

Scotiabank Brasil S.A. Banco Múltiplo

Financial statements
December 31, 2014

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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 December 31, 2014 and the respective statements of income, changes in shareholders' equity and cash flows for the year and 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 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 December 31, 2014, the performance of its operations and its cash flows, for the year and semester then ended, in accordance with the accounting practices adopted in Brazil, applicable to institutions authorized to operate by the Brazilian Central Bank.

São Paulo, February 20, 2015

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 DECEMBER 31, 2014 AND 2013

(In thousands of reais)

	<u>2014</u>	<u>2013</u>
Assets		
Current assets	1,427,248	654,643
Cash and cash equivalents	2,661	1,548
Interbank investments	472,357	121,959
Money market investments	322,146	119,029
Interbank deposits	150,211	2,930
Securities and derivative financial instruments	511,207	234,490
Own portfolio	253,948	77,925
Derivative financial instruments	20,913	13,375
Tied to collateral agreement	236,346	143,190
Interbank accounts	67	32
Restricted deposits		
Deposits with Brazilian Central Bank	67	32
Loans	62,975	103,925
Loans		
Private sector	20,931	104,272
Sale or Transfer of Financial Assets	42,184	-
Allowance for doubtful accounts	(140)	(347)
Other receivables	377,467	192,359
Foreign exchange portfolio	364,009	186,390
Trading and intermediation of securities	10,852	4,777
Others	3,997	1,704
Allowance for doubtful accounts	(1,391)	(512)
Other assets	514	330
Prepaid expenses	514	330
Long-term assets	149,124	111,306
Securities and derivative financial instruments	110,022	70,202
Own portfolio	107,296	70,202
Derivative financial instruments	2,726	-
Loans	4,020	7,955
Loans		
Private sector	4,040	7,995
Allowance for doubtful accounts	(20)	(40)
Other receivables	34,798	33,053
Others	34,798	33,053
Other assets	284	96
Prepaid expenses	284	96
Permanent assets	3,275	4,387
Investments	6	6
Other investments	6	6
Fixed assets	2,518	3,430
Other fixed assets	10,831	12,412
Accumulated depreciation	(8,313)	(8,982)
Intangible assets	751	951
Intangible assets	1,800	1,715
Accumulated amortizations	(1,049)	(764)
Total assets	1,579,647	770,336

See the accompanying notes to the financial statements

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO
BALANCE SHEETS AT DECEMBER 31, 2014 AND 2013

(In thousands of Reais)

	2014	2013
Liabilities		
Current liabilities	861,632	317,016
Deposits	113,028	21,536
Demand deposits	191	227
Interbank investments	36,521	-
Time Deposits	76,316	21,309
Interbranch accounts	6	-
Third-party funds in transit	6	-
Borrowings	571,346	279,174
Foreign borrowings	571,346	279,174
Derivative financial instruments	44,881	4,910
Derivative financial instruments	44,881	4,910
Other liabilities	132,371	11,396
Foreign exchange portfolio	49,478	924
Social and statutory	364	-
Tax and social security	4,891	5,475
Trading and intermediation of securities	32,564	273
Other	45,074	4,724
Long-term liabilities	307,263	107,846
Deposits	167,831	52,508
Time Deposits	167,831	52,508
Borrowings	39,066	-
Foreign borrowings	39,066	-
Derivative financial instruments	84,861	44,066
Derivative financial instruments	84,861	44,066
Other liabilities	15,505	11,272
Tax and social security	10,213	7,417
Others	5,292	3,855
Income for future years	26	67
Income for future years	26	67
Shareholders' equity	410,726	345,407
Capital:		
Domiciled abroad	321,122	266,222
Profit reserves	89,604	79,185
Total liabilities	1,579,647	770,336

See the accompanying notes to the financial statements

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2014 AND 2013 AND
SEMESTER ENDED DECEMBER 31, 2014

