

# Scotiabank Brasil S.A. Banco Múltiplo

**Financial statements as of  
December 31, 2019**

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

# Contents

<b>Management report</b>	<b>3</b>
<b>Independent auditors' report on the financial statements</b>	<b>4</b>
<b>Balance sheet</b>	<b>7</b>
<b>Statement of income</b>	<b>9</b>
<b>Statement of changes in equity</b>	<b>10</b>
<b>Statement of cash flows</b>	<b>11</b>
<b>Notes to the financial statements</b>	<b>12</b>

## **MANAGEMENT REPORT**

### **PRESENTATION**

We submit herein, for your appreciation, the financial statements of Scotiabank Brasil for the years ended December 31, 2019 and 2018, 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) and Central Bank of Brazil (BACEN).

### **YEAR'S PERFORMANCE**

Scotiabank Brasil reported net income of R\$94,592 thousand for the year ended December 31, 2019 (2018 - R\$59,048 thousand), which represents an annualized average return on shareholders' equity of 9.15% (2018 - 7.71%). The Bank's 27.20% Basel capital ratio (2018 - 25.13%) and the R\$322,065 minimum notional capital requirement for risk weighted assets (RWA) (2018 - R\$366,166) prove that the Bank strictly implemented its policy of operating at low leverage, high liquidity and solid capitalization levels. This year, the Bank paid dividends in the amount of R\$3,000 and interest on net equity in the amount of R\$51,850, net of tax levy.

### **SOCIAL RESPONSIBILITY**

The Bank has the policy of sponsoring cultural events. It allocated the amount of R\$646 for this purpose.

### **OTHER INFORMATION**

Pursuant to Article 8 of the BACEN Circular 3,068/2001, the Bank declares that it has the financial capacity and intends to hold the securities classified as "held-to-maturity" until maturity.

### **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, 2019 and the statements of income, changes in equity and cash flows for the semester and year 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, 2019, and of its financial performance and its cash flows for the semester and year 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 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 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 assessed the overall presentation, structure and content of the financial statements, including disclosures, and whether the financial statements represent the corresponding transactions and events in a manner that is consistent with the objective of proper reporting.

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 28, 2020

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 31,2019 and 2018

(In thousands of Reais)

	Note	2019	2018
<b>Assets</b>			
<b>Current assets</b>		<b>5,097,725</b>	<b>4,633,998</b>
Cash and due from banks	4	11,911	24,224
Interbank investments	5	2,701,372	2,417,195
Money market		2,510,045	2,346,947
Interbank deposits		191,327	70,248
Securities and derivative financial instruments		575,148	329,585
Own portfolio	3d, 6	245,461	278,734
Derivative financial instruments	3e, 7	43,731	23,170
Subject to guarantees provided	3d, 6	285,956	27,681
Interbank accounts		4	4
Term deposits:			
Deposits at the Central Bank		4	4
Loans		867,798	719,195
Loans			
Private sector	3f, 9a	867,876	719,278
Allowance for loan losses	3g, 9c/d	(78)	(83)
Other receivables		940,664	1,143,311
Foreign exchange portfolio	10	993,501	1,190,571
Securities clearing accounts	3e, 7	2,613	5,845
Sundry	11	30,789	30,246
Allowance for other receivables losses	3g, 9c/d	(86,239)	(83,351)
Other assets		828	484
Prepaid expenses		828	484
<b>Long-term assets</b>		<b>1,309,822</b>	<b>1,328,503</b>
Securities and derivative financial instruments		330,967	631,661
Own portfolio	3d, 6	-	109,457
Derivative financial instruments	3e, 7	96,480	15,466
Subject to guarantees provided	3d, 6	234,487	506,738
Loans		896,140	615,399
Loans			
Private sector	3f, 9a	896,140	615,399
Other receivables		82,206	81,441
Sundry	11	82,206	81,441
Other assets		509	2
Prepaid expenses		509	2
<b>Permanent assets</b>	3h	<b>6,018</b>	<b>5,674</b>
Investments		6	6
Other investments		6	6
Premises and equipment		4,917	5,438
Other premises and equipment		16,001	15,967
Accumulated depreciation		(11,084)	(10,529)
Intangible assets		1,095	230
Intangible assets		1,746	1,036
Accumulated amortization		(651)	(806)
<b>Total assets</b>		<b>6,413,565</b>	<b>5,968,175</b>

The notes are an integral part of these financial statements.

