Scotiabank Brasil S.A. Banco Múltiplo

Financial statements of December 31, 2017 and 2016

(A free translation of the original report in Portuguese as published in Brazil containing financial statements prepared in accordance with accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil)

KPDS 220658

Contents

Management Report

In compliance with legal and statutory provisions, Scotiabank Brasil's Management submits to your appreciation the financial statements for the years ended December 31, 2017 and 2016, accompanied by the explanatory notes and independent auditors' report prepared in accordance with accounting practices adopted in Brazil, set by the Corporate Law, related to rules of the National Monetary Council (CMN), Central Bank of Brazil (BACEN) and Brazilian Securities and Exchange Commission (CVM). Management assures herein the Bank's financial ability and the intention to hold up to maturity the securities classified under this category, in accordance with the BACEN Circular 3068 precepts.

Acknowledgments

Scotiabank Brasil wishes to take this opportunity to express its appreciation for the trust and support of its clients, and for the dedication, ethics, professionalism and engagement of its employees.

Executive Board

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Independent auditors' report on the financial statements

To
The Management and Shareholders of
Scotiabank Brasil S.A. Banco Múltiplo
São Paulo - SP

Opinion
We have audited the financial statements of Scotiabank Brasil S.A. Banco Múltiplo (the "Bank"), which comprise the balance sheet as of December 31, 2017, and the statements of profit or loss, changes in equity and cash flows for the year and six-month period then ended, and notes to the financial statements, including significant accounting policies and other explanatory information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Scotiabank Brasil S.A. Banco Múltiplo as of December 31, 2017, and of its financial performance and its cash flows for the year and six-month period then ended in accordance with accounting pratices adopted in Brazil applicable to entities authorized to operate by the Central Bank of Brazil - Bacen.

Basis for opinion
We conducted our audit in accordance with International and Brazilian Standards on Auditing. Our responsibilities, in accordance with the aforementioned standards, are described in the following section entitled "Auditors' responsibilities for the audit of the financial statements". We are independent of the Bank, in accordance with relevant ethical principles established in the Accountant's Professional Code of Ethics and professional standards issued by the Federal Accounting Council (CFC), and we comply with other ethical responsibilities in accordance with the aforementioned standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other information that accompanying the financial statements, and the independent auditors' report
The Bank's Management is responsible for that other information comprising the Management Report.

Our opinion on the financial statements does not cover the Management Report and we do not express any form of audit conclusion thereon.

Our responsibility in connection with the audit of the financial statements is to read the Management Report and, in doing so, verify whether the aforementioned report is materially inconsistent with the financial statements and our knowledge gained in the course of our examination, or, otherwise, seems materially misstated. If, based on the work performed, we conclude that there is material misstatement in the Management Report, we are required to report on such fact. We have nothing to report on this respect.

The management and corporate governance responsibilities for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting practices adopted in Brazil, applicable to institutions authorized to operate by the Central Bank of Brazil (BACEN), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Banks's financial reporting process.

The auditors' responsibilities for the financial statements

Our objectives are to obtain reasonable assurance that the overall financial statements are free from material misstatement, whether due to error or fraud, and issue an independent auditors' report including our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that the examination performed in accordance with Brazilian and international standards on auditing will always detect possible existing material misstatements. Misstatements may derive from error or fraud and are considered material when may individually or jointly influence, within a reasonable perspective, the economic decisions users take based on the aforementioned financial statements.

As part of the examination performed in accordance with Brazilian and international standards on auditing, we exercised professional judgment and maintained professional skepticism throughout the audit. Additionally:

- We identify and assess the material misstatement risks in the financial statements, whether caused by error or fraud. We plan and execute audit procedures in response to such risks, and obtain appropriate and sufficient audit evidence to substantiate our opinion. The risk of not detecting material misstatement resulting from fraud is greater than the one deriving from error, as fraud may involve the act of circumventing internal control, collusion, forgery, omission or deliberate false representations.

- We gain an understanding of the relevant internal control for the audit in order to plan audit procedures appropriate for the circumstances, but not with the objective of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- We conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. Should we reach the conclusion that there is material uncertainty, we should draw attention in our audit report to the corresponding disclosures in the financial statements, or include any change in our opinion if the disclosures are inappropriate. Our conclusions are substantiated by the audit evidence obtained up to the date of our report. However, future events or conditions may lead to the Bank losing its ability to continue as a going concern.

- We assess the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the corresponding transactions and events in a compatible manner with the objective of a true and fair presentation.

We communicate with those responsible for corporate governance with respect to, among other aspects, the scope planned, the audit timing and the significant audit findings, including possible significant weaknesses in internal control that we identified during the course of our work.

São Paulo, March 1, 2018

KPMG Auditores Independentes
CRC 2SP014428/O-6
Original report in Portuguese signed by
Giuseppe Masi
Accountant CRC 1SP176273/O-7

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO

BALANCE SHEETS AS OF DECEMBER 31, 2017 AND 2016

(In thousands of Reais)

	2017	2016
Assets		
Current	**3,148,021**	**3,530,238**
Cash and cash equivalents	168,180	4,689
Interbank investments	1,398,392	840,414
Money market instruments	1,202,036	699,882
Interbank deposits	196,356	140,532
Securities and derivative financial instruments	693,907	1,583,549
Own portfolio	338,175	598,337
Derivative financial instruments	93,905	291,854
Subject to guarantees	261,827	693,358
Interbank accounts	117	2,292
Restricted deposits:		
Deposits with Central Bank of Brazil	4	13
Correspondents banks	113	2,279
Loans	254,021	147,472
Loans		
Private sector	255,189	148,053
Allowance for loan losses	(1,168)	(581)
Other receivables	632,904	951,281
Foreign exchange portfolio	672,011	897,216
Income receivable	5	3
Securities clearing accounts	1,178	2,613
Sundry	30,520	76,757
Allowance for loan losses	(70,810)	(25,308)
Other assets	500	541
Prepaid expenses	500	541
Long-term receivables	**686,678**	**417,829**
Securities and derivative financial instruments	66,101	190,732
Own portfolio	3,485	33,259
Derivative financial instruments	36,350	157,473
Subject to guarantees	26,266	-
Loans	543,667	178,315
Loans		
Private sector	545,978	178,910
Allowance for loan losses	(2,311)	(595)
Other receivables	76,902	48,712
Sundry	76,902	48,712
Other assets	8	70
Prepaid expenses	8	70
Permanent assets	**3,479**	**3,515**
Investments	6	6
Other investments	6	6
Premises and equipment	3,143	2,979
Other property and equipment	12,894	12,176
Accumulated depreciation	(9,751)	(9,197)
Intangible assets	330	530
Intangible Assets	998	1,121
Accumulated amortization	(668)	(591)
Total assets	**3,838,178**	**3,951,582**

The notes are an integral part of these financial statements.

