

# Scotiabank Brasil S.A. Banco Múltiplo

## **Financial statements of December 31, 2016 and 2015**

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

# Contents

<b>Management's report</b>	<b>3</b>
<b>Independent auditors' report on the financial statements</b>	<b>4</b>
<b>Balance sheets</b>	<b>7</b>
<b>Statements of income</b>	<b>9</b>
<b>Statements of changes in shareholders' equity</b>	<b>10</b>
<b>Statements of cash flows (indirect method)</b>	<b>11</b>
<b>Notes to the financial statements</b>	<b>12</b>

## **Management's report**

In compliance with legal and statutory provisions, the Scotiabank Brasil's Board of Directors submits to your appreciation the financial statements for the years ended December 31, 2016 and 2015, accompanied by the notes and the independent auditors' report prepared in accordance with accounting practices adopted in Brazil, as set forth by the Brazilian Corporation Law, National Monetary System, the Central Bank of Brazil and the Securities and Exchange Commission. Management ensures the Bank's financial capacity and the intention to hold to maturity the securities classified in this category, in accordance with the provisions of BACEN Circular No. 3,068 / 01.

## **Acknowledgements**

Scotiabank Brasil thanks all its customers for their trust and support, and for their employees and employees, for dedication, ethics, professionalism and commitment.

## **Executive Board**



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## **Independent auditors' report on the financial statements**

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

### **Opinion**

We have audited the financial statements of Scotiabank Brasil S.A. Banco Múltiplo (the "Bank"), which comprise the balance sheet as of December 31, 2016, and the statements of profit or loss, changes in equity and cash flows for the year and six-month period then ended, and notes to the financial statements, including significant accounting policies and other explanatory information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Scotiabank Brasil S.A. Banco Múltiplo as of December 31, 2016, and of its financial performance and its cash flows for the year and six-month period then ended in accordance with accounting policies adopted in Brazil applicable to the entities authorized to operate by the Central Bank of Brazil.

### **Basis for Opinion**

We conducted our audit in accordance with International and Brazilian Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of Financial Statements section of our report. We are independent from the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements and are set forth on the Professional Code of Ethics for Accountants and on the professional standards issued by the Regional Association of Accountants, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Other Information**

Management is responsible for the other information. The other information comprises the information included in the Management Report.



Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work that we have performed, we conclude that there is a material misstatement of this other information, then we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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

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

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

### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International and Brazilian Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International and Brazilian Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

São Paulo, February 21, 2017

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

**SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO**  
**BALANCE SHEETS AS OF DECEMBER 31, 2016 AND 2015**

(In thousands of reais)

	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
<b>Current assets</b>	<b>3,530,238</b>	<b>2,541,504</b>
Cash and cash equivalents	4,689	8,215
Interbank investments	840,414	671,634
Money market investments	699,882	494,711
Interbank deposits	140,532	176,923
Securities and derivative financial instruments	1,583,549	959,886
Own portfolio	598,337	247,719
Subject to repurchase agreement	-	1,003
Derivative financial instruments	291,854	10,604
Subject to guarantees	693,358	700,560
Interbank accounts	2,292	6
Restricted deposits		
Deposits with Central Bank of Brazil	13	6
Correspondent Banks	2,279	-
Loans	147,472	84,630
Loans		
Private sector	148,053	85,275
Allowance for doubtful accounts	(581)	(645)
Other receivables	951,281	816,365
Foreign exchange portfolio	897,216	661,657
Income receivable	3	2
Trading and intermediation of securities	2,613	83,164
Others	76,757	74,056
Allowance for doubtful accounts	(25,308)	(2,514)
Other assets	541	768
Prepaid expenses	541	768
<b>Long-term assets</b>	<b>417,829</b>	<b>482,344</b>
Securities and derivative financial instruments	190,732	190,983
Own portfolio	33,259	142,998
Derivative financial instruments	157,473	47,985
Loans	178,315	240,629
Loans		
Private sector	178,910	241,537
Allowance for doubtful accounts	(595)	(908)
Other receivables	48,712	50,521
Others	48,712	50,521
Other assets	70	211
Prepaid expenses	70	211
<b>Permanent assets</b>	<b>3,515</b>	<b>4,419</b>
Investments	6	6
Other investments	6	6
Fixed assets	2,979	3,611
Other fixed assets	12,176	13,115
Accumulated depreciation	(9,197)	(9,504)
Intangible assets	530	802
Intangible assets	1,121	2,232
Accumulated amortizations	(591)	(1,430)
<b>Total assets</b>	<b>3,951,582</b>	<b>3,028,267</b>

See the accompanying notes to the financial statements

**SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO**  
**BALANCE SHEETS AS OF DECEMBER 31, 2016 AND 2015**

(In thousands of reais)