# Scotiabank Brasil S.A. Banco Múltiplo

## Balance sheets as of december 31,2019 and 2018

(In thousands of Reais)

	Note	2019	2018
<b>Liabilities</b>			
<b>Current liabilities irculante</b>		<b>3,773,076</b>	<b>3,615,879</b>
Deposits	12	1,046,196	217,524
Demand deposits		108	369
Time deposits		1,046,088	217,155
Money market funding	13	424,583	62,073
Third party portfolio		424,583	62,073
Securities issued	14	-	927
Funds from real estate, mortgage, credit and similar notes		-	927
Interbranch accounts		9,614	15,497
Third party funds in transit		9,614	15,497
Borrowings	15	569,415	1,839,393
Foreign borrowings		569,415	1,839,393
Repass borrowings	16, 26a	817,613	589,421
Foreign repass borrowings		817,613	589,421
Derivative financial instruments	3e, 7	265,351	182,140
Derivative financial instruments		265,351	182,140
Other liabilities		640,304	708,904
Foreign exchange portfolio	10	491,208	604,001
Due to shareholders		2,028	1,790
Tax and social security	17	48,821	73,131
Securities clearing accounts	3e, 7	82,461	16,798
Sundry	18	15,786	13,184
<b>Long-term liabilities</b>		<b>1,544,498</b>	<b>1,284,967</b>
Deposits	12	4,803	96,402
Time deposits		4,803	96,402
Repass borrowings	16, 26a	806,140	581,130
Foreign repass borrowings		806,140	581,130
Derivative financial instruments	3e, 7	669,718	537,177
Derivative financial instruments		669,718	537,177
Other liabilities		63,837	70,258
Tax and social security	17	35,769	41,664
Sundry	18	28,068	28,594
<b>Deferred income</b>		<b>-</b>	<b>40</b>
Deferred income		-	40
<b>Equity</b>		<b>1,095,991</b>	<b>1,067,289</b>
Capital:			
Domiciled abroad	20	796,879	796,879
Profit reserves	20a	292,468	261,876
Equity valuation adjustments	3d, 6	6,644	8,534
<b>Total liabilities</b>		<b>6,413,565</b>	<b>5,968,175</b>

The notes are an integral part of these financial statements.



## Scotiabank Brasil S.A. Banco Múltiplo

### Statements of income

Years ended december 31, 2019 and 2018

(In thousands of Reais)

	Note	2nd. Semester	Years	
		2019	2019	2018
<b>Financial operations income</b>		<b>296,312</b>	<b>410,980</b>	<b>524,946</b>
Loans		75,701	103,978	181,629
Securities		132,333	228,483	159,552
Derivative financial instruments	7	69,988	76,041	99,049
Foreign exchange operations		18,290	2,478	84,716
<b>Financial operations expenses</b>		<b>(176,331)</b>	<b>(214,527)</b>	<b>(376,169)</b>
Funding operations		(29,578)	(49,584)	(52,578)
Borrowings and repass borrowings		(142,665)	(162,060)	(314,446)
Allowance for loan losses	9d	(4,088)	(2,883)	(9,145)
<b>Gross income on financial operations</b>		<b>119,981</b>	<b>196,453</b>	<b>148,777</b>
<b>Other operating income (expenses)</b>		<b>(42,815)</b>	<b>(80,530)</b>	<b>(42,252)</b>
Service income		7,505	13,867	38,531
Personnel expenses		(32,786)	(60,945)	(54,047)
Other administrative expenses		(11,860)	(22,633)	(22,021)
Tax expenses		(6,771)	(12,090)	(16,565)
Other operating income	26c	1,864	3,121	13,260
Other operating expenses	26c	(767)	(1,850)	(1,410)
<b>Operating income</b>		<b>77,166</b>	<b>115,923</b>	<b>106,525</b>
<b>Non-operating loss</b>		<b>(9)</b>	<b>(9)</b>	<b>(19)</b>
<b>Income before taxes on income and profit sharing</b>		<b>77,157</b>	<b>115,914</b>	<b>106,506</b>
<b>Income and social contribution taxes</b>	21	<b>(3,878)</b>	<b>(19,294)</b>	<b>(45,544)</b>
Provision for income tax		(3,296)	(15,561)	(24,907)
Provision for social contribution		(5,082)	(12,513)	(15,717)
Deferred tax assets		4,500	8,780	(4,920)
<b>Profit sharing</b>		<b>(2,028)</b>	<b>(2,028)</b>	<b>(1,914)</b>
<b>Net income for the semester/ years</b>		<b>71,251</b>	<b>94,592</b>	<b>59,048</b>
<b>Net income per lot of a thousand shares - R\$</b>		<b>16.94</b>	<b>22.50</b>	<b>14.04</b>

The notes are an integral part of these financial statements.

