Scotiabank Brasil S.A. Banco Múltiplo

Financial statements
Of December 31, 2018 and 2017

(A free translation of the original report in Portuguese containing financial statements prepared in accordance with accounting practices adopted in Brazil)

KPDS 447429

Contents

Management Report

In compliance with legal and statutory provisions, Scotiabank Brasil's Management submits to your appreciation the financial statements for the years ended December 31, 2018 and 2017, accompanied by the explanatory notes and independent auditors' report prepared in accordance with accounting practices adopted in Brazil, set by the Corporate Law, related to rules of the National Monetary Council (CMN), Central Bank of Brazil (BACEN) and Brazilian Securities and Exchange Commission (CVM). Management assures the financial ability of the Bank, and the intention of the latter holding to maturity the securities classified in this category, in accordance with the precepts of the BACEN Circular 3068.

Acknowledgments

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

Executive Board

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Independent Auditors' report on the financial statements

To the Shareholders and Management 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, 2018, 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, 2018, 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 - Bacen.

Basis for opinion

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

Other information that accompanies the financial statements, and the independent auditors' report

The Bank's Management is responsible for that other information comprising the Management Report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the report 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 performed, we conclude that there is material misstatement in the Management Report, we are required to report on such fact. We have nothing to report on this respect.

Management's responsibility 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.

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 error or fraud, and issue an auditors' report including our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that the examination performed in accordance with Brazilian and international standards on auditing will always detect possible existing material misstatements. Misstatements can arise from error or fraud and are considered material if, individually or in the 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 conducted in accordance with Brazilian and international standards on auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. Additionally:

– We identify and assess the material misstatement risks in the financial statements, whether due to error or fraud. We design and perform audit procedures responsive 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 or misrepresentations, or the override of internal control.

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

– We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

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

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

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

São Paulo, February 21, 2019

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

KPMG Auditores Independentes, uma sociedade simples brasileira e firma-membro da rede KPMG de firmas-membro independentes e afiliadas à KPMG International Cooperative ("KPMG International"), uma entidade suíça.

KPMG Auditores Independentes, a Brazilian entity and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO
BALANCE SHEET AS OF DECEMBER 31, 2018
(In thousands of Reais)

	Note	2018	2017
Assets			
Current assets		**4,633,998**	**3,148,021**
Cash and due from banks	4	24,224	168,180
Interbank investments	5	2,417,195	1,398,392
Money market		2,346,947	1,202,036
Interbank deposits		70,248	196,356
Securities and derivative financial instruments		329,585	693,907
Own portfolio	3d, 6	278,734	338,175
Derivative financial instruments	3e, 7	23,170	93,905
Subject to guarantees provided	3d, 6	27,681	261,827
Interbank accounts		4	117
Restricted deposits:			
Deposits at the Central Bank of Brazil		4	4
Correspondents		-	113
Loans		719,195	254,021
Loans			
Private sector	3f, 9a	719,278	255,189
Allowance for loan losses	3g, 9c/d	(83)	(1,168)
Other receivables		1,143,311	632,904
Foreign exchange portfolio	10	1,190,571	672,011
Income receivable		-	5
Securities clearing accounts	3e, 7	5,845	1,178
Sundry	11	30,246	30,520
Allowance for other receivables losses	3g, 9c	(83,351)	(70,810)
Other assets		484	500
Prepaid expenses		484	500
Long-term assets		**1,328,503**	**686,678**
Securities and derivative financial instruments		631,661	66,101
Own portfolio	3d, 6	109,457	3,485
Derivative financial instruments	3e, 7	15,466	36,350
Subject to guarantees provided	3d, 6	506,738	26,266
Loans		615,399	543,667
Loans			
Private sector	3f, 9a	615,399	545,978
Allowance for loan losses	3g, 9c/d	-	(2,311)
Other receivables		81,441	76,902
Sundry	11	81,441	76,902
Other assets		2	8
Prepaid expenses		2	8
Permanent assets	3h	**5,674**	**3,479**
Investments		6	6
Other investments		6	6
Premises and equipment		5,438	3,143
Other premises and equipment		15,967	12,894
Accumulated depreciation		(10,529)	(9,751)
Intangible assets		230	330
Intangible assets		1,036	998
Accumulated amortization		(806)	(668)
Total assets		**5,968,175**	**3,838,178**

The notes are an integral part of these financial statements.

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO
BALANCE SHEET AS OF DECEMBER 31, 2018
(In thousands of Reais)

	Note	2018	2017
Liabilities			
Current liabilities		**3,615,879**	**1,681,433**
Deposits	12	217,524	351,561
Demand deposits		369	159
Time deposits		217,155	351,402
Money market funding	13	62,073	-
Third-party portfolio		62,073	-
Acceptances and endorsements	14	927	-
Funds from real estate, mortgage, credit and similar notes		927	-
Interbranch accounts		15,497	-
Third-party funds in transit		15,497	-
Borrowings	15	1,839,393	705,144
Foreign borrowings		1,839,393	705,144
Repass borrowings	16, 26a	589,421	3,985
Foreign repass borrowings		589,421	3,985
Derivative financial instruments	3e, 7	182,140	32,303
Derivative financial instruments		182,140	32,303
Other liabilities		708,904	588,440
Foreign exchange portfolio	10	604,001	506,353
Due to shareholders		1,790	24
Tax and social security	17	73,131	62,980
Due in connection with securities dealing	3e, 7	16,798	9,048
Other	18	13,184	10,035
Long-term liabilities		**1,284,967**	**1,632,388**
Deposits	12	96,402	970,117
Time deposits		96,402	970,117
Acceptances and endorsements	15	-	796
Funds from real estate, mortgage, credit and similar notes		-	796
Borrowings	16	-	83,218
Foreign borrowings		-	83,218
Repass borrowings	16, 26a	581,130	496,110
Foreign repass borrowings		581,130	496,110
Derivative financial instruments	3e, 7	537,177	34,979
Derivative financial instruments		537,177	34,979
Other liabilities		70,258	47,168
Due to shareholders		-	333
Tax and social security	17	41,664	17,879
Other	18	28,594	28,956
Deferred income		**40**	**-**
Deferred income		40	-
Equity		**1,067,289**	**524,357**
Capital:			
Domiciled abroad	20	796,879	321,121
Profit reservesReservas de lucros	20	261,876	202,828
Equity valuation adjustments	3d, 6	8,534	408
Total liabilities and equity		**5,968,175**	**3,838,178**

The notes are an integral part of these financial statements.

