreciation					
Property and premises	506,195	29,158	(19,884)	1,577	517,046
Furniture, fixture, and IT equipment	269,328	35,063	(9,039)	1,079	296,431
Vehicles	3,347	439	(111)	-	3,675
	778,870	64,660	(29,034)	2,656	817,152
	471,646				453,744

During year 2014, Scotiabank Perú S.A.A. and Subsidiaries sold properties to unrelated third parties for approximately S/. 101,430 thousand. The net book value of these properties amounted to S/. 24,754 thousand.

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

As of December 31 it comprises the following:

	In thousands of S/. 2014	In thousands of S/. 2013
Financial Instruments:		
Transactions in progress (a)	115,313	26,365
	115,313	26,365
Non-financial Instruments:		
Tax credit (VAT) and other (b)	244,626	360,098
Prepaid expenses (c)	108,659	105,070
Income tax prepayments, net	28,709	75,364
Intangible assets, net of amortization of S/. 222,575 thousand (S/. 207,984 thousand in 2013)	26,533	25,231
Realizable and repossessed asset, net of accumulated depreciation and provision for impairment of S/. 126,760 thousand (S/. 125,244 thousand in 2013)	19,466	21,860
Other	12,987	12,297
	440,980	599,920
	556,293	626,285

(a) Transactions in progress are those carried out during the last days of the month and are reclassified in the following month to their definitive respective accounts in the consolidated statement of financial position. These transactions do not affect the results of Scotiabank Perú S.A.A. and Subsidiaries. As of December 31, 2014, it includes mainly S/. 99,943 thousand related to treasury transactions and S/. 2,865 thousand for invoices in transit for services received, S/. 3,634 thousand for operations to be settled with credit card processors and S/. 4,015 thousand of operations to be settled by human resources department (as of December 31, 2013, S/. 11,140 thousand, S/. 7,536 thousand, S/. 1,093 thousand and S/. 3,154 thousand respectively).

(b) As of December 31, 2014 and December 31, 2013, tax credits mainly include the value added tax (VAT) for S/. 285,420 thousand and S/. 529,080 thousand respectively; these amounts are net of the value added tax (VAT) payable by amounting to S/. 40,794 thousand and S/. 168,982 respectively. This tax credits mainly includes: the value added tax from acquisition of assets that have been transferred under finance leases for S/. 23,070 thousand as of December 31, 2014 (S/. 36,595 thousand, which as of December 31, 2013), which have not yet been applied to taxable operations.

(c) As of December 31, 2014, prepaid expenses include mainly: (i) deferred loan origination costs, mainly fees paid to external sales force for S/. 72,100 thousand (S/. 64,683 thousand in 2013); (ii) prepaid rent of S/. 6,341 thousand (S/. 6,043 thousand in 2013); (iii) prepaid commissions of received borrowings for S/. 17,418 thousand (S/. 22,241 thousand in 2013); (iv) advertising and marketing services for S/. 842 thousand (S/. 2,124 thousand in 2013), among other.

(14) Deposits and Obligations and Deposits of Financial System Entities

As of December 31 comprises the following:

	In thousands of S/.			
	2014	%	2013	%
Corporate clients	15,039,383	52	16,042,330	54
Individuals	9,629,534	33	8,615,495	29
Non-profit organizations	2,472,151	8	3,700,209	12
Others	2,199,489	7	1,457,352	5
	29,340,557	100	29,815,386	100

Deposits and other obligations in U.S. dollars represent 51% and 55% of the total deposits as of December 31, 2014 and 2013, respectively. Deposits included accounts pledged in favor of Scotiabank Perú S.A.A. and Subsidiaries for credit operations for S/. 563,617 thousand and US$ 217,331 thousand as of December 31, 2014 (S/. 488,878 thousand and US$ 421,052 thousand as of December 31, 2013).

Likewise, as of December 31, 2014 and 2013, from the total of deposits and obligations from individuals and non-profit legal entities, the amount of S/. 7,141,835 thousand and S/. 6,408,831 thousand, respectively, are covered by the Peruvian Deposit Insurance Fund (FSD, for its acronym in Spanish), according to current legal regulations.

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

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

The maximum amount covered for each individual as of December 31, 2014, amounted to S/. 94 thousand (S/. 93 thousand as of December 31, 2013).

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

	%			
	2014		2013	
	Local currency	Foreign currency	Local currency	Foreign currency
Savings deposits	0.37 - 1.70	0.22 - 1.00	0.67 - 1.72	0.30 - 0.86
Time deposits	3.29 - 5.64	0.14 - 2.60	3.22 - 5.94	0.81 - 2.88
Severance payment deposits	2.90 - 6.00	1.52 - 4.00	2.96 - 6.00	1.85 - 4.00

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

	In thousands of S/.					
	2014			2013		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Up to 1 month	1,565,682	1,780,342	3,346,024	1,654,108	2,827,226	4,481,334
From 1 to 3 months	1,669,492	1,571,751	3,241,243	1,567,774	1,294,595	2,862,369
From 3 to 6 months	1,061,498	808,169	1,869,667	1,161,986	779,236	1,941,222
From 6 to 12 months	1,157,792	529,838	1,687,630	994,179	642,780	1,636,959
Over 12 months	722,546	494,148	1,216,694	678,621	531,433	1,210,054
	-------------	-------------	-------------	-------------	-------------	-------------
	6,177,010	5,184,248	11,361,258	6,056,668	6,075,270	12,131,938
Interest	66,166	8,420	74,586	77,317	10,614	87,931
	-------------	-------------	-------------	-------------	-------------	-------------
	6,243,176	5,192,668	11,435,844	6,133,985	6,085,884	12,219,869
	========	========	========	========	========	========

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

(15) Borrowings and Financial Obligations

As of December 31 it comprises the following:

	In thousands of S/. 2014	In thousands of S/. 2013
Borrowings and financial obligations		
Obligations in the country:		
BCRP (a)	1,206,900	-
COFIDE (b)	772,004	644,346
Other local banks	100,000	13,975
Ordinary loans from abroad		
Related banks (c)	3,568,270	2,529,475
Other banks (d)	2,590,243	1,678,772
	8,237,417	4,866,568
Interest payable	33,888	18,154
	8,271,305	4,884,722
Securities and obligations (e)	2,652,839	2,831,696
	10,924,144	7,716,418

(a) Corresponds to obligations for foreign currency purchase transactions with commitments of repurchase made with BCRP during the year 2014 with maturities between October 2015 and June 2016. The balance in local currency accrues interest payable ranged from 3.95% to 4.85%.

(b) Corporación Financiera de Desarrollo S.A. (Finance Development Corporation-COFIDE) credit lines correspond to resources obtained for loans granting, mainly for Fondo MiVivienda mortgage financing programs, which accrue a fixed interest rate adjusted to the VAC index. As of December 31, 2014 and 2013, these lines amount to S/. 542,004 thousand and S/. 379,346 thousand, respectively.

Additionally, CrediScotia Financiera S.A. holds credit lines of COFIDE in local currency to be used as working capital on a short term basis and are subject to specific agreements on the manner of using received funds, financial conditions that should be held and other administrative matters. As of December 31, 2014 and 2013, obligations for this item amount to S/. 230,000 thousand and S/. 265,000 thousand, respectively.

As of December 31, 2014, these credit lines are guaranteed with mortgage loan portfolio as follows:

Item	Currency	In thousands of S/. and US$ Net loans	Supporting debt
Mortgage loans-Fondo MiVivienda (*)	Nuevos soles	733,993	679,813
Mortgage loans-Fondo MiVivienda (*)	U.S dollars	32,650	30,365

(*) 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, those clauses do not affect the Bank's and CrediScotia Financiera S.A. operations and are being met.

(c) As of December 31, 2014, ordinary loans with related banks include debts payable to Scotiabank Ltd. Bahamas amounting to US$ 1,115,000 thousand, which accrue annual interest rates ranging between 0.73% and 1.13% and mature between October 2015 and December 2017 (as of December 31, 2013 for US$ 865,000 thousand, accrued annual interest rates ranging from 0.74% to 1.14% and mature between January 2014 and March 2017).

Likewise, the balance with related Banks as of December 31, 2014, include a loan received from The Bank of Nova Scotia amounting to US$ 80,000 thousand. This loan accrues an annual interest rates ranging from 0.48% to 0.57%, and matures in January 2015 (As of December 31, 2013 for US$ 40,000 thousand and accrues an annual interest rates of 0.50%, matures in March 2014).

