Scotiabank Brasil S.A. Banco Múltiplo

Financial statements of June 30, 2014

Contents

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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

We have examined the accompanying financial statements of Scotiabank Brasil S.A. Banco Múltiplo (“Bank”) which comprise the balance sheet as of June 30, 2014 and the respective statements of income, changes in shareholders’ equity and cash flows for the semester then ended, as well as the summary of the significant accounting practices and other explanatory notes.

Management’s responsibility for the financial statements

The Bank's management is responsible for the preparation and adequate presentation for these financial statements in accordance with the accounting practices adopted in Brazil, applicable to institutions authorized to operate by the Central Bank of Brazil, such as for designing, implementing and maintaining the internal controls relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ responsibility

Our responsibility is to express an opinion on these financial statements based on our auditing. We conducted our audit in accordance with the Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements, plan and perform the audit to obtain reasonable assurance if financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about to the amounts and disclosures presented in the financial statements. The procedures selected depend on auditor's judgment, including an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls to Bank’s preparation and fair presentation of the 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements taken as a whole.

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 aforementioned financial statements present fairly, in all material respects, the financial position of the Scotiabank Brasil S.A. Banco Múltiplo as of June 30, 2014, the performance of its operations and its cash flows, for the semesters then ended, in accordance with the accounting practices adopted in Brazil, applicable to institutions authorized to operate by the Brazilian Central Bank.

São Paulo, August 13, 2014

KPMG Auditores Independentes
CRC 2SP014428/O-6
Original report in Portuguese signed by
Luciana Liberal Sâmia
Accountant CRC 1SP198502/O-8

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO
BALANCE SHEETS AT JUNE 30, 2014 AND 2013
(In thousands of reais)

	2014	2013
Assets		
Current assets	**1,062,020**	**587,005**
Cash and cash equivalents	6,567	947
Interbank investments	208,491	69,863
Money market investments	205,416	66,984
Interbank deposits	3,075	2,879
Securities and derivative financial instruments	404,790	347,488
Own portfolio	173,191	227,033
Derivative financial instruments	40,881	309
Tied to collateral agreement	190,718	120,146
Interbank accounts	34	157
Payments and receipts	1	-
Restricted deposits		
Deposits with Brazilian Central Bank	33	157
Loans	84,328	26,868
Loans		
Private sector	84,566	26,949
Allowance for doubtful accounts	(238)	(81)
Other receivables	357,116	141,173
Foreign exchange portfolio	347,974	132,558
Trading and intermediation of securities	8,291	8,397
Others	2,232	748
Allowance for doubtful accounts	(1,381)	(530)
Other assets	694	509
Prepaid expenses	694	509
Long-term assets	**174,710**	**61,896**
Securities and derivative financial instruments	136,461	127
Own portfolio	119,448	-
Derivative financial instruments	17,013	127
Loans	3,731	29,323
Loans		
Private sector	3,750	29,470
Allowance for doubtful accounts	(19)	(147)
Other receivables	34,104	32,417
Others	34,104	32,417
Other assets	414	29
Prepaid expenses	414	29
Permanent assets	**3,834**	**4,921**
Investments	6	6
Other investments	6	6
Fixed assets	2,963	3,927
Other fixed assets	11,972	12,996
Accumulated depreciation	(9,009)	(9,069)
Intangible assets	865	988
Intangible assets	1,801	1,591
Accumulated amortizations	(936)	(603)
Deferred charges	-	-
Organization and expansion expenses	-	2
Accumulated amortizations	-	(2)
Total assets	**1,240,564**	**653,822**

See the accompanying notes to the financial statements

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO
BALANCE SHEETS AT JUNE 30, 2014 AND 2013
(In thousands of reais)

	2014	2013
Liabilities		
Current liabilities	**658,911**	**153,727**
Deposits	214,513	1,602
Demand deposits	220	86
Interbank investments	23,033	-
Time Deposits	191,260	1,516
Money market borrowings	16,501	-
Third-party portfolio	16,501	-
Interbranch accounts	1	-
Third-party funds in transit	1	-
Borrowings	406,703	126,622
Foreign borrowings	406,703	126,622
Derivative financial instruments	992	-
Derivative financial instruments	992	-
Other liabilities	20,201	25,503
Foreign exchange portfolio	4,404	13,426
Tax and social security	3,296	662
Trading and intermediation of securities	2,849	3,219
Other	9,652	8,196
Long-term liabilities	**177,024**	**158,518**
Deposits	105,648	96,226
Time Deposits	105,648	96,226
Borrowings	32,958	22,150
Foreign borrowings	32,958	22,150
Derivative financial instruments	22,387	28,270
Derivative financial instruments	22,387	28,270
Other liabilities	16,031	11,872
Tax and social security	8,365	6,960
Others	7,666	4,912
Income for future years	**40**	**94**
Income for future years	40	94
Shareholders' equity	**404,589**	**341,483**
Capital:		
Domiciled abroad	321,122	266,222
Profit reserves	79,399	96,660
Accumulated profit (losses)	4,068	(21,399)
Total liabilities	**1,240,564**	**653,822**