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO
STATEMENT OF PROFIT OR LOSS
YEAR ENDED DECEMBER 31, 2018
(In thousands of Reais)

	Note	2nd Semester 2018	Years 2018	Years 2017
Financial operations income		**143,825**	**524,946**	**277,220**
Loans		33,590	181,629	75,559
Securities income		82,853	159,552	172,880
Derivative financial instruments income	7	(13,502)	99,049	27,683
Foreign exchange operations		40,884	84,716	1,098
Financial operations expenses		**(72,901)**	**(376,169)**	**(220,538)**
Deposits, money market and interbank funds		(15,510)	(52,578)	(147,827)
Borrowings and repass borrowing		(60,798)	(314,446)	(24,906)
Allowance for loan losses	9d	3,407	(9,145)	(47,805)
Gross profit on financial operations		**70,924**	**148,777**	**56,682**
Other operating income (expenses)		**(21,776)**	**(42,252)**	**(45,786)**
Service revenue		18,212	38,531	35,293
Personnel expenses		(29,494)	(54,047)	(48,160)
Other administrative expenses		(11,960)	(22,021)	(20,262)
Tax expenses		(7,840)	(16,565)	(7,427)
Other operating income	26a	10,018	13,260	11,868
Other operating expenses		(712)	(1,410)	(17,098)
Operating income		**49,148**	**106,525**	**10,896**
Nonoperating loss		**(7)**	**(19)**	**(68)**
Income before taxes and profit sharing		**49,141**	**106,506**	**10,828**
Income and social contribution taxes	21	**(21,601)**	**(45,544)**	**(8,340)**
Provision for income tax		(7,203)	(24,907)	(13,912)
Provision for social contribution		(5,697)	(15,717)	(9,653)
Deferred tax assets		(8,701)	(4,920)	15,225
Profit sharing		**(1,914)**	**(1,914)**	**(358)**
Net income for the semester / years		**25,626**	**59,048**	**2,130**
Net income per lot of a thousand shares - in R$		**6.09**	**14.04**	**0.96**

The notes are an integral part of these financial statements

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO
STATEMENT OF CHANGES IN EQUITY
YEARS ENDED DECEMBER 31, 2018
(In thousands of Reais)

	Note	Capital stock	Profit reserves		Equity valuation adjustments	Retained earnings/ accumulated losses	Total
			Legal	Statutory			
Balances at January 1, 2017		**321,121**	**18,948**	**181,750**	**111**	**-**	**521,930**
Equity valuation adjustments		-	-	-	297	-	297
Net income for the year		-	-	-	-	2,130	2,130
Allocation of net income:							
Legal reserve		-	106	-	-	(106)	-
Statutory reserves		-	-	2,024	-	(2,024)	-
Balances at December 31, 2017		**321,121**	**19,054**	**183,774**	**408**	**-**	**524,357**
Balances at January 1, 2018		**321,121**	**19,054**	**183,774**	**408**	**-**	**524,357**
Capital increase	20	475,758	-	-	-	-	475,758
Equity valuation adjustments	6b	-	-	-	8,126	-	8,126
Net income for the year		-	-	-	-	59,048	59,048
Allocation of net income:							
Legal reserve		-	2,953	-	-	(2,953)	-
Statutory reserves		-	-	56,095	-	(56,095)	-
Balances at December 31, 2018		**796,879**	**22,007**	**239,869**	**8,534**	**-**	**1,067,289**
Balances at July 1, 2018		**796,036**	**20,725**	**183,774**	**(5,891)**	**31,751**	**1,026,395**
Capital increase	20	843	-	-	-	-	**843**
Equity valuation adjustments		-	-	-	14,425	-	14,425
Net income for the semester		-	-	-	-	25,626	25,626
Allocation of net income:							
Legal reserve	20	-	1,282	-	-	(1,282)	-
Statutory reserves	20	-	-	56,095	-	(56,095)	-
Balances at December 31, 2018		**796,879**	**22,007**	**239,869**	**8,534**	**-**	**1,067,289**

The notes are an integral part of these financial statements.

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO
STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018
(In thousands of Reais)

		2nd. Semester	Years	
	Note	2018	2018	2017
Operating activities				
Adjusted net income		**33,779**	**61,215**	**42,455**
Net income for the semester / years		**25,626**	**59,048**	**2,130**
Adjustment to net income		**8,153**	**2,167**	**40,325**
Expense on(reversal of) allowance for loan losses	9d	(2,616)	(3,396)	2,303
Expense on(reversal of) allowance for other receivable losses	9d	(791)	12,541	45,502
Depreciation and amortization		503	1,015	1,114
Loss on the write-off of premises and equipment		-	3	7
Deferred taxes		10,554	(8,805)	(9,760)
Expense on provision for contingent liabilities and legal obligations	19d	503	809	1,159
Changes in assets and liabilities		**862,857**	**33,570**	**(27,334)**
(Increase) in interbank investments		(105,377)	(307,517)	(707,433)
Decrease in securities and derivative financial instruments		130,011	458,923	988,892
Reversal (increase) in mandatory deposits at the Central Bank of Brazil		-	-	9
Decrease in interbank accounts		-	113	2,166
Decrease (increase) in interbranch accounts		15,497	15,497	(437)
Decrease (increase) in loans		53,666	(533,510)	(474,204)
Decrease (increase) in other receivables		(652,232)	(532,407)	259,909
Decrease in other assets		519	22	103
(Decrease) in deposits	12	(220,539)	(1,007,752)	(87,212)
Increase in money market funding	16	21,570	62,073	-
Increase (decrease) in acceptances and endorsements		68	131	(81,505)
Increase (decrease) in borrowings and repass borrowings	14, 15	1,119,853	1,721,487	(25,625)
Increase in other liabilities		499,781	156,470	98,194
Increase (decrease) in deferred income		40	40	(191)
Net cash provided by operating activities		**896,636**	**94,785**	**15,121**
Investing activities				
Acquisition of premises and equipment		(2,407)	(3,175)	(1,085)
Investments in intangible asets		(38)	(38)	-
Net cash used in investing activities		**(2,445)**	**(3,213)**	**(1,085)**
Financing activities				
Capital increase	20	843	475,758	-
Net cash provided by financing activities		**843**	**475,758**	**-**
Net increase in cash and cash equivalents		**895,034**	**567,330**	**14,036**
Cash and cash equivalents at beginning of semester/years		531,435	859,139	845,103
Cash and cash equivalents at end of semester/years	4	1,426,469	1,426,469	859,139
Net increase in cash and cash equivalents		**895,034**	**567,330**	**14,036**