	<b>2016</b>	<b>2015</b>
<b>Liabilities</b>		
<b>Current liabilities</b>	<b>2,494,876</b>	<b>1,649,195</b>
Deposits	630,378	335,004
Demand deposits	193	195
Interbank investments	45,875	38,120
Time Deposits	584,310	296,689
Money market funding	-	1,000
Own portfolio	-	1,000
Funds from acceptance and issuance of securities	81,617	-
Funds from financial bills, bills of credit and similar notes	81,617	-
Interbranch accounts	437	-
Third-party funds in transit	437	-
Borrowings	1,261,264	1,012,740
Foreign borrowings	1,261,264	1,012,740
Derivative financial instruments	55,890	201,856
Derivative financial instruments	55,890	201,856
Other liabilities	465,290	98,595
Foreign exchange portfolio	390,303	29,332
Social and statutory	1,107	1,113
Tax and social security	25,627	59,258
Trading and intermediation of securities	40,293	1,206
Other	7,960	7,686
<b>Long-term liabilities</b>	<b>934,585</b>	<b>883,363</b>
Deposits	778,512	128,571
Time Deposits	778,512	128,571
Funds from acceptance and issuance of securities	684	71,720
Funds from financial bills, bills of credit and similar notes	684	71,720
Borrowings	52,818	398,870
Foreign borrowings	52,818	398,870
Derivative financial instruments	37,070	253,624
Derivative financial instruments	37,070	253,624
Other liabilities	65,501	30,578
Tax and social security	59,705	25,376
Others	5,796	5,202
<b>Income for future years</b>	<b>191</b>	<b>9</b>
Income for future years	191	9
<b>Shareholders' equity</b>	<b>521,930</b>	<b>495,700</b>
Capital:		
Domiciled abroad	321,122	321,122
Profit reserves	200,697	174,578
Equity Valuation Adjustments	111	-
<b>Total liabilities</b>	<b>3,951,582</b>	<b>3,028,267</b>

See the accompanying notes to the financial statements

**SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO**  
**STATEMENTS OF INCOME**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015 AND**  
**SEMESTER ENDED DECEMBER 31, 2016**

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

	2nd semester	Years	
	2016	2016	2014
<b>Financial intermediation income</b>	<b>171,237</b>	<b>111,917</b>	<b>590,243</b>
Loans	23,878	47,663	27,984
Securities	126,242	245,740	183,752
Derivative financial instruments	(8,964)	(181,486)	174,319
Foreign exchange operations	30,081	-	204,188
<b>Financial intermediation expenses</b>	<b>(139,757)</b>	<b>(12,638)</b>	<b>(428,696)</b>
Funding operations	(92,650)	(130,892)	(48,773)
Borrowings	(27,938)	222,085	(375,220)
Foreign exchange operations	-	(81,414)	-
Sale or Transfer of Financial Assets	-	-	(2,187)
Allowance for doubtful accounts	(19,169)	(22,417)	(2,516)
<b>Gross income on financial intermediation</b>	<b>31,480</b>	<b>99,279</b>	<b>161,547</b>
<b>Other operating income (expenses)</b>	<b>(15,316)</b>	<b>(47,243)</b>	<b>(65,115)</b>
Rendering of services	20,374	25,712	30,289
Personnel expenses	(26,313)	(49,528)	(47,486)
Other administrative expenses	(10,551)	(21,591)	(21,118)
Tax expenses	(4,276)	(7,962)	(30,452)
Other operating income	5,852	7,746	3,856
Other operating expenses	(402)	(1,620)	(204)
<b>Operating income</b>	<b>16,164</b>	<b>52,036</b>	<b>96,432</b>
<b>Non-operating losses</b>	<b>(3)</b>	<b>(4)</b>	<b>(4)</b>
<b>Net income before taxes and profit sharing</b>	<b>16,161</b>	<b>52,032</b>	<b>96,428</b>
<b>Income and social contribution taxes</b>	<b>(8,003)</b>	<b>(24,290)</b>	<b>(9,833)</b>
Provision for income tax	(5,126)	(17,675)	(22,889)
Provision for social contribution	(4,342)	(14,116)	(16,964)
Deferred taxes and contributions	1,465	7,501	30,020
<b>Profit sharing</b>	<b>(1,623)</b>	<b>(1,623)</b>	<b>(1,621)</b>
<b>Net income for the semester / years</b>	<b>6,535</b>	<b>26,119</b>	<b>84,974</b>
<b>Net income per thousand shares - R\$</b>	<b>2.94</b>	<b>11.76</b>	<b>38.25</b>

See the accompanying notes to the financial statements

**SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO**  
**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015 AND**  
**SEMESTER ENDED DECEMBER 31, 2016**

(In thousands of Reais)

	Profit reserves			Equity Valuation Adjustments	Income (loss) earnings	Total
	Capital	Legal	Statutory			
<b>Balances at January 1, 2015</b>	<b>321,122</b>	<b>13,393</b>	<b>76,211</b>	-	-	<b>410,726</b>
Net income for the year	-	-	-	-	84,974	84,974
Allocations:						
Legal reserve	-	4,249	-	-	(4,249)	-
Statutory reserves	-	-	80,725	-	(80,725)	-
<b>Balances at December 31, 2015</b>	<b>321,122</b>	<b>17,642</b>	<b>156,936</b>	-	-	<b>495,700</b>
<b>Balances at January 1, 2016</b>	<b>321,122</b>	<b>17,642</b>	<b>156,936</b>	-	-	<b>495,700</b>
Equity valuation adjustments	-	-	-	111	-	111
Net income for the year	-	-	-	-	26,119	26,119
Allocations:						
Legal reserve	-	1,306	-	-	(1,306)	-
Statutory reserve	-	-	24,813	-	(24,813)	-
<b>Balances at December 31, 2016</b>	<b>321,122</b>	<b>18,948</b>	<b>181,749</b>	<b>111</b>	-	<b>521,930</b>
<b>Balances at July 1, 2016</b>	<b>321,122</b>	<b>18,621</b>	<b>156,936</b>	<b>(113)</b>	<b>18,605</b>	<b>515,171</b>
Equity valuation adjustments	-	-	-	224	-	224
Net income for the semester	-	-	-	-	6,535	6,535
Allocations:						
Legal reserve	-	327	-	-	(327)	-
Statutory reserve	-	-	24,813	-	(24,813)	-
<b>Balances at December 31, 2016</b>	<b>321,122</b>	<b>18,948</b>	<b>181,749</b>	<b>111</b>	-	<b>521,930</b>