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO
BALANCE SHEETS AS OF DECEMBER 31, 2017 AND 2016
(In thousands of Reais)

	2017	2016
Liabilities		
Current	**1,681,433**	**2,494,876**
Deposits	351,561	630,378
Demand deposits	159	193
Interbank investments	-	45,875
Time deposits	351,402	584,310
Acceptances and endorsements	-	81,617
Funds from real estate, mortgage, credit and similar notes	-	81,617
Interbranch accounts	-	437
Third-party funds in transit	-	437
Borrowings	709,129	1,261,264
Foreign borrowings	709,129	1,261,264
Derivative financial instruments	32,303	55,890
Derivative financial instruments	32,303	55,890
Other liabilities	588,440	465,290
Foreign exchange portfolio	506,353	390,303
Social and statutores	24	1,107
Tax and social security	62,980	25,627
Due in connection with securities dealing	9,048	40,293
Sundry	10,035	7,960
Long-term liabilities	**1,632,388**	**934,585**
Deposits	970,117	778,512
Time deposits	970,117	778,512
Acceptances and endorsements	796	684
Funds from real estate, mortgage, credit and similar notes	796	684
Borrowings	579,328	52,818
Foreign borrowings	579,328	52,818
Derivative financial instruments	34,979	37,070
Derivative financial instruments	34,979	37,070
Other liabilities	47,168	65,501
Due to shareholders	333	-
Tax and social security	17,879	38,735
Sundry	28,956	26,766
Deferred income	**-**	**191**
Deferred income	-	191
Equity	**524,357**	**521,930**
Capital:		
Shareholders domiciled abroad	321,121	321,121
Profit reserves	202,828	200,698
Equity valuation adjustments	408	111
Total liabilities	**3,838,178**	**3,951,582**

The notes are an integral part of these financial statements.

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO
STATEMENTS OF PROFIT OR LOSS
YEARS ENDED DECEMBER 31, 2017 AND 2016
SEMESTER ENDED DECEMBER 31, 2017

(In thousands of Reais, except net income per lot of a thousand shares - R$)

	Second half	Years	
	2017	2017	2016
Financial operations income	**130,542**	**277,220**	**111,917**
Loans	24,141	75,559	47,663
Securities income	73,908	172,880	245,740
Derivative financial instruments	32,493	27,683	(181,486)
Foreign exchange operations	-	1,098	-
Financial operations expenses	**(41,770)**	**(220,538)**	**(12,638)**
Funding operations	(61,973)	(147,827)	(130,892)
Borrowings	(5,680)	(24,906)	222,085
Foreign exchange operations	(4,178)	-	(81,414)
Allowance for loan losses	30,061	(47,805)	(22,417)
Gross income on financial operations	**88,772**	**56,682**	**99,279**
Other operating income (expenses)	**(38,611)**	**(45,786)**	**(47,243)**
Service income	14,455	35,293	25,712
Personnel expenses	(27,580)	(48,160)	(49,528)
Other administrative expenses	(10,705)	(20,262)	(21,591)
Tax expenses	(5,229)	(7,427)	(7,962)
Other operating income	5,770	11,868	7,746
Other operating expenses	(15,322)	(17,098)	(1,620)
Operating income	**50,161**	**10,896**	**52,036**
Non-operating losses	**(7)**	**(68)**	**(4)**
Profit before taxes on income and profit sharing	**50,154**	**10,828**	**52,032**
Income and social contribution taxes	**(26,887)**	**(8,340)**	**(24,290)**
Provision for income tax	(3,502)	(13,912)	(17,675)
Provision for social contribution tax	(1,343)	(9,653)	(14,116)
Deferred tax assets	(22,042)	15,225	7,501
Profit sharing	**(358)**	**(358)**	**(1,623)**
Net income for the semester / years	**22,909**	**2,130**	**26,119**
Net income per lot of a thousand shares - R$	**10.31**	**0.96**	**11.76**

The notes are an integral part of these financial statements.

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO

STATEMENTS OF CHANGES IN EQUITY

YEARS ENDED DECEMBER 31, 2017 AND 2016

SEMESTER ENDED DECEMBER 31, 2017

(In thousands of Reais)

		Profit reserves		Equity valuation	Retained earnings/accumulated	
	Capital	Legal	Statutory	adjustments	(losses)	Total
Balances as of January 1, 2016	**321,121**	**17,642**	**156,937**	**-**	**-**	**495,700**
Equity valuation adjustments	-	-	-	111	-	111
Net income for the year	-	-	-	-	26,119	26,119
Allocations:						
Legal reserve	-	1,306	-	-	(1,306)	-
Statutory reserves	-	-	24,813	-	(24,813)	-
Balances as of December 31, 2016	**321,121**	**18,948**	**181,750**	**111**	**-**	**521,930**
Balances as of January 1, 2017	**321,121**	**18,948**	**181,750**	**111**	**-**	**521,930**
Equity valuation adjustments	-	-	-	297	-	297
Net income for the year	-	-	-	-	2,130	2,130
Allocations:						
Legal reserve	-	106	-	-	(106)	-
Statutory reserves	-	-	2,024	-	(2,024)	-
Balances as of December 31, 2017	**321,121**	**19,054**	**183,774**	**408**	**-**	**524,357**
Balances as of July 1, 2017	**321,121**	**18,948**	**181,750**	**128**	**(20,779)**	**501,168**
Equity valuation adjustments	-	-	-	280	-	280
Net income for the semester period	-	-	-	-	22,909	22,909
Allocations:						
Legal reserve	-	106	-	-	(106)	-
Statutory reserves	-	-	2,024	-	(2,024)	-
Balances as of December 31, 2017	**321,121**	**19,054**	**183,774**	**408**	**-**	**524,357**

The notes are an integral part of these financial statements.

Scotiabank Brasil S.A. Banco Múltiplo

Statements of cash flows (Indirect Method)

Years ended December 31, 2017 and 2016

Semester ended December 31, 2017

(In thousands of Reais)

	Second half	Years	
	2017	**2017**	**2016**
Operating activities			
Adjusted net income (loss)	**(5,825)**	**52,512**	**52,001**
Net income for the semester / years	**22,909**	**2,130**	**26,119**
Adjustments in profit	**(28,734)**	**50,382**	**25,882**
Expense on (reversal of) allowance for loan losses	669	2,303	(377)
Expense on (reversal of) allowance for other receivable losses	(30,731)	45,502	22,794
Depreciation and amortization	568	1,114	1,165
Loss on the write-off of premises and equipment	7	7	-
Expense on provision for contingent liabilities and legal obligations	473	1,159	2,189
Adjustment to market value of available-for-sale financial assets	280	297	111
Changes in assets and liabilities	**180,044**	**(37,391)**	**240,409**
Decrease (Increase) in interbank investments	(707,433)	(707,433)	126,895
Decrease (increase) in securities and derivative financial instruments.	797,358	988,595	(985,932)
Reversal of (increase in) legal reserves at the Central Bank of Brazil	9	9	(7)
Decrease (increase) in interbank accounts	(113)	2,166	(2,279)
Decrease (increase) in interbranch accounts	(1,004)	(437)	437
Decrease (increase) decrease in loans	7,854	(474,204)	43,953
Decrease (increase) decrease in other receivables	(250,859)	244,685	(200,005)
Decrease in other assets	359	103	368
Increase (decrease) in deposits	(413,536)	(87,212)	945,315
(Decrease) in money market funding	-	-	(1,000)
Increase (decrease) in acceptances and endorsements	(20,876)	(81,505)	10,581
Increase (decrease) in borrowings	252,274	(25,625)	(97,528)
Increase in other liabilities	516,011	103,658	399,429
Increase (decrease) in deferred income	-	(191)	182
Net cash from operating activities	**174,219**	**15,121**	**292,410**
Investing activities			
Acquisition of premises and equipment	(363)	(1,085)	(261)
Net cash from investing activities	**(363)**	**(1,085)**	**(261)**
Net increase in cash and cash equivalents	**173,856**	**14,036**	**292,149**
Cash and cash equivalents at beginning of the semester / years	685,283	845,103	552,954
Cash and cash equivalents at beginning of the semester / years	859,139	859,139	845,103
Net increase in cash and cash equivalents	**173,856**	**14,036**	**292,149**

The notes are an integral part of these financial statements.