The notes are an integral part of these financial statements

1. Operations

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

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

The company Scotia Participações e Serviços Ltda. ("SPS"), whose controlling shareholders were the same controlling shareholders that controlled the Bank, discontinued its activities as BNS' representation office in 2018, thus notably reducing the amount of its operating activities. Aiming at optimizing the company's control processes, there was the decision of merging it into the Bank in 2018 (notes 20 and 22"c").

2. Preparation and presentation of the financial statements

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

The issuance of these financial statements was authorized by the Executive Board on February 08, 2019.

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

Amounts realizable and payable in up to one year and after one year are segregated, respectively, into current and long-term, according to the applicable regulation. The statements of cash flows was prepared using the indirect method.

3. Description of significant accounting policies

a) Statement of profit or loss

Income and expenses are recognized on the accrual basis.

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

b) Current and long-term assets

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

c) Cash and cash equivalents

Cash management instruments are represented by cash and due from banks denominated in local currency, foreign currency and interbank investments, where the maturities of the transactions on the date of the actual investment are equal to or less than 90 days and present an immaterial risk of change in fair value.

d) Securities

Securities are recorded at the cost of acquisition and presented in the Balance Sheet in accordance with the BACEN Circular 3068, and classified according to the Management's intention in the following categories: "Trading securities", related to securities acquired with the purpose of trading them in an active and frequent manner, which are classified as short term and valued at market value against profit or loss for the period, "Securities available for sale", which do not fall within the trading nor the held-to-maturity categories, are adjusted at market value against the highlighted equity accounts, less the tax effects and "Securities held-to-maturity", for which there is financial ability for their maintenance in portfolio up to maturity. They are recoded at acquisition cost plus yields earned in contra-entry to profit or loss for the period.

In order to have the market value of the securities portfolio, federal government bonds have their prices adjusted in order to reflect the observable price in the market, as published by the National Association of Financial and Capital Markets (ANBIMA). For private securities, such as debentures, the determination of market value for this category is based on an independent pricing model, which consists of calculating the future value of cash flows plus monetary correction, which are discounted to their present value by the fixed interest rate plus the credit spread. The Bank records the estimated provision for losses associated with the debentures' credit risk, observing the criteria determined by the CMN Resolution 2682/99 (note 3 "g"). In the case of investment in investment fund, the corrected cost reflects the market value of the corresponding quotas.

e) Derivative financial instruments

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

In accordance with the BACEN Circular 3082, derivative financial instruments are classified on the date of their acquisition according to the Management's intention of using them for *hedging* purposes, or not.

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

An area independent from the operating and business areas is responsible for the evaluation and measurement of assets and liabilities existing in the Bank. The market value calculation of portfolio regarding derivative financial instrument such as swaps, forward, futures and other derivatives are based on prices, taxes or information collected from independent sources such as B3 S.A., securities brokers, BACEN, and ANBIMA, among others. The market and credit risk associated with these products, as well as the operational risks, are similar to those related to other types of financial instruments. For derivative financial instruments, assessment procedures regarding the need for prudential adjustments to their values, established by the CMN Resolution 4277, are established and maintained, irrespective of the pricing methodology adopted, and prudence, relevance and reliability criteria are complied with. For over-the-counter (OTC) derivatives, the adjustments reflect the risk attributable to the credit quality of the issuer or counterparty, measured by means of internally approved methodology.

f) 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.

g) Allowance for loan and other receivable losses

Based on the analysis of outstanding operations conducted by the Management in order to conclude on the appropriate amount to absorb probable losses from their realization, considering the economic scenario and both the specific and global risks of the portfolio, as well as the provisions set forth in the CMN Resolution 2682, which requires periodic analysis of the portfolio and its classification into nine levels, where "AA" corresponds to minimum risk and "H" to loss. Transactions in arrears classified as level "H" remain under this classification for six months, after which they are written off against the recorded allowance and controlled in memorandum accounts.

h) Permanent assets

Permanent assets are stated considering the following aspects:

- **Other investments:** they are stated at cost of acquisition, less impairment loss, when applicable;

- **Premises and equipment:** They correspond to the assets and rights which have as object tangible assets aimed at the maintenance of the entity's activities, or which have been exercised with this aim. Depreciation of property and equipment is calculated and recorded according to the straight line method at rates that take into consideration the useful lives of the assets;

- **Intangible assets:** Intangible assets are vested rights to assets lacking physical substance for the maintenance of the entity, or exercised to that end. Intangible assets with defined useful lives are generally amortized on a straight-line basis in profit or loss over the estimated period of economic rewards.

i) Impairment loss

Pursuant to the CMN Resolution 3566 which approved the adoption of Technical Pronouncement CPC 01 (*impairment*), the recoverable value of assets is tested, at least once a year, if there are indicators of loss. When the carrying value of the asset exceeds its recoverable value, the loss will be recognized directly in the statement of profit or loss.

No impairment loss had been identified as of December 31, 2018 and 2017.

j) Current and long-term liabilities

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

k) Income and social contribution taxes

The provision for income tax is recorded at the rate of 15% on taxable profit, plus a 10% surtax. Social contribution tax is calculated at the rate of 20% on taxable income. As established by Law 13169/15, the social contribution of financial institutions increased from 15% to 20% for the period comprised between September 1, 2015 and December 31, 2018, and will return to the 15% rate as from January 1, 2019.