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

	2nd semester	Years	
	2014	2014	2013
Financial intermediation income	117,732	123,926	72,674
Loans	4,637	8,000	9,248
Securities	41,673	75,869	21,187
Derivative financial instruments	16,434	5,669	25,312
Foreign exchange operations	54,988	34,388	16,927
Financial intermediation expenses	(89,237)	(66,807)	(53,383)
Funding operations	(14,371)	(23,452)	(10,371)
Borrowings	(74,143)	(41,893)	(42,217)
Sale or Transfer of Financial Assets	(810)	(810)	-
Allowance for doubtful accounts	87	(652)	(795)
Gross income on financial intermediation	28,495	57,119	19,291
Other operating income (expenses)	(18,681)	(40,087)	(39,914)
Rendering of services	12,836	22,896	14,291
Personnel expenses	(20,436)	(41,892)	(34,262)
Other administrative expenses	(10,075)	(19,143)	(17,538)
Tax expenses	(2,827)	(4,928)	(2,899)
Other operating income	1,912	3,258	1,912
Other operating expenses	(91)	(278)	(1,418)
Operating income (loss)	9,814	17,032	(20,623)
Non-operating losses	(191)	(191)	(193)
Net income before taxes and profit sharing	9,623	16,841	(20,816)
Income and social contribution taxes	(2,684)	(5,620)	3,341
Provision for income tax	(1,808)	(3,638)	2,088
provision for social contribution	(876)	(1,982)	1,253
Profit sharing	(802)	(802)	-
Net income (loss) for the semester / year	6,137	10,419	(17,475)
Net income (loss) per thousand shares - R\$	2.76	4.69	(9.12)

See the accompanying notes to the financial statements

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2014 AND 2013 AND
SEMESTER ENDED DECEMBER 31, 2014

(In thousands of Reais)

	<u>Profit reserves</u>			<u>Income (loss) earnings (loss)</u>	<u>Total</u>
	<u>Capital</u>	<u>Legal</u>	<u>Statutory</u>		
Balances at January 1, 2013	266,222	12,872	83,788	-	362,882
Loss for the year	-	-	-	(17,475)	(17,475)
Allocations:					
Statutory reserves	-	-	(17,475)	17,475	-
Balances at December 31, 2013	266,222	12,872	66,313	-	345,407
Balances at January 1, 2014	266,222	12,872	66,313	-	345,407
Capital increase	54,900	-	-	-	54,900
Net income for the year	-	-	-	10,419	10,419
Allocations:					
Legal reserve	-	521	-	(521)	-
Statutory reserve	-	-	9,898	(9,898)	-
Balances at December 31, 2014	321,122	13,393	76,211	-	410,726
Balances at July 1, 2014	321,122	13,086	66,313	4,068	404,589
Net income for the semester	-	-	-	6,137	6,137
Allocations:					
Legal reserve	-	307	-	(307)	-
Statutory reserve	-	-	9,898	(9,898)	-
Balances at December 31, 2014	321,122	13,393	76,211	-	410,726

See the accompanying notes to the financial statements

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO
STATEMENTS OF CASH FLOWS (INDIRECT METHOD)
YEARS ENDED DECEMBER 31, 2014 AND 2013 AND
SEMESTER ENDED DECEMBER 31, 2014

(In thousands of Reais)

	2nd semester	Years	
	2014	2014	2013
Operating activities			
Net income (loss) for the semester/years	6,137	10,419	(17,475)
Adjustments to net income (Loss)			
Recording (reversal) of allowance for doubtful accounts	(97)	(227)	283
Recording (reversal) of allowance for doubtful accounts	10	879	512
Depreciation and amortization	828	1,704	1,818
Loss on write-off of fixed assets in use	190	190	191
Expenses with tax and labor provisions	301	381	574
Variation in assets and liabilities			
(Increase) in interbank investments	(45,729)	(45,874)	(147)
Decrease (increase) in securities and derivative financial instruments	26,385	(235,771)	14,742
Reversal (increase) in mandatory deposits at the Brazilian Central Bank	(34)	(35)	135
Decrease in interbank	1	-	-
Decrease (increase) in interbranch investments	5	6	(19)
Decrease (increase) in loans operations	21,161	45,112	(81,124)
(Increase) in other credits	(21,055)	(187,732)	(178,151)
Decrease (increase) in other assets	310	(372)	(102)
Increase (decrease) in deposits	(39,302)	206,815	5,923
(Decrease) in Repo operations	(16,501)	-	(26,008)
Increase in borrowings and on-lending obligations	170,751	331,238	258,668
Increase (decrease) in other obligations	111,343	124,827	(16,968)
Increase (decrease) in deferred income	(14)	(41)	7
Net cash generated/(used in) from operating activities	214,690	251,519	(37,141)
Investment activities			
Acquisition of fixed assets	(394)	(631)	(1,226)
Investments in intangible assets	(65)	(151)	(414)
Net cash (used in) from investment activities	(459)	(782)	(1,640)
Financial activities			
Capital increase	-	54,900	-
Net cash generated from financial activities	-	54,900	-
Net increase (decrease) in cash and cash equivalents	214,231	305,637	(38,781)
Cash and cash equivalents at the beginning of the semester / year	211,983	120,577	159,358
Cash and cash equivalents at the end of the semester / year	426,214	426,214	120,577
Net increase (decrease) in cash and cash equivalents	214,231	305,637	(38,781)