1. Operations

Scotiabank Brasil S.A. Banco Múltiplo ("Bank") is organized and authorized to operate as a multiple bank by means of its investment and commercial portfolios, including foreign exchange.

The Bank's shareholders are The Bank of Nova Scotia ("BNS") and BNS Investments Inc. (BNS' whole investee), both with head offices in Canada.

2. Preparation and presentation of the financial statements

The financial statements have been prepared in accordance with accounting policies set forth by corporate legislation, the standards and instructions set forth by the National Monetary Council (CMN) and by the Central Bank of Brazil (BACEN), in accordance with the Standard Chart of Accounts for Financial Institutions (COSIF), and by the Committee for Accounting Pronoucements (CPC), when applicable.

The issuance of these financial statements was authorized by the Executive Board on February 23, 2018.

The financial statements include estimates and assumptions, such as measurement of allowance for loan losses, estimates of the fair value of certain financial instruments, provisions for contingencies, other provisions and the determination of the useful life of certain assets. Actual results may differ from those estimates and assumptions.

Amounts realizable and payable in up to one year and after one year are segregated, respectively, into current and long-term, according to the applicable regulation.

The statements of cash flows were prepared based on the indirect method and the cash and cash equivalent amounts correspond to the balances of cash and due from banks and interbank investments with original maturity equal to or shorter than ninety days.

3. Description of significant accounting policies

a) Statement of profit or loss

Income and expenses are recognized on the accrual basis.

For better presentation purposes, the Bank reclassifies exchange variation from the "Other operating income / expenses" accounts directly to the corresponding accounts "Financial operations income / expenses" in the statement of profit or loss.

b) Current and long-term assets

These are stated at realization value, less, when applicable, the corresponding unearned income, including the yields and monetary and foreign exchange variations earned and adjusted by provisions, when applicable, up to the reporting date.

c) Securities

Securities are recorded at the cost of acquisition and presented in the Balance Sheet in accordance with the BACEN Circular n. 3.068, and classified according to the Management's intention in the following categories: "Trading securities", related to securities acquired with the purpose of trading them in an active and frequent manner, which are classified as short term and valued at market value against profit or loss for the period, "Securities available for sale", and do not fall within the trading nor the held-to-maturity categories, are adjusted at market value against the highlighted equity accounts, less the tax effects and "Securities held-to-maturity", for which there is financial ability for their maintenance in portfolio up to maturity. They are recoded at acquisition cost plus yields earned in contra-entry to profit or loss for the period.

In order to have the market value of the securities portfolio, federal government bonds have their prices adjusted in order to reflect the observable price in the market, as published by the National Association of Financial and Capital Markets (ANBIMA). For private securities, such as debentures, the determination of market value for this category is based on an independent pricing model, which consists of calculating the future value of cash flows plus monetary correction, which are discounted to their present value by the fixed interest rate plus the credit spread. The Bank records the estimated provision for losses associated with the debentures' credit risk, observing the criteria determined by CMN Resolution 2.682/99 (note 3 “f”). In the case of investment in investment fund, the corrected cost reflects the market value of the corresponding quotas.

d) Derivative financial instruments

The Bank carries out operations involving derivative financial instruments whose purpose is to meet its own and its clients’ needs. These operations are intended to manage market risk exposure to potential losses caused by fluctuations in the price of financial assets and variations in interest rates, currencies and indexes. The Bank’s Management sets guidelines concerning the operation policy, control, establishment of strategies, as well as the limit of these positions.

In accordance with the BACEN Circular n. 3.082, derivative financial instruments are classified on the date of their acquisition according to the Management's intention of using them for *hedging* purposes, or not.

Operations which use derivative financial instruments performed at the request of clients, at the Bank's expense, which do not meet the hedging criteria (principally derivatives used for managing the overall exposure to risk), are accounted for at market value, including realized and unrealized gains and losses, directly recognized in the statement of profit or loss.

An area independent of the operating and business areas is responsible for the evaluation and measurement of assets and liabilities existing in the Bank. The market value calculation of portfolio regarding derivative financial instrument such as swaps, forward, futures and other derivatives are based on prices, taxes or information collected from independent sources such as B3 S.A., securities brokers, BACEN, and ANBIMA, among others. The market and credit risk associated with these products, as well as the operational risks, are similar to those related to other types of financial instruments. For derivative financial instruments, assessment procedures regarding the need for prudential adjustments to their values, established by the CMN Resolution n. 4.277, are established and maintained, irrespective of the pricing methodology adopted, and prudence, relevance and reliability criteria observed. For over-the-counter (OTC) derivatives, the adjustments reflect the risk attributable to the credit quality of the issuer or counterparty, measured by means of internally approved methodology.

e) Loans

These are recorded based o the yields obtained, and recognized on a per day pro rata basis, according to the changes in the index and interest rates agreed upon.

Revenues and charges of any nature related to loan transactions which have been in arrears for a period of 60 days or more are recorded as unrecognized income and recognized in profit or loss when they are actually received.

f) Allowance for loan losses

Based on the analysis of outstanding operations conducted by the Management in order to conclude on the appropriate amount to absorb probable losses from their realization, considering the economic scenario and both the specific and global risks of the portfolio, as well as the provisions set forth in the CMN Resolution n. 2.682, which requires periodic analysis of the portfolio and its classification into nine levels, where "AA" corresponds to minimum risk and "H" to loss. Transactions in arrears classsified as level “H” remain under this classification for six months, after which they are written off against the recorded allowance and controlled in memorandum accounts.

g) Permanent assets

Permanent assets are stated at cost, combined with the following aspects:

- **Other investments:**they are stated at cost of acquisition, less impairment loss, when applicable;
- **Depreciation:** calculated on a straight-line basis, at the annual rates which consider the economic useful life of the assets, as follows: 10% for furniture, equipment, security system and facitilities; and 20% for data processing systems; and

- **Amortization of intangible assets:** calculated on a straight-line basis, for a period of up to 10 years.

h) Impairment loss

Pursuant to the CMN Resolution n. 3.566 which approved the adoption of Technical Pronouncement CPC 01 (*impairment*), the recoverable value of assets is tested, at least once a year, if there are indicators of loss. When the carrying value of the asset exceeds its recoverable value, the loss will be recognized directly in the statement of profit or loss.