As of December 31, 2018, the Bank has deferred income and social contribution tax credit assets recorded resulting from temporary differences. Tax credits were recorded taking into account the social contribution rate of 15%, established by Law 13169/15.

Based on the CMN Resolution 3059 and subsequent amendments, the historical taxable income and short-term and medium-term forecasts prepared by the Bank enable a reasonable estimate of the realization term of these assets (note 21 "c").

l) PIS (Contribution for Social Integration Program) and COFINS (Tax for Social Security Financing)

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

(In thousands of Reais)

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

The Bank follows the guidelines set forth in the CMN Resolution 3823, which approved the adoption of Technical Pronouncement CPC 25 - Procedures applicable to the recognition, measurement and disclosure of provisions, contingent liabilities and contingent assets.

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

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

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

n) Share-based payment

Qualified employees of the Bank participate in stock-based compensation plans, which are evaluated based on the price of the common share of The Bank of Nova Scotia (BNS). The Bank records its expense in the Statement of Profit or Loss for the year against a provision in Liabilities, as established by the CMN Resolution 3989, which approved the adoption of the Technical Pronouncement CPC 10 - Share-Based Payment (note 23).

o) Post-employment benefits

Post-employment or long-term benefit plans are formal or informal agreements in which the Bank commits itself to provide post-employment benefits to one or more than one employees, in accordance with the CMN Resolution 4424, which approved Technical Pronouncement CPC 33 (R1) - Employee Benefits.

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

Defined benefit plans are post-employment benefits other than defined contribution plans. For this type of plan, the Bank's obligation is to provide the agreed upon benefits with its employees, assuming the potential actuarial risk that the benefits may cost more than expected (note 24).

4. Components of cash and cash equivalents

	2018	2017
Cash and cash equivalent	24,224	168,180
Money market	1,331,997	494,603
Interbank deposits	70,248	196,356
Total	**1,426,469**	**859,139**

(In thousands of Reais)

5. Interbank investments

	2018				2017
	Up to 1 month	From 1 to 3 months	From 3 to 6 months	Total	Total
Money market					
Own portfolio	**1,331,997**	**511,882**	**503,068**	**2,346,947**	**1,202,036**
LFT	-	-	-	-	244,037
NTN	1,331,997	-	-	1,331,997	-
LTN	-	511,882	503,068	1,014,950	957,999
Interbank deposits	**70,248**	-	-	**70,248**	**196,356**
Interbank deposits	70,248	-	-	70,248	196,356
Total	**1,402,245**	**511,882**	**503,068**	**2,417,195**	**1,398,392**

6. Securities

The restated cost (plus yield earned) and the market value of securities as of December 31, 2018 and 2017 were as follows:

a) Trading securities

	2018							2017	
	Up to 3 months	From 3 to 12 months	From 1 to 3 years	From 3 to 5 years	From 5 to 10 years	Market/ Book value	Restated value	Market/ Book Value	Restated cost
Own portfolio									
LTN	2,000	51,529	11,986	144	-	65,659	65,578	182,894	182,133
NTN	7,784	-	1,242	879	764	10,669	10,622	121,299	120,943
Subtotal	**9,784**	**51,529**	**13,228**	**1,023**	**764**	**76,328**	**76,200**	**304,193**	**303,076**
Subject to guarantees provided									
LTN	-	-	27,681	-	-	27,681	26,908	77,816	77,632
Subtotal	-	-	**27,681**	-	-	**27,681**	**26,908**	**77,816**	**77,632**
Total	**9,784**	**51,529**	**40,909**	**1,023**	**764**	**104,009**	**103,108**	**382,009**	**380,708**

b) Available-for-sale securities

	2018					2017	
	Without maturity	Up to 12 months	From 1 to 3 years	Market/ Book value	Restated cost	Market/ Book Value	Restated cost
Own portfolio							
LTN	-	199,949	-	199,949	199,967	10,824	10,783
NTN	-	-	109,457	109,457	106,213	-	-
Subtotal	-	**199,949**	**109,457**	**309,406**	**306,180**	**10,824**	**10,783**
Subject to guarantees provided							
LTN	-	-	480,324	480,324	469,326	184,011	183,310
Investment fund quotas	26,414	-	-	26,414	26,414	26,266	26,266
Subtotal	**26,414**	-	**480,324**	**506,738**	**495,740**	**210,277**	**209,576**
Total	**26,414**	**199,949**	**589,781**	**816,144**	**801,920**	**221,101**	**220,359**

(In thousands of Reais)

c) Held-to-maturity securities

	2018		2017
	Up to 3 months	Restated cost / book value	Restated cost / book value
Own portfolio			
Debentures	2,457	2,457	26,643
Total	**2,457**	**2,457**	**26,643**

As of December 31, 2018, the restated/book value is deducted from a provision for losses associated to credit risk in the amount of R$335 (2017 - R$9,450) and the market value of securities held to maturity represented R$2,782 (2017 - R$36,804) (note 3 "d").

Federal government bonds are kept under the custody of SELIC, debentures and the investment fund quotas, under the custody of B3 S.A.- Brasil, Bolsa, Balcão.

7. Derivative financial instruments

The tables below show the reference values corrected to the market price, the respective adjustments receivable and payable and net exposures in the balance sheets to derivative financial instruments as of December 31, 2018 and 2017:

	2018		2017	
	Market value		Market value	
	Notional	Adjustment receivable (payable)	Notional	Adjustment receivable (payable)
Futures				
Long position	**9,332,210**	**(12,824)**	**4,872,015**	**(7,734)**
DI	544,936	301	311,626	150
DDI	8,519,913	(12,092)	3,738,774	(7,674)
Dollar	267,361	(1,033)	821,615	(210)
Short position	**739,909**	**2,111**	**1,230,468**	**741**
DI	253,685	(5)	289,639	(46)
DDI	271,490	1,046	940,829	787
Dollar	214,734	1,070	-	-
Foreign exchange swap constracts with the periodic adjustment (SCS)				
Short position	**58,093**	**(224)**	**558,765**	**(867)**
Dollar	58,093	(224)	558,765	(867)

As of December 31, 2018, in addition to the daily adjustments of futures contracts, the amount R$16 (2017 - R$10) is recorded under the caption "Other liabilities - due in connection with securities dealing" in current liabilities, which is related to commission and brokerage fees to settle with B3 S.A.- Brasil, Bolsa, Balcão.