See the accompanying notes to the financial statements

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AT DECEMBER 31, 2014 AND 2013
(In thousands of reais)

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. (full invested of BNS), 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 February 04, 2015.

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.

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.

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(In thousands of reais)

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 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.

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.

According to Resolution 3.533/08 passed by the National Monetary Council and updated by subsequent rulings, the assignment of receivables whereby a substantial portion of the risks and rewards remains with the assignor, are to be kept in the loan portfolio as from January 1, 2012.

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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 December 31, 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.

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NOTES TO THE FINANCIAL STATEMENTS
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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 20).

4. Components of cash and cash equivalents

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	2,661	1,548
Money market investments	322,146	119,029
Interbank deposits	101,407	-
Total	<u>426,214</u>	<u>120,577</u>

5. Interbank Investments

	<u>2014</u>		<u>2013</u>	
	<u>Up to 3 months</u>	<u>3 - 12 months</u>	<u>Total</u>	<u>Total</u>
Money market investments				
Own portfolio	<u>332,146</u>	<u>-</u>	<u>332,146</u>	<u>119,029</u>
LFT	40,013		40,013	50,414
NTN	162,099	-	162,099	68,615
LTN	120,034	-	120,034	-
Interbank deposits	<u>101,407</u>	<u>48,804</u>	<u>150,211</u>	<u>2,930</u>
Interbank deposits	101,407	48,804	150,211	2,930
Total	<u>423,553</u>	<u>48,804</u>	<u>472,357</u>	<u>121,959</u>

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NOTES TO THE FINANCIAL STATEMENTS
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6. Securities

The updated cost (plus yield) and the market value of securities as of December 31, 2014 and 2013 were as follows:

a) Trading 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	Accrual value	Market value / book value	Accrual value
Own portfolio									
LTN	47,479	79,282	34,724	-	-	161,485	162,047	77,925	81,112
NTN	-	-	13,880	-	571	14,451	14,675	-	-
Subtotal	47,479	79,282	48,604	-	571	175,936	176,722	77,925	81,112
Subject to collateral agreement									
LTN	-	11,662	224,684	-	-	236,346	239,520	143,190	150,878
Subtotal	-	11,662	224,684	-	-	236,346	239,520	143,190	150,878
Total	47,479	90,944	273,288	-	571	412,282	416,242	221,115	231,990

The market values of government bonds are calculated according to asset prices disclosed by the Brazilian Association of Financial and Capital Market Entities (ANBIMA). Government bonds are held in custody at the Special System for Settlement and Custody (SELIC).

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	Accrual value / book value	Market value / book value	Accrual value / book value
Own portfolio									
Debentures	2,220	25,701	68,600	38,696	-	135,217	135,217	70,202	70,202
Promissory notes	-	50,091	-	-	-	50,091	50,091	-	-
Subtotal	2,220	75,792	68,600	38,696	-	185,308	185,308	70,202	70,202

The adjusted for inflation cost of debentures and promissory notes approximates their market values. Private bonds are held in custody at CETIP S.A. – Clearing House for the Custody and Financial Settlement of Securities.

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 or the CETIP.