(d) As of December 31, 2014, this line includes borrowings agreed with various foreign financial institutions for US$ 748,712 thousand (US$ 456,884 thousand as of December 31, 2013), which accrue interest at annual average rates ranging from 0.53% to 3.13% (0.39% to 5.55% as of December 31, 2013).

Also, as of December 31, 2014 the Bank negotiated borrowings with foreign financial institutions for approximately US$ 118,750 thousand (US$ 143,750 thousand as of December 31, 2013) with maturity between June and September 2017. From this amount, US$ 34,375 thousand (US$ 46,875 thousand as of December 31, 2013) accrue interest at a fixed rate of 3.88% and US$ 84,375 thousand (US$ 96,875 thousand as of December 31, 2013) at variable rates of 3-month LIBOR plus a spread of 2.34% and 2.99% (2.34% and 2.99% as of December 31, 2013). These transactions contain standard clauses of compliance with financial ratios and other administrative matters. In the opinion of the management, those clauses do not affect the Bank’s operations and are being met.

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

	In thousands of S/. 2014	2013
Up to 1 month	826,574	215,859
From 1 to 3 months	1,082,835	972,638
3 to 6 months	76,905	160,089
6 to 12 months	1,605,446	49,333
Over 12 months	4,679,545	3,486,803
	8,271,305	4,884,722

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

Issuance	Annual interest	Maturity	Outstanding balances in thousands of S/. 2014	2013
Redeemable Subordinated Bonds				
1st issuance single series (i)	4.50%	2027	1,194,400	1,118,000
1st issuance A – 1st Program (ii)	7.41%	2027	130,000	130,000
			1,324,400	1,248,000
Negotiable Notes (iii)				
Series A	5.25%	2017	70,720	95,618
Series B	3m LIBOR + 2.75%	2017	176,804	239,046
			247,524	334,664
Corporate bonds (iv)				
2nd issuance A – 1st Program	7.72%	2014	-	60,000
2nd issuance B – 1st Program	6.28%	2014	-	50,000
2nd issuance C – 1st Program	5.53%	2015	50,000	50,000
4th issuance A – 1st Program	4.72%	2017	50,000	50,000
5th issuance A – 1st Program	6.44%	2014	-	40,900
5th issuance B – 1st Program	6.59%	2014	-	25,150
5th issuance C – 1st Program	6.31%	2014	-	49,290
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

Issuance	Annual interest	Maturity	Outstanding balances in thousands of S/. 2014	2013
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	-
9th issuance B – 2nd Program	5.44%	2017	100,000	-
			901,900	957,760
Other instruments representing debt				
Negotiable certificates of deposits (v)			152,096	263,038
			152,096	263,038
			2,625,920	2,803,462
Interest payable and obligations			26,919	28,234
			2,652,839	2,831,696

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

(ii) In July 31, 2012, CrediScotia Financiera S.A. issued, through public auction, subordinated bonds for S/. 130,000 thousand denominated Subordinated Bonds – First Issuance with SBS authorization – Resolution 4873 – 2012, such series comprise 13,000 bonds at a par value of S/. 10 thousand each, with maturity in July 2027 and a put option from the tenth year if the terms and conditions of such issuance are met. The proceeds were exclusively destined to credit operations financing.

(iii) In January 2010, SBP DPR Finance Company (special purpose entity established in Grand Cayman and consolidated by Scotiabank Group) made a securitization agreement of Diversified Payment Rights (DPR, for its acronym in English), in which SBP DPR Finance Company acquired the rights and future flows from remittances received from correspondent banks up to the deadline specified in the contract. SBP DPR Finance Company issued two series of long-term notes: Series A for US$ 50,000 thousand and Series B for US$ 125,000 thousand, both series with maturities in 2017. As of December 31, 2014, Series A notes amounted to US$ 23,684 thousand (US$ 34,211 thousand as of December 31, 2013) and Series B notes amounted to US$ 59,211 thousand (US$ 85,526 thousand as of December 31, 2013). The notes are guaranteed by remittances received through SWIFT messages and are transferred to

SBP DPR Finance Company. These contracts and transactions contain standard clauses of compliance with financial ratios and other administrative matters. In the opinion of the management, those clauses do not affect the Bank's operations and are being met.

(iv) From 2007 to date, Scotiabank Perú S.A.A and CrediScotia Financiera S.A. have issued Corporate Bonds for S/. 801,900 thousand and S/. 100,000 thousand, respectively (S/. 747,760 thousand and S/. 210,000 thousand, respectively as of December 31, 2013), within terms ranging from 3 to 5 years. The proceeds were exclusively destined to credit operations financing.

(v) As of December 31, 2014, this amount mainly includes Negotiable Certificates of Deposits issued by CrediScotia Financiera S.A. in the amount of S/. 122,000 thousand (S/. 208,790 thousand as of December 31, 2013). These Certificates of Deposit are nominative indivisible and accrue interest at annual rate ranged from 4.25% to 4.63% (from 3.81% to 3.97% as of December 31, 2013). Based on SBS Resolution 3225-2014, since July 2014, the Company has reclassified the total balance of the Negotiable Certificates of Deposit from 'deposits and obligations' to 'securities and obligations issued'.

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

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

	In thousands of S/.	
	2014	2013
Less than 3 month	170,365	159,716
3 to 6 months	83,562	218,964
6 to 12 months	80,748	228,960
Over 12 months	2,318,164	2,224,056
	2,652,839	2,831,696

As of December 31, 2014 and 2013, interest expenses on borrowings and obligations of Scotiabank Perú S.A.A. and Subsidiaries amount to S/. 256,347 thousand and S/. 240,239 thousand, respectively (note 21).

(16) Provisions and Other Liabilities

As of December 31, this caption comprises:

	In thousands of S/.	
	2014	2013
Accounts payable:		
Other accounts payable (a)	214,342	257,616
Vacations, profit sharing and remunerations payable	117,938	111,397
Put option (b)	69,777	61,627
	402,057	430,640
Provisions:		
Provisions for litigations and legal claims (c)	100,047	99,924
Various provisions (d)	75,571	74,146
Provision for contingent loans and country risk	71,609	69,581
Other provisions (e)	50,912	71,226
	298,139	314,877
Other liabilities:		
Transactions in progress (f)	156,092	103,366
Deferred income on portfolio sale and other	36,109	35,789
	192,201	139,155
	892,397	884,672

(a) As of December 31, 2014, this account was composed mainly of accounts payable: i) suppliers for S/. 77,948 thousand; ii) purchase of investments for S/. 24,958 thousand; iii) insurance companies for services agreed-upon by customers for S/. 11,337 thousand; and iv) merchants for purchases with credit cards issued for S/. 10,164 thousand (S/. 119,363 thousand, S/. 74,181 thousand, S/. 10,138 thousand and S/. 16,831 thousand; respectively as of December 31, 2013).

(b) As of December 31, 2014 and 2013, the Bank has signed a put option contract on its own common shares held in a trust, entitling the trustee the right to sell to the Bank all of these shares at a price calculated based on this contract. This option is effective from September 15, 2006 through December 31, 2015, and as of December 31, 2014 and 2013 its carrying amount does not differ significantly from its estimated market value.

(c) As of December 31, 2014 and 2013, Scotiabank Perú S.A.A. and Subsidiaries have various legal actions underway, which are related to civil and labor claims, among others. These legal actions resulted from activities and operations performed during the normal course of Scotiabank Perú S.A.A. and Subsidiaries' operations, it is not anticipated they will have a significant impact on operations or results.

(d) As of December 31, 2014, this account was composed mainly of: i) reversals or recoveries of provisions recorded since 2002 charged to equity accounts, which, according to SBS Official Letter 23797-2003, shall be reallocated to deficits of provisions in other asset accounts of the Bank for S/. 44,745 thousand (S/. 43,413 thousand as of December 31, 2013); and ii) provision for various contingencies charged to profit or loss for S/. 23,272 thousand (S/. 23,281 thousand as of December 31, 2013).

(e) As of December 31, 2014, the balance of other provisions mainly include: i) provisions for personnel expenses for S/. 32,493 thousand (S/. 42,989 thousand as of December 31, 2013), ii) provisions for marketing campaigns of products to attract funds for S/. 2,362 thousand (S/. 2,211 thousand as of December 31, 2013), and iii) provisions for debit and credit cards campaigns for S/. 13,642 thousand (S/. 12,798 thousand as of December 31, 2013).