(In thousands of Reais)

	2018			2017		
	Market value		Restated cost	Market value		Restated cost
	Notional value	Net value	Net value	Notional value	Net value	Net value
Swap agreements						
Asset position	**6,793,435**			**4,193,054**		
CDI	6,793,435	6,793,435	6,503,171	4,084,046	3,976,821	3,683,989
Dollar	-	-	-	109,008	-	-
Prudential adjustments (i)		(31)			(132)	
Liability position	**(7,488,445)**			**(4,122,266)**		
CDI	-	-	-	(107,225)	-	-
Dollar	(7,488,445)	(7,488,445)	(7,228,854)	(4,015,041)	(3,906,033)	(3,646,430)
Term of currencies						
Asset position	**484,123**			**597,501**		
Dollar	369,143	252,586	259,074	377,018	156,564	161,960
Fixed rates	114,980	-	-	220,483	-	-
Prudential adjustments (i)		(2)			-	
Liability position	**(469,761)**			**(605,090)**		
Dollar	(116,557)	-	-	(220,454)	-	-
Fixed rates	(353,204)	(238,224)	(241,929)	(384,636)	(164,153)	(165,440)
Total net value		**(680,681)**			**63,067**	

Refer to note 3 “e”.

As of December 31, 2017, the Bank carried out foreign exchange swap operations including forward periodic adjustment, whose reference value was R$81,009 (2018 - zero) and adjustment payable in the amount of R$94.

The table below shows the reference values corrected to market price recorded in memorandum accounts and the respective maturity terms as of December 31, 2018 and 2017:

	2018					2017
	Up to 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total	Total
Futures	633,427	2,420,037	524,196	6,552,552	10,130,212	6,661,248
Swap	(28,612)	(76,343)	(67,818)	(522,268)	(695,041)	70,656
Term transactions	2,587	3,482	7,734	557	14,360	(7,683)

The results with derivative financial instruments for the years ended December 31, 2018 and 2017 are composed as follows:

	2nd. Semester	Years	
	2018	2018	2017
Futures	99,543	675,613	(187,206)
Swap	(117,694)	(592,186)	233,804
Term transactions	4,649	15,622	(18,915)
Total	**(13,502)**	**99,049**	**27,683**

Derivative financial instruments are registered at B3 S.A.- Brasil, Bolsa, Balcão.

8. Risk Management

Operational risk management

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

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

Management of market and liquidity risks

Consistent with the requirements of the Head Office and following the leading worldwide adopted practices in risk management, the Bank has a comprehensive structure of risk control and management - integrated with and independent of the business areas, which seeks the optimization of the risk/return relation, focusing on efficient monitoring and strict control of the risk exposure factors. An integrated set of processes using platforms of local and global systems is responsible for the determination, analysis and report of market and liquidity risks. The limits of risk are determined and approved by both local executive board 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, liquidity short-term measures, projections of cash flow, stress testing, backtesting, analysis of sensitivity of interest, foreign exchange and volatility.

By complying with BNS's requirements, the Bank was able to meet the BACEN requirements regarding implementation of a market and liquidity risk structure (CMN Resolutions 4557), and more specifically the one addressing market and liquidity risks. In addition, the Bank calculates the capital requirements due to market risk exposure in accordance with the criteria established by the CMN Resolution 4193.

Credit risk management

In line with the BACEN determinations (CMN resolutions 2682, 2844, 4557, 4677, 4693, among others), and with the organization's Risk Assessment philosophy, the Bank has a credit risk management structure that encompasses the analysis and establishment of individual credit limits to its clients, and the analysis and monitoring of the Bank's aggregate credit risk, which takes into account all the lines of products offered to the clients, and the economic industries in which the loan takers operate.

The credit risk culture is broadly disseminated in the Bank, and the description of the products offered to loan takers includes the identification of the credit, market and operating risks, as well as the information systems that control them. Individual credit limits for loan takers are approved by using the Bank's own techniques/ methodologies, and are reviewed at least once a year together with their corresponding ratings which, under the CMN Resolution 2682, are reviewed every six months for operations of the same client, or economic group, whose credit risk amount exceeds 5% of the Bank's adjusted shareholders' equity.

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

(In thousands of Reais)

Capital management

The Bank is dedicated to maintaining a robust capital basis in order to support risks associated to its businesses. The Bank's Capital Management structure, which encompasses internal policies, measures and procedures related to Capital Management and Internal Process for Capital Adequacy Evaluation, is in line with BNS's global policy, and also complies with the Brazilian Central Bank's (BACEN) requirements provided for in the CMN Resolution 4557.

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

The Executive Board is directly engaged in the ongoing management of capital, and is also responsible for reviewing and approving, on a yearly basis, the Bank's internal policies. In addition, the Executive Board acts on monitoring the level and adequacy of the Bank's capital through periodic reports produced and submitted by the areas that are directly involved in the capital management process.

The description of the risk management structure and the capital management structure is demonstrated in a report available to the general public at: http://www.br.scotiabank.com (unaudited).