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NOTES TO THE FINANCIAL STATEMENTS
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(In thousands of reais)

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 December 31, 2014 and 2013:

	2014		2013	
	Market values	Adjustment	Market values	Adjustment
	Referential values	receivable (payable)	Referential values	receivable (payable)
Futures contracts				
Long position	2,414,437	(32,040)	823,736	4,751
DI	505,432	187	89,913	26
DDI	1,658,920	(27,449)	674,051	4,475
Dollar	250,085	(4,778)	59,772	250
Short position	1,213,974	10,356	127,469	(242)
DI	629,334	(309)	116,608	(173)
DDI	12,809	268	10,861	(69)
Dollar	571,831	10,397	-	-

On December 31, 2014, besides the daily adjustments of futures contracts, the amount R\$ 28 (2013 - R\$ 5), 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.

	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	848,627			645,597		
CDI	848,627	848,627	835,022	645,597	645,597	635,980
Liability position	(952,832)			(680,406)		
Dollar	(952,832)	(952,832)	(957,302)	(680,406)	(680,406)	(666,597)
Term of currencies						
Asset position	298,226			180,352		
Prefix rates	158,122	26,817	27,214	153,262	-	-
Dollar	140,104	-	-	27,090	26,925	26,874
Liability position	(300,124)			(178,679)		
Prefix rates	(131,305)	-	-	(27,713)	(27,717)	(27,882)
Dollar	(168,819)	(28,715)	(28,472)	(150,966)	-	-
Total net exposure	(106,103)			(35,601)		

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	2014			2013		
	Market value		Cost	Market value		Cost
	Notional amount	Premium paid/(received)	Premium paid/(received)	Notional amount	Premium paid/(received)	Premium paid/(received)
Flexible options	-	-	(112)	-	-	-
Purchase of call option - US dollar	246,562	8,161	5,292	-	-	-
Sale of call option - US dollar	(246,562)	(8,161)	(5,404)	-	-	-

The table below shows the reference values updated to the market price recorded in memorandum accounts and the respective terms to maturity as of December 31, 2014 and 2013:

	2014				2013	
	Up to 1 month	From 1 to 6 months	6-12 months	> 12 months	Total	Total
Futures contracts	87,423	805,505	532,187	2,203,296	3,628,411	951,205
DI	34,470	404,172	116,333	579,791	1,134,766	206,521
DDI	44,320	104,988	274,903	1,247,518	1,671,729	684,912
Dollar	8,633	296,345	140,951	375,987	821,916	59,772
Swap contracts	(2,989)	(1,219)	(17,862)	(82,135)	(104,205)	(34,809)
CDI	31,301	56,388	194,450	566,488	848,627	645,597
Dollar	(34,290)	(57,607)	(212,312)	(648,623)	(952,832)	(680,406)
Term currency	(6,160)	4,901	(639)	-	(1,898)	(792)
Prefixes rates	50,913	(26,946)	2,850	-	26,817	(27,717)
Dollar	(57,073)	31,847	(3,489)	-	(28,715)	26,925
Flexible options	-	-	-	-	-	-
Purchase of call option - US dollar	-	246,562	-	-	246,562	-
Sale of call option - US dollar	-	(246,562)	-	-	(246,562)	-

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 December 31, 2014 and 2013 are as follows:

	2014	2013
Swap	(18,405)	(14,599)
Term	(11,512)	155
Future	35,474	39,758
Options	112	(2)
Total	5,669	25,312

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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 n°. 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, BACEN, 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 December 31, 2014:

	2014		
	Hedge Instruments	Subject to Hedge	
	Market Value	Market Value	Adjustment at Market Value
Hedge Strategy for Market Risk			
<i>Foreign borrowings hedge</i>	84,060	85,792	(2,082)
Total	84,060	85,792	(2,082)

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 and November 2014

The transaction is structured as a combination of DDI futures contracts used as derivative hedging instruments and obligations arising from foreign loans raised in US dollar, falling due in November 2015 and January 2017 and designated as an item hedged against market risk.

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.

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,

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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 n° 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 n° 4.193/13.

Credit risk management

Consistent with the rules established by the BACEN (CMN Resolutions n° 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 n° 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 n° 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).