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO
STATEMENTS OF INCOME
SEMESTERS ENDED JUNE 30, 2014 AND 2013

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

	2014	2013
Financial intermediation income	**26,795**	**28,515**
Loans	3,363	3,542
Securities	34,197	2,763
Derivative financial instruments	(10,765)	11,567
Foreign exchange operations	-	10,643
Financial intermediation expenses	**1,831**	**(28,370)**
Funding operations	(9,080)	(3,969)
Borrowings	32,250	(23,747)
Foreign exchange operations	(20,600)	-
Allowance for doubtful accounts	(739)	(654)
Gross income on financial intermediation	**28,626**	**145**
Other operating income (expenses)	**(21,407)**	**(25,239)**
Rendering of services	10,060	2,561
Personnel expenses	(21,456)	(18,671)
Other administrative expenses	(9,068)	(7,894)
Tax expenses	(2,101)	(946)
Other operating income	1,345	888
Other operating expenses	(187)	(1,177)
Operating income (loss)	**7,219**	**(25,094)**
Non-operating losses	**(1)**	**(2)**
Net income before taxes and profit sharing	**7,218**	**(25,096)**
Income and social contribution taxes	**(2,936)**	**3,697**
Provision for income tax	(1,829)	2,311
provision for social contribution	(1,107)	1,386
Net income (loss) for the semester	**4,282**	**(21,399)**
Net income (loss) per thousand shares - R$	**1.93**	**(11.17)**

See the accompanying notes to the financial statements

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
SEMESTERS ENDED JUNE 30, 2014 AND 2013

(In thousands of reais)

		Profit reserves			
	Capital	**Legal**	**Statutory**	**Income (loss) earnings (loss)**	**Total**
Balances at January 1, 2013	**266,222**	**12,872**	**83,788**	**-**	**362,882**
Loss for the semester	-	-	-	(21,399)	(21,399)
Balances at June 30, 2013	**266,222**	**12,872**	**83,788**	**(21,399)**	**341,483**
Balances at January 1, 2014	**266,222**	**12,872**	**66,313**	**-**	**345,407**
Capital increase	54,900	-	-	-	54,900
Net income for the semester	-	-	-	4,282	4,282
Allocations:					
Legal reserve	-	214	-	(214)	-
Balances at June 30, 2014	**321,122**	**13,086**	**66,313**	**4,068**	**404,589**

See the accompanying notes to the financial statements

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO
STATEMENTS OF CASH FLOWS (INDIRECT METHOD)
SEMESTERS ENDED JUNE 30, 2014 AND 2013

(In thousands of reais)

	2014	2013
Operating activities		
Net income (loss) for the semester	**4,282**	**(21,399)**
Adjustments to net income (Loss)		
Recording (reversal) of allowance for doubtful accounts	(130)	124
Recording (reversal) of allowance for doubtful accounts	869	530
Depreciation and amortization	876	933
Expenses with tax and labor provisions	80	338
Variation in assets and liabilities		
(Increase) in interbank investments	(145)	(61,080)
(Increase) in securities and derivative financial instruments	(262,156)	(48,887)
Reversal (increase) in mandatory deposits at the Brazilian Central Bank	(1)	10
(Increase) in interbank	(1)	-
Decrease (increase) in interbranch investments	1	(19)
Decrease (increase) in loans operations	23,951	(25,276)
(Increase) in other credits	(166,677)	(126,347)
(Increase) in other assets	(682)	(214)
Increase in deposits	246,117	29,707
Increase (decrease) in Repo operations	16,501	(26,008)
Increase in borrowings and on-lending obligations	160,487	128,266
Increase (decrease) in other obligations	13,484	(2,025)
Increase (decrease) in deferred income	(27)	34
Net cash generated/(used in) from operating activities	**36,829**	**(151,313)**
Investment activities		
Acquisition of fixed assets	(237)	(808)
Investments in intangible assets	(86)	(290)
Net cash (used in) from investment activities	**(323)**	**(1,098)**
Financial activities		
Capital increase	54,900	-
Net cash generated from financial activities	**54,900**	**-**
Net increase (decrease) in cash and cash equivalents	**91,406**	**(152,411)**
Cash and cash equivalents at the beginning of the semester	120,577	159,358
Cash and cash equivalents at the end of the semester	211,983	6,947
Net increase (decrease) in cash and cash equivalents	**91,406**	**(152,411)**

See the accompanying notes to the 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 and BNS Investments Inc., both with head offices in Canada.

2. Preparation and presentation of financial statements

The financial statements have been prepared and are presented in accordance with the accounting practices established by Corporate Legislation and the norms and instructions issued by the National Monetary Council (CMN) and the Brazilian Central Bank (BACEN), as set out in the Chart of Accounts for Financial Institutions (COSIF), and in the Accounting Pronouncements Committee (CPC), when applicable.

The authorization to issue these Financial Statements was granted by the Executive Board on August 11, 2014.

The Financial Statements include estimates and assumptions, such as 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. The effective results might be different 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 cash flow statements have been prepared based on the indirect method and the amounts of cash and cash equivalents correspond to the balances of cash and interbank investments with original term equal to or lower than 90 days.

3. Description of significant accounting policies

a) Statement of Income

Income and expenses are recognized on the accrual basis.

Income and charges of any nature related to loans that are overdue for 60 days or more are posted to an unearned income account and recognized as revenue upon effective receipt of cash.