(f) Transactions in progress are mainly those carried out during the last days of the month and are reclassified in the following month to their definitive accounts of the consolidated statement of financial position accounts. These operations do not affect the results of Scotiabank Perú S.A.A. and Subsidiaries. As of December 31, 2014, liability transactions in progress mainly include: i) S/. 97,449 thousand related to Treasury operations (S/. 11,584 thousand as of December 31, 2013), and ii) S/. 1,377 thousand related to credit card operations (S/. 3,278 thousand as of December 31, 2013), iii) S/. 2,349 thousand related to the clearing process at the electronic clearinghouse (S/. 487 thousand as of December 31, 2013), iv) S/. 3,658 thousand related to debt purchase transactions (S/. 5,563 thousand as of December 31, 2013), and v) S/. 16,394 thousand related to client's deposits in-transit (S/. 32,658 thousand as of December 31, 2013), and vi) S/. 10,744 thousand related to third party insurance (S/. 11,351 thousand as of December 31, 2013).

(17) Shareholders' Equity

(a) General

The regulatory capital of Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. is determined in accordance with the Banking Law and as of December 31, 2014 amounts to S/. 5,377,863 thousand and S/. 550,339; respectively (S/. 4,500,773 thousand and S/. 532,805, respectively as of December 31, 2013). This figure is used to calculate certain legal limits and restrictions according to the Peruvian Banking Law applicable to the financial institutions' operations in Peru.

As of December 31, 2014, credit risk weighted assets and contingent credits determined by Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. according to the legislation applicable to financial institutions amounted to S/. 39,060,041 thousand and S/. 3,620,629 thousand, respectively (S/. 32,011,827 thousand and S/. 2,910,696 thousand, respectively as of December 31, 2013).

As of December 31, 2014 and 2013, the Banking Law established as a global limit that the regulatory capital shall be equal to or greater than 10% of the total risk weighted assets and contingent credits, which corresponds to the sum of: the amount of regulatory capital requirements for market risk multiplied by 10, plus the amount of the regulatory capital requirements for operational risk multiplied by 10, plus the risk weighted credit related assets and contingencies. As of December 31, 2014, the regulatory capital of Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. represents 12.89% and 14.09% respectively, of the regulatory capital requirements for market, operating and credit risk (13.24% and 17.09% respectively as of December 31, 2013).

Likewise, by means of Resolution 2115-2009, the SBS approved the rules for the regulatory capital requirement for operational risk, effective July 1, 2009. On this respect, as of December 31, 2014 and 2013, Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. have applied the alternative standard method for the calculation of the regulatory capital requirement for operational risk.

Finally, by means of SBS Resolution 8425-2011 and amendments, the SBS approved the methodology for the calculation of additional regulatory capital requirement, which establishes that this requirement shall be equal to the sum of the regulatory capital requirements, calculated for each of the following components: i) economic cycle, ii) concentration risk, iii) market risk concentration, iv) interest rate risk in the banking books, and v) other risks. Such additional requirement determined by Scotiabank Perú S.A.A. and CrediScotia Financiera S.A. as of December 31, 2014, amounted to S/. 835,198 thousand and S/. 101,701 thousand, respectively (S/. 550,826 thousand and S/. 70,874 thousand as of December 31, 2013, respectively).

(b) Capital Stock

As of December 31, 2014, the Bank’s capital stock comprises 365,505,212 common shares (302,480,263 common shares as of December 31, 2013). All shares have voting rights and a par value of S/. 10.00 each. As of those dates, the quoted value of common shares of the Bank was S/. 26.00 and S/. 30.40 per share, respectively; likewise, the monetary inflation adjustment of 2001 through 2004 amounting to S/. 28,019 thousand is pending of capitalization.

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

Pursuant to the delegation conferred by the General Shareholders' meeting during December 2013, the board approved the increase of capital stock arising from the capitalization of year 2012 retained earnings for S/. 200,000 thousand.

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

Percentage of shareholding	2014 Number of shareholders	2014 %	2013 Number of shareholders	2013 %
0.01 to 1	1,773	2.25	1,875	2.25
1.01 to 50	2	42.43	2	42.43
50.01 to 100	1	55.32	1	55.32
	1,776	100.00	1,878	100.00

As of December 31, 2014, the Banking Law requires that capital stock shall reach the minimum amount of S/. 25,602 thousand (S/. 25,493 thousand as of December 31, 2013), which is a constant value and shall be updated annually at the closing of each period, based on the wholesale price index (WPI), as published by the Instituto Nacional de Estadistica e Informatica (National Institute of Statistics).

(c) Additional paid-in Capital

As of December 31, the additional capital balance comprises:

	In thousands of S/. 2014	In thousands of S/. 2013
Issuance premium	368,522	368,522
Gain on treasury shares	42	42
	368,564	368,564

As of December 31, 2014, the Bank holds 97 treasury shares (as of December 31, 2013, there was no balance for those shares).

(d) Legal Reserve

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

At the Annual Obligatory General Shareholders' meeting, held on March 25, 2014, it was decided to apply to legal reserve an amount of S/. 85,492 thousand, corresponding to 10% of net profit for the year 2013. At the Annual Obligatory General Shareholders' meeting, held on March 26, 2013, it was decided to apply to legal reserve an amount of S/. 82,256 thousand, corresponding to 10% of net profit for the year 2012.

(e) Retained Earnings

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

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

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

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

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

(f) Other Comprehensive Income

As of December 31, 2014 and 2013, it mainly includes unrealized results of available-for-sale investments and share in other comprehensive income of subsidiaries and associates, net of its deferred income tax effects.

(18) Contingencies

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

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

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

(19) Risk 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 recorded in memoranda accounts of the consolidated statement of financial position and they relate to the probability that one of the participants of the respective contract does not comply with the agreed terms.

The related contracts consider the amounts that the Bank and CrediScotia Financiera S.A. would assume 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. Also, documentary credits, like export and import letters of credit and guarantees and stand-by letters of credit are conditional commitments issued by the Bank and CrediScotia Financiera S.A. to guarantee a customer obligation before a third party.

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

	In thousands of S/.	
	2014	2013
Contingent loans:		
Guarantees and stand-by letters of credit	7,021,475	5,947,893
Issued letters of credit	729,718	660,510
Due from bank acceptances	63,878	118,946
	7,815,071	6,727,349
Unused credit lines	20,926,130	18,355,910
Financial derivative instruments	19,754,654	17,869,343
Other	545	542
	48,496,400	42,953,144

(20) Interest Income

As of December 31, this caption comprises:

	In thousands of S/.	
	2014	2013
Direct loan portfolio	3,216,858	2,974,432
Available-for-sale investments (note 7)	41,364	43,257
Cash and due from banks and deposits in banks (note 6)	13,348	81,832
Interbank funds	7,299	7,381
Investments at fair value through profit or loss (note 7)	5,258	3,869
Other finance income	4,058	3,225
	3,288,185	3,113,996

(21) Interest Expenses

As of December 31, this caption comprises:

	In thousands of S/. 2014	2013
Deposits and obligations	326,296	340,737
Borrowings and financial obligations (note 15)	256,347	240,239
Commissions on borrowings and financial obligations	25,964	28,285
Deposits of financial entities	4,636	5,630
Interbank funds	2,253	1,103
	615,496	615,994

(22) Income from Finance Services, net

As of December 31, this caption comprises:

	In thousands of S/. 2014	2013
Income:		
Income from commissions from collections services	139,876	115,552
Other fees and commissions from banking services	122,350	98,920
Income from deposit transactions, services and transfer fees	120,245	133,400
Income from purchased portfolio recoveries	110,850	137,693
Income from brokerage services	82,841	71,982
Income from structuring and administration services	38,165	23,371
Income from teleprocessing services	33,867	37,002
Income from remunerations of mutual funds and administration fees	26,999	34,415
Income from warehousing	-	39,615
Other various income	203,438	293,824
	878,631	985,774
Expenses:		
Other expenses	170,405	255,503
Brokerage services expenses	73,218	62,301
Credit / debit cards expenses	50,814	48,722
Warehousing expenses	-	36,255
Deposit insurance fund premiums	30,033	26,645
Insurance services expenses	3,109	2,529
	327,579	431,955
Total income from finance services, net	551,052	553,819

(23) Results from Financial Transactions

As of December 31, this caption comprises:

	In thousands of S/.	
	2014	2013
Gain on exchange difference (note 5)	276,103	190,601
Gain on sale of loan portfolio	31,179	32,322
Gain in associates	12,674	16,038
Proceeds on sale of investments (a)	5,914	40,442
Available-for-sale investments	3,622	2,081
Trading derivatives (note 10)	(33,351)	42,240
Investments at fair value through profit or loss	(3,681)	(7,745)
Other	(6,381)	(7,173)
	286,079	308,806

(a) During 2013, the result in the trading of securities includes S/. 31,067 thousand corresponding to the proceeds from the sale of shares of Depósitos S.A. (note 2).