See the accompanying notes to the financial statements

**SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO**  
**STATEMENTS OF CASH FLOWS (INDIRECT METHOD)**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015 AND**  
**SEMESTER ENDED DECEMBER 31, 2016**  
**(In thousands of Reais)**

	2nd semester	Years	
	2016	2016	2015
<b>Operating activities</b>			
<b>Adjusted net income</b>	<b>27,333</b>	<b>52,001</b>	<b>104,954</b>
<b>Net income for the semester/years</b>	<b>6,535</b>	<b>26,119</b>	<b>84,974</b>
<b>Adjustments to net income (loss)</b>	<b>20,798</b>	<b>25,882</b>	<b>19,980</b>
Recording (reversal) of allowance for doubtful credit operations	(296)	(377)	1,393
Recording of allowance for others doubtful operations	19,465	22,794	1,123
Depreciation and amortization	540	1,165	1,681
Loss on write-off of fixed assets in use	-	-	3
Expenses with tax and labor provisions	865	2,189	15,780
Adjustment to market value of securities classified as available for sale	224	111	-
<b>Variation in assets and liabilities</b>	<b>483,508</b>	<b>240,409</b>	<b>24,614</b>
Decrease (Increase) in interbank investments	136,378	126,895	(78,091)
(Increase) in securities and derivative financial instruments	(201,281)	(985,932)	(203,902)
Reversal (increase) in mandatory deposits at the Central Bank of Brazil	(9)	(7)	61
(Increase) in interbank transactions	(956)	(2,279)	-
Decrease (increase) in interbranch operations	(63,775)	437	(6)
Decrease (increase) in loans operations	59,133	43,953	(303,761)
(Increase) in other credits	(331,921)	(200,005)	(411,640)
Decrease (increase) in other assets	211	368	(181)
Increase in deposits	655,208	945,315	182,716
Increase (decrease) in money market funding	(100,500)	(1,000)	1,000
Increase in funds from acceptance and issue of securities	5,190	10,581	71,720
Increase (decrease) in borrowing obligations	(79,594)	(97,528)	801,198
Increase (decrease) in other obligations	405,234	399,429	(34,483)
Increase (decrease) in income for future years	190	182	(17)
<b>Net cash generated/(used in) from operating activities</b>	<b>510,841</b>	<b>292,410</b>	<b>129,568</b>
<b>Investment activities</b>			
Acquisition of fixed assets	(230)	(261)	(2,396)
Investments in intangible assets	-	-	(432)
<b>Net cash (used in) from investment activities</b>	<b>(230)</b>	<b>(261)</b>	<b>(2,828)</b>
<b>Net increase in cash and cash equivalents</b>	<b>510,611</b>	<b>292,149</b>	<b>126,740</b>
Cash and cash equivalents at the beginning of the semester / years	334,492	552,954	426,214
Cash and cash equivalents at the end of the semester / years	845,103	845,103	552,954
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>510,611</b>	<b>292,149</b>	<b>126,740</b>

See the accompanying notes to the financial statements

**SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**  
**(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 (“BNS”) 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 Central Bank of Brazil (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 13, 2017.

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. Resubmission of the deferred tax realization framework**

<b>Realization term</b>	<b>Rectified values</b>			<b>Values previously disclosed</b>		
	<b>Temporary Differences</b>	<b>Tax loss and negative basis of social contribution</b>	<b>Total</b>	<b>Temporary Differences</b>	<b>Tax loss and negative basis of social contribution</b>	<b>Total</b>
1st year	4,438	6,261	10,699	8,649	5,631	14,280
2nd year	753	6,841	7,594	2,037	9,797	11,834
3rd year	606	3,082	3,688	1,258	756	2,014
4th year	130	-	130	208	-	208
5th year	6	-	6	13	-	13
6th to 10th year	7,903	-	7,903	1,671	-	1,671
<b>Total</b>	<b>13,836</b>	<b>16,184</b>	<b>30,020</b>	<b>13,836</b>	<b>16,184</b>	<b>30,020</b>
<b>Present Value (*)</b>	<b>9,565</b>	<b>13,237</b>	<b>22,802</b>	<b>11,329</b>	<b>13,376</b>	<b>24,705</b>

(\*) For present value adjustment, it was used the projected annual rate CDI

It should be noted that this change did not change the amounts of the deferred tax activated and did not generate any impact on the income or the balance sheet.

**SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**  
**(In thousands of reais)**

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**4. 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.

**ii) Available for sale securities** - This category includes securities not classified as trading nor held to maturity securities. They are recorded at cost of acquisition plus income earned against income for the period, and adjusted by the market value against shareholder's equity, deducted of tax effects, which are only recognized in income upon realization.

**iii) 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 of market risk, where 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.

**SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**  
**(In thousands of reais)**

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**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.

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

**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, 2016.

**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 20% on taxable income as of September 2015, pursuant to RFB Normative Instruction nº 1.591, from November 05, 2015.

The Bank has recorded 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 presently enable a reasonable estimate of the realization term of these recorded assets (note 20 “c”).

**SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**  
**(In thousands of reais)**

---

**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.

**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 semesters 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 22).

**n) Post-employment employee benefits**

The post-employment or long-term benefit plans are formal or informal agreements in which the Bank commits itself to provide post-employment benefits to one or more employees, in accordance with CMN Resolution 4.424/15, which approved Technical Pronouncement CPC 33 (R1 ) - Employee Benefits.