For a better presentation, the Bank reclassifies the foreign exchange variation from "Other operating income/expenses" account directly to "Financial intermediation income/expenses" in the Statement of Income.

b) Current and non-current assets

These are stated at realizable value, reduced, when applicable, by the corresponding unearned income, including the monetary and foreign exchange variations gained and adjusted by provisions, when applicable, until the Balance Sheet date.

c) Securities

The Bank classifies its securities as "securities held for trading" and "securities held-to-maturity", which are valued as stipulated in BACEN Circular nº 3.068/01, in conformity to the following guidelines:

i) Trading securities – Include securities acquired to be actively and frequently traded. These securities are recorded at market value with any valuation or devaluation being posted against the appropriate income or expense account in the Income Statement for the period. Regardless of maturity, trading securities are classified as current assets.

ii) Held to maturity securities - This category includes securities for which the Bank's Management has the intent and financial ability to hold them to maturity. These securities must be evaluated at their respective acquisition costs, plus intrinsic yield, which should affect the result for the period. Financial ability is characterized by the availability of third-party funds, denominated in the same currency and with a term equal to or higher than the securities recorded under this caption.

d) Derivative financial instruments

In accordance with BACEN Circular nº 3.082/02 and subsequent regulations, derivative financial instruments are classified on the date of their acquisition depending on whether or not the Management intends to use them for hedge purposes.

Operations that make use of derivative financial instruments at client's request, on the Bank's own initiative, or that do not fulfill hedge criteria (mainly derivatives used to manage global risk exposure), are recorded at market value, with realized and unrealized gains and losses being posted directly to the Statement of Income.

Derivatives financial instruments used to hedge risk exposure or to modify the characteristics of financial assets and liabilities which are highly correlated with respect to changes in the market value in relation to the market value of the item being hedged, not only at the start but also during the life of the contract and considered effective at reducing the risk associated with the exposure to be hedged, are classified and registered as *hedge* in accordance with their nature:

- *Hedge* of Market Risk – The financial assets and liabilities and others financial instruments related are recorded at market value with realized and unrealized gains and losses, recognized in the Statement of Income;

- *Hedge* of Cash flow – The effective hedge amount of the financial assets and liabilities, as well as the related financial instruments, being recorded at market value including realized and unrealized gains and losses, deducted when applicable from tax effects, should be recognized in a specific equity account. The ineffective hedge amount is recognized directly in the Statement of Income.

e) Loans

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

Regardless of their level of risk, income from loans more than 60 days overdue is only recognized as revenue when effectively received.

f) Allowance for doubtful accounts

Based on the analysis of outstanding operations conducted by the Management in order to define 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 nº 2.682/99, which requires periodic analysis of the portfolio and its classification into nine levels, where "AA" corresponds to minimum risk and H to loss. Non-performing loans classified as level "H" remain in this classification for six months, whereupon they are written off against the existing provision and controlled in memorandum accounts.

g) Permanent assets

Stated at cost, combined with the following aspects:

- Other investments: valued at acquisition cost, minus any provision for losses, if 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 facilities; and 20% for data processing systems; and
- Amortization of intangible and deferred assets: calculated on a straight-line basis, for a period of up to 5 years. Deferred assets are represented by software acquisition and development recorded up to September 30, 2008, on which occasion CMN Resolution nº 3.617/08 came into effect, restricting the classification of such expenditures within this group, which (from then on) started to be recorded as intangible assets.

h) Impairment

Pursuant to CMN Resolution nº 3.566/08 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 book value of the asset exceeds its recoverable value, the loss will be recognized directly in the Statement of Income.

No impairment losses had been identified as of June 30, 2014 and 2013.

i) Current and non-current liabilities

Stated at their known or measurable amounts, including the charges, the monetary (on a "pro rata" basis) and the foreign exchange variations incurred.

j) Deferred income and social contribution taxes

The provision for income tax is made at the rate of 15% on taxable income, plus a surtax of 10%. Social contribution is calculated at the rate of 15% on taxable income.

The Bank has unrecorded deferred tax asset of income tax and social contribution deriving from tax loss carry forward, social contribution negative base and temporary differences. Based on CMN Resolution nº 3.059/02 and subsequent amendments, the historical taxable income as well as the short and medium term projections prepared by the Bank do not presently enable a reasonable estimate of the realization term of these unrecorded assets. As specified in Note 18 "b", these credits were calculated on the basis of the aforesaid rates.

k) PIS and COFINS

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

(In thousands of reais)

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

The Bank follows the guidelines set forth in CMN Resolution nº 3.823/09, 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 the decision will be favorable, and shall not be subject to appeal.

The 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. The lawsuits classified as possible loss are only disclosed and those classified as remote loss do not require provision or disclosure.

Legal obligations are lawsuits related to tax obligations, where the subject being contested is their legality or constitutionality which, regardless of the probability of success of the lawsuits in progress, have their amounts recognized in full 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 Income for the year against a provision in Liabilities, as established by CMN Resolution nº 3.989/11 which approved the adoption of the Technical Pronouncement CPC 10 - Stock-Based Compensation (Note 21).