(24) Administrative Expenses

As of December 31, this caption comprises:

	In thousands of S/.	
	2014	2013
Personnel and board of directors expenses	744,515	696,991
Expenses for services received from third parties	566,578	554,463
Taxes and contributions	71,970	81,504
	1,383,063	1,332,958

(25) Other Income, net

As of December 31, this caption comprises:

	In thousands of S/. 2014	2013
Proceeds from sale of property, furniture, and equipment (a)	79,934	83,449
Leasing of own goods	12,218	7,153
Sales of services	10,152	3,237
Reimbursements and recoveries	42	5,736
Net (loss) profit from sale of repossessed assets	(93)	1,471
Other (expenses) income, net	(2,708)	1,303
	99,545	102,349

a) The results of the period 2014 and 2013 includes mainly S/. 76,676 thousand and S/. 80,895 thousand for the profit before taxes arising from the sale of properties. Its main sales correspond to properties managed by the Trust (note 12).

(26) Tax Matters

(a) In accordance with current tax legislation, corporate income tax for the years 2014 and 2013 is calculated applying the statutory income tax rate of 30%. The income tax of each company composing Scotiabank Perú S.A.A. and Subsidiaries has been determined for fiscal years 2014 and 2013, as follows:

	In thousands of S/. 2014	2013
Scotiabank Perú S.A.A.	371,658	322,597
Trust Property on real estate - Depsa	28,800	433
CrediScotia Financiera S.A.	23,248	24,962
Depósitos S.A.	-	24,240
Servicios, Cobranzas e Inversiones S.A.	18,691	18,329
Scotia Fondos Sociedad Administradora de Fondos S.A.	3,172	4,809
Scotia Sociedad Agente de Bolsa S.A.	1,556	185
Scotia Sociedad Titulizadora S.A.	208	106
	447,333	395,661

On December 15, 2014, Law 30296 - *Modification of tax rates on employment income and foreign sources income*, was enacted, establishing the progressive reduction of income tax over the next five years. This law establishes the following rates: 28% for 2015 and 2016; 27% for 2017 and 2018; and 26% for 2019 onwards. Accordingly, the Bank has reestimated the deferred income tax considering the period of reversal of the temporary differences, according to the new rates of income tax above described. This has generated a decrease in deferred income tax assets of S/. 18,373, an amount that was debited from the results and credited to the equity of year 2014 in the amount of S/. 18,512 thousand and S/. 139 thousand, respectively (note 27).

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

Company	Tax returns subject to audit	Tax returns being audited
Scotiabank Perú S.A.A.	2012 & 2014	2008, 2009, 2010 & 2011
CrediScotia Financiera S.A.	2010, 2013 & 2014	2011 & 2012
Scotia Sociedad Agente de Bolsa S.A.	2010 through 2014	-
Scotia Fondos Sociedad Administradora de Fondos S.A.	2011 through 2014	-
Scotia Sociedad Titulizadora S.A.	2010 through 2014	-
Depósitos S.A.	2010 through 2013	-
Servicios, Cobranzas e Inversiones S.A.C.	2010 through 2014	-

The tax returns for years 2003 through 2007 have been reviewed by the Peruvian Tax Authorities, having resettled the tax loss of the Bank in years 2003 through 2006, as well as the tax payable which was calculated for the period 2007, for which the Bank filed the corresponding appeals. In this regard, the Bank received resolutions from tax authorities related to the determination of income tax for years 2003, 2004, 2005 and 2006, for which the Bank filed appeals corresponding to each year, which are pending resolution by the Tax Court. In December 2014, the Tax Authorities issued Tax Assessment and Fine Resolutions related to the determination of year 2007 income tax, for which the Bank has filed an appeal which is pending. The Bank and its legal advisors estimate that the results would be favorable to the Bank and no significant liabilities will arise in the consolidated statement of financial position.

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

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

(d) As from 2001, for income tax purposes, transfer pricing for transactions carried out with economically-related parties, and with companies domiciled in territories with low or null taxation, shall be supported with documentation and information about the valuation methods used, and the criteria considered, for pricing. Scotiabank Perú S.A.A. and Subsidiaries' management consider that for income tax purposes, pricing regarding transactions such as those aforementioned have been made in accordance with tax legislation; consequently, no significant liabilities will arise as of December 31, 2014.

(e) Beginning 2010, capital gains are subject to income tax. In this regard, it has been established, among others, that the tax cost of securities whose disposition was tax-exempt until December 31, 2009 since they were traded at stock exchange, will be the higher between: (i) market value as of December 31, 2009, (ii) acquisition cost, or (iii) increase in the equity value, following the procedures described in Executive Order 011-2010-EF. This rule is applicable to legal entities when securities are negotiated through or outside centralized trading mechanisms in Peru.

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

(f) In conformity with the Income Tax Law, as modified by Law 29663 and 29757, as from fiscal period 2011, income arising from indirect disposition of shares of Peruvian companies shall be subject to the aforementioned tax. An indirect share transfer occurs when the following assumptions are met:

i. 10% of more of shares of the off-shore company will be sold in any twelve-month period (assumption effective on February 16, 2011) and,

ii. Market value of the Peruvian company's shares shall represent 50% or more of the market value of the off-shore company, within any twelve-month period (assumption effective on July 22, 2011).

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

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

The Bank requested the compensation of the ITAN 2005 and 2006 against previous year tax credits (2004 and 2005 balances in favor). The amount of debt totaled S/. 122,958 thousand. These requests were resolved in favor of the Bank by the Tax Court. However, the SUNAT on a misinterpretation of the rules only partially offset the ITAN, applying only part of the Bank's tax credits and without considering the legal procedures and precedents applicable to the case, which strongly support the Bank's position.

The mentioned SUNAT compensation resulted in a coercive collection of the uncompensated debt, and the Bank decided to make a payment under protest of S/. 137,069 thousand (including capital and interest); an amount which according to the Bank's management and its advisors will be returned by the tax authority, plus interest, when they receive the Tax Court's favorable findings regarding the applied compensation methodology.

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

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

	2014		2013	
	In thousands of S/.	%	In thousands of S/.	%
Profit before taxes	1,379,024	100.00	1,224,974	100.00
Income tax (theoretical)	413,707	30.00	367,492	30.00
Effect of estimated deferred income tax (note 27)	18,512	1.34	-	-
Tax effect on additions and deductions: Permanent differences	3,968	0.29	(475)	(0.04)
Current and deferred income tax, recorded as per effective rate	436,187	31.63	367,017	29.96

(27) Deferred Income Tax

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

					(Debit) credit to results		(Debit) credit to equity		
	Balances as of 12.31.12	(Debit) credit to results	(Debit) credit to equity	Balances as of 12.31.13	Due to origination and/or reversal of temporary differences	Due to effect of rate reduction (i)	Due to origination and/or reversal of temporary differences	Due to effect of rate reduction (i)	Balances as of 12.31.14
Assets:									
Generic provision for direct loans	135,628	18,635	-	154,263	7,056	(10,536)	-	-	150,783
Transferred loan portfolio	18,939	-	-	18,939	(18,939)		-	-	-
Fixed assets	5,974	9,281	-	15,255	48,083	(4,249)			59,089
Doubtful loans provision	7,833	1,904	-	9,737	1,031	(638)	-	-	10,130
Provision for vacations	13,002	1,160	-	14,162	(614)	(836)	-	-	12,712
Provision for repossessed assets	9,082	245	-	9,327	274	(640)	-	-	8,961
Provision for credit and debit card rewards	3,342	280	-	3,622	247	(258)	-	-	3,611
Valuation of available-for-sale investments	2,420	(2,137)	-	283	-	(152)	4,213	(2,954)	1,390
Investment in subsidiary	-	-	30,133	30,133	-	-	(29,176)	63	1,020
Intangible assets	341	(1,887)	-	(1,546)	12	347	-	-	(1,187)
Other	15,785	(1,059)	-	14,726	(7,492)	(1,550)	191	-	5,875
	212,346	26,422	30,133	268,901	29,658	(18,512)	(24,772)	(2,891)	252,384
Liabilities:									
	-	2,222	(3,030)	(808)	-	-	(2,222)	3,030	-
Deferred income tax asset, net	212,346	28,644	27,103	268,093	29,658	(18,512)	(26,994)	139	252,384