No *impairment* loss had been identified as of December 31, 2017 and 2016.

i) Current and long-term liabilities

Current and long-term liabilities are stated at known or measurable amounts, including charges and monetary fluctuations (on a "pro rata" basis) and foreign exchange variations incurred.

j) Deferred income and social contribution taxes

The provision for income tax is recorded at the rate of 15% on taxable profit, plus a 10% surtax. Social contribution tax is calculated at the rate of 20% on taxable income. As established by Law n. 13.169/15, the social contribution of financial institutions increased from 15% to 20% for the period comprised between September 1, 2015 and December 31, 2018, and will return to the 15% rate as from January 1, 2019.

The Bank has deferred income and social contribution tax credit assets recored resulting from tax loss, negative basis of social contribution and temporary differences. Tax credits were recorded taking into account the social contribution rate in effect at the time of their realization, established by Law n. 13.169/15.

Based on the CMN Resolution n. 3.059 and subsequent amendments, the historical taxable income and short-term and medium-term forecasts prepared by the Bank enable a reasonable estimate of the realization term of these assets (note 19 “c”).

k) PIS and COFINS

PIS and COFINS contributions are provisioned for at the rate of 0.65% and 4%, respectively, in accordance with the legislation in force.

l) Contingent assets and liabilities and legal obligations (tax and social security)

The Bank follows the guidelines set forth in the CMN Resolution n. 3.823, which approved the adoption of Technical Pronouncement CPC 25 - Procedures applicable to the recognition, measurement and disclosure of provisions, contingent liabilities and contingent assets.

Contingent assets are not recognized in the financial statements, except when there are evidences that ensure their realization, given that a final judgment has been rendered on the case.

Lawsuits are classified as probable, possible or remote according to the risk of loss, where a provision is made for those classified as probable loss, according to the estimated amount of the loss, based on the opinion of our legal advisers, the nature of the lawsuits and previous rulings delivered by courts for similar cases. Lawsuits classified as possible loss are only disclosed and those classified as remote loss do not require provision or disclosure.

(In thousands of Reais)

Legal obligations are lawsuits related to tax obligations, whose matter of dispute is their legality or constitutionality. Regardless of the evaluation of the likelihood of favorable outcome, the amounts are fully recognized in the financial statements.

m) Share-based payment

Qualified employees of the Bank participate in stock-based compensation plans, which are evaluated based on the price of the common share of The Bank of Nova Scotia (BNS). The Bank records its expense in the Statement of Profit or Loss for the years against a provision in Liabilities, as established by the CMN Resolution n. 3.989, which approved the adoption of the Technical Pronouncement CPC 10 - Share-Based Payment (Note 21).

n) Post-employment benefits

Post-employment or long-term benefit plans are formal or informal agreements in which the Bank commits itself to provide post-employment benefits to one or more than one employees, in accordance with the CMN Resolution n. 4.424, which approved Technical Pronouncement CPC 33 (R1) - Employee Benefits.

The defined contribution plans are post-employment benefits, in which the sponsoring Bank pays fixed contributions to a separate entity (fund), and there is no legal or constructive obligation to pay additional contributions if the fund does not have sufficient assets to honor all benefits in relation to its services in the current period and in previous periods. Contributions made to this effect are recognized as personnel expenses in the statement of profit or loss.

Defined benefit plans are post-employment benefits other than defined contribution plans. For this type of plan, the Bank's obligation is to provide the agreed upon benefits with its employees, assuming the potential actuarial risk that the benefits may cost more than expected (note 22).

4. Components of cash and cash equivalents

	2017	**2016**
Cash and cash equivalents	168,180	4,689
Money market instruments	494,603	699,882
Interbank deposits	196,356	140,532
Total	**859,139**	**845,103**

5. Interbank investments

	2017			**2016**
	Up to 1 month	**From 2 to 3 months**	**Total**	**Total**
Money market instruments				
Own portfolio	**447,495**	**754,541**	**1,202,036**	**699,882**
LFT	244,037	-	244,037	120,683
NTN	-	-	-	579,199
LTN	203,458	754,541	957,999	-
Interbank deposits	**196,356**	-	**196,356**	**140,532**
Interbank deposits	196,356	-	196,356	140,532
Total	**643,851**	**754,541**	**1,398,392**	**840,414**

6. Securities

The corrected cost (plus yield earned) and the market value of securities as of December 31, 2017 and 2016 were as follows:

(In thousands of Reais)

a) Trading securities

	2017							2016	
	Up to 3 months	From 3 to 12 months	From 1 to 3 years	From 3 to 5 years	From 5 to 10 years	Market / carrying value	Updated cost	Market / carrying value	Updated cost
Own portfolio									
LTN	58,075	38,261	85,488	1,070	-	182,894	182,133	387,632	387,268
NTN	16,888	-	21,128	46,392	36,891	121,299	120,943	52,499	51,684
Subtotal	**74,963**	**38,261**	**106,616**	**47,462**	**36,891**	**304,193**	**303,076**	**440,131**	**438,952**
Subject to guarantees provided									
LTN	-	75,770	2,046	-	-	77,816	77,632	549,208	546,238
Subtotal	-	**75,770**	**2,046**	-	-	**77,816**	**77,632**	**549,208**	**546,238**
Total	**74,963**	**114,031**	**108,662**	**47,462**	**36,891**	**382,009**	**380,708**	**989,339**	**985,190**

b) Available-for-sale securities

	2017				2016	
	Without maturity	From 1 to 12 months	Market / carrying value	Updated cost	Market / carrying value	Updated cost
Own portfolio						
LTN	-	10,824	10,824	10,783	49,975	49,982
Subtotal	-	**10,824**	**10,824**	**10,783**	**49,975**	**49,982**
Subject to guarantees provided						
LTN	-	184,011	184,011	183,310	144,150	143,940
Investment fund shares	26,266	-	26,266	26,266	-	-
Subtotal	**26,266**	**184,011**	**210,277**	**209,576**	**144,150**	**143,940**
Total	**26,266**	**194,835**	**221,101**	**220,359**	**194,125**	**193,922**

c) Held-to-maturity securities

	2017				2016
	Up to 3 months	From 3 to 12 months	From 1 to 3 years	Updated / accounting cost	Updated / accounting cost
Own portfolio					
Debentures	6,004	17,154	3,485	26,643	141,490
Total	**6,004**	**17,154**	**3,485**	**26,643**	**141,490**

As of December 31, 2017, the corrected/accounting cost of R$26,643 is deducted from a provision for losses associated to credit risk in the amount of R$9,450 and the market value of securities held to maturity represented R$36,804 (2016 - R$142,458) (note 3 "c").

Federal government bonds are kept under the custody of SELIC, debentures, under the custody of CETIP S.A., and the investment fund quotas, under the custody of Banco BM&FBOVESPA de Serviços de Liquidação e Custódia S.A.

7. Derivative financial instruments

The tables below show the reference values corrected to the market price, the respective adjustments receivable and payable and net exposures in the balance sheets to derivative financial instruments as of December 31, 2017 and 2016:

(In thousands of Reais)

	2017		2016	
	Market Value		Market Value	
	Notional value	Adjustment receivable payable	Notional value	Adjustment receivable payable
Futures contracts				
Long position	**4,872,015**	**(7,734)**	**4,343,747**	**(40,138)**
DI	311,626	150	99,587	16
DDI	3,738,774	(7,674)	3,572,404	(35,352)
Dollar	821,615	(210)	671,756	(4,802)
Short position	**1,230,468**	**741**	**1,119,190**	**2,152**
DI	289,639	(46)	861,134	19
DDI	940,829	787	258,056	2,133
Foreign exchange *swap* contracts including periodic adjustment				
Long position	**-**	**-**	**40,697**	**322**
Dollar	-	-	40,697	322
Short position	**558,765**	**(867)**	**-**	**-**
Dollar	558,765	(867)	-	-

As of December 31, 2017, in addition to the daily adjustments of futures contracts, the amount R$10 (2016 - R$16) is recorded under the caption "Other liabilities - due in connection with securities dealing" in current liabilities, which is related to commission and brokerage fees to settle with B3 S.A.