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

The defined benefit plans are post-employment benefits that are not defined contribution plans. For this type of plan, the Bank's obligation is to provide the agreed benefits to its employees, assuming the potential actuarial risk that the benefits may cost more than expected (note 23).

**5. Components of cash and cash equivalents**

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	4,689	8,215
Money market investments	699,882	494,711
Interbank deposits	<u>140,532</u>	<u>50,028</u>
<b>Total</b>	<b><u>845,103</u></b>	<b><u>552,954</u></b>

**SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**  
**(In thousands of reais)**

**6. Interbank Investments**

	2016		2015
	Up to 3 months	Total	Total
<b>Money market investments</b>			
<b>Own portfolio</b>	<b>699,882</b>	<b>699,882</b>	<b>494,711</b>
LFT	120,683	120,683	88,012
NTN	579,199	579,199	406,699
<b>Interbank deposits</b>	<b>140,532</b>	<b>140,532</b>	<b>176,923</b>
Interbank deposits	140,532	140,532	176,923
<b>Total</b>	<b>840,414</b>	<b>840,414</b>	<b>671,634</b>

**7. Securities**

The updated cost (plus yield) and the market value of securities as of December 31, 2016 and 2015 were as follows:

**a) Trading securities**

	2016					2015			
	Up to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	5 to 10 years	Market value / book value	Accrual value	Market value / book value	Accrual value
<b>Own portfolio</b>									
LTN	135,831	245,266	6,535	-	-	387,632	387,268	196,991	197,001
NTN	17,468	-	23,336	11,024	671	52,499	51,684	11,847	12,099
<b>Subtotal</b>	<b>153,299</b>	<b>245,266</b>	<b>29,871</b>	<b>11,024</b>	<b>671</b>	<b>440,131</b>	<b>438,952</b>	<b>208,838</b>	<b>209,100</b>
<b>Subject to repurchase agreements</b>									
LTN	-	-	-	-	-	-	-	1,003	1,002
<b>Subtotal</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,003</b>	<b>1,002</b>
<b>Subject to guarantees</b>									
LTN	-	451,990	97,218	-	-	549,208	546,238	700,560	700,535
<b>Subtotal</b>	<b>-</b>	<b>451,990</b>	<b>97,218</b>	<b>-</b>	<b>-</b>	<b>549,208</b>	<b>546,238</b>	<b>700,560</b>	<b>700,535</b>
<b>Total</b>	<b>153,299</b>	<b>697,256</b>	<b>127,089</b>	<b>11,024</b>	<b>671</b>	<b>989,339</b>	<b>985,190</b>	<b>910,401</b>	<b>910,637</b>

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) Available for sale securities**

	2016			
	Up to 3 months	3 to 12 months	Market value / book value	Accrual value
<b>Own Portfolio</b>				
LTN	49,975	-	49,975	49,982
<b>Subtotal</b>	<b>49,975</b>	<b>-</b>	<b>49,975</b>	<b>49,982</b>
<b>Subject to guarantees</b>				
LTN	-	144,150	144,150	143,940
<b>Subtotal</b>	<b>-</b>	<b>144,150</b>	<b>144,150</b>	<b>143,940</b>
<b>Total</b>	<b>49,975</b>	<b>144,150</b>	<b>194,125</b>	<b>193,922</b>

**SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**  
**(In thousands of reais)**

---

c) Held to maturity securities

	2016			2015	
	Up to 3 months	3 to 12 months	1 to 3 years	Accrual value/ book value	Accrual value/ book value
<b>Own Portfolio</b>					
Debtentures	6,775	101,456	33,259	141,490	181,879
<b>Total</b>	<b>6,775</b>	<b>101,456</b>	<b>33,259</b>	<b>141,490</b>	<b>181,879</b>

The Bank records the estimated provision for losses associated with the debentures' credit risk, observing the same classification parameters in risk levels for credit operations, as defined by CMN Resolution 2.682/99. As of December 31, 2016, the restated cost of R\$ 141,490 is deducted from a provision for losses in the amount of R\$ 711 and the market value of securities held to maturity represented R\$ 142,458 (2015 - R\$ 183,227). The calculation of the market value for this category is based on independent model pricing, which consists of calculating the future value of cash flows plus monetary restatement, which are discounted to their present value by the fixed interest rate plus the spread credit. The private securities are held in custody at CETIP S.A. - Organized Assets and Derivatives Desk ("CETIP").

**8. 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.

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, 2016 and 2015:

**SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**  
**(In thousands of reais)**

	2016		2015	
	Market values	Adjustment	Market values	Adjustment
	Referential values	receivable (payable)	Referential values	receivable (payable)
<b>Futures contracts</b>				
<b>Long position</b>	<b>4,343,747</b>	<b>(40,138)</b>	<b>4,828,533</b>	<b>82,750</b>
DI	99,587	16	208,926	(111)
DDI	3,572,404	(35,352)	4,529,554	81,807
Dollar	671,756	(4,802)	90,053	1,054
<b>Short position</b>	<b>1,119,190</b>	<b>2,152</b>	<b>1,345,799</b>	<b>(768)</b>
DI	861,134	19	1,182,774	294
DDI	258,056	2,133	-	-
Dollar	-	-	163,025	(1,062)
<b>Currency swap contracts with periodic adjustment</b>				
<b>Long position</b>	<b>40,697</b>	<b>322</b>	<b>-</b>	<b>-</b>
Dollar	40,697	322	-	-

On December 31, 2016, besides the daily adjustments of futures contracts, the amount R\$ 16 (2015 - R\$ 24), 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.