9. Loans

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

	2018				
	To mature				
Private sector	**Up to 3 months**	**3-12 months**	**1-3 years**	**Total**	**2017**
Bank credit certificate (CCB)	**5,497**	**123,142**	**34,179**	**162,818**	**237,622**
Industry	-	48,376	-	48,376	81,850
Commerce	5,497	14,418	4,179	24,094	43,348
Other services	-	60,348	30,000	90,348	112,424
Export credit note (NCE)	**393,873**	**195,639**	**581,220**	**1,170,732**	**561,468**
Industry	393,873	195,639	581,220	1,170,732	500,186
Other services	-	-	-	-	61,282
Import financing	**1,127**	-	-	**1,127**	**2,077**
Commerce	1,127	-	-	1,127	2,077
Export - ACC	**268,199**	**269,669**	-	**537,868**	**104,276**
Industry	268,199	269,669	-	537,868	104,276
ACC income receivable	**3,354**	**1,509**	-	**4,863**	**1,015**
Industry	3,354	1,509	-	4,863	1,015
Export - ACE	**33,383**	-	-	**33,383**	**53,836**
Industry	33,383	-	-	33,383	53,836
ACE income receivable	**359**	-	-	**359**	**222**
Industry	359	-	-	359	222
Exchange variation on ACC/ACE (i)	**6,471**	**6,875**	-	**13,346**	**7,248**
Industry	6,471	6,875	-	13,346	7,248
Receivables	-	-	-	-	**9,214**
Commerce	-	-	-	-	9,214
Total	**712,263**	**596,834**	**615,399**	**1,924,496**	**976,978**

(In thousands of Reais)

(i) In accordance with the BACEN instructions, the Bank calculates the allowance for loan losses, based on the balance of the Advance on Export Contracts – Bills to be delivered (ACC) and on Export Contracts - Bills delivered (ACE) translated into reais on a monthly basis at the PTAX rate provided by BACEN for balance sheet purposes.

As of December 31, 2018 and 2017, no assignment-of-credit operations including substantial transfer or retention of risks and rewards, in accordance with the CMN Resolution 3533, were identified.

b) Credit risk concentration

	2018		2017
Largest debtor	1,170,732	(i)	500,186
Percentage of entire credit portfolio	60.8%		51.2%
20 largest debtors	1,924,496		976,978
Percentage of entire credit portfolio	100.0%		100.0%

(i) Refer to note 26 "a".

c) Allowance for loan losses

Level of	Provision	Total portfolio		Allowance for loan losses	
Risk	%	2018	2017	2018	2017
AA	0.0%	1,734,524	723,108	-	-
A	0.5%	71,289	58,182	(356)	(291)
B	1.0%	-	61,282	-	(613)
C	3.0%	-	33,385	-	(2,671)
G	70.0%	118,683	101,021	(83,078)	(70,714)
Total		**1,924,496**	**976,978**	**(83,434)**	**(74,289)**

d) Changes in the allowance for loan losses

	2018	2017
Balances at beginning of years	**(74,289)**	**(26,484)**
Recognition of provision	(13,374)	(147,455)
Reversal of provision	4,229	99,650
Balances at end of years	**(83,434)**	**(74,289)**

e) Loans renegotiated, recovered or written off to loss

The total amount of credits renegotiated for year ended December 31, 2018 represented R$218,827 (2017 - R$202,268).

In the years ended December 31, 2018 and 2017 there were no recoveries or loans written off to loss.

(In thousands of Reais)

10. Foreign exchange portfolio - Current Assets

	2018	2017
Purchased foreign exchange to be settled	983,919	423,019
Rights on foreign exchange sales	201,430	247,755
Income receivable from granted advances	5,222	1,237
Total	**1,190,571**	**672,011**

	2018	2017
Sold foreign exchange to be settled	201,421	248,055
Obligations on foreign exchange purchases	973,831	416,410
Advances on foreign exchange contracts	(571,251)	(158,112)
Total	**604,001**	**506,353**

11. Other receivables - Sundry

	2018	2017
Tax credits - IRPJ and CSLL (note 21 "b")	47,826	52,746
Judicial deposits (note 19 "d")	37,132	35,812
Prepayments of IRPJ and CSLL	17,812	8,466
Cash receivable from related companies	7,678	832
Other	1,239	352
Receivables	-	9,214
Total	**111,687**	**107,422**
Current assets	30,246	30,520
Long-term assets	81,441	76,902

12. Deposits

	2018					2017
	Without maturity	Up to 3 months	3-12 months	1-3 years	Total	Total
Demand deposits	369	-	-	-	369	159
Time deposits	-	22,033	195,122	96,402	313,557	1,321,519
Total	**369**	**22,033**	**195,122**	**96,402**	**313,926**	**1,321,678**

As of December 31, 2018, the funding average rate of deposits is 100.1% of "DI".

13. Money market funding

As of December 31, 2018, the Bank had liabilities related to the commitment of returning securities received as guarantee in repurchase operations with free movement agreement in the amount of R$62,073 (2017 - zero) falling due up to May 2019, and a 6.58% rate.

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

As of December 31, 2018, the Bank has obligations for the issue of financial bills in the amount of R$927 (2017 - R$796) falling due up to February 2019, and the funding rate of 16.2%p.a.

15. Borrowings

Foreign currency trade finance borrowings in the amount of R$1,839,393 (2017 - R$788,362) are basically represented by investments aimed at export financing, falling due up to December 2019. Transactions are corrected at the exchange variation plus interest ranging from 2.27% to 2.69% per annum.

(In thousands of Reais)

16. Repass borrowings

Foreign currency trade finance repass borrowings in the amount of R$1,170,551 (2017 - R$500,095) are represented by funding abroad as established in the CMN Resolution 2921, falling due up to December 2019. Transactions are corrected at the exchange variation plus interest ranging from 2.51% to 3.51% per annum.

17. Other liabilities - Taxes payable

	2018	2017
Taxes on income payable (note 21 "a")	54,349	18,100
Provision for deferred IRPJ and CSLL (note 21 "b")	43,819	52,190
Taxes payable	16,627	10,569
Total	**114,795**	**80,859**
Current liabilities	73,131	62,980
Long-term liabilities	41,664	17,879

18. Other liabilities - Sundry

	2018	2017
Provision for tax and labor contingencies (note 19 “d”)	26,481	25,672
Salaries, bonuses and social security charges	12,547	12,268
Accounts payables - administrative expenses	2,677	688
Other	73	363
Total	**41,778**	**38,991**
Current liabilities	13,184	10,035
Long-term liabilities	28,594	28,956

19. Legal, tax and social security contingencies and liabilities

a) Contingent assets

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

b) Contingent liabilities

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

The Bank maintains provisions for those contingent liabilities classified as probable loss, in amounts regarded as sufficient to cover possible losses. The provisioned amounts are recorded under the caption “Other liabilities – Sundry” (note 18), in long-term liabilities.