(i) As of December 31, 2014, Scotiabank Perú S.A.A. and Subsidiaries registered in the results of the period, and/or in equity, the effect resulting from the modification of the tax rates applicable for the realization of deferred income tax assets or settlement of deferred income tax liabilities; this effect has been estimated applying the tax rate corresponding to the period in which it is expected that such assets or liabilities will be realized or settled, as applicable. The effect in results represented a lower net deferred income tax assets of S/. 18,512 thousand and is presented in 'deferred income tax, expense'. This net effect in equity represented a higher net deferred income tax asset of S/. 139 thousand and is included in 'unrealized earnings'.

(28) Employees' Profit Sharing

According to Legislative Decree 677, a bank's employees are entitled to a profit-sharing plan computed at 5% of the net profit, similarly to employees of the companies of Scotiabank Perú S.A.A. and Subsidiaries. This profit sharing is treated as deductible expenses for income tax calculation purposes. As of December 31, 2104 and 2013 a consolidated legal employees' profit sharing of S/. 78,717 thousand and S/. 77,855 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 December 31, 2014, the allocated value of assets in trusts and trust fees amounted to S/. 2,398,710 thousand (S/. 1,323,611 thousand, in year 2013).

(30) Related Party Transactions

As of December 31, 2014 and 2013, the consolidated financial statements include transactions with related parties, which, as established by IAS 24, comprise the parent company, related parties, associates and key management. All related party transactions are conducted in accordance with market conditions applicable to non-related third parties.

(a) The balances of the consolidated statement of financial position arising from related parties as of December 31 were as follows:

	In thousands of S/.									
	2014					2013				
	Parent company	Related parties (i)	Associates	Key management	Total	Parent Company	Related parties (i)	Associates	Key management	Total
Assets:										
Cash and due from banks	-	21,137	-	-	21,137	-	17,799	-	-	17,799
Loan portfolio, net	-	2,926	6	9,278	12,210	-	13	5	9,291	9,309
Held-for trading derivatives instruments	-	58,103	-	-	58,103	-	47,329	-	-	47,329
Other assets	-	32,611	2,732	331	35,674	16	4,682	-	262	4,960
Total assets	-	114,777	2,738	9,609	127,124	16	69,823	5	9,553	79,397
Liabilities:										
Deposits and obligations	220,398	304,657	10,007	16,164	551,226	2,991	1,183,367	11,896	13,760	1,212,014
Borrowings	-	3,571,137	-	-	3,571,137	-	2,531,428	-	-	2,531,428
Held-for trading derivatives instruments	-	134,972	-	-	134,972	-	75,030	-	-	75,030
Other liabilities	-	46,405	457	4	46,866	-	3,507	367	3,516	7,390
Total liabilities	220,398	4,057,171	10,464	16,168	4,304,201	2,991	3,793,332	12,263	17,276	3,825,862
Off-balance accounts:										
Contingent loans	-	247,091	54,133	149	301,373	-	250,265	22,801	140	273,206
Financial derivative instruments	-	10,296,405	-	-	10,296,405	-	10,209,374	-	-	10,209,374

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

(b) Consolidated income statement arising from related party transactions for the year ended December 31 were as follows:

	In thousands of S/.									
	2014					2013				
	Parent company	Related parties (i)	Associates	Key management	Total	Parent company	Related parties (i)	Associates	Key management	Total
Interest income	-	146	-	552	698	273	2	3	542	820
Interest expenses	-	(23,877)	(2,034)	(211)	(26,122)	(14)	(26,339)	(3,216)	(231)	(29,800)
	-	(23,731)	(2,034)	341	(25,424)	259	(26,337)	(3,213)	311	(28,980)
Income from finance services	16	2,030	1,141	95	3,282	17	925	108	85	1,135
Expenses from finance services	-	(47)	(8,010)	(6)	(8,063)	-	(16)	(8,489)	(5)	(8,510)
	16	1,983	(6,869)	89	(4,781)	17	909	(8,381)	80	(7,375)
Results of financial transactions	-	(127,649)	-	-	(127,649)	-	(11,660)	-	-	(11,660)
Administrative expenses	-	(1,094)	(3,761)	(30,844)	(35,699)	-	(1,400)	(1,334)	(36,207)	(38,941)
Other income and expenses	-	2	-	- -	2	-	471	-	(1)	470
Net profit	16	(150,489)	(12,664)	(30,414)	(193,551)	276	(38,017)	(12,928)	(35,817)	(86,486)

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

(c) Remuneration of key management for the years ended December 31, amounted to:

	In thousands of S/.	
	2014	2013
Remuneration of key management	30,309	35,829
Remuneration of members of the board of directors	534	372
	30,843	36,201

As of December 31, 2014 and 2013, the remuneration pending to pay to key management amounted to S/. 6,107 thousand and S/. 3,499 thousand, respectively.

(31) Classification of Financial Instruments

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

	In thousands of S/.						
	2014						
			Available-for-sale investments				
	At fair value through profit or loss	Loans and items receivable	At amortized cost (a)	At fair value	Liabilities at amortized cost	Other liabilities (b)	Total
Assets:							
Cash and due from banks	-	10,572,032	-	-	-	-	10,572,032
Interbank funds	-	70,002	-	-	-	-	70,002
Investments at fair value through profit or loss							
Capital instruments	13,753	-	-	-	-	-	13,753
Debt instruments	289,753	-	-	-	-	-	289,753
Available-for-sale investments							
Instruments representing capital	-	-	7,435 (c)	56,227	-	-	63,662
Instruments representing debt	-	-	-	1,671,471	-	-	1,671,471
Loan portfolio, net	-	31,667,386	-	-	-	-	31,667,386
Held-for trading derivatives instruments	171,939	-	-	-	-	-	171,939
Accounts receivable	-	132,473	-	-	-	-	132,473
Other assets	-	115,313	-	-	-	-	115,313
Total	475,445	42,557,206	7,435	1,727,698	-	-	44,767,784
Liabilities:							
Deposits and obligations	-	-	-	-	-	29,044,785	29,044,785
Deposits of financial entities and international finance institutions	-	-	-	-	-	295,772	295,772
Borrowings and financial obligations	-	-	-	-	10,924,144	-	10,924,144
Held-for trading derivatives instruments	187,158	-	-	-	-	-	187,158
Accounts payable	-	-	-	-	-	402,057	402,057
Other liabilities	-	-	-	-	-	156,092	156,092
Total	187,158	-	-	-	10,924,144	29,898,706	41,010,008

(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).

	In thousands of S/.						
	2013						
			Available-for-sale investments				
	At fair value through profit or loss	Loans and items receivable	At amortized cost (a)	At fair value	Liabilities at amortized cost	Other liabilities (b)	Total
Assets:							
Cash and due from banks	-	11,371,415	-	-	-	-	11,371,415
Interbank funds	-	364,224	-	-	-	-	364,224
Investments at fair value through profit or loss							
Capital instruments	9,333	-	-	-	-	-	9,333
Debt instruments	1,369,794	-	-	-	-	-	1,369,794
Available-for-sale investments							
Instruments representing capital	-	-	7,440 (c)	63,572	-	-	71,012
Instruments representing debt	-	-	-	651,391	-	-	651,391
Loan portfolio	-	27,341,186	-	-	-	-	27,341,186
Held-for trading derivatives instruments	142,288	-	-	-	-	-	142,288
Accounts receivable	-	174,395	-	-	-	-	174,395
Other assets	-	26,365	-	-	-	-	26,365
Total	1,521,415	39,277,585	7,440	714,963	-	-	41,521,403
Liabilities:							
Deposits and obligations	-	-	-	-	-	29,357,264	29,357,264
Deposits of financial entities and international finance institutions	-	-	-	-	-	458,122	458,122
Borrowings and financial obligations	-	-	-	-	7,716,418	-	7,716,418
Held-for trading derivatives instruments	176,863	-	-	-	-	-	176,863
Accounts payable	-	-	-	-	-	430,640	430,640
Other liabilities	-	-	-	-	-	103,366	103,366
Total	176,863	-	-	-	7,716,418	30,349,392	38,242,673

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

(32) Financial Risk Management

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

It comprises the management of the following main risks:

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

- Market risk: It is the risk of loss in on-balance or off-balance sheet positions arising from the market conditions variations. It generally includes the following types of risk: exchange rate, interests 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 arised from cash flow mismatches.