## Scotiabank Brasil S.A. Banco Múltiplo

### Statements of changes in equity

Years ended december 31, 2019 and 2018

(In thousands of Reais)

	Note	Capital	Profit reserves		Equity valuation adjustments	Retained earnings	Total
			Legal	Statutory			
<b>Balances at January 1, 2018</b>		<b>321,121</b>	<b>19,054</b>	<b>183,774</b>	<b>408</b>	-	<b>524,357</b>
Capital increase	20	475,758	-	-	-	-	475,758
Equity valuation adjustments		-	-	-	8,126	-	8,126
Net income for the year		-	-	-	-	59,048	59,048
Distributions:							
Legal reserve		-	2,953	-	-	(2,953)	-
Statutory reserves		-	-	56,095	-	(56,095)	-
<b>Balances at December 31, 2018</b>		<b>796,879</b>	<b>22,007</b>	<b>239,869</b>	<b>8,534</b>	-	<b>1,067,289</b>
<b>Balances at January 1, 2019</b>		<b>796,879</b>	<b>22,007</b>	<b>239,869</b>	<b>8,534</b>	-	<b>1,067,289</b>
Payment of interest on net equity	20b	-	-	(61,000)	-	-	(61,000)
Payment of dividends	20b	-	-	(3,000)	-	-	(3,000)
Equity valuation adjustments	6b	-	-	-	(1,890)	-	(1,890)
Net income for the year		-	-	-	-	94,592	94,592
Distributions:							
Legal reserve	20a	-	4,730	-	-	(4,730)	-
Statutory reserves	20a	-	-	89,862	-	(89,862)	-
<b>Balances at December 31, 2019</b>		<b>796,879</b>	<b>26,737</b>	<b>265,731</b>	<b>6,644</b>	-	<b>1,095,991</b>
<b>Balances at July 1, 2019</b>		<b>796,879</b>	<b>23,174</b>	<b>239,869</b>	<b>17,182</b>	<b>22,174</b>	<b>1,099,278</b>
Capital increase		-	-	-	-	-	-
Payment of interest on net equity	20b	-	-	(61,000)	-	-	(61,000)
Payment of dividends	20b	-	-	(3,000)	-	-	(3,000)
Equity valuation adjustments	6b	-	-	-	(10,538)	-	(10,538)
Net income for the semester		-	-	-	-	71,251	71,251
Distributions:							
Legal reserve	20a	-	3,563	-	-	(3,563)	-
Statutory reserves	20a	-	-	89,862	-	(89,862)	-
<b>Balances at December 31, 2019</b>		<b>796,879</b>	<b>26,737</b>	<b>265,731</b>	<b>6,644</b>	-	<b>1,095,991</b>

The notes are an integral part of these financial statements.

## Scotiabank Brasil S.A. Banco Múltiplo

### Statements of cash flows

Years ended december 31, 2019 and 2018

(In thousands of Reais)

	Note	2nd. Semester	Years	
		2019	2019	2018
<b>Operating activities</b>				
Adjusted net income		73,671	83,610	61,215
Net income for the semester / years		71,251	94,592	59,048
Adjustments to net income		2,420	(10,982)	2,167
(Reversal) of allowance for loan losses	9d	(3)	(5)	(3,396)
Allowance for other receivables losses	9d	4,091	2,888	12,541
Depreciation and amortization		624	1,155	1,015
Loss on the write-off of premises and equipment		1	1	3
Loss on the write-off of intangible assets		1	1	-
Deferred taxes		(2,718)	(15,931)	(8,805)
Provision expense on contingent liabilities and legal obligations	19d	424	909	809
<b>Changes in assets and liabilities</b>		<b>(439,496)</b>	<b>(1,130,591)</b>	<b>33,570</b>
(Increase) in interbank investments		(882,063)	(1,384,346)	(307,517)
Decrease in securities and derivative financial instruments		298,136	268,993	458,923
Reversal of (increase in) mandatory deposits at the Central Bank of Brazil		1	-	-
Decrease in interbank accounts		-	-	113
Decrease (increase) in interbranch accounts		9,614	(5,883)	15,497
(Increase) in loans		(440,357)	(429,339)	(533,510)
Decrease (increase) in other receivables		634,421	207,774	(532,407)
Decrease (increase) in other assets		(390)	(851)	22
Increase (decrease) in deposits	12	674,864	737,073	(1,007,752)
Increase in money market funding	13	16,504	362,510	62,073
Increase (decrease) in securities issued		-	(927)	131
Increase (decrease) in borrowings and repass borrowings	15, 16	(243,069)	(816,776)	1,721,487
Increase (decrease) in other liabilities		(507,157)	(68,779)	156,470
Increase (decrease) in deferred income		-	(40)	40
<b>Net cash (used in)/provided by operating activities</b>		<b>(365,825)</b>	<b>(1,046,981)</b>	<b>94,785</b>
<b>Investing activities</b>				
Acquisition of premises and equipment		(761)	(1,163)	(3,175)
Investments in intangible assets		(271)	(338)	(38)
<b>Net cash used in investing activities</b>		<b>(1,032)</b>	<b>(1,501)</b>	<b>(3,213)</b>
<b>Financing activities</b>				
Capital increase		-	-	475,758
Dividends and interest on net equity paid	20b	(64,000)	(64,000)	-
<b>Net cash (used in)/ provided by financing activities</b>		<b>(64,000)</b>	<b>(64,000)</b>	<b>475,758</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>(430,857)</b>	<b>(1,112,482)</b>	<b>567,330</b>
Cash and cash equivalents at beginning of semester / years		744,844	1,426,469	859,139
Cash and cash equivalents at end of semester / years	4	313,987	313,987	1,426,469
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>(430,857)</b>	<b>(1,112,482)</b>	<b>567,330</b>

The notes are an integral part of these financial statements.