	2017			2016		
	Market value		Updated cost value	Market Value		Updated cost value
	Notional value	Net amount	Net amount	Notional value	Net amount	Net amount
Swap *contracts*						
Asset position	**4,193,054**			**3,520,891**		
CDI	4,084,046	3,976,821	3,683,989	3,520,891	3,520,891	3,513,380
Dollar	109,008	-	-	-	-	-
Prudential adjustments (i)		(132)			-	
Liability position	**(4,122,266)**			**(3,151,988)**		
CDI	(107,225)	-	-	-	-	-
Dollar	(4,015,041)	(3,906,033)	(3,646,430)	(3,151,988)	(3,151,988)	(3,142,033)
Forward exchange contract						
Asset position	**597,501**			**509,256**		
Dollar	377,018	156,564	161,960	329,995	159,158	162,114
Prefixed rate	220,483	-	-	179,261	-	-
Liability position	**(605,090)**			**(521,792)**		
Dollar	(220,454)	-	-	(170,837)	-	-
Prefixed rate	(384,636)	(164,153)	(165,440)	(350,955)	(171,694)	(173,679)
Total net amount		**63,067**			**356,367**	

(i) See note 3 "d".

(In thousands of Reais)

As of December 31, 2017, the Bank has a forward foreign exchange swap operation whose notional value is R$81,009, with maturity falling due in January 2018, and a R$94 adjustment payable.

The table below shows the reference values corrected to market price recorded in memorandum accounts and the respective maturity terms as of December 31, 2017 and 2016:

	2017					2016
	Up to 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total	Total
Futures contracts	**1,457,364**	**1,168,527**	**472,533**	**3,004,059**	**6,102,483**	**5,462,937**
DI	15,992	324,593	92,209	168,471	601,265	960,721
DDI	793,004	670,687	380,324	2,835,588	4,679,603	3,830,460
Dollar	648,368	173,247	-	-	821,615	671,756
Currences swap contracts periodic adjustment	**198,375**	**262,551**	**97,839**	**-**	**558,765**	**40,697**
Dollar	198,375	262,551	97,839	-	558,765	40,697
Swap *contracts*	**47,541**	**(19,248)**	**41,574**	**921**	**70,788**	**368,903**
CDI	394,519	310,194	557,405	2,714,703	3,976,821	3,520,891
Dollar	(346,978)	(329,442)	(515,831)	(2,713,782)	(3,906,033)	(3,151,988)
Forward exchange contract	**(930)**	**(3,795)**	**(3,313)**	**449**	**(7,589)**	**(12,536)**
Dollar	(30,110)	32,956	94,034	59,684	156,564	159,158
Prefixed rate	29,180	(36,751)	(97,347)	(59,235)	(164,153)	(171,694)

The results with derivative financial instruments for the years ended December 31, 2017 and 2016 are composed as follows:

	Second half	Years	
	2017	2017	2016
Swap operations	143,642	233,804	1,033,542
Forward operations	(11,184)	(18,915)	(26,175)
Futures operations	(99,965)	(187,206)	(1,188,581)
Options	-	-	(272)
Total	**32,493**	**27,683**	**(181,486)**

Derivative financial instruments are registered at B3 S.A. and CETIP S.A.

8. Risk Management

Operational risk

The Bank has an across-the-board operational risk management structure which is responsible for identifying, assessing, monitoring, controlling, mitigating and reporting risks facing the organization. In this context, all employees have full access to all the tools, methodologies and reports produced by the Operational Risk department, thus enabling the dissemination of the risk-control culture inside the Bank.

The Bank's Operational Risk structure also includes the engagement of the Executive Board, which is immediately involved in every significant event and actively participates in the monitoring of actions aimed to mitigate these risks. In addition to the daily monitoring, the *Risk Management* department also reports on a monthly basis the main operational risk events to the department heads and to the Executive Boards of the Bank and of The Bank of Nova Scotia (BNS).

Management of market and liquidity risks

Consistent with the requirements of the Head Office and always following the leading worldwide adopted practices in risk management, the Bank has a comprehensive structure of risk control and management, integrated with and independent of the business areas and which seeks the optimization of the risk/return relation, focusing on efficient monitoring and strict control of the risk exposure factors. An integrated set of processes using platforms of local and global systems is responsible for the determination, analysis and report of market and liquidity risks. The limits of risk are determined and approved by both local directors and those in the Head Office, and are monitored on a preventive basis.

In this context, the market and liquidity risk management is performed on a daily basis by using own models and instruments such as *VaR - Value-at-Risk*, projections of cash flow, *stress testing*, *backtesting*, analysis of sensitivity of interest, foreign exchange and volatility.

By complying with BNS's requirements, the Bank was able to meet the BACEN requirements regarding implementation of a market and liquidity risk structure (CMN Resolutions n. 3.464 and n. 4.090). In addition, the Bank calculates the capital requirements due to market risk exposure in accordance with the criteria established by the CMN Resolution n. 4.193.

Credit risk management

Consistent with the rules established by BACEN (CMN Resolutions n. 2.682, n. 2.844, n. 3.721, and others), and the organization's risk philosophy, the Bank has a credit risk management structure which includes the analysis and establishment of individual credit limit for the entire range of loan takers, as well as the analysis and monitoring of the Bank's aggregate credit risk, which takes into account all product lines offered by the Bank and all economic segments in which loan takers operate.

The credit risk culture is broadly disseminated in the Bank, and the description of the products offered to loan takers includes the identification of the credit, market and operating risks, as well as the information systems that control them. Individual credit limits for loan takers are approved by using the Bank's own techniques/ methodologies, and are reviewed at least once a year together with their corresponding *ratings* which, under the CMN Resolution n. 2.682, are reviewed every six months for credit risks that exceed 5% of the Bank's reference shareholders' equity.

The executive board and the risk areas actively work, in a systematic manner, on the management of credit risks, which includes the approval of individual credit limits and related institutional policies. In addition, they work in the monitoring of the aggregate credit portfolio and stress testing for evaluating the credit portfolio's resistance to adverse economic scenarios.

Capital management

The Bank is dedicated to maintaining a robust capital basis in order to support risks associated to its businesses. The Bank's Capital Management structure, which encompasses internal policies, measures and procedures related to Capital Management and Internal Process for Capital Adequacy Evaluation, is in line with BNS's global policy, and also complies with the Brazilian Central Bank (BACEN)'s requirements provided for in the CMN Resolution n 3.988.