- Operational risk: It is the risk of loss due to inadequate or failed processes or systems, human error, or external events.

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

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

Risk Senior Management
It is responsible for implementing the policies, methodologies and procedures to identify, monitor, mitigate and control the different types of risks to which Scotiabank Perú 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, Portfolio Risk, Special Banking, Risk Policies and Projects, Market Risk, and Operational and Technological Risk.

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

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

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

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

A. Credit Risk
   (i) Life-cycle: Admission, Monitoring and Collection
   Credit adjudication units analyze and evaluate credit approval from different business segments, with different levels of delegation to other teams for their approval, from a risk (measured based on a rating or score) versus profitability perspective. Also, for portfolio managing purposes, the loans are monitored in order to minimize future losses. Concerning the collection models, these customers are segmented by Corporate and Commercial banking and Retail

banking. For corporate and commercial portfolio, collections are managed on a case by case basis, transferring it to the recovery area maximum after 90 days overdue in order to have time to take legal action, if necessary. For Retail portfolio, risk-based strategies are established (collection score) to optimize available resources for collection seeking to reach greater effectiveness.

(ii) Credit Risk Mitigation - Collateral

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

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

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

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

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

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

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

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

	In thousands of S/.	
	2014	2013
Loans with first mortgage or collateral trust on property registered in Public Records	7,486,086	6,578,717
Loans with non-preferred guarantees	5,953,472	4,389,329
Financial lease loans	3,886,836	4,041,848
Loans with subsidiary responsibility	1,848,002	994,407
Loans with first real estate collateral or collateral trust registered in Public Records	977,185	690,485
Secured loans with cash deposits	339,737	286,645
Loans with collateral or collateral trust registered in Public Records - warrants	286,371	363,320
Other collaterals	31,696	31,507
Loans without collateral	12,077,246	11,021,356
	32,886,631	28,397,614

(iii) Credit Rating

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

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

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

(iv) Debtor Regulatory Credit Rating

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

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

(v) Loan Portfolio Impairment Loss

As of December 31, 2014 and 2013, based on Resolution SBS 7036-2012, the Bank and CrediScotia Financiera S.A. have classified impaired and not impaired loans considering the following criteria:

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

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

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

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

	In thousands of S/.					
	2014					
	Wholesale loans	Small & medium-business loans	Consumer loans	Residential mortgage loans	Total	%
Neither past due not impaired loans:						
Standard	17,750,348	3,393,120	5,234,137	4,279,171	30,656,776	94
Potential problem	249,719	136,573	243,041	73,400	702,733	2
Past due but not impaired loans:						
Standard	11,288	30	19	-	11,337	-
Potential problem	13,457	39	22	102	13,620	-
Impaired loans:						
Standard	985	13	38	-	1,036	-
Potential problem	28,653	2	2	-	28,657	-
Substandard	93,536	80,855	117,037	35,931	327,359	1
Doubtful	119,921	103,941	185,703	48,478	458,043	1
Loss	130,035	256,472	235,829	64,734	687,070	2
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Gross loan portfolio	18,397,942	3,971,045	6,015,828	4,501,816	32,886,631	100
Less: provisions	(390,922)	(351,835)	(561,582)	(111,109)	(1,415,448)	===
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Total net	18,007,020	3,619,210	5,454,246	4,390,707	31,471,183	
	========	========	========	========	========	

	In thousands of S/.					
	2013					
	Wholesale loans	Small & medium-business loans	Consumer loans	Residential mortgage loans	Total	%
Neither past due not impaired loans:						
Standard	14,724,779	3,314,982	4,544,660	3,859,855	26,444,276	93
Potential problem	171,067	137,192	265,972	81,446	655,677	2
Past due but not impaired loans:						
Standard	6,167	41	77	-	6,285	-
Potential problem	11,043	18	10	137	11,208	-
Impaired loans:						
Standard	706	-	-	-	706	-
Potential problem	9,291	-	-	-	9,291	-
Substandard	74,686	93,717	131,969	28,486	328,858	1
Doubtful	60,369	123,986	213,767	30,668	428,790	2
Loss	119,159	203,912	142,215	47,237	512,523	2
Gross loan portfolio	15,177,267	3,873,848	5,298,670	4,047,829	28,397,614	100
Less: provisions	(340,994)	(331,525)	(477,851)	(92,499)	(1,242,869)	
Total net	14,836,273	3,542,323	4,820,819	3,955,330	27,154,745	

As of December 31, 2014 and 2013, refinanced and restructured loans amount to S/. 219,984 thousand and S/. 170,380 thousand, respectively, of which S/. 23,088 thousand and S/. 16,904 thousand, are classified as "neither past due not impaired loans" and S/. 153,476 thousand and S/. 197,451 thousand as "impaired loans", respectively.

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

	In thousands of S/.				
	2014				
Delinquency days	16 -30	31 – 60	61 – 90	Total	Value of collaterals
Type on loans:					
Large-business loans	199	91	-	290	123
Medium-business loans	13,674	10,770	10	24,454	32,330
Subtotal Wholesale banking	13,873	10,861	10	24,744	32,453
Small-business loans	40	8	9	57	28
Micro-business loans	-	11	-	11	-
Revolving consumer loan	14	23	2	39	1
Non-revolving consumer loans	2	1	-	3	-
Mortgage loans	-	102	-	102	404
Subtotal Retail banking	56	145	11	212	433
Total	13,929	11,006	21	24,956	32,886

	In thousands of S/.				
	2013				
Delinquency days	16 -30	31 – 60	61 – 90	Total	Value of collaterals
Type on loans:					
Corporate	38	-	-	38	-
Large-business loans	875	187	2	1,064	486
Medium-business loans	9,064	7,021	23	16,108	16,716
Subtotal Wholesale banking	9,977	7,208	25	17,210	17,202
Small-business loans	-	31	25	56	2,630
Micro-business loans	-	3	-	3	56
Non-revolving consumer loans	-	26	54	80	258
Revolving consumer loan	-	-	7	7	-
Mortgage loans	-	137	-	137	164
Subtotal Retail banking	-	197	86	283	3,108
Total	9,977	7,405	111	17,493	20,310

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

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

	In thousands of S/.				
	2013				
	Wholesale loans	Small & medium-business loans	Consumer loans	Residential mortgage loans	Total
Impaired loans	264,211	421,615	487,951	106,391	1,280,168
Value of collaterals	283,054	325,275	70,980	148,599	827,908
Provisions for impairment	150,699	255,899	298,959	48,238	753,795

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

(vi) Write-off of Loans

As of December 31, 2014 and 2013, the Bank and CrediScotia Financiera S.A. hold written-off loans, which are presented in memoranda accounts. The table below shows the movement of these write-off loans:

	In thousands of S/. 2014	In thousands of S/. 2013
Opening balance	1,453,363	1,012,787
Write-offs	667,178	708,654
Cash recovery	(18,773)	(10,863)
Forgiveness	(1,404)	(100)
Portfolio sale	(348,783)	(325,740)
Foreign exchange differences	59,551	74,823
Other	(8,532)	(6,198)
	-----------------	-----------------
Final balance	1,802,600	1,453,363
	==========	==========

(vii) Financial assets exposed to credit risk concentration

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

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

	In thousands of S/.				
	2013				
			Available-for-sale		
	At fair value through profit or loss	Loans and items receivable	At amortized cost (*)	At fair value	Total
Peru	1,474,920	38,797,926	6,377	714,963	40,994,186
United States	280	436,202	-	-	436,482
Canada	44,824	17,799	-	-	62,623
Germany	-	23,685	-	-	23,685
Brazil	-	1,145	-	-	1,145
Venezuela	-	-	1,063	-	1,063
United Kingdom	895	-	-	-	895
Panama	-	699	-	-	699
France	496	-	-	-	496
Belgium	-	71	-	-	71
Switzerland	-	34	-	-	34
Australia	-	24	-	-	24
	--------------	--------------	--------------	--------------	--------------
Total	1,521,415	39,277,585	7,440	714,963	41,521,403
	========	========	========	========	========

(*) It includes financial assets measured at cost.