## Notes to the financial statements

*(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. (BNS' wholly-owned investee), both with head office located in Canada.

### 2 Preparation and presentation of the financial statements

The financial statements have been prepared and presented in accordance with accounting policies established by the Brazilian Corporate Law, the standards and instructions of the National Monetary Council (CMN) and the Brazilian Central Bank (BACEN), in 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 14, 2020.

The financial statements include estimates and assumptions, such as measurement of the allowance for loan and other receivables 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. Statements of cash flows were prepared using the indirect method.

### 3 Description of significant accounting policies

#### a. Statement of income

Income and expenses are recognized on the accrual basis.

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

#### 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 balance sheet date.

**c. Cash and cash equivalents**

They are represented by cash and cash equivalents denominated in local currency, foreign currency and interbank investments, whose maturity of the transactions on the date of the effective investment is equal to or less than 90 days and present an immaterial risk of change in fair value.

**d. Securities**

They are recorded at the cost of acquisition and presented in the Balance Sheet in accordance with the BACEN Circular 3,068, and classified according to the Management's intention in the following categories: "Trading securities", related to securities acquired with the purpose of trading them in an active and frequent manner, which are classified as short term and valued at market value against the statement of income for the period, "Securities available for sale", which do not qualify as trading or held to maturity categories, are adjusted at market value against the highlighted equity accounts, net of tax effects and "Securities held-to-maturity", for which there is financial ability for their maintenance in portfolio up to maturity. They are recorded at acquisition cost plus yields earned in contra-entry to the statement of income 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 2,682/99 (note 3 "g"). In the case of investment in fund, the updated 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 3,082, derivative financial instruments are classified on the date of their acquisition according to the Management's intention of using them for *hedging* purposes, or not.

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

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 the portfolio regarding derivative financial instrument such as *swaps*, forward, futures and other derivatives is based on prices, rates or information collected from independent sources such as

B3 S.A.- Brasil, Bolsa, Balcão, brokers, BACEN, 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, procedures are established and maintained to assess the need for prudential adjustments to their values, as provided for by CMN Resolution 4,277, regardless of the pricing methodology adopted and in compliance with prudence, relevance and reliability criteria. For over the counter (OTC) derivatives, the adjustments reflect the risk attributable to the credit quality of the issuer or counterparty, measured using an internally approved methodology.

**f. Loans**

These are recorded based on the yields earned, and recognized on a per day pro rata basis, in accordance with the changes in the index and agreed interest rates.

Income and charges of any nature related to loan transactions with delay equal to or higher than 60 days or more are recorded as unrecognized income and recognized in the statement of income 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 established in the CMN Resolution 2,682, which requires periodic analysis of the portfolio and its classification into nine levels, where "AA" corresponds to minimum risk and "H" to loss. Transactions in arrears 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 property 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 purpose. 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:** They correspond to acquired rights whose object are assets lacking physical substance intended to maintain the Bank's activities or exercised for that purpose. Intangible assets with defined useful lives are amortized on a straight-line basis over an estimated period of economic benefit.
- **Other investments:** They are stated at cost of acquisition, less impairment loss, when applicable;

**i. Impairment**

Pursuant to the CMN Resolution 3,566 which approved the adoption of Technical Pronouncement CPC 01 (*impairment*), the recoverable value of assets is tested, at least once a year, if there are indicators of loss. When the book value of the asset exceeds its recoverable value, the impairment will be recognized directly in the statement of income.

No *impairment* had been identified as of December 31, 2019 and 2018.

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

As of December 31, 2019, the Bank has deferred income and social contribution tax credit assets recorded, resulting from temporary differences.

Based on the CMN Resolution 3,059 and subsequent amendments, the historical taxable income and short 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.

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

The Bank follows the guidelines established by the CMN Resolution 3,823, which approved the adoption of Technical Pronouncement CPC 25 - Procedures applicable to the recognition, measurement and disclosure of provisions, contingent liabilities and contingent assets.

Contingent assets are not recognized in the financial statements, except when there are evidences that ensure their realization, for which appeals no longer apply.