4. Components of cash and cash equivalents

	2014	2013
Cash and cash equivalents	6,567	947
Money market investments	205,416	6,000
Total	**211,983**	**6,947**

5. Interbank Investments

	2014			2013
	Up to 1 month	1 - 3 months	Total	Total
Money market investments				
Own portfolio	**189,039**	**-**	**189,039**	**66,984**
NTN	149,039	-	149,039	19,246
LTN	40,000	-	40,000	47,738
Financed position	**16,377**	**-**	**16,377**	**-**
NTN	16,377	-	16,377	-
Interbank deposits	**-**	**3,075**	**3,075**	**2,879**
Interbank deposits	-	3,075	3,075	2,879
Total	**205,416**	**3,075**	**208,491**	**69,863**

(In thousands of reais)

6. Securities

The updated cost (plus yield) and the market value of securities as of June 30, 2014 and 2013 were as follows:

a) Trading secutiries

	2014							2013	
	Up to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	Above 5 years	Market value / book value	Accrual value	Market value / book value	Accrual value
Own portfolio									
LTN	-	6,382	38,007	-	-	44,389	44,884	174,958	180,037
NTN	-	-	35,524	-	19,940	55,464	55,069	52,075	54,565
Subtotal	**-**	**6,382**	**73,531**	**-**	**19,940**	**99,853**	**99,953**	**227,033**	**234,602**
Subject to colateral agreement									
LTN	-	-	190,718	-	-	190,718	197,395	120,146	125,758
Subtotal	**-**	**-**	**190,718**	**-**	**-**	**190,718**	**197,395**	**120,146**	**125,758**
Total	**-**	**6,382**	**264,249**	**-**	**19,940**	**290,571**	**297,348**	**347,179**	**360,360**

b) Held to maturity securities

	2014						2013
	Up to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	Above 5 years	Market value / book value	Market value / book value
Own portfolio							
Debentures	2,023	21,292	68,600	50,848	-	142,763	-
Promissory notes	-	50,023	-	-	-	50,023	-
Total	**2,023**	**71,315**	**68,600**	**50,848**	**-**	**192,786**	**-**

Government bonds are placed in the custody of the Special System for Settlement and Custody (SELIC) and private securities are placed in the custody of CETIP S.A. – Organized Over-the-Counter Market for Assets and Derivatives.

The market value is determined based on the prices of assets disclosed by external sources, such as ANBIMA, Stockbrokers / Distributors or on the method of decapitalization of future payment flows by discount factors corresponding to the rates obtained from the market curves.

7. Derivative financial instruments

The Bank participates in operations involving derivative financial instruments recorded in balance sheet and memorandum accounts, and 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.

The futures, swap and NDF operations are recorded in balance sheet and memorandum accounts at the contractual or reference value and are registered with the BM&FBovespa S.A. - Stock Exchange, Futures and Commodities, SELIC - Special System for Settlement and Custody or the CETIP S.A. - Organized Over-the-Counter Market for Assets and Derivatives.

The tables below show the reference values updated to the market price, the respective adjustments receivable and payable and net exposures in the Balance Sheets for derivative financial instruments on June 30, 2014 and 2013:

(In thousands of reais)

	2014		2013	
	Market values		Market values	
	Referential values	Adjustment receivable (payable)	Referential values	Adjustment receivable (payable)
Futures contracts				
Long position	**2,068,810**	**7,636**	**634,785**	**7,856**
DI	397,788	(397)	41,493	(192)
DDI	1,420,650	7,666	581,515	7,786
Dólar	250,372	367	11,777	262
Short position	**1,177,798**	**(2,164)**	**372,614**	**(2,674)**
DI	595,098	235	149,836	342
DDI	286,960	(829)	25,589	(398)
Dólar	295,740	(1,570)	197,189	(2,618)

On June 30, 2014, besides the daily adjustments of futures contracts, the amount R$ 30 (2013 - R$ 4), is also recorded under the caption “Other liabilities - trading and intermediation of securities” in current liabilities, which is related to brokerage fees payable to BM&FBovespa S.A. - Stock Exchange, Futures and Commodities.

	2014			2013		
	Market values		Cost values	Market values		Cost values
	Referential values	Asset / (liability) net exposure	Asset / (liability) net exposure	Referential values	Asset / (liability) net exposure	Asset / (liability) net exposure
Swap agreements						
Asset position	**921,977**			**346,795**		
CDI	921,977	921,977	911,080	346,795	346,795	337,386
Liability position	**(889,135)**			**(375,065)**		
Dollar	(889,135)	(889,135)	(869,455)	(375,065)	(375,065)	(354,097)
Term of currencies						
Asset position	**180,352**			**7,978**		
Prefixed rates	153,262	125,549	122,762	-	-	-
Dollar	27,090	-	-	7,978	7,978	8,036
Liability position	**(178,679)**			**(7,542)**		
Prefixed rates	(27,713)	-	-	(7,542)	(7,542)	(7,630)
Dollar	(150,966)	(123,876)	(126,631)	-	-	-
Total net exposure		**34,515**			**(27,834)**	

(In thousands of reais)

The table below shows the reference values updated to the market price recorded in memorandum accounts and the respective terms to maturity as of June 30, 2014 and 2013:

	2014					2013
	Up to 1 month	From 1 to 6 months	6–12 months	> 12 months	Total	Total
Futures contracts	**358,509**	**376,618**	**1,005,902**	**1,505,579**	**3,246,608**	**1,007,399**
DI	32,487	2,919	216,701	740,779	992,886	191,329
DDI	143,214	306,135	616,727	641,534	1,707,610	607,104
Dollar	182,808	67,564	172,474	123,266	546,112	208,966
Swap contracts	**2,078**	**36,138**	**-**	**(5,374)**	**32,842**	**(28,270)**
CDI	26,129	347,704	-	548,144	921,977	346,795
Dollar	(24,051)	(311,566)	-	(553,518)	(889,135)	(375,065)
Term currency	**1,770**	**(777)**	**680**	**-**	**1,673**	**436**
Prefixed rates	41,977	16,845	66,727	-	125,549	(7,542)
Dollar	(40,207)	(17,622)	(66,047)	-	(123,876)	7,978

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.

The results with derivative financial instruments for the semesters ended June 30, 2014 and 2013 are as follows:

	2014	2013
Swap	82,219	(19,707)
Term	(4,985)	471
Future	(87,999)	30,803
Total	**(10,765)**	**11,567**

An area independent from the operating and business areas is responsible for the evaluation and measurement of assets and liabilities existing in the Bank, which is in compliance with BACEN Circulars nº. 3.068/01 and 3.082/02. These calculations are based on prices, rates or information collected from independent sources, such as BM&FBovespa, Stockbrokers, Brazilian Central Bank, ANBIMA, among others.

The table below shows the amounts of contracts designated as hedge financial instruments and financial instruments regarding the item subject to hedge as of June 30, 2014:

	2014		
	Hedge Instruments	Subject to Hedge	
Hedge Strategy for Market Risk	**Market Value**	**Market Value**	**Adjustment at Market Value**
Foreign borrowings hedge	31,679	32,958	(222)
Total	**31,679**	**32,958**	**(222)**

The effectiveness determined for the hedge portfolio is in compliance with the BACEN Circular 3.082/02.

The Bank uses market risk hedge to protect itself from exchange exposure risk for payments of principal and fixed rate exchange interest, related to the funding contracted abroad. The hedge relationships were designated in March 2014

The operation structure is a combination of DDI Futures contracts used as hedged derivative instruments and hedged foreign borrowings funded in US currency, designated as item subject to hedge (Note 14).

For the foreign funding market value, item subject to hedge, what is taken into consideration the characteristics of the operation in relation to interest rate and corresponding term for determination of the future amount of cash flows, which will be deducted at present value at market rates, calculated based on the prices traded on BM&FBovespa S.A - Bolsa de Valores, Mercadorias e Futuros.

8. Risk management

Operational risk

The Bank has an across-the-board operational risk management structure which is responsible for identifying, evaluating, monitoring, controlling, reducing 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, enabling the dissemination of the risk-control culture inside the Bank.

The Bank's Operational Risk structure also includes the participation 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, Risk Management 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 best worldwide adopted practices in risk management, the Bank has a comprehensive structure of risk control and management, integrated and independent from 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, credit, liquidity and operating 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 test, backtesting, analysis of sensitivity of interest, foreign exchange and volatility.

By complying with BNS's requirements, the Bank was able to meet Central Bank demands regarding implementation of a market and liquidity risk structure (CMN Resolutions nº 3.464/07 and 4.090/12). In addition, the Bank calculates the capital requirements due to market risk exposure in accordance with the criteria established by CMN Resolution nº 4.193/13.

Credit risk management

Consistent with the rules established by the Central Bank of Brazil (CMN Resolutions nº 2.682/99, 2.844/01, 3.721/09, 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 where 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 ratings which, under CMN Resolution nº 2.682/99, are reviewed every six months for credit risks that exceed 5% of the Bank's reference shareholders' equity.

The Board of Executive Officers and the risk areas systematically work in the management of credit risks, which include 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, actions 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 Brazilian Central Bank's (BACEN) requirements provided for in CMN Resolution nº 3.988/11.

The principles that govern the Bank's capital management structure, as described in the document, intend to meet the requirements in connection with: regulatory rules; existence of appropriate governance and supervision; capital management policies, strategies and measurement that focuses 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.

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 (unaudited).

(In thousands of reais)

9. Loan operations

a) Credit portfolio composition by type of operation, activity and term

	2014				
	Falling due				
	Up to 3 months	3–12 months	1–3 years	Total	Total
Private sector					
Bank Credit Certificate (CCB)	**36,850**	**-**	**-**	**36,850**	**10,820**
Other services	36,850	-	-	36,850	10,820
Discounted trade bills	**21,521**	**-**	**-**	**21,521**	**12,030**
Commerce	21,521	-	-	21,521	12,030
Export credit notes (NCE)	**22,445**	**-**	**-**	**22,445**	**22,317**
Industry	22,445	-	-	22,445	22,317
Export financing (CCE)	**-**	**3,750**	**3,750**	**7,500**	**11,252**
Commerce	-	3,750	3,750	7,500	11,252
Advances on foreign exchange contracts (ACC)	**91,745**	**266,156**	**-**	**357,901**	**110,785**
Industry	51,228	177,694	-	228,922	14,966
Commerce	40,517	88,462	-	128,979	95,819
ACC Income receivable	**1,228**	**1,800**	**-**	**3,028**	**410**
Industry	800	1,192	-	1,992	15
Commerce	428	608	-	1,036	395
Total	**173,789**	**271,706**	**3,750**	**449,245**	**167,614**