Ongoing labor lawsuits classified as possible loss amount to R$31,141 (2017 - R$29,911). Most labor lawsuits refer to actions filed by former employees and outsourced personnel to obtain indemnities, mostly regarding overtime payment and other labor rights.

There are proceedings in progress of a tax nature classified as possible losses in the amount of R$10,459 (2017 - R$10,041), arising from taxes that the Bank has been discussing in court, the main of which related to a request for compensation of withholding income tax levied on financial investments, in the amount of R$5,194 (2017 - R$5,087), and to a nullification request of a notice of tax assessment in the amount of R$5,265 (2017 - R$4,829), related to service taxes (ISS) claimed by the Municipality of São Paulo, levied on services rendered by the Bank. Those proceedings rely on sufficient deposits in court to cover the tax risk.

(In thousands of Reais)

c) Legal obligations

Provision for contingency regarding the main proceeding in the amount of R$18,313 (2017 - R$17,775), including its deposit in court in amount equivalent to the provision, refers to a legal defense with respect to the liability of the Contribution for Social Integration Program - PIS, under the Constitutional Amendment 17/97 and Supplementary Law 7/70 with regard to their legality or constitutionality.

d) Changes in balances

	Balance as of 12/31/2017	Recording	Reversal	Use	Inflation adjustment	Balance as of 12/31/2018	Court deposits (i)	
							2018	2017
Labor contingencies	836	77	(26)	(252)	70	705	185	276
Tax contingencies	-	-	-	-	-	-	10,594	12,637
Legal obligations	24,836	174	-	-	766	25,776	26,353	22,899
Total	**25,672**	**251**	**(26)**	**(252)**	**836**	**26,481**	**37,132**	**35,812**

(i) Refer to note 11.

20. Equity

The fully subscribed and paid-in capital is represented by 4,204,886,326 (2017 - 2,221,627,157) nominative common shares with no par value.

On February 1, 2018, as per the Minute of the Extraordinary General Meeting (EGM), the Bank received funds from shareholders for capital increase in the amount of R$474,915, represented by 1,978,812,500 nominative common shares with no par value. This process was approved by BACEN on February 19, 2018.

On August 29, 2018, as per the Minute of the Extraordinary General Meeting (EGM), the merger of SPS into the Bank was approved, including the capital increase in the amount of R$843, represented by 4,446,669 nominative common shares with no par value. This process was approved by BACEN on December 18, 2018 (notes 1 and 22"c").

Management resolves on the allocation of adjusted net income every period, as established in article 202 of Law 6.404/76. The profit earned in the year 2018 were transferred to the statutory reserve.

Revenue reserves

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

(In thousands of Reais)

21. Income and social contribution taxes

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

	2018		2017	
	Income tax	Social contribution	Income tax	Social contribution
Net income before taxes and after profit sharing	104,592	104,592	10,470	10,470
Temporary additions (exclusions)	25,730	25,730	46,182	46,182
Adjustment to market value – Securities and derivatives	25,870	25,870	(12,259)	(12,259)
Allowance for loan losses	9,145	9,145	47,805	47,805
Provision for credit risks - Debentures	(9,115)	(9,115)	8,739	8,739
Other	(170)	(170)	1,897	1,897
Permanent additions (exclusions)	5,375	1,308	4,455	(1,744)
Taxable basis	**135,697**	**131,630**	**61,107**	**54,908**
Offsetting of tax loss and negative basis of social contribution	(6,082)	(15,188)	(18,332)	(16,473)
Taxable basis after offsetting	**129,615**	**116,442**	**42,775**	**38,435**
Rates	25%	20%	25%	20%
Total IRPJ and CSLL - current values before tax incentives	**(32,380)**	**(23,288)**	**(10,670)**	**(7,687)**
Tax incentives	1,319	-	257	-
Total IRPJ and CSLL - current values	**(31,061)**	**(23,288)**	**(10,413)**	**(7,687)**
Tax credits	(1,247)	(3,673)	10,461	4,764
Deferred tax liabilities	6,154	7,571	(3,499)	(1,966)
Total	**(26,154)**	**(19,390)**	**(3,451)**	**(4,889)**

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

Tax credits	Balance at 12/31/2017	Recording	Realized / Reversal	Balance at 12/31/2018
Reflected in the income	**52,746**	**7,201**	**(12,121)**	**47,826**
Tax loss and negative basis of social contribution	4,580	-	(4,580)	-
Provision for tax and labor risks	10,266	401	(78)	10,589
Nondeductible provisions	3,815	2,302	(2,411)	3,706
Allowance for loan losses	29,813	4,340	(780)	33,373
Provision for credit risks - Debentures	4,212	134	(4,212)	134
Provision for prudential adjustments	60	13	(60)	13
Mark-to-market of repurchase operations	-	11	-	11
Total	**52,746**	**7,201**	**(12,121)**	**47,826**

Deferred tax liabilities	Balance at 12/31/2017	Recording	Realized / Reversal	Balance atem 12/31/2018
Reflected in the income	**(51,856)**	**(31,139)**	**44,864**	**(38,131)**
Mark-to-market of derivatives	(44,334)	(30,288)	44,334	(30,288)
Mark-to-market of trading securities	(530)	(361)	530	(361)
Monetary correction of judicial deposits	(6,992)	(490)	-	(7,482)
Reflected in equity	**(334)**	**(5,688)**	**334**	**(5,688)**
Mark-to-market of available-for-sale securities	(334)	(5,688)	334	(5,688)
Total	**(52,190)**	**(36,827)**	**45,198**	**(43,819)**

(In thousands of Reais)

c) Realization forecast of tax credits on temporary differences

Expected realization	Temporary differences	Total
1st year	3,611	3,611
2nd year	7,234	7,234
3rd year	6,696	6,696
4th year	19,688	19,688
5th year	-	-
6th to 10th year	10,597	10,597
Total	**47,826**	**47,826**
Present value (i)	**32,798**	**32,798**