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9. Loan operations

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

	2014				
	Falling due				Total
	Up to 3 months	3-12 months	1-3 years	Total	
Private sector					
Bank Credit Certificate (CCB)	6,636	-	-	6,636	34,782
Other services	6,636	-	-	6,636	34,782
Discounted trade bills	10,197	-	-	10,197	41,574
Commerce	10,197	-	-	10,197	41,574
Export credit notes (NCE)	-	-	-	-	23,918
Industry	-	-	-	-	23,918
Export financing (CCE)	-	4,040	4,040	8,080	11,993
Commerce	-	4,040	4,040	8,080	11,993
Import finance	58	-	-	58	-
Commerce	58	-	-	58	-
Loan transactions linked to assignments	7,130	35,054	-	42,184	-
Other services	7,130	35,054	-	42,184	-
Advances on foreign exchange contracts (ACC)	174,831	108,976	-	283,807	179,390
Industry	137,069	73,792	-	210,861	104,060
Commerce	37,762	35,184	-	72,946	75,330
ACC Income receivable	2,536	769	-	3,305	991
Industry	2,202	449	-	2,651	521
Commerce	334	320	-	654	470
Total	201,388	148,839	4,040	354,267	292,648

b) Credit risk concentration

	2014	2013
Major debtor	75,160	57,005
Percentage of entire credit portfolio	21.2%	19.5%
20 major debtors	354,267	292,648
Percentage of entire credit portfolio	100.0%	100.0%

c) Allowance for doubtful accounts

Level of Risk	Provision	Allowance for doubtful accounts			
		Total portfolio		accounts	
		2014	2013	2014	2013
AA	0.0%	44,049	112,827	-	-
A	0.5%	310,218	179,821	(1,551)	(899)
Total		354,267	292,648	(1,551)	(899)

d) Sale or Transfer of Financial Assets

In October 2014, the Bank assigned receivables and remained with the credit risks associated with the assets that were transferred under joint liability agreements. As of December 31, 2014, the carrying value of the Bank Credit Certificate (CCB) was R\$42,184 (note 9 "a") and that of the incurred obligation was R\$38,826 (note 15).

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e) Changes in the allowance for doubtful accounts

	<u>2014</u>	<u>2013</u>
Balance at the beginning of the semester	(899)	(104)
Recording of provision	(915)	(813)
Reversal of provision	263	18
Balance at the end of the semester	<u>(1,551)</u>	<u>(899)</u>

In the semesters ended December 31, 2014 and 2013, there were no credit recoveries and renegotiations.

10. Foreign exchange portfolio - Current assets

	<u>2014</u>	<u>2013</u>
Purchased foreign exchange to be settled	312,853	185,399
Rights on foreign exchange sales	48,690	920
Advances in national currency received	3,305	991
Income receivable from granted advances	(839)	(920)
Total	<u>364,009</u>	<u>186,390</u>

	<u>2014</u>	<u>2013</u>
Sold foreign exchange to be settled	48,664	924
Obligations on foreign exchange purchase	284,621	179,390
Advances on foreign exchange contracts	(283,807)	(179,390)
Total	<u>49,478</u>	<u>924</u>

11. Other receivables - Sundry

	<u>2014</u>	<u>2013</u>
Judicial deposits (i)	34,798	33,053
Prepayments of IRPJ and CSLL	3,714	1,289
Salary advances	258	290
Taxes and contributions recoverable	-	95
Others	25	30
Total	<u>38,795</u>	<u>34,757</u>
Current assets	3,997	1,704
Long-term assets	34,798	33,053

- (i) As of December 31, 2014, that asset includes a court deposit (note 16 “d”) in the amount of R\$20,690 (2013 – R\$19,444), made for the tax contingency consisting of a tax deficiency assessed because of the non-deductibility of expenses on assumed debt. This tax deficiency was written off in 2013, after the Bank joined the tax amnesty program established by Law 11.941/09. The Bank waits this deposit to be given back to it.