b) Credit risk concentration

	2014	2013
Major debtor	81,659	60,572
Percentage of entire credit portfolio	18.2%	36.1%
20 major debtors	449,245	167,614
Percentage of entire credit portfolio	100.0%	100.0%

c) Allowance for doubtful accounts

Level of		Total portfolio		Allowance for doubtful accounts	
Risk	Provision	2014	2013	2014	2013
AA	0.0%	121,683	16,070	-	-
A	0.5%	327,562	151,544	(1,638)	(758)
Total		**449,245**	**167,614**	**(1,638)**	**(758)**

d) Changes in the allowance for doubtful accounts

	2014	2013
Balance at the beginning of the semester	**(899)**	**(104)**
Recording of provision	(869)	(654)
Reversal of provision	130	-
Balance at the end of the semester	**(1,638)**	**(758)**

In the semesters ended June 30, 2014 and 2013, there were no credit recoveries and renegotiations.

(In thousands of reais)

10. Foreign exchange portfolio - Current assets

	2014	2013
Purchased foreign exchange to be settled	340,542	128,282
Rights on foreign exchange sales	4,404	6,056
Advances in national currency received	3,028	410
Income receivable from granted advances	-	(2,190)
Total	**347,974**	**132,558**

	2014	2013
Sold foreign exchange to be settled	4,404	6,245
Obligations on foreign exchange purchase	357,901	117,966
Advances on foreign exchange contracts	(357,901)	(110,785)
Total	**4,404**	**13,426**

11. Other receivables - Sundry

	2014	2013
Judicial deposits (i)	34,104	32,083
Prepayments of IRPJ and CSLL	1,501	334
Salary advances	681	566
Taxes and contributions recoverable	25	150
Others	25	32
Total	**36,336**	**33,165**
Current assets	2,232	748
Long-term assets	34,104	32,417

(i) As of June 30, 2014, it includes a judicial deposit (Note 17 "d") in the amount of 20,040 (2013 - R$ 18,923), related to a tax contingency lawsuit written off in 2013 due to the adhesion to a tax amnesty program established by Law nº 11.941/09. The Bank awaits the deposit to be released.

12. Deposits

	2014						2013
	No maturity	Up to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	Total	Total
Demand deposits	220	-	-	-	-	220	86
Interbank deposits	-	23,033	-	-	-	23,033	-
Time deposits	-	153,659	37,601	93,948	11,700	296,908	97,742
Total	**220**	**176,692**	**37,601**	**93,948**	**11,700**	**320,161**	**97,828**

13. Money market borrowings

On June 30, 2014, the amount of money market borrowings is represented by repurchase agreements with a term of 1 day and backed by federal government securities amounting to R$ 16,501 (2013 - zero).

(In thousands of reais)

14. Borrowings

		2014				2013
	Interest rate p.a.	Up to 3 months	3 to 12 months	1 to 3 years	Total	Total
Liabilities in foreign currencies - exports	0.251% to 0.25425%	89,021	229,537	-	318,558	121,019
Liabilities in foreign currencies – others	0.251%	66,068	-	-	66,068	5,538
Foreign borrowings – hedge item (i)	1.2085%	-	-	32,958	32,958	-
Foreign borrowings - others	0.729%	22,077	-	-	22,077	22,215
Total (ii)		**177,166**	**229,537**	**32,958**	**439,661**	**148,772**

(i) Refers to funds raised in North American currency (US$15 million), maturing in January 2017, used as the hedged item for market risk (Note 7).

(ii) As of June 30,2014 and 2013, these refer to funds obtained in a foreign currency from tha Bank of Nova Scotia - Toronto.

15. Other liabilities - Tax and social security

	2014	2013
Provision for deferred IRPJ and CSLL (i)	5,319	4,173
Provision for tax contingences and legal obligations (note 17 “d”)	3,046	2,787
Provision for deferred IRPJ and CSLL on income	2,146	-
Taxes and contributions on salaries	794	619
PIS and COFINS payable	250	-
Others	106	43
Total	**11,661**	**7,622**
Current liabilities	3,296	662
Long-term liabilities	8,365	6,960

(i) Refers to the provision for income and social contribution taxes on net positive adjustment to fair value of securities and derivatives market in the amount of R$ 380 (2013 - zero) and monetary restatement of judicial deposits of R$ 4,939 (2013 - R$ 4,173).

16. Other liabilities - Sundry

	2014	2013
Salaries, bonuses and social security charges	13,930	10,883
Provision for labor contingences (Note 17 “d”)	1,865	1,808
Accounts payable - administrative expenses	991	383
Accounts payable to related companies	449	-
Reserve for the Credit Guarantee Fund	64	22
Others	19	12
Total	**17,318**	**13,108**
Current liabilities	9,652	8,196
Non-current	7,666	4,912

17. Legal, Tax and Social Security Contingencies and Liabilities

a) Contingent assets

The Bank does not have any contingent assets recorded in its Balance Sheet, nor does it have, at this moment, any judicial proceedings that generate expectation of future gains.