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

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

22. Related parties

Transactions between related parties are disclosed in conformity with the National Monetary Council (CMN) Resolution 4636, and provided the Committee for Accounting Pronouncements Technical Pronouncement CPC 05 (R1) – Disclosure of Related Parties is complied with. 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:

	Assets / (Liabilities)		Revenues / (Expenses)	
	2018	2017	01/01 to 12/31/2018	01/01 to 12/31/2017
Cash and cash equivalents	**1,658**	**113**	**39,678**	**10,189**
BNS	1,658	113	39,678	10,189
Foreign exchange portfolio - asset position	**8,183**	-	**346**	**(429)**
BNS	8,183	-	346	(429)
Cash receivable from (payable to) related companies / revenues (expenses) from service revenue	**7,678**	**832**	**37,509**	**34,936**
BNS	4,649	698	33,466	29,804
Scotiabank & Trust (Cayman)	1,476	-	4,037	3,414
Scotiabank Inverlat (Mexico)	1,031	134	6	1,718
Banco Colpatria (Colombia)	522	-	-	-
Borrowings	**(1,838,267)**	**(786,285)**	**(154,306)**	**15,880**
BNS	(1,838,267)	(786,285)	(154,306)	15,880
Repass borrowings	**(1,170,551)**	**(500,095)**	**(159,094)**	**(38,733)**
BNS	(1,170,551)	(500,095)	(159,094)	(38,733)
Foreign exchange portfolio - liability position	**(8,135)**	-	**(473)**	-
BNS	(8,135)	-	(473)	-

(In thousands of Reais)

b) Management compensation

For the purpose of disclosing management compensation, only Statutory Officers were considered. Expenses on management compensation for the year ended December 31, 2018 total R$9,722 (2017 - R$8,466), of which R$7,635 (2017 - R$6,442) represent salaries and payroll charges, profit sharing, and bonuses and charges on bonuses, denominated short-term benefits, and R$2,088 (2017 - R$2,024) that represents share-based compensation and charges. There are no post-employment benefits, other long-term benefits or employment contract termination benefits.

c) Corporate merger (i)

In 2017, Scotia Participações e Serviços Ltda. presented the following amounts: total assets - R$893; equity - R$802; and net loss for the year - R$32.

The amounts of the merger, in 2018, into the Bank, are presented as follows:

Summarized balance sheet of the merged company

Assets	**2018**	**Liabilities**	**2018**
Current and noncurrent assets	925	Current and noncurrent liabilities	82
Cash and cash equivalents	745	Tax and social security	5
Noncurrent assets	180	Noncurrent liabilities	77
Other receivables	180	Other liabilities	77
		Equity	843
		Capital	843
Total	**925**	Total	**925**

(i) Refer to notes 1 and 20.

23. Share-based payment

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

a) Restricted Share Unit Plan (RSU)

According to RSU plan, eligible employees will receive a bonus in restricted share units after three years. Final amount to be paid varies according to the BNS share price. As of December 31, 2018, the amount of liabilities provided for for this plan is R$815 (2017 - R$824) and the total number of shares is 8,602 units measured at weighted fair value of R$0.192 per share. Total expenses recorded in this plan for the period are R$407 (2017 - R$436).

b) Performance Share Unit Plan (PSU)

According to PSU plan, eligible employees will receive a bonus at the end of three years. In addition to BNS' share price fluctuation, this portion of the bonus is subject to performance criteria (return on equity and total return to the shareholder) measured over a three-year period, on which a multiplying factor is applied. As of December 31, 2018, the amount of liabilities provided for for this plan is R$1,609 (2017 - R$2,889) and the total number of shares is 38,199 units measured at weighted fair value of R$0.192 per share. Total expenses recorded in this plan for the period are R$1,100 (2017 - R$1,603).

c) Deferred Performance Plan (DPP)

Within the scope of the DPP plan, the bonus portion received by employees eligible for this plan is allocated as units. The values of these units are defined based on the BNS shares' market price variation. They will be paid to employees in each of the three following years. As of December 31, 2018, the amount of liabilities provided for for this plan is R$1,405 (2017 - R$2,631) and the total number of shares is 6,970 units measured at weighted average fair value of R$0,202 per share, determined based on the original share prices when granted. Total expenses recorded in this plan for the period are R$1,447 (2017 - R$1,799).

24. Post-employment benefits

For the defined contribution post-employment plan, the Bank offers to its employees the benefit of supplementary private pension through monthly payments. After the employee's termination these payments are ceased. Total personnel expenses on this plan for the year ended December 31, 2018 are R$859 (2017 - R$765).

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

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

25. Basel capital ratio and Operational Limits

The Bank follows the determination of the Basel limits based on the BACEN guidelines. As of December 2018 and 2017, the Bank's Basel capital ratio were 25.13% and 23.68%, respectively, the notional capital (Tier 1 capital + Tier 2 capital) was R$1,067,060 (2017 - R$520,438) and the minimum notional capital requirement for risk weighted assets (RWA) was R$366,166 (2017 - R$203,253). The regulatory agency also requires other operating limits such as the immobilization index. The Bank falls within all limits at the end of the aforementioned years.

(In thousands of Reais)

26. Other information

a) Restricted receivables

As of December 31, 2018, the Bank had restricted receivables within the scope of the CMN Resolution 2921, with only one debtor, stated in the following table:

	Assets / (Liabilities)		Revenues / (Expenses)	
	2018	2017	01/01 to 12/31/2018	01/01 to 12/31/2017
Loans				
NCE (note 9 "a")	1,170,732	500,186	159,185	38,824
Repass borrowings				
Foreign repass borrowings (note 16)	(1,170,551)	(500,095)	(159,094)	(38,733)
Net income			**91**	**91**

The return on restricted receivables is sufficient to cover the costs of deposits, money market and interbank funds.

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

These operations should not be considered in the determination of the exposure limits by client, which are established in the CMN Resolution 2844.

b) Other operating revenues

As of December 31, 2018, other operating income substantially refer to income from correction of taxes and deposits in court, and reversal of operating provisions.

c) Subsequent events

No significant subsequent events were reported which might have caused adjustments to, or required disclosure for, the financial statements as of December 31, 2018.

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