12. Deposits

	<u>2014</u>					<u>2013</u>	
	<u>No maturity</u>	<u>Up to 3 months</u>	<u>3 to 12 months</u>	<u>1 to 3 years</u>	<u>3 to 5 years</u>	<u>Total</u>	<u>Total</u>
Demand deposits	191	-	-	-	-	191	227
Interbank deposits	-	36,521	-	-	-	36,521	-
Time deposits	-	-	76,316	154,747	13,084	244,147	73,817
Total	<u>191</u>	<u>36,521</u>	<u>76,316</u>	<u>154,747</u>	<u>13,084</u>	<u>280,859</u>	<u>74,044</u>

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13. Loan obligations

Loan obligations basically consist of foreign-currency funds raised with BNS to finance foreign trade, with R\$524,620 (2013 - R\$255,688) maturing by November 2015, and of funds raised abroad pursuant to CMN Resolution 3.844/10 which total R\$85,792 (2013 - R\$23,486) and mature by January 2017. Transactions bear annual interest ranging from 0.254% to 1.2085% and are adjusted for the exchange rate.

14. Other liabilities - Tax and social security

	<u>2014</u>	<u>2013</u>
Provision for deferred IRPJ and CSLL (i)	9,748	4,529
Provision for tax contingences and legal obligations (note 16 “d”)	3,178	2,888
Provision for deferred IRPJ and CSLL on income	400	-
Taxes and contributions on salaries	<u>1,778</u>	<u>5,475</u>
Total	<u>15,104</u>	<u>12,892</u>
Current liabilities	4,891	5,475
Long-term liabilities	10,213	7,417

- (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\$ 4,342 (2013 - zero) and monetary restatement of judicial deposits of R\$ 5,406 (2013 - R\$ 4,529).

15. Other liabilities - Sundry

	<u>2014</u>	<u>2013</u>
Obligations arising from assignment-related transactions	38,826	-
Salaries, bonuses and social security charges	8,124	4,549
Provision for labor contingences (Note 16 “d”)	2,028	1,944
Accounts payable - administrative expenses	967	1,730
Accounts payable to related companies	359	260
Reserve for the Credit Guarantee Fund	55	37
Others	<u>7</u>	<u>59</u>
Total	<u>50,366</u>	<u>8,579</u>
Current liabilities	45,074	4,724
Non-current	5,292	3,855

16. 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.

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 “I”.

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 14) and “Other liabilities – sundry” (Note 15), in long-term liabilities.

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Ongoing labor lawsuits classified as possible loss amount to R\$ 46,921 (2013 - R\$ 46,748). 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\$ 9,986 (2013 - R\$ 9,346), 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\$ 4,481 (2013 - R\$ 4,320).

c) Legal obligations

The main proceeding, in the amount of R\$ 1,743 (2013 - R\$ 1,505), refers to the challenge against the increase in the rate of Workers' Compensation Insurance, as defined by the Decree n° 6.042/07.

d) Changes in balances

	Balance at 12/31/2013	Formation	Reversal	Usage	Updating	Balance at 12/31/2014	Judicial deposits (i)	
							2014	2013
Labor	1,944	-	(114)	(7)	205	2,028	53	53
Tax contingencies	-	-	-	-	-	-	30,880	29,500
Legal obligations	2,888	121	-	-	169	3,178	3,865	3,500
Total	4,832	121	(114)	(7)	374	5,206	34,798	33,053

(i) See Note 11.

17. 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 BACEN 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.

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18. 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	16,039	16,039	(20,816)	(20,816)
Temporary additions (exclusions)	(16,111)	(16,111)	15,202	15,202
Adjustment to market value - Securities and derivatives	(17,952)	(17,952)	14,438	14,438
Others	1,841	1,841	764	764
Permanent additions (exclusions)	2,386	309	2,092	135
Taxable base	2,314	237	(3,522)	(5,479)
Compensation of tax losses and negative base of social contribution	(694)	(71)	-	-
Taxable base after taxation	1,620	166	(3,522)	(5,479)
Rates	15% and 10%	15%	15% and 10%	15%
Total current IRPJ and CSLL	(376)	(25)	-	-
Deferred tax liabilities	(3,262)	(1,957)	2,088	1,253
Total	(3,638)	(1,982)	2,088	1,253

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

	Balance at 12/31/2013	Realized	Balance at 12/31/2014
Deferred tax liabilities			
Mark to market of derivatives and securities - IRPJ	-	2,714	2,714
Mark to market of derivatives and securities - CSLL	-	1,628	1,628
Other deferred liabilities - IRPJ	2,831	548	3,379
Other deferred liabilities - CSLL	1,698	329	2,027
Total	4,529	5,219	9,748

On December 31, 2014, the Bank has unrecorded deferred tax assets on temporary differences in the amount of R\$ 5,248 (2013 - R\$ 6,473) and on tax losses and negative basis of social contribution of R\$ 25,337 (2013 - R\$ 25,521)

19. 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.