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

	In thousands of S/.			
	2014	%	2013	%
Mortgage and consumer loans	10,882,660	33	9,346,500	33
Trade	4,418,270	13	3,745,767	13
Manufacturing	4,330,101	13	3,332,140	12
Real estate business and lease services	3,117,684	9	2,404,597	8
Mining	1,566,056	5	1,548,857	5
Transport	1,346,297	4	1,232,754	4
Power, gas, and water	1,035,451	3	1,029,277	4
Education, services, and other	851,264	3	814,884	3
Construction	715,821	2	300,416	1
Brokerage service	671,483	2	793,346	3
Agriculture and livestock	615,364	2	536,368	2
Fishing	355,107	1	452,371	2
Hotel and restaurants	302,195	1	225,529	1
Public administration and defense	252,236	1	139,305	-
Other (mainly non-profit, healthcare and automotive)	2,426,642	8	2,495,503	9
	--------------	----	--------------	-------
	32,886,631	100	28,397,614	100
	========	===	========	====

B. 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.

(i) Management of Market Risk

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

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

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

(ii) Exposure to Market Risks – Trading portfolio

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

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

- A 1-day holding period assumes that it is possible to hedge or dispose of positions within that period. This may not be the case for illiquid assets or in situations in which there is severe general market illiquidity.
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used, there is a one percent probability that losses could exceed the VaR.
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.

- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.
- The VaR measure depends upon Scotiabank Perú S.A.A and Subsidiaries' position and the volatility of market prices. The VaR of a static position reduces if market price volatility declines and vice versa.

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

VaR methodology limitations, are recognized by complementing VaR limits with other position and sensitivity limits structures. In addition, a wide range of stress tests is used to model the financial impact of different trading portfolio scenarios. Management determines hypothetical scenarios considering potential macroeconomic events, for example, prolonged market illiquidity periods, reduced fungibility of currencies, natural disasters and other catastrophes. The analysis of scenarios and stress tests are reviewed by ALCO.

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

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

	In thousands of S/.	
VaR	2014	2013
Peru total	2,715	1,400

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

(iii) Exposure to Market Risks – Non-Trading Portfolio

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

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

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

Exposure to market risks includes mainly:

(a) Interest Rate Risk

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

Market risk arising from financing and investment activities are identified, managed, and controlled as part of 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 others issues related to market risk management in compliance with regulatory provisions of the Parent Company and Scotiabank Perú S.A.A. and Subsidiaries.

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

The table below summarizes the interest rate risk exposure as of December 31, including the carrying amount of assets and liabilities classified by the earlier of the contractual repricing or maturity dates:

	In thousands of S/.											
	2014						2013					
	Up to 1 month	1 to 3 months	3 to 12 months	Over 12 months	Do not accrue interest	Total	Up to 1 month	1 to 3 months	3 to 12 months	Over 12 months	Do not accrue interest	Total
Assets:												
Cash and due from banks	6,556,412	23,139	1,692,908	992,877	1,306,696	10,572,032	8,700,550	90	10,634	1,579,727	1,080,414	11,371,415
Interbank funds	70,002	-	-	-	-	70,002	364,224	-	-	-	-	364,224
Investments at fair value through profit or loss and available-for-sale	135,272	300,113	745,581	857,673	-	2,038,639	726,305	554,381	252,330	568,514	-	2,101,530
Loan portfolio, net	3,897,563	6,027,861	8,623,641	13,118,321	-	31,667,386	2,952,227	5,107,972	8,701,407	10,579,580	-	27,341,186
Held-for trading derivatives instruments	-	-	-	-	171,939	171,939	-	-	-	-	142,288	142,288
Accounts receivable	21,887	107	1,246	15,536	828,244	867,020	2,396	9,431	2,199	9,421	589,431	612,878
Other assets	229	-	3,598	17,187	1,582,287	1,603,301	-	-	12,075	16,291	1,672,626	1,700,992
Total Assets	10,681,365	6,351,220	11,066,974	15,001,594	3,889,166	46,990,319	12,745,702	5,671,874	8,978,645	12,753,533	3,484,759	43,634,513
Liabilities:												
Deposits and obligations	8,732,041	3,330,574	11,783,552	5,185,907	12,711	29,044,785	10,446,975	2,995,050	11,053,550	4,849,065	12,624	29,357,264
Deposits of financial entities and International Financial Organizations	245,183	14,467	24,414	11,708	-	295,772	314,846	66,388	70,198	6,690	-	458,122
Borrowings and financial obligations	1,352,628	5,011,842	1,367,907	3,191,767	-	10,924,144	775,461	3,791,361	633,584	2,516,012	-	7,716,418
Held-for trading derivatives instruments	-	-	-	-	187,158	187,158	-	-	-	-	176,863	176,863
Accounts payable	790	7,373	2,202	-	391,692	402,057	3,611	947	1,688	-	424,394	430,640
Provisions	-	-	-	-	298,139	298,139	-	-	-	-	315,685	315,685
Other liabilities	206	976	1,124	-	189,895	192,201	391	1,216	3,523	-	134,025	139,155
Total Liabilities	10,330,848	8,365,232	13,179,199	8,389,382	1,079,595	41,344,256	11,541,284	6,854,962	11,762,543	7,371,767	1,063,591	38,594,147
Off-balance accounts:												
Derivative instruments	11,026,007	4,760,161	2,572,415	285,618	-	18,644,201	13,163,098	4,373,609	4,838,151	632,976	-	23,007,834
Marginal gap	350,517	(2,014,012)	(2,112,225)	6,612,211	2,809,570	5,646,061	1,204,418	(1,183,088)	(2,783,898)	5,381,766	2,421,168	5,040,366
Accumulated gap	350,517	(1,663,495)	(3,775,720)	2,836,491	5,646,061	-	1,204,418	21,330	(2,762,568)	2,619,198	5,040,366	-

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

Earnings at Risks (EaR) and Equity Value at Risk (EVAR) indicators are focused on the potential impact of interest rate changes on value generation, specifically through the financial margin, and the entity's equity value. These methodologies are applied under both normal and stressed market conditions. As of December 31, the interest rate indicators are the following:

	%	
	2014	2013
EVAR (i)	5.76	7.73
EaR (ii)	1.53	0.62

(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.

(b) Exchange Rate Risk

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

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

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

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

	In thousands of S/.	
	2014	2013
Foreign exchange VaR	1,088	375

Management calculates the VaR using historical simulation based on 300 days of market data to measure the maximum expected loss from fluctuations in the exchange rate, considering as variables the net asset position in foreign currency and exchange rate volatility. As of December 31, 2014 and 2013, the net asset position of the consolidated statement of financial position in foreign currency amounted to US$ 323,412 thousand and US$ 301,442 thousand, respectively (note 5).

As of December 31, 2014, the overbought/oversold position amounted to S/. 83,074 thousand and S/. 722 thousand, respectively (as of December 31, 2013, S/. 18,019 thousand and S/. 13 thousand, respectively).

(c) Investments 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. It is managed in accordance with approved policies and limits for investments by type and term. On the other hand, trading portfolio is acquired with the intention of short-term profit-taking, arising from fluctuations prices.

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

(d) Liquidity Risk

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

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

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

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

Central Treasury ratios are indicators that relate liquid assets to short-term liabilities under one year. The SBS has determined that this relation shall be greater than 8% and 20%, in the case of local and foreign currency, respectively. As of December 31, 2014, the ratios in local and foreign currencies were 23.31% and 49.05% respectively (28.2% and 61.50% as of December 31, 2013).

Liquidity Coverage Ratio is an indicator of liquidity level in a hypothetical stress scenario; it indicates if the entity have sufficient liquidity to withstand liquidity disruptions for up to 30 days, without the need of turning to the market. As of December 31, 2014, the minimum amount required by the regulator was 80% and Scotiabank presented comfortable levels of liquidity reaching 127.48% in local currency and 131.17% in foreign currency.