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 advisors, 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 in progress, 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 income for the year against a provision in liabilities, as established by the CMN Resolution 3,989, 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 employee, in accordance with the CMN Resolution 4,424, which approved Technical Pronouncement CPC 33 (R1) - Employee Benefits.

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

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**

	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	11,911	24,224
Money market instruments	292,004	1,331,997
Interbank deposits	10,072	70,248
<b>Total</b>	<b>313,987</b>	<b>1,426,469</b>

**5 Interbank investments**

	<b>2019</b>			<b>2018</b>	
	<b>From 1 to 3 month</b>	<b>From 3 to 6 months</b>	<b>From 6 to 12 months</b>	<b>Total</b>	<b>Total</b>
<b>Money market instruments</b>	<b>1,099,723</b>	<b>1,410,322</b>	<b>-</b>	<b>2,510,045</b>	<b>2,346,947</b>
Financed Operations	1,027,653	1,058,227	-	2,085,880	2,284,902
Short position	7,070	352,095	-	424,165	62,045
<b>Interbank deposits</b>	<b>10,072</b>	<b>-</b>	<b>181,255</b>	<b>191,327</b>	<b>70,248</b>
<b>Total</b>	<b>1,109,795</b>	<b>1,410,322</b>	<b>181,255</b>	<b>2,701,372</b>	<b>2,417,195</b>



## 6 Securities

The update cost (plus yields earned) and the market value of securities as of December 31, 2019 and 2018 were as follows:

### a. Trading securities

	2019						2018		
	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	Update cost	Market / book value	Update cost
<b>Own portfolio</b>									
LTN	150,813	587	1,291	-	-	152,691	152,663	65,659	65,578
NTN	-	-	9,881	2,091	3,579	15,551	15,246	10,669	10,622
<b>Total</b>	<b>150,813</b>	<b>587</b>	<b>11,172</b>	<b>2,091</b>	<b>3,579</b>	<b>168,242</b>	<b>167,909</b>	<b>76,328</b>	<b>76,200</b>
<b>Subject to guarantees provided</b>									
LTN	-	-	-	-	-	-	-	27,681	26,908
<b>Subtotal</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>27,681</b>	<b>26,908</b>
<b>Total</b>	<b>150,813</b>	<b>587</b>	<b>11,172</b>	<b>2,091</b>	<b>3,579</b>	<b>168,242</b>	<b>167,909</b>	<b>104,009</b>	<b>103,108</b>

### b. Available-for-sale securities

	2019					2018		
	Without maturity	Up to 12 months	From 1 to 3 years	Market / book value	Update cost	Market / book value	Update cost	
<b>Own portfolio</b>								
LTN	-	-	-	-	-	199,949	199,967	
NTN	-	-	-	-	-	109,457	106,213	
<b>Subtotal</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>309,406</b>	<b>306,180</b>	
<b>Subject to guarantees provided</b>								
LTN	-	285,956	202,010	487,966	475,885	480,324	469,326	
Investment funds quotas	32,477	-	-	32,77	32,477	26,414	26,414	
<b>Subtotal</b>	<b>32,477</b>	<b>285,956</b>	<b>202,010</b>	<b>520,443</b>	<b>508,362</b>	<b>506,738</b>	<b>495,740</b>	
<b>Total</b>	<b>32,477</b>	<b>285,956</b>	<b>202,010</b>	<b>520,443</b>	<b>508,362</b>	<b>816,144</b>	<b>801,920</b>	

**c. Held-to-maturity securities**

	2019			2018	
	Up to 12 months	Update cost / book value	Market	Update cost / book value	Market
<b>Own portfolio</b>					
Debenture	77,219	77,219	77,448	2,457	2,782
<b>Total</b>	<b>77,219</b>	<b>77,219</b>	<b>77,448</b>	<b>2,457</b>	<b>2,782</b>

As of December 31, 2019 there was no deduction of provision for losses associated with the credit risk on the update cost / book value (2018 – R\$335) (note 3 “d”).

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

**7 Derivative financial instruments**

The tables below shows the reference values update 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, 2019 and 2018:

	2019		2018	
	Market value	Adjustment receivable (payable)	Market value	Adjustment receivable (payable)
<b>Futures Contracts</b>				
<b>Long position</b>	<b>12,386,524</b>	<b>(81,652)</b>	<b>9,332,210</b>	<b>(12,824)</b>
DI	1,551,952	745	544,936	301
DDI	10,392,103	(81,068)	8,519,913	(12,092)
Dollar	442,469	(1,329)	267,361	(1,033)
<b>Short position</b>	<b>1,019,661</b>	<b>1,831</b>	<b>739,909</b>	<b>2,111</b>
DI	716,951	(24)	253,685	(5)
DDI	240,234	1,639	271,490	1,046
Dollar	62,476	216	214,734	1,070

As of December 31, 2019, the Bank did not have foreign exchange swap contracts with periodic adjustment (2018 - R\$58,093 in short position).