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a. Related party transactions

	<u>2014</u>	<u>2013</u>
<u>Assets</u>		
Cash and cash equivalents (i)	56	106
Other assets (i)	1,620	-
<u>Liabilities</u>		
Deposits	-	(1)
Time deposits (ii)	(1,503)	(1,398)
Borrowings (iii)	(610,412)	(279,174)
Other obligations (iv)	(1,979)	(260)
<u>Income</u>		
Revenue from foreign exchange operations (i)	618	-
Fee income (v)	21,027	13,281
Other income (iv)	22	-
<u>Expenses</u>		
Funding operations expenses (ii)	(148)	(63)
Expenses on borrowings, assignments and on-lendings (iii)	(41,887)	(42,217)
Foreign exchange transactions (i)	-	(2,722)
Other administrative expenses (iv)	(1,258)	(1,095)

- (i) Refers to cash and cash equivalents in foreign currency and arbitration transactions with BNS, as well as commission of credit letter confirmed by Scotiabank Uruguay and Scotiabank Peru.
- (ii) Refers to fund raised with Scotia Participações e Serviços Ltda.
- (iii) Refers to funds raised with BNS (note 13).
- (iv) Refers to rendering of services to Scotia Colômbia, technical services and arbitration transactions with BNS.
- (v) Refers to revenue from origination fee, as well a reimbursement of expenses for the placement of transactions with BNS and Scotiabank & Trust (Cayman) Ltd.

b. Management compensation

For the purpose of disclosing management compensation, only Statutory Officers were considered. Expenses with management compensation for the semester ended December 31, 2014 in total amount of R\$ 10,014 (2013 - R\$ 6,024), of which R\$ 6,847 (2013 - R\$ 5,983) represents salaries and payroll charges, profit sharing, and bonuses and charges on bonuses, denominated short-term benefits, and R\$ 3,167 (2013 - R\$ 41) that represents share-based compensation. There are no post-employment benefits, other long-term benefits or work agreement termination benefits.

20. 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.

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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 December 31, 2014, the amount of liabilities in this plan is R\$ 207 (2013 - R\$ 131) and the number of shares is 6,534 units measured at weighted average fair value of R\$ 150.80 per share. Total expenses recorded for this plan in the semester is R\$ 174 (2013 - R\$ 21).

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 December 31, 2014, the amount of liabilities for this plan is R\$ 2,855 (2013 - R\$ 846) and the number of shares is 30,885 units measured at weighted average fair value of R\$150.80 per share. Total expenses recorded in this plan for this semester is R\$ 2,295 (2013 - R\$ 311).

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 December 31, 2014, the amount of liabilities for this plan is R\$ 1.242 (2013 - R\$ 853) and the number of shares is 8,421 units measured at the weighted average fair value of R\$ 147.43 per share. Total expenses recorded in this plan for the semester is R\$ 818 (2013 - R\$ 682).

21. 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:

	<u>2014</u>	<u>2013</u>
Referential Equity (PR)	410,683	345,407
Minimum PR required for the amount of Risk Weighted Asset (RWA)	117,121	84,026
Value corresponding to the R_{BAN}	110	79
Margin value	293,452	261,302
Extended Basel Index (includes R_{BAN})	38.54%	45.21%
Fixed assets to equity ratio – CMN Resolution nº 2.283/96	0.79%	1.27%

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 December 31, 2014 and 2013, the Bank falls under this limit.

22. Other information

- a) As of December 31, 2014, the liabilities for confirmed export credits recognized in memorandum accounts amounted to R\$ 3,983 (2013 - R\$ 4,908).
- b) On May 14, 2014 Law 12.973 was published changing federal tax legislation on Corporate Income Tax - IRPJ, Social Contribution Tax - CSLL, Contribution for Social Integration Program – PIS/PASEP and Tax for Social Security Financing – COFINS which revokes the Temporary Taxation System (RTT) and introduces other changes, such as the taxation of people residing in Brazil who have made profits 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.