	2016			2015		
	Market values	Asset / (liability) net exposure	Cost values Asset / (liability) net exposure	Market values	Asset / (liability) net exposure	Cost values Asset / (liability) net exposure
	Referential values			Referential values		
<b>Swap agreements</b>						
<b>Asset position</b>	<b>3,520,891</b>			<b>2,907,921</b>		
CDI	3,520,891	3,520,891	3,513,380	2,907,921	2,907,921	2,933,579
<b>Liability position</b>	<b>(3,151,988)</b>			<b>(3,309,222)</b>		
Dollar	(3,151,988)	(3,151,988)	(3,142,033)	(3,309,222)	(3,309,222)	(3,305,435)
<b>Term of currencies</b>						
<b>Asset position</b>	<b>509,256</b>			<b>922,135</b>		
Dollar	329,995	159,158	162,114	368,885	-	-
Prefix rates	179,261	-	-	553,250	191,895	188,479
<b>Liability position</b>	<b>(521,792)</b>			<b>(917,725)</b>		
Dollar	(170,837)	-	-	(556,370)	(187,485)	(183,431)
Prefix rates	(350,955)	(171,694)	(173,679)	(361,355)	-	-
<b>Total net value</b>		<b>356,367</b>			<b>(396,891)</b>	

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, 2016 and 2015:

**SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**  
**(In thousands of reais)**

	2016				2015	
	Up to 1 month	1 to 6 months	6 to 12 months	Above 12 months	Total	Total
<b>Futures contracts</b>	<b>665,857</b>	<b>1,540,288</b>	<b>1,425,154</b>	<b>1,831,638</b>	<b>5,462,937</b>	<b>6,174,332</b>
DI	256,740	310,130	182,537	211,314	960,721	1,391,700
DDI	222,534	744,985	1,242,617	1,620,324	3,830,460	4,529,554
Dollar	186,583	485,173	-	-	671,756	253,078
<b>Currency swap contracts with periodic adjustment</b>	<b>40,697</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>40,697</b>	<b>-</b>
Dollar	40,697	-	-	-	40,697	-
<b>Term currency</b>	<b>(34,869)</b>	<b>35,930</b>	<b>246,505</b>	<b>121,337</b>	<b>368,903</b>	<b>(401,301)</b>
CDI	134,824	267,442	1,611,092	1,507,533	3,520,891	2,907,921
Dollar	(169,693)	(231,512)	(1,364,587)	(1,386,196)	(3,151,988)	(3,309,222)
<b>Termo de moedas</b>	<b>2,453</b>	<b>(11,207)</b>	<b>(2,848)</b>	<b>(934)</b>	<b>(12,536)</b>	<b>4,410</b>
Dollar	(45,812)	135,798	48,593	20,579	159,158	(187,485)
Prefixed rates	48,265	(147,005)	(51,441)	(21,513)	(171,694)	191,895

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, 2016 and 2015 are as follows:

	2016	2015
<i>Swap</i>	1,033,542	(358,192)
<i>Term</i>	(26,175)	(30,485)
<i>Future</i>	(1,188,581)	562,956
<i>Options</i>	(272)	40
<b>Total</b>	<b>(181,486)</b>	<b>174,319</b>

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 semesters ended December 31, 2016 and 2015:

	2016			2015	
	Hedge Instruments	Subject to Hedge	Cost value	Hedge Instruments	Subject to Hedge
<b>Hedge strategy for market risk</b>	<b>Market value</b>	<b>Market value</b>	<b>Cost value</b>	<b>Market value</b>	<b>Market value</b>
<i>Foreign borrowings hedge</i>	390,148	393,243	393,829	551,879	559,729
<b>Total</b>	<b>390,148</b>	<b>393,243</b>	<b>393,829</b>	<b>551,879</b>	<b>559,729</b>

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.

**SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**  
**(In thousands of reais)**

---

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 December 2018 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.

## **9. 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 BACEN (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

**SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**  
**(In thousands of reais)**

---

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).

**SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**  
**(In thousands of reais)**

**10. Loan operations**

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

	2016						Total 2015
	Overdue	Maturity				Total	
	Above 15 days	Up to 3 months	3-12 months	1-3 years	3-5 years		
<b>Private sector</b>							
<b>Bank Credit Certificate (CCB)</b>	-	16,697	110,146	115,770	3,140	245,753	241,027
Industry	-	-	45,548	-	-	45,548	50,409
Commerce	-	9,739	18,112	34,436	3,140	65,427	81,917
Other services	-	6,958	46,486	81,334	-	134,778	108,701
<b>Export credit notes (NCE)</b>	-	2,388	10,944	60,000	-	73,332	81,695
Agricultural	-	-	10,944	-	-	10,944	19,274
Other services	-	2,388	-	60,000	-	62,388	62,421
<b>Export financing (CCE)</b>	-	-	-	-	-	-	4,090
Commerce	-	-	-	-	-	-	4,090
<b>Import financing</b>	-	7,878	-	-	-	7,878	-
Commerce	-	7,878	-	-	-	7,878	-
<b>Advances on foreign exchange contracts (ACC)</b>	-	319,509	82,615	-	-	402,124	551,726
Industry	-	158,856	30,170	-	-	189,026	295,196
Commerce	-	160,653	52,445	-	-	213,098	256,530
<b>ACC Income receivable</b>	-	4,282	806	-	-	5,088	4,926
Industry	-	1,298	83	-	-	1,381	2,118
Commerce	-	2,984	723	-	-	3,707	2,808
<b>Advances on exportation contracts (ACE)</b>	84,065	63,532	5,614	-	-	153,211	-
Industry	84,065	63,532	5,614	-	-	153,211	-
<b>ACE Income receivable</b>	559	880	-	-	-	1,439	-
Industry	559	880	-	-	-	1,439	-
<b>Receivables</b>	-	42,040	-	-	-	42,040	44,104
Commerce	-	42,040	-	-	-	42,040	44,104
<b>Total</b>	<b>84,624</b>	<b>457,206</b>	<b>210,125</b>	<b>175,770</b>	<b>3,140</b>	<b>930,865</b>	<b>927,568</b>