As of December 31, 2019, in addition to the daily adjustments of futures contracts, the amount of R\$27 (2018 - R\$16) is also recorded under the caption “Other liabilities - negotiation and intermediation of values” in current liabilities, which is related to commission and brokerage fees to be settled with B3 S.A.- Brasil, Bolsa, Balcão.

	2019		2018	
	Market Referential	Update cost	Market Referential	Update cost
<b>Swap</b>				
<b>Asset position</b>	<b>9,786,714</b>	<b>9,667,318</b>	<b>6,793,404</b>	<b>6,503,171</b>
CDI	9,579,653	9,461,717	6,793,435	6,503,171
Fixed	207,356	205,601	-	-
Prudential adjustments (i)	(295)	-	(31)	-
<b>Liability position</b>	<b>(10,580,372)</b>	<b>(10,377,633)</b>	<b>(7,488,445)</b>	<b>(7,228,854)</b>
Dollar	(10,580,372)	(10,377,633)	(7,488,445)	(7,228,854)
<b>Term of currencies</b>				
<b>Asset position</b>	<b>635,471</b>	<b>644,052</b>	<b>484,121</b>	<b>494,199</b>
Dollar	440,624	447,776	369,143	377,457
Fixed	194,847	377,457	114,980	116,724
Prudential adjustments (i)	-	-	(2)	-
<b>Liability position</b>	<b>(636,671)</b>	<b>(641,809)</b>	<b>(469,761)</b>	<b>(477,054)</b>
Dollar	(193,144)	(194,872)	(116,557)	(118,383)
Fixed	(443,527)	(446,937)	(353,204)	(358,671)
<b>Total</b>	<b>(794,858)</b>	<b>-</b>	<b>(680,681)</b>	<b>-</b>

(i) See Note 3 “e”.

The table below shows the reference values updated to the market price recorded in memorandum accounts and the respective maturity terms as of December 31, 2019 and 2018:

	2019				2018	
	Up to 1 month	From 1 to 6 months	From 6 to 12 months	> 12 months	Total	Total
Futures	812,001	1,376,666	2,819,038	8,398,480	13,406,185	10,130,212
Swap	(40,383)	(31,238)	(151,325)	(570,712)	(793,658)	(695,041)
Term of currencies	602	(1,523)	2,247	(2,526)	(1,200)	14,360

The results with derivative financial instruments for the years ended December 31, 2019 and 2018 were as follows:

	2° Semester	Years	
	2019	2019	2018
Futures	264,292	301,038	675,613
Swap	(186,048)	(220,912)	(592,186)
Term of currencies	(8,256)	(4,088)	15,622
Options	-	3	-
<b>Total</b>	<b>69,988</b>	<b>76,041</b>	<b>99,049</b>

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

## 8 Risk Management

### Operational risk management

The Bank has a structure of operational risk management responsible for identifying, assessing, monitoring, controlling, mitigating and reporting its risks, which is widely spread within the organization. In this context, all employees have direct access to tools, methodologies and reports produced by the *Risk Management* department, facilitating 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 solve these risks. In addition to the daily monitoring, the *Risk Management* department also reports on a monthly basis the main operational risk events to the department heads and to the Executive Boards of the Bank and of The Bank of Nova Scotia (BNS).

### Management of market and liquidity risks

Consistent with the requirements of the Head Office and always following the leading worldwide adopted practices in risk management, the Bank has a comprehensive structure of risk control and management, integrated 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 local Executive Board and Head Office, and are monitored on a preventive basis.

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

By complying with BNS's requirements, the Bank was able to meet the BACEN requirements regarding implementation of the continued and integrated risk management structure (CMN Resolutions 4,557), 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 4,193.

### Credit risk management

In line with the BACEN determinations (CMN resolutions 2,682, 2,844, 4,557, 4,677, 4,693, among others), and with the organization's risk management philosophy, the Bank has a credit risk management structure that includes the analysis and establishment of individual credit limits to its clients, as well as 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 all economic segments 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 borrowers 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 2,682, are reviewed every six months for operations of the same client, or economic group, whose 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 results for evaluating the institution's credit portfolio's resistance to adverse economic scenarios.

### **Capital management**

The Bank is committed to maintaining a solid capital base 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, it 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 4,557.

The principles that govern the Bank's Capital Management structure aim at meeting the following requirements: regulatory agency's determinations; existence of appropriate governance and supervision; capital management policies, strategies and actions 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, forecasting, measurement, monitoring and controlling of authorized limits, and reporting.

The Executive Board is directly engaged in the Capital Management, and is also responsible for the annual review and approval of 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 evidenced in a report available to the general public at: <http://www.br.scotiabank.com>.