The principles that govern the Bank's capital management structure aim at meeting the requirements in connection with: determinations of the regulatory agency; existence of appropriate governance and supervision; capital management policies, strategies and measurement that focus on the relationships between risk propensity, risk profile and capital capacity; a solid risk management process; a capital adequacy evaluation process that is in accordance with governance and capital policies; existence of adequate systems, processes and controls to assist in capital planning, forecast, measurement, monitoring and reporting.

(In thousands of Reais)

The Executive Board is directly involved in the Capital Management Structure and is also responsible for the annual review and approval of internal policies. In addition, the Executive Board acts on monitoring level and adequacy of the Bank's capital through periodic reports produced and sent by the areas that are directly involved in the capital management process.

Descriptions of operational risk, market risk, liquidity risk, credit risk and capital management structures are published in a directory of public access, available at the address: http://www.br.scotiabank.com.

9. Loans operations

a) Loan portfolio composition by type of operation, activity and maturity

	2017					
	Falling					
Private sector	**three months**	**From 3 to 12 months**	**From 1 to 3 years**	**From 3 to 5 years**	**Total**	**2016**
Bank credit certificate (CCB)	**13,512**	**174,332**	**35,637**	**14,141**	**237,622**	**245,753**
Industry	1,197	51,761	14,751	14,141	81,850	45,548
Commerce	6,150	16,312	20,886	-	43,348	65,427
Other services	6,165	106,259	-	-	112,424	134,778
Exports Credit Note (NCE)	**64,425**	**843**	**496,200**	**-**	**561,468**	**73,332**
Industry	3,143	843	496,200	-	500,186	-
Agricultural	-	-	-	-	-	10,944
Other services	61,282	-	-	-	61,282	62,388
Import financing	**2,077**	**-**	**-**	**-**	**2,077**	**7,878**
Commerce	2,077	-	-	-	2,077	7,878
Advances on export contracts - Notes deliverable (ACC)	**9,548**	**94,728**	**-**	**-**	**104,276**	**402,124**
Industry	9,548	94,728	-	-	104,276	189,026
Commerce	-	-	-	-	-	213,098
Income receivable from Advance on Export Contracts (ACC)	**43**	**972**	**-**	**-**	**1,015**	**5,088**
Industry	43	972	-	-	1,015	1,381
Commerce	-	-	-	-	-	3,707
Advances on export contracts - Notes delivered (ACE)	**17,674**	**36,162**	**-**	**-**	**53,836**	**153,211**
Industry	17,674	36,162	-	-	53,836	153,211
Income receivable from Advance on Exchange Contracts (ACE)	**71**	**151**	**-**	**-**	**222**	**1,439**
Industry	71	151	-	-	222	1,439
Foreign exchange gains and losses on ACC and ACE (i)	**866**	**6,382**	**-**	**-**	**7,248**	**-**
Industry	866	6,382	-	-	7,248	-
Receivables	**9,214**	**-**	**-**	**-**	**9,214**	**42,040**
Commerce	9,214	-	-	-	9,214	42,040
Total	**117,430**	**313,570**	**531,837**	**14,141**	**976,978**	**930,865**

(i) As from 2017, in accordance with the BACEN instructions, the Bank started to calculate the allowance for loan losses, based on the balance of the Advance on Export Contract (ACC) and Advance on Exchange Contract (ACE) foreign currency translated into reais on a monthly basis at the PTAX rate provided by BACEN for balance sheet purposes.

As of December 31, 2017 and 2016, no assignment-of-credit operations including substantial transfer or retention of risks and rewards, in accordance with the CMN Resolution n. 3.533, were identified.

(In thousands of Reais)

b) Credit risk concentration

	2017		2016
Main debtor	500,186	(i)	117,928
Percentage of total credit portfolio	51.2%		12.7%
20 largest debtors	976,978		930,865
Percentage of total credit portfolio	100.0%		100.0%

(i) Refer to note 24 "a".

c) Allowance for loan losses

Level of Risk	% of	Total portfolio 2017	Total portfolio 2016	Allowance for loan losses 2017 Minimum	Allowance for loan losses 2017 Surplus (i)	Allowance for loan losses 2017 Existing	Allowance for loan losses 2016 Existing
AA	0.0%	723,108	261,004	-	-	-	-
A	0.5%	58,182	524,339	(291)	-	(291)	(2,622)
B	1.0%	61,282	27,594	(613)	-	(613)	(276)
C	3.0%	33,385	-	(1,002)	(1,669)	(2,671)	-
D	10.0%	-	117,928	-	-	-	(23,586)
G	70.0%	101,021	-	(70,714)	-	(70,714)	-
Total		**976,978**	**930,865**	**(72,620)**	**(1,669)**	**(74,289)**	**(26,484)**

(i) Allowance exceeding the minimum percentages established by the CMN Resolution n. 2.682.

d) Changes in the allowance for loan losses

	2017	2016
Balances at beginning of year	**(26,484)**	**(4,067)**
Recording of provision	(147,455)	(22,794)
Reversal of provision	99,650	377
Balances at end of year	**(74,289)**	**(26,484)**

e) Credit renegotiated, recovered or written off to loss

The total amount of credits renegotiated for year ended December 31, 2017 represented R$202,268 (2016 - R$281,043).

During years ended December 31, 2017 and 2016 there were no recoveries or loans written off to loss.

(In thousands of Reais)

10. Foreign exchange portfolio - Current Assets

	2017	2016
Purchased foreign exchange to be settled	423,019	532,041
Rights on foreign exchange sales	247,755	359,005
Income receivable from granted advances	1,237	6,527
Advances received in local currency	-	(357)
Total	**672,011**	**897,216**

	2017	2016
Sold foreign exchange to be settled	248,055	359,100
Foreign exchange purchase payables	416,410	586,538
Advances on foreign exchange contracts	(158,112)	(555,335)
Total	**506,353**	**390,303**

11. Other receivables - Sundry

	2017	2016
Tax credits - IRPJ and CSLL (note 19 "b")	52,746	37,521
Court deposits (i)	35,812	33,957
Receivables	9,214	42,040
Prepaid IRPJ and CSLL	8,466	7,999
Cash receivable from related companies	832	3,577
Salary advances and prepayment	297	282
Taxes to offset	52	93
Other	3	-
Total	**107,422**	**125,469**
Current assets	30,520	76,757
Long-term receivables	76,902	48,712

(i) Refer to note 17 "d".

12. Deposits

	2017					2016
	Without maturity	Up to 3 months	From 3 to 12 months	From 1 to 3 years	Total	Total
Demand deposits	159	-	-	-	159	193
Interbank deposits	-	-	-	-	-	45,875
Time deposits	-	1,811	349,591	970,117	1,321,519	1,362,822
Total	**159**	**1,811**	**349,591**	**970,117**	**1,321,678**	**1,408,890**

As of December 31, 2017, the funding average rate of deposits is 6.89%p.a.

13. Funds from real estate, mortgage, credit and similar notes

As of December 31, 2017, the Bank has obligations for the issue of financial bills in the amount of R$796 (2016 - R$82,301) falling due up to February 2019, and the funding rate of 16.2%p.a.

14. Borrowings

Foreign currency trade finance borrowings in the amount of R$1,288,457 (2016 - R$1,314,082) are basically represented by investments aimed at export financing falling due up to December 2019. Transactions are corrected at the exchange variation plus interest ranging from 1.64% to 270% per annum.