**b) Credit risk concentration**

	2016	2015
Major debtor	117,928	100,918
Percentage of entire credit portfolio	12.7%	10.9%
20 major debtors	930,865	927,568
Percentage of entire credit portfolio	100.0%	100.0%

**c) Allowance for doubtful accounts**

Level of Risk	Provision	Total portfolio		Allowance for doubtful accounts			
		2016	2015	2016 (i)			2015
				Minimum	Excess	Existing	
AA	0.0%	261,004	114,244	-	-	-	-
A	0.5%	524,339	813,324	(2,622)	-	(2,622)	(4,067)
B	1.0%	27,594	-	(276)	-	(276)	-
D	10.0%	117,928	-	(11,793)	(11,793)	(23,586)	-
<b>Total</b>		<b>930,865</b>	<b>927,568</b>	<b>(14,691)</b>	<b>(11,793)</b>	<b>(26,484)</b>	<b>(4,067)</b>

(i) Minimum provision required and in excess of the percentages established by CMN Resolution 2682/99.

**SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**  
**(In thousands of reais)**

**d) Changes in the allowance for doubtful accounts**

	<u>2016</u>	<u>2015</u>
<b>Balance at the beginning of the year</b>	<b>(4,067)</b>	<b>(1,551)</b>
Recording of provision	(22,794)	(2,516)
Reversal of provision	377	-
<b>Balance at the end of the year</b>	<b><u>(26,484)</u></b>	<b><u>(4,067)</u></b>

**e) Credit recoveries, renegotiations and write – off a loss.**

The amount of credits renegotiated in the year ended December 31, 2016 represented R\$ 281,043 (2015 - R\$ 6,157).

During the years ended December 31, 2016 and 2015, there were no recoveries and credits written off.

**11. Foreign exchange portfolio - Current assets**

	<u>2016</u>	<u>2015</u>
Purchased foreign exchange to be settled	532,041	629,177
Rights on foreign exchange sales	359,005	29,350
Income receivable from granted advances	6,527	4,926
Advances in national currency received	(357)	(1,796)
<b>Total</b>	<b><u>897,216</u></b>	<b><u>661,657</u></b>
	<u>2016</u>	<u>2015</u>
Sold foreign exchange to be settled	359,100	29,332
Obligations on foreign exchange purchase	586,538	551,726
Advances on foreign exchange contracts	(555,335)	(551,726)
<b>Total</b>	<b><u>390,303</u></b>	<b><u>29,332</u></b>

**12. Other receivables - Sundry**

	<u>2016</u>	<u>2015</u>
Receivables	42,040	44,104
Deferred tax - Income tax and social contribution (note 20 “b”)	37,521	30,020
Judicial deposits (i)	33,957	31,263
Prepayments of IRPJ and CSLL	7,999	15,393
Amounts receivable from related companies	3,577	-
Advances and prepaid salaries	282	401
Taxes and contributions recoverable	93	3,393
Others	-	3
<b>Total</b>	<b><u>125,469</u></b>	<b><u>124,577</u></b>
Current assets	76,757	74,056
Long-term assets	48,712	50,521

- (i) As of December 31, 2016, that asset includes a court deposit in the amount of R\$ 16,953 (2015 - R\$ 15,815) concerning a tax contingency process (note 18 “c”). By court order, this amount was transferred from other judicial process on debt assumption operations, written off after the Bank joined the tax amnesty program established by Law 11.941/09.

**SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**  
**(In thousands of reais)**

**13. Deposits**

	2016				2015	
	No maturity	Up to 3 months	3 to 12 months	1 to 3 years	Total	Total
Demand deposits	193	-	-	-	193	195
Interbank deposits	-	45,875	-	-	45,875	38,120
Time deposits	-	51,736	532,574	778,512	1,362,822	425,260
<b>Total</b>	<b>193</b>	<b>97,611</b>	<b>532,574</b>	<b>778,512</b>	<b>1,408,890</b>	<b>463,575</b>

**14. Funds from financial bills, bills of credit and similar notes**

On December 31, 2016, the Bank has obligations for funding from financial bills, bills of credit and similar notes in the amount of R\$ 82,301 (2015 - R\$ 71,720) falling due until February, 2019.

**15. Loan obligations**

Loan obligations basically consist of foreign-currency funds raised with BNS to finance foreign trade, with R\$ 909,967 (2015 - R\$ 832,345) falling due until August 2017, and of funds raised abroad pursuant to CMN Resolution nº 3.844/10 which total R\$ 404,115 (2015 - R\$ 579,265) and mature by December 2018. Substantially, the amount of funds raised is designated as marked value of the hedge item (note 8). Transactions bear annual interest ranging from 0.94% to 3.00% and are adjusted for the exchange rate.