## 9 Loans

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

	2019			2018	
	Up to 3 months	From 3 to 12 months	From 1 to 3 years	Total	Total
<b>Private sector - due on:</b>					
<b>Bank Credit Bill (CCB)</b>	<b>4,821</b>	<b>45,442</b>	<b>90,000</b>	<b>140,263</b>	<b>162,818</b>
Industry	-	45,229	-	45,229	48,376
Trade	4,821	-	-	4,821	24,094
Other services - Legal entities	-	213	90,000	90,213	90,348
<b>Export credit notes (NCE)</b>	<b>413,149</b>	<b>404,464</b>	<b>806,140</b>	<b>1,623,753</b>	<b>1,170,732</b>
Industry	413,149	404,464	806,140	1,623,753	1,170,732
<b>Import financing</b>	-	-	-	-	<b>1,127</b>
Trade	-	-	-	-	1,127
<b>Export - ACC</b>	<b>147,779</b>	<b>267,936</b>	-	<b>415,715</b>	<b>537,868</b>
Industry	147,779	267,936	-	415,715	537,868
<b>Income receivable from Advances on Foreign Exchange Contracts</b>	<b>1,642</b>	<b>1,116</b>	-	<b>2,758</b>	<b>4,863</b>
Industry	1,642	1,116	-	2,758	4,863
<b>Export - ACE</b>	-	<b>81,200</b>	-	<b>81,200</b>	<b>33,383</b>
Industry	-	81,200	-	81,200	33,383
<b>ACE receivables</b>	-	<b>411</b>	-	<b>411</b>	<b>359</b>
Industry	-	411	-	411	359
<b>Exchange variation on ACC/ACE (i)</b>	<b>1,220</b>	<b>2,463</b>	-	<b>3,683</b>	<b>13,346</b>
Industry	1,220	2,463	-	3,683	13,346
<b>Total</b>	<b>568,611</b>	<b>803,032</b>	<b>896,140</b>	<b>2,267,783</b>	<b>1,924,496</b>

- (i) In accordance with the BACEN instructions, the Bank calculates the allowance for loan losses, based on the foreign currency balance of Advance on Export Contract (ACC) and Advance on Exchange Contract (ACE) translated into Reais on a monthly basis by the exchange rate(PTAX) provided by BACEN for balance sheet purposes.

As of December 31, 2019, and 2018, there were no credit assignment operations with substantial transfer or retention of risks and rewards, in accordance with the CMN Resolution 3,533.

### b. Credit risk concentration

	2019		2018
Largest debtor	1,623,753	(i)	1,170,732
Percentage of total loan portfolio	71.6%		60.8%
20 largest debtors	2,267,83		1,924,496
Percentage of total loan portfolio	100.0%		100.0%

- (i) See Note 26 "a".

**c. Allowance for loan losses**

Risk level	% of provision	Total portfolio		Allowance for loan losses	
		2019	2018	2019	2018
AA	0.0%	2,129,059	1,734,524	-	-
A	0.5%	15,525	71,289	(78)	(356)
G	70.0%	<u>123,199</u>	<u>118,683</u>	<u>(86,239)</u>	<u>(83,078)</u>
<b>Total</b>		<b><u>2,267,783</u></b>	<b><u>1,924,496</u></b>	<b><u>(86,317)</u></b>	<b><u>(83,434)</u></b>

**d. Changes in the allowance for loan losses**

	2019	2018
<b>Balances at the beginning of years</b>	<b>(83,434)</b>	<b>(74,289)</b>
Formation of provision	(4,096)	(13,374)
Reversal of provision	<u>1,213</u>	<u>4,229</u>
<b>Balances at the end of 2019</b>	<b><u>(86,317)</u></b>	<b><u>(83,434)</u></b>

**e. Loans renegotiated, recovered or written off to loss**

The total amount of credits renegotiated for year ended December 31, 2019 represented R\$105,396 (2018 - R\$218,827).

In the years ended December 31, 2019 and 2018 there were no loan recoveries or written off to loss.

**10 Foreign exchange portfolio - Current Assets**

	2019	2018
Purchased foreign exchange to be settled	663,028	983,919
Right on foreign exchange sales	327,304	201,430
Income receivable from granted advances	<u>3,169</u>	<u>5,222</u>
<b>Total</b>	<b><u>993,501</u></b>	<b><u>1,190,571</u></b>
	<b>2019</b>	<b>2018</b>
Sold foreign exchange to be settled	327,091	201,421
Foreign purchase exchange payables	661,032	973,831
Advances on exchange contracts	<u>(496,915)</u>	<u>(571,251)</u>
<b>Total</b>	<b><u>491,208</u></b>	<b><u>604,01</u></b>