(In thousands of reais)

b) Contingent liabilities

The Bank is a party in lawsuits and administrative proceedings arising from the normal course of its activities, involving labor, tax and social security matters. The evaluation for making provisions is conducted in accordance with the 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 amounts reserved are recorded under the headings of "Other liabilities – taxes and social security" (Note 16) and "Other liabilities – sundry" (Note 15), in long-term liabilities.

Ongoing labor lawsuits classified as possible loss amount to R$ 44,906 (2013 - R$ 46,207). Most labor lawsuits refer to actions filed by former employees and outsource personnel to obtain indemnities, mostly regarding overtime payment and other labor rights.

There are ongoing proceedings of tax-related nature classified as possible loss, in the amount of R$ 9,663 (2013 - R$ 9,023), arising from taxes that the Bank has been challenging in court, the main of which being related to an application for offsetting the withholding income tax on financial investments made by Cotinco Assessoria Empresarial Ltda., a non-financial firm merged by the Bank in 2003, in the amount of R$ 4,390 (2013 - R$ 4,234).

c) Legal obligations

The main proceeding, in the amount of R$ 1,638 (2013 - R$ 1,425), refers to the challenge against the increase in the rate of Workers' Compensation Insurance, as defined by the Decree nº 6.042/07.

d) Changes in balances

						Judicial deposits (i)	
	Balance at 12/31/2013	Formation	Usage	Updating	Balance at 06/30/2014	2014	2013
Labor	1,944	-	(114)	35	1,865	52	52
Tax contingencies	-	-	-	-	-	30,413	28,701
Legal obligations	2,888	78	-	80	3,046	3,639	3,330
Total	**4,832**	**78**	**(114)**	**115**	**4,911**	**34,104**	**32,083**

(i) See Note 11.

18. Shareholders' equity

The fully paid-up capital is represented by 2,221,627,157 (2013 – 1,916,202,199) nominative common shares with no par value.

On February 19, 2014, according to the Minutes of the Extraordinary General Meeting, the Bank received funds from shareholders to increase capital by R$ 54,900. On February 26, 2014, the Bank obtained Brazilian Central Bank's approval for this alteration.

Management will decide, in the annual General Meeting the minimum amount for dividend payments related to the adjusted net income in accordance with article 202 of corporate law.

Profit reserves

The legal reserve is formed by the allocation of 5% of the net income for the year, up to the limit defined by the current legislation. 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. Deferred income and social contribution taxes

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

	2014		2013	
	Income tax	**Social contribution**	**Income tax**	**Social contribution**
Net Income before taxes and after profit sharing	7,218	7,218	(25,096)	(25,096)
Temporary additions (exclusions)	445	445	20,183	20,183
Adjustment to market value - Securities and derivatives	(8,048)	(8,048)	14,024	14,024
Others	8,493	8,493	6,159	6,159
Permanent additions (exclusions)	55	55	77	77
Taxable base	**7,718**	**7,718**	**(4,836)**	**(4,836)**
Rates	15% and 10%	15%	15% and 10%	15%
Total current IRPJ and CSLL	**(1,336)**	**(810)**	**-**	**-**
Deferred tax liabilities	(493)	(297)	2,311	1,386
Total	**(1,829)**	**(1,107)**	**2,311**	**1,386**

b) Changes in deferred income and social contribution taxes by nature and origin

	Balance at 12/31/2013	**Realized**	**Balance at 06/30/2014**
Deferred tax liabilities			
Mark to market of derivatives and securities - IRPJ (i)	-	238	238
Mark to market of derivatives and securities - CSLL (i)	-	143	143
Other deferred liabilities - IRPJ	2,831	255	3,086
Other deferred liabilities - CSLL	1,698	154	1,852
Total	**4,529**	**790**	**5,319**

(i) Deferred IRPJ and CSLL, net of tax credits calculated on the mark to market (MtM) of securities and derivative financial instruments, taking into account the realization date compatibility

On June 30, 2014, the Bank has unrecorded deferred tax assets on temporary differences in the amount of R$ 7,441 (2013 - R$ 5,436) and on tax losses and negative basis of social contribution of R$ 24,595 (2013 - R$ 23,701)

20. Related parties

Transactions between related parties are disclosed in conformity with CMN Resolution nº 3.750/09, in compliance with Technical Pronouncement CPC 05 - Related Parties Disclosure, approved by the Accounting Pronouncements Committee (CPC). 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

	2014	2013
Assets		
Cash and cash equivalents (iv)	65	391
Other assets (v)	-	7,896
Liabilities		
Time deposits (ii)	(1,450)	(681)
Borrowings (iii)	(439,661)	(148,772)
Other obligations (v)	(449)	(7,935)
Income		
Revenue from foreign exchange operations (i)	8,491	2,561
Other income (v)	16	-
Expenses		
Funding operations expenses (ii)	(69)	(23)
Expenses on borrowings, assignments and on-lendings (iii)	32,250	(23,747)
Foreign exchange transactions (iv)	(88)	(358)
Other administrative expenses (v)	(477)	-