(In thousands of Reais)

15. Other liabilities - Tax and social security

	2017	2016
Provision for deferred taxes (Note 19 "b")	52,190	46,482
Taxes payable on income	18,100	8,439
Taxes payable	10,569	9,441
Total	**80,859**	**64,362**
Current liabilities	62,980	25,627
Long-term liabilities	17,879	38,735

16. Other liabilities - Sundry

	2017	2016
Provision for tax and labor contingencies (note 17 "d")	25,672	21,895
Salaries, bonuses and social charges	12,268	11,662
Accounts payable - administrative expenses	688	761
Provision for Credit Guarantee Fund (FGC)	334	349
Other (i)	29	59
Total	**38,991**	**34,726**
Current liabilities	10,035	7,960
Long-term liabilities	28,956	26,766

(i) As of December 31, 2017, the Bank recorded a provision related to credit risk in the amount of R$7 (2016 - zero), on the R$1,741 balance (2016 - 3,783) related to loans released for imports. The evaluation for recording provisions is performed according to criteria described in note 3 "f".

17. Legal, tax and social security contingencies and liabilities

a) Contingent assets

The Bank does not have any contingent assets recognized in its balance sheet, nor does it have, at this moment, any legal proceedings that generate expectation of future gains.

b) Contingent liabilities

The Bank is a party to lawsuits and administrative proceedings arising from the normal course of its activities, involving matters of labor, tax and social security nature. The assessment for recording provisions is performed according to criteria described in note 3 "l".

The Bank maintains provisions for those contingent liabilities classified as probable loss, in amounts regarded as sufficient to cover possible losses. The provisioned amounts are recorded under the caption "Other liabilities - Sundry" (note 16), in long-term liabilities.

Ongoing labor lawsuits classified as possible loss amount to R$29,911 (2016 - R$ 32.453). Most labor lawsuits refer to actions filed by former employees and outsourced personnel to obtain indemnities, mostly regarding overtime payment and other labor rights.

There are proceedings in progress of a tax nature classified as possible losses in the amount of R$12,481 (2016 - R$11,834), arising from taxes that the Bank has been discussing in court, the main of which related to a request for compensation of withholding income tax levied on financial investments, in the amount of R$5,087 (2016 - R$4,915), and to a nullification request of a notice of tax assessment in the amount of R$4,829 (2016 - R$4,501), related to service taxes (ISS) claimed by the Municipality of São Paulo, levied on services rendered by the Bank. Those proceedings rely on sufficient deposits in court to cover the tax risk.

(In thousands of Reais)

c) Legal obligations

Provision for contingency regarding the main proceeding in the amount of R$17,775 (2016 R$16,953), including its deposit in court in amount equivalent to the provision, refers to a legal defense with respect to the liability of the Contribution for Social Integration Program - PIS, under the Constitutional Amendment n. 17/97 and Supplementary Law n. 7/70 with regard to their legality or constitutionality.

d) Changes in balances

Legal, tax and social security contingencies and liabilities

	Balance at 12/31/2016	Recording	Reversal	Use	Inflation adjustment	Balance at 12/31/2017	Court deposits (i)	
							2017	2016
Labor contingencies	925	-	(80)	(71)	62	836	276	327
Tax contingencies	-	-	-	-	-	-	12,637	11,955
Legal obligations	20,970	1,493	-	-	2,373	24,836	22,899	21,675
Total	**21,895**	**1,493**	**(80)**	**(71)**	**2,435**	**25,672**	**35,812**	**33,957**

(i) Refer to note 11.

18. Equity

The fully subscribed and paid-in capital is represented by 2,221,627,157 (2016 - 2,221,627,157) nominative common shares with no par value.

Management will decide, at the annual General Meeting, held every year, the minimum amount for dividend payments related to the adjusted net income in accordance with article 202 of the Corporate Law.

Profit reserves

The legal reserve is recorded at the rate of 5% of the net income for the year, up to the limit defined by the legislation in force. The statutory reserve balance refers to an undistributed portion of prior-year income, which, as determined by the General Meeting, was transferred to subsequent years.

(In thousands of Reais)

19. Income and social contribution taxes

a) Calculation of the income and social contribution taxes levied on the operations

	2017		2016	
	Income tax	Social Contribution	Income tax	Social Contribution
Profit(loss) before taxes on income and profit sharing	10,470	10,470	50,409	50,409
Temporary add-backs and (deductions)	46,182	46,182	(27,161)	(27,161)
Adjustments at market value – Securities and derivatives	(12,259)	(12,259)	(50,278)	(50,278)
Allowance for loan losses	47,805	47,805	22,417	22,417
Provision for credit risk - Debentures	8,739	8,739	739	739
Other	1,897	1,897	(39)	(39)
Permanent add-backs (deductions)	4,455	(1,744)	4,355	4,356
Taxable basis	**61,107**	**54,908**	**27,603**	**27,604**
Offsetting of tax loss and social contribution negative basis	(18,332)	(16,473)	(8,281)	(8,282)
Taxable basis after offsetting	**42,775**	**38,435**	**19,322**	**19,322**
Rates	25%	20%	25%	20%
Total IRPJ and CSLL - current amounts before tax incentives	**(10,670)**	**(7,687)**	**(4,807)**	**(3,863)**
Tax incentives	257	-	233	-
Total IRPJ and CSLL - current amounts	**(10,413)**	**(7,687)**	**(4,574)**	**(3,863)**
Tax credit	10,461	4,764	4,240	3,261
Deferred tax liabilities	(3,499)	(1,966)	(13,101)	(10,253)
Total	**(3,451)**	**(4,889)**	**(13,435)**	**(10,855)**

b) Changes in deferred income and social contribution taxes according to the nature and origin

Deferred tax assets	Balance at 12/31/2016	Recording	Realized / Reversal	Balance at 12/31/2017
Effects on profit or loss	**37,521**	**26,356**	**(11,131)**	**52,746**
Tax loss and social contribution negative basis	12,457	-	(7,877)	4,580
Provision for tax and labor risks	8,758	1,555	(47)	10,266
Non-deductible provisions	4,087	1,648	(1,920)	3,815
Allowance for loan losses	11,891	18,956	(1,034)	29,813
Provision for credit risk - Debentures	328	4,137	(253)	4,212
Provision for prudential adjustments	-	60	-	60
Total	**37,521**	**26,356**	**(11,131)**	**52,746**

Deferred tax liabilities	Balance at 12/31/2016	Recording	Realized / Reversal	Balance at 12/31/2017
Effects on profit or loss	**(46,391)**	**(25,025)**	**19,560**	**(51,856)**
Derivatives mark-to-market (MtM)	(38,335)	(23,800)	17,801	(44,334)
Securities mark-to-market classified as trading	(1,759)	(530)	1,759	(530)
Adjustment for inflation of court deposits	(6,297)	(695)	-	(6,992)
Effects on equity	**(91)**	**(334)**	**91**	**(334)**
Securities mark-to-market classified as available for sale	(91)	(334)	91	(334)
Total	**(46,482)**	**(25,359)**	**19,651**	**(52,190)**

(In thousands of Reais)

c) Expected realization of deferred tax assets for tax losses, social contribuition losses and temporary differences.