**16. Other liabilities - Tax and social security**

	2016	2015
Provision for deferred IRPJ and CSLL (note 20 "b")	46,482	23,037
Provision for tax contingences and legal obligations (note 18 "d")	20,970	19,356
Taxes and contributions on salaries	9,441	15,677
Provision for deferred IRPJ and CSLL on income	8,439	26,564
<b>Total</b>	<b>85,332</b>	<b>84,634</b>
Current liabilities	25,627	59,258
Long-term liabilities	59,705	25,376

**17. Other liabilities – Sundry**

	2016	2015
Salaries, bonuses and social security charges	11,662	11,458
Accounts payable - administrative expenses	761	948
Provision for labor contingences (Note 18 "d")	925	351
Provision for the Credit Guarantee Fund	349	95
Others	59	36
<b>Total</b>	<b>13,756</b>	<b>12,888</b>
Current liabilities	7,960	7,686
Non-current	5,796	5,202

**SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**  
**(In thousands of reais)**

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**18. 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 4 "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 16) and "Other liabilities – sundry" (Note 17), in long-term liabilities.

Ongoing labor lawsuits classified as possible loss amount to R\$ 32,453 (2015 - R\$ 39,241). 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 processes in progress of a tax nature classified as possible losses in the amount of R\$ 11,834 (2015 - R\$ 10,905), arising from taxes that the Bank has been discussing in court, the main ones being related to a request for compensation of income tax withheld at source on financial investments, in the amount of R\$ 4,915 (2015 - R\$ 4,690).

**c) Legal obligations**

The main proceeding, in the amount of R\$ 16,953 (2015 – 15,815), refers to a judicial defense regarding to the enforceability of the contribution of the Social Integration Program- PIS, under the Constitutional Amendment n° 17/97 and Complementary Law n°7/70 with regards to their legality or constitutionality.

**d) Changes in balances**

	<b>Balance at</b>			<b>Balance at</b>	<b>Judicial deposits (i)</b>	
	<b>12/31/2015</b>	<b>Formation</b>	<b>Updating</b>	<b>12/31/2016</b>	<b>2016</b>	<b>2015</b>
Labor	351	485	89	925	327	75
Tax contingencies	-	-	-	-	11,955	11,068
Legal obligations	19,356	284	1,330	20,970	21,675	20,120
<b>Total</b>	<b>19,707</b>	<b>769</b>	<b>1,419</b>	<b>21,895</b>	<b>33,957</b>	<b>31,263</b>

(i) See Note 12.

**19. Shareholders' equity**

The fully paid-up capital is represented by 2,221,627,157 (2015 - 2,221,627,157) nominative common shares with no par value.

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.

**SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**  
**(In thousands of reais)**

**Profit reserves**

The legal reserve is formed by the allocation of 5% of the net income for the semester, 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.

**20. Deferred income and social contribution taxes**

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

	2016		2015	
	Income tax	Social contribution	Income tax	Social contribution
Net Income before taxes and after profit sharing	50,409	50,409	94,807	94,807
Temporary additions (exclusions)	(27,161)	(27,161)	(9,336)	(9,336)
Adjustment to market value - Securities and derivatives	(50,278)	(50,278)	(29,071)	(29,071)
Others	23,117	23,117	19,735	19,735
Permanent additions (exclusions)	4,355	4,356	7,452	7,428
<b>Taxable base</b>	<b>27,603</b>	<b>27,604</b>	<b>92,923</b>	<b>92,899</b>
Compensation of tax losses and negative base of social contribution	(8,281)	(8,282)	(27,877)	(27,869)
<b>Taxable base after compensation</b>	<b>19,322</b>	<b>19,322</b>	<b>65,046</b>	<b>65,030</b>
Rates	25%	20%	25%	20%
<b>Total income tax and social contribution - current values before tax incentives</b>	<b>(4,807)</b>	<b>(3,863)</b>	<b>(16,238)</b>	<b>(10,966)</b>
Tax incentive	233	-	640	-
<b>Total income tax and social contribution - current values</b>	<b>(4,574)</b>	<b>(3,863)</b>	<b>(15,598)</b>	<b>(10,966)</b>
Deferred tax assets	4,240	3,261	16,436	13,584
Deferred tax liabilities	(13,101)	(10,253)	(7,291)	(5,998)
<b>Total</b>	<b>(13,435)</b>	<b>(10,855)</b>	<b>(6,453)</b>	<b>(3,380)</b>

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

	Balance at 12/31/2015	Formation	Realized/ Reversal	Balance at 12/31/2016
<b>Deferred tax assets</b>				
<b>Reflected in the income</b>	<b>30,020</b>	<b>14,838</b>	<b>(7,337)</b>	<b>37,521</b>
Taxes losses and negative base of social contribution	16,184	-	(3,727)	12,457
Allowance for risk of tax and labor	7,882	876	-	8,758
Nondeductible allowance	4,023	2,020	(1,956)	4,087
Allowance for doubtful loans	1,825	11,614	(1,548)	11,891
Allowance for credit risk	-	328	-	328
Market-to-market of trading securities	106	-	(106)	-
<b>Total</b>	<b>30,020</b>	<b>14,838</b>	<b>(7,337)</b>	<b>37,521</b>

	Balance at 12/31/2015	Formation	Realized/ Reversal	Balance at 12/31/2016
<b>Deferred tax liabilities</b>				
<b>Reflected in the income</b>	<b>(23,037)</b>	<b>(25,726)</b>	<b>2,372</b>	<b>(46,391)</b>
Mark to market of derivatives	(17,018)	(23,020)	1,703	(38,335)
Mark to market of trading securities	-	(1,759)	-	(1,759)
Monetary restatement of judicial deposits	(6,019)	(947)	669	(6,297)
<b>Reflected in the equity</b>	<b>-</b>	<b>(91)</b>	<b>-</b>	<b>(91)</b>
Market-to-market of available for sale securities	-	(91)	-	(91)
<b>Total</b>	<b>(23,037)</b>	<b>(25,817)</b>	<b>2,372</b>	<b>(46,482)</b>

**SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**  
**(In thousands of reais)**

- c) Expected realization of deferred tax assets for tax losses, social contribution losses and for temporary differences

Expected Realization	Temporary Differences	Tax loss and negative basis of social contribution	Total
1st year	3,351	6,260	9,611
2nd year	12,317	4,865	17,182
3rd year	631	1,332	1,963
4th year	7	-	7
5th year	-	-	-
6th to 10th year	8,758	-	8,758
<b>Total</b>	<b>25,064</b>	<b>12,457</b>	<b>37,521</b>
<b>Present Value (*)</b>	<b>18,643</b>	<b>10,864</b>	<b>29,507</b>

(\*) For adjustment to present value, the CDI projected annual interest rate was used

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

**21. 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.

**a. Related party transactions**

The transactions with related parties are basically characterized by:

	Asset / (Liability)		Income / (Expenses)	
	2016	2015	01/01 to 12/31/2016	01/01 to 12/31/2015
<b>Cash</b>	<b>465</b>	<b>122</b>	<b>42,637</b>	<b>(4,198)</b>
BNS	465	122	42,637	(4,198)
<b>Foreign exchange portfolio - asset</b>	<b>13,221</b>	<b>-</b>	<b>(248)</b>	<b>(1,155)</b>
BNS	13,221	-	(248)	(1,155)
<b>Amounts receivable (payable) related companies / revenues (expenses) from rendering services</b>	<b>3,577</b>	<b>-</b>	<b>24,496</b>	<b>26,740</b>
BNS	3,577	-	20,696	22,790
Scotiabank & Trust (Cayman)	-	-	2,204	3,950
Scotiabank Inverlat (México)	-	-	1,596	-
<b>Time deposits</b>	<b>(675)</b>	<b>(455)</b>	<b>(75)</b>	<b>(5,582)</b>
BNS	-	-	-	(5,442)
Scotia Participações e Serviços	(675)	(455)	(75)	(140)
<b>Borrowing obligations</b>	<b>(1,306,205)</b>	<b>(1,411,610)</b>	<b>221,261</b>	<b>(375,220)</b>
BNS	(1,306,205)	(1,411,610)	221,261	(375,220)
<b>Foreign exchange portfolio - liability</b>	<b>(13,178)</b>	<b>-</b>	<b>305</b>	<b>1,142</b>
BNS	(13,178)	-	305	1,142
<b>Co-obligations and risks on guarantees provided</b>	<b>-</b>	<b>5,856</b>	<b>2</b>	<b>34</b>
Scotiabank Uruguay	-	5,856	2	34

**SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**  
**(In thousands of reais)**

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**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, 2016 in total amount of R\$ 7,876 (2015 - R\$ 11,102), of which R\$ 6,299 (2015 - R\$ 7,579) represents salaries and payroll charges, profit sharing, and bonuses and charges on bonuses, denominated short-term benefits, and R\$ 1,577 (2015 - R\$ 3,523) that represents share-based compensation. There are no post-employment benefits, other long-term benefits or work agreement termination benefits.

**22. 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 semester against a provision in liabilities. Eligible employees are paid based on this variable compensation according to one of the following plans: RSU, PSU or DPP.

**a. 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, 2016, the amount of liabilities in this plan is R\$ 826 (2015 - R\$ 652) and the number of shares is 6,988 units measured at weighted average fair value of R\$ 0.191 per share. Total expenses recorded for this plan in the semester is R\$ 801 (2015 - R\$ 592).

**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, 2016, the amount of liabilities for this plan is R\$ 3,397 (2015 - R\$ 3,527) and the number of shares is 26,269 units measured at weighted average fair value of R\$ 0.191 per share. Total expenses recorded in this plan for this semester is R\$ 1,740 (2015 - R\$ 2,634).

**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, 2016, the amount of liabilities for this plan is R\$ 2,466 (2015 - R\$ 1,632) and the number of shares is 13,937 units measured at the weighted average fair value of R\$ 0.177 per share. Total expenses recorded in this plan for the semester is R\$ 1,787 (2015 - R\$ 1,120).

**23. Post Employment Benefits**

For the defined contribution plan, the Bank offers to their employees the benefit of private pension through monthly payments. After the termination of the employee, the contribution is ended. Total expenses recorded in this plan during this year is R\$ 848 (2015- 398).

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

The Bank doesn't have post-employment benefit plans for their employees.

**SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**  
**(In thousands of reais)**

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**24. 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:

	<b>2016</b>	<b>2015</b>
Referential Equity (PR)	514,188	488,997
Minimum PR required for the amount of Risk Weighted Asset (RWA)	258,273	272,246
Corresponding value to the $R_{BAN}$	280	882
Margin value	255,635	215,869
Basel Index	19.66%	19.69%
Fixed assets to equity ratio - CMN Resolution nº 2.283/96	0.63%	0.86%
Leverage ratio (RA)	12.49%	15.13%

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, 2016 and 2015, the Bank is within all limits.

**25. Other information**

a) On December 31, 2016, guarantees provided to third parties comprising credits opened for importation total R\$ 3,783 (2015 - R\$ 2,993) and provision for guarantees provided totals R\$ 19 (2015 - zero).

b) In adopting the accounting procedures established by CMN Resolution No. 4.512/16, which provides for the recording of provision for financial guarantees provided, there was no impact in relation to the result for the year 2016.

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