(i) Refers to revenue from origination fee, as well as reimbursement of expenses for the placement of transactions with The Bank of Nova Scotia – Toronto.
(ii) Refers to fund raised with Scotia Participações e Serviços Ltda.
(iii) Refers to funds raised with The Bank of Nova Scotia – Toronto (note 14).
(iv) Refers to cash and cash equivalents in foreign currency and arbitration transactions with The Bank of Nova Scotia – Toronto.
(v) On June 30, 2014 refers services provided by Scotia Colombia and the provision of technical services by The Bank of Nova Scotia - Toronto. On June 30, 2013 refers to arbritrage transactions with The Bank of Nova Scotia – Toronto.

b. Management compensation

For the purpose of disclosing management compensation, only Statutory Officers were considered. Expenses with management compensation for the semester ended June 30, 2014 in total amount of R$ 6,273 (2013 - R$ 5,247), of which R$ 3,225 (2013 - R$ 3,529) represents salaries and payroll charges, profit sharing, and bonuses and charges on bonuses, denominated short-term benefits, and R$ 3,048 (2013 - R$ 1,718) that represents share-based compensation. There are no post-employment benefits, other long-term benefits or work agreement termination benefits.

21. Share based payment

Share-based payment plans are evaluated based on The Bank of Nova Scotia (BNS) common share price traded in the Toronto Stock Exchange in Canada (TSX). BNS share price fluctuations change the unit value, which affects the Bank’s share-based payment expenses. The portion that calculates share price fair value also varies according to the Bank’s performance. These plans are settled in cash and their expenses are recognized in the Statement of Income for the year 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.

(In thousands of reais)

a. RSU - *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 BNS share price. As of June 30, 2014, the amount of liabilies in this plan is R$ 215 (2013 - R$ 473) and the number of shares is 4,339 units measured at weighted average fair value of R$ 151.98 per share. Total expenses recorded for this plan in the semester is R$ 84 (2013 - R$ 277).

b. PSU - *Performance Share Unit Plan*
According to PSU plan, eligible employees will receive a bonus after three years. In addition to BNS share price variation, this bonus portion is subject to performance criteria (return on shareholders' equity and total return to shareholder) measured over a three-year period, on which a multiplying factor is applied. As of June 30, 2014, the amount of liabilities for this plan is R$ 3,083 (2013 - R$ 1,959) and the number of shares is 23,506 units measured at weighted average fair value of R$151.98 per share. Total expenses recorded in this plan for this semester is R$ 2,237 (2013 - R$ 1,146).

c. DPP - *Deferred Performance Plan*
Under the DPP plan, the bonus portion received by employees eligible for this plan is allocated as units. Values of these units are defined based on BNS shares market price variation and are paid to employees in each of the three following years. As of June 30, 2014, the amount of liabilities for this plan is R$ 853 (2013 - R$ 617) and the number of shares is 6,343 units measured at the weighted average fair value of R$ 134.47 per share. Total expenses recorded in this plan for the semester is R$ 418 (2013 - R$ 283).

22. Basel Index and Operational Limits

The Bank calculates the Basel index (New Capital Agreement) and the operational limits based on the Brazilian Central Bank guidelines, as follows:

	2014	**2013**
Referential Equity (PR)	404,554	341,483
Minimum PR required for the amount of Risk Weighted Asset (RWA)	122,566	64,887
Value corresponding to the R_{BAN}	204	8
Margin value	281,784	276,588
Extended Basel Index (includes R_{BAN})	36.25%	57.88%
Fixed assets to equity ratio – CMN Resolution nº 2.283/96	0.94%	1.44%

Financial institutions are obliged to keep investment in permanent assets in accordance with Reference Shareholders' Equity level. Funds invested in permanent assets are limited to 50% of adjusted Reference Shareholders' Equity pursuant to current regulation. As of June 30, 2014 and 2013, the Bank falls under this limit.

23. Other information

a) As of June 30, 2014, the liabilities for confirmed export credits recognized in memorandum accounts amounted to R$ 1,101 (2013 - R$ 223).

b) Sale or transfer of financial assets

The Bank does not have any transactions involving the sale or transfer of financial assets with substantial retention of risks and benefits, in conformity to CMN Resolution nº 3.533/08.

c) On May 14, 2014, Law 12.973, which is the enactment of Provisional Measure/Executive Act 627/13, was published. This Law changed the Federal Tax Legislation in connection with Corporate Income Tax – IRPJ, Social Contribution on Net Income – CSLL, Contribution for Social Integration Program (PIS)/ Public Service Employee Savings (PASEP), and the Tax for Social Security Financing – COFINS, which provides for on the revocation of the Transition Tax Regime (RTT) and brings about other measures, such as taxation of people residing in Brazil, for income earned abroad.

The provided for in the aforementioned law will become effective only as from 2015, however, there is the possibility of its adoption in the year of 2014. In the publication of the financial statements ended December 31, 2013, the Bank had disclosed its intention of early adopting the rules in the year of 2014, as according to the assessment and legal advisors, there would not be significant future impacts on the financial statements. However, in the enactment of the aforementioned provisional measure/executive act into law, there are still ancillary tax obligations to be regulated. In this scenario, Management understands it would be more prudent to postpone the adoption of the aforementioned law's rules for the year of 2015.

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