Expected realization	Temporary differences	Tax loss and negative basis of social contribuition	Total
1st.Year	7,075	4,580	11,655
2nd.Year	1,610	-	1,610
3rd.Year	6,277	-	6,277
4th. Year	5,858	-	5,858
5th. Year	17,080	-	17,080
6th. to 10th. Year	10,266	-	10,266
Total	**48,166**	**4,580**	**52,746**
Present value (i)	**33,608**	**4,286**	**37,894**

(i) For adjustement to present value, the CDI projected annual interest rate was used.

As of the balance sheet date, there is no active deferred tax.

20. Related parties

Transactions between related parties are disclosed in conformity with the National Monetary Council (CMN) Resolution n. 3.750, and provided the Committee for Accounting Pronouncements Technical Pronouncement CPC 05 - Disclosure of Related Parties, approved by the Committee for Accounting Pronoucements (CPC), is complied with. These operations are carried out at usual market values, terms and average rates in effect at the respective dates.

(In thousands of Reais)

a) Related party transactions

The transactions with related parties are basically characterized by:

	Assets/ (Liabilities)		Revenues / (Expenses)	
	2017	2016	01/01 to 12/31/2017	01/01 to 12/31/2016
Cash	**113**	**465**	**10,189**	**42,637**
BNS	113	465	10,189	42,637
Foreign exchange portfolio - asset position	-	**13,221**	**(429)**	**(248)**
BNS	-	13,221	(429)	(248)
Cash receivable (payable) - related companies / service revenue (expenses)	**832**	**3,577**	**34,936**	**24,496**
BNS	698	3,577	29,804	20,696
Scotiabank & Trust (Cayman)	-	-	3,414	2,204
Scotiabank Inverlat (Mexico)	134	-	1,718	1,596
Time deposits	**(742)**	**(675)**	**(67)**	**(75)**
Scotia Participações e Serviços	(742)	(675)	(67)	(75)
Borrowings	**(1,286,380)**	**(1,306,205)**	**(22,853)**	**221,261**
BNS	(1,286,380)	(1,306,205)	(22,853)	221,261
Foreign exchange portfolio - liability position	-	**(13,178)**	**(142)**	**305**
BNS	-	(13,178)	(142)	305
Co-obligations and risks in guarantees provided	-	-	-	**2**
Scotiabank Uruguay	-	-	-	2

b) Management compensation

For the purpose of disclosing management compensation, only Statutory Officers were considered. Expenses on management compensation for the year ended December 31, 2017 total R$8,466 (2016 - R$7,876), of which R$6,442 (2016 - R$6,299) represents salaries and payroll charges, profit sharing, and bonuses and charges on bonuses, denominated short-term benefits, and R$2,024 (2016 - R$1,577) that represents share-based compensation and charges. There are no post-employment benefits, other long-term benefits or employment contract termination benefits.

21. Share-based payment

Share-based payment plans are evaluated based on The Bank of Nova Scotia (BNS) common share price traded on the Toronto Stock Exchange (TSX) in Canada . BNS share price fluctuations change the unit value, situation which affects the Bank's share-based payment expenses. One portion that calculates the fair price of shares also varies according to the Bank's performance. These plans are settled in cash and their expenses are recorded in the statement of profit or loss against a provision in liabilities. Eligible employees are paid based on this variable compensation according to one of the following plans: RSU, PSU or DPP.

a) Restricted Share Unit Plan (RSU - Restricted Share Unit Plan Restricted Share Unit Plan)

According to RSU plan, exigible employees will receive a bonus in restricted share units after three years. Final amount to be paid varies according to the BNS share price. As of December 31, 2017, the amount of liabilities provided for for this plan is R$824 (2016 - R$826) and the total number of shares is 6,214 units measured at weighted fair value of R$ 0.209 per share. Total expenses recorded in this plan for the period are R$436 (2016 - R$801).

(In thousands of Reais)

b) *Performance Share Unit Plan (PSU)*

According to PSU plan, elegible employees will receive a bonus at the end of three years. In addition to BNS' share price fluctuation, this portion of the bonus is subject to performance criteria (return on equity and total return to the shareholder) measured over a three-year period, on which a multiplying factor is applied. As of December 31, 2017, the amount of liabilities provided for for this plan is R$2,889 (2016 - R$3,397) and the total number of shares is 26,714 units measured at weighted fair value of R$ 0.209 per share. Total expenses recorded in this plan for the period are R$1,603 (2016 - R$1,740).

c) DPP - *Deferred Performance Plan*

Within the scope of the DPP plan, the bonus portion received by employees eligible for this plan is allocated as units. The values of these units are defined based on the BNS shares' market price variation. They will be paid to employees in each of the three following years. As of December 31, 2017, the amount of liabilities provided for for this plan is R$2,631 (2016 - R$2,466) and the total number of shares is 13,397 units measured at weighted average fair value of R$0.196 per share, determined based on the original share prices when granted. Total expenses recorded in this plan for the period are R$1,799 (2016 - R$1,787).

22. Post-employment benefits

For the defined contribution post-employment plan, the Bank offers to its employees the benefit of supplementary private pension through monthly payments. After the employee's termination these payments are ceased. Total personnel expenses on this plan for the year ended December 31, 2017 are R$765 (2016 - R$848).

Other defined post-employment contribution plans such as health care and profit sharing are considered short-term benefits.

The Bank does not have post-employment benefit plans to its employees.

23. Basel Index and Operational Limits

The Bank adopts the determination of Basel limits in an indiviual manner, based on the BACEN guidelines. As of December 2017 and 2016, the Bank's Basel capital ratio were 23.68% and 19.66%, respectively, the notional capital (Tier 1 capital + Tier 2 capital) was R$520,438 (2016 - R$514,188) and the minimum notional capital requirement for risk weighted assets (RWA) was R$203,253 (2016 - R$258,273). The regulatory agency also requires other operating limits such as the immobilization index. The Bank falls within all limits at the end of the aforementioned years.

24. Other information

a) Restricted receivables - BACEN Circular n. 3.233

As of December 31, 2017, the Bank had restricted receivables within the scope of the CMN Resolution n. 2.921, stated in the following table:

	Assets/ (Liabilities)		Revenues / (Expenses)	
	2017	2016	01/01 to 12/31/2017	01/01 to 12/31/2016
Loans				
NCE (note 9 "a")	500,186	-	38,824	-
Borrowings				
Foreign borrowings (note 14)	(500,095)	-	(38,733)	-
Net gain (loss)			**91**	**-**

There are no defaulted restricted receivables or restricted receivables under judicial questioning.

These operations should not be considered in the determination of the exposure limits by client, which are established in the CMN Resolution n. 2.844.

b) Other operating income (expenses)

As of December 31, 2017, other operating income substantially refer to income from other receivable with credit extension characteristics, income from correction of taxes and deposits in court, recovery of related party expenses and reversal of operating provisions. Other operating expenses substantially refer to provision for losses arising from credit risks, exchange loss on other credits with extension-of-credit characteristics, and provision for tax contingent liabilities.

25. Subsequent event

On February 1, 2018, as per the Minute of the Extraordinary General Meeting (EGM), the Bank received funds from sharehoders for capital increase in the amount of R$474,915. On February 19, 2018, the Bank received the approval by the Central Bank of Brazil for this change.

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