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

	In thousands of S/. 2014					
	Demand deposits	Up to 1 month	1 to 3 months	3 to 12 months	Over 1 year	Total
Deposits and obligations	16,657,179	3,778,431	3,385,432	2,535,258	2,688,485	29,044,785
Deposits of financial entities and international finance institutions	134,292	78,954	46,404	2,190	33,932	295,772
Borrowings and financial obligations	-	546,637	1,227,938	679,236	8,470,333	10,924,144
Held-for trading derivatives instruments	-	64,533	37,918	22,001	62,706	187,158
Accounts payable	-	58,686	-	-	343,371	402,057
Other liabilities	-	156,092	-	-	-	156,092
Total liabilities	16,791,471	4,683,333	4,697,692	3,238,685	11,598,827	41,010,008
Off-balance risk						
Contingent liabilities	-	1,877,399	1,180,283	258,697	346,675	3,663,054

	In thousands of S/. 2013					
	Demand deposits	Up to 1 month	1 to 3 months	3 to 12 months	Over 1 year	Total
Deposits and obligations	16,138,108	4,443,858	3,040,920	2,534,799	3,199,579	29,357,264
Deposits of financial entities and international finance institutions	142,383	172,463	66,388	38,349	38,539	458,122
Borrowings and financial obligations	-	308,664	1,072,886	622,136	5,712,732	7,716,418
Held-for trading derivatives instruments	-	59,006	51,121	33,825	32,911	176,863
Accounts payable	-	67,220	-	42,660	320,760	430,640
Other liabilities	-	103,366	-	-	-	103,366
Total liabilities	16,280,491	5,154,577	4,231,315	3,271,769	9,304,521	38,242,673
Off-balance risk:						
Contingent liabilities	-	2,002,338	317,377	56,879	395,445	2,772,039

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

During 2014, 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:

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

a. Loss Event methodology

The Bank 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.

b. 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 Bank.

c. Business Continuity Management – BCM

- Scotiabank Peru has 125 Business Continuity Plans (BCPs) in its sixteen Vice chairs and/or main management areas, six subsidiaries and eleven special Agencies.

- The migration from the Business Continuity Plan to the new "Business Continuity Plans Database" system was completed during the first quarter of the year. This is an Internet-based system that allows to centralize and protect information of all the Bank's plans. As from that date, the updating of the Business Continuity Plans will be made through this system.

- The continuity plans were updated between the first and second quarters of 2014, updating BCPs and pandemic guide, and developing tabletop tests (demonstration exercise, call tree test) and Simulation Tests, which evaluate the effectiveness of the procedures included in the respective continuity plans; staff was trained, and corresponding approval sought from Managers and Vice chairmen.

- 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. Currently, the Group has 103 physical working positions. During the fourth quarter, simulation tests of continuity plans TYPE I and II containing critical process were favorably completed (sensitive to the time of inoperativeness). These tests are essential and important to ensure the proper functioning of the working positions in case these are required due to a contingency.

- In the third quarter of the year, the implementation of a new data processing center located in the premises of IBM in the district of La Molina was completed. To date, this new data center is operating without inconveniences.

- Regarding the reporting of activities and the results of the continuity management, during 2014, the Bank developed local team committees for the Local Incident Management Team-LIMT with the objective that every member becomes aware of the developed activities, events, changes, training or exercises related to business continuity, which were raised to the Operational Risk Committee and Risk Control Committee as well. On the other side, every six months (second and fourth quarters of year 2014), monitoring reports for the Parent Company were prepared describing the situation of outstanding activities of the continuity management.

- In October, Scotiabank Peru participated in simulation exercises related to Business Continuity promoted by the SBS. The major banks of Peru participated in this exercise where the tested scenario was a major earthquake with systemic impact; Scotiabank Peru participated directly with its Crisis Management team with the support of the recovery teams respectively.

d. 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 2014, the Bank's methodology for the Assessment of Risk and Controls Assessment was applied through two procedures:

- Risk Control Assessment Methodology - RCA: a comprehensive assessment of inherent risks, residual risks and the effectiveness of internal controls is made with the participation of members of the value chain of the significant unit being assessed.

- Risk Matrix Methodology: its design considers frequency, impact, risks, controls and residual risk. The matrix should be completed by the Risk Manager and/or responsible for the area under assessment. Operational and Technological Risk oversees the conduction of the activity and tests the obtained results.

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

- The Bank 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.

(33) Fair Value

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

	In thousands of S/.			
	Carrying amount		Fair Value	
	2014	2013	2014	2013
Assets:				
Cash and due from banks	10,572,032	11,371,415	10,572,032	11,371,415
Interbank funds	70,002	364,224	70,002	364,224
Investments at fair value through profit or loss				
Capital instruments	13,753	9,333	13,753	9,333
Debt instruments	289,753	1,369,794	289,753	1,369,794
Available-for-sale investments				
Instruments representing capital	63,662	71,012	63,662	71,012
Instruments representing debt	1,671,471	651,391	1,671,471	651,391
Loan portfolio, net	31,667,386	27,341,186	31,667,386	27,341,186
Held-for trading derivatives instruments	171,939	142,288	171,939	142,288
Accounts receivable	132,473	174,395	132,473	174,395
Other assets	115,313	26,365	115,313	26,365
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Total	44,767,784	41,521,403	44,767,784	41,521,403
	=========	=========	=========	=========

	In thousands of S/.			
	Carrying amount		Fair Value	
	2014	2013	2014	2013
Liabilities:				
Deposits and obligations	29,044,785	29,357,264	29,044,785	29,357,264
Deposits of financial entities and international finance institutions	295,772	458,122	295,772	458,122
Borrowings and financial obligations	10,924,144	7,716,418	10,843,649	7,932,962
Held-for trading derivatives instruments	187,158	176,863	187,158	176,863
Accounts payable	402,057	430,640	402,057	430,640
Other liabilities	156,092	103,366	156,092	103,366
Total	41,010,008	38,242,673	40,929,513	38,459,217

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

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

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

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

(a) Cash due from banks and interbank funds represent cash and short-term deposits that are not considered to be a significant credit risk.
(b) Investments at fair value through profit or loss are recorded at their estimated market value, which is the same as the carrying amount.
(c) Available-for-sale investments are generally listed or have a market value through future discounted cash flows.
(d) Market values of loan portfolio are the same as the carrying amount.
(e) Market values of deposits and obligations are the same as the carrying amount.
(f) Debts to banks and correspondent banks accrue interest at fixed and floating rates and have short- and long- term maturities. The fair value of these financial instruments has been calculated using discounted cash flows considering the funding curve.
(g) Securities, bonds and obligations issued accrue interest at fixed rates. The fair value of these financial instruments has been calculated using discounted cash flows considering the same methodology of item (f).

(h) Purchase and sale agreements in foreign currency at a future date are recorded at their estimated market values; therefore, no differences with their respective carrying values exist.

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

Fair Value Hierarchy

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

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

Level 2: Valuation techniques that use significant inputs data and variables with material effect on fair value estimation that are directly or not directly observable in the market.

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

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

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

	In thousands of S/.			
	2013			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments at fair value through profit or loss				
Instruments representing capital	36	9,297	-	9,333
Instruments representing debt	-	1,369,794	-	1,369,794
Available-for-sale investments				
Instruments representing capital	61,816	1,740	7,456	71,012
Instruments representing debt	-	651,391	-	651,391
Held-for trading derivatives instruments	-	142,288	-	142,288
Total	61,852	2,174,510	7,456	2,243,818
Liabilities:				
Held-for trading derivatives instruments	-	176,863	-	176,863
Total	-	176,863	-	176,863

(34) Subsequent Events

a) On December 19, 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 for approximately US$ 295,000 thousand. As usual, this type of agreement, is subject to compliance of certain conditions, among others, the SBS approval, which is in process.

b) On February 20, 2015, CrediScotia Financiera informed the Peruvian Superintendency of Securities Market (SMV) that in session held on the same date, the General Bondholders Assembly of the Fourth Program of CrediScotia Financiera Negotiable Certificates of Deposits approved the amendment of the Fourth Program of CrediScotia Financiera Negotiable Certificates of Deposits term to six years; thus, the maturity was extended from 2015 to 2021.