## 11 Other receivables – Sundry

	2019	2018
Deferred tax assets - IRPJ and CSLL (Note 21 "b")	56,606	47,826
Judicial deposits (Note 19 "d")	38,364	37,132
Prepayments of IRPJ and CSLL	13,638	17,812
Receivables from related companies	2,634	7,678
Other	1,753	1,239
<b>Total</b>	<b><u>112,995</u></b>	<b><u>111,687</u></b>
Current assets	30,789	30,246
Long-term assets	82,206	81,441

## 12 Deposits

	2019				2018	
	Without Maturity	Up to 3 months	From 3 to 12 months	From 1 to 3 years	Total	Total
Demand deposits	108	-	-	-	108	369
Time deposits	-	89,582	956,506	4,803	1,050,891	313,557
<b>Total</b>	<b><u>108</u></b>	<b><u>89,582</u></b>	<b><u>956,506</u></b>	<b><u>4,803</u></b>	<b><u>1,050,999</u></b>	<b><u>313,926</u></b>

As of December 31, 2019, the funding average rate of deposits is 102.5% of the Interbank Deposit - DI (2018 - 100.1% of DI).

## 13 Money market funding

As of December 31, 2019, it is represented by repurchase operations in the amount of R\$424,583 (2018 - R\$62,073) with maturities up to May 2020, at rates varying between 4.43% and 5.38% per year, corresponding to the commitment of returning securities received as guarantee in repurchase operations with free trading agreement.

## 14 Securities issued

As of December 31, 2019, the Bank does not have obligations for the issue of Financial Bills (2018 - R\$927).

## 15 Borrowings

Obligations for foreign loans in the amount of R\$569,415 (2018 - R\$1,839,393) are basically represented by transactions aimed at export financing with maturities up to November 2020. Transactions are updated at the exchange variation plus interest ranging from 1.65% to 1.92% per year.



## 16 Repass borrowings

Foreign currency trade finance repass borrowings in the amount of R\$1,623,753 (2018 - R\$1,170,551) are represented by external funding as established in the CMN Resolution 2,921, with maturities up to November 2021. Transactions are updated at the exchange variation plus interest ranging from 2.14% to 3.51% per year.

## 17 Other liabilities - Taxes and social security

	2019	2018
Provision for deferred income tax and social contribution (Note 21 "b")	36,416	43,819
Taxes and contributions on income payable	35,225	54,349
Taxes and contributions payable	<u>12,949</u>	<u>16,627</u>
<b>Total</b>	<b><u>84,590</u></b>	<b><u>114,795</u></b>
Current liabilities	48,821	73,131
Non-current	35,769	41,664

## 18 Other liabilities - Other

	2019	2018
Provision for tax and labor contingencies (Note 19 "d")	27,181	26,481
Salaries, bonuses and social charges	14,890	12,547
Accounts payable – administrative expenses	883	2,677
Accounts payable to related companies	686	-
Other	<u>214</u>	<u>73</u>
<b>Total</b>	<b><u>43,854</u></b>	<b><u>41,778</u></b>
Current liabilities	15,786	13,184
Non-current	28,068	28,594

## 19 Legal, tax and social security contingencies and liabilities

### a. Contingent assets

The Bank does not have any contingent assets recorded in its balance sheet, as well as it does not have at this moment, any lawsuits 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 evaluation for the constitution 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 – other" (note 18), in long-term liabilities.

Ongoing labor lawsuits classified as possible loss amount to R\$26,338 (2018 - R\$31,141). 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 ongoing tax lawsuits classified as possible losses in the amount of R\$10,929 (2018 - R\$10,459), arising from taxes that the Bank has been discussing in court, the main of which related to a claim for off of withholding income tax on financial investments in the amount of R\$5,294 (2018 - R\$5,194), and a request for nullity of the tax assessment notice in the amount of R\$5,635 (2018 - R\$5,265.), related to service taxes (ISS) claimed by the Municipal Government of São Paulo, levied on services rendered by the Bank. These proceedings have judicial deposits sufficient to cover the tax risk.

**c. Legal obligations**

Provision for contingency regarding the main lawsuit in the amount of R\$18,812 (2018 - R\$18,313), including its judicial deposit in amount equivalent to the provision, refers to a legal challenge 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**

	<b>Labor</b>	<b>Tax contingencies</b>	<b>Legal obligations</b>	<b>Total</b>
<b>Balance at 12/31/2018</b>	<b>705</b>	<b>2,773</b>	<b>23,003</b>	<b>26,481</b>
Formation	-	-	197	197
Reversal	(35)	-	(8)	(43)
Usage	(208)	-	-	(208)
Update	32	77	645	754
<b>Balance at 12/31/2019</b>	<b>494</b>	<b>2,850</b>	<b>23,837</b>	<b>27,181</b>
<b>Judicial deposits (i)</b>				
<b>Balance at 12/31/2019</b>	<b>51</b>	<b>13,666</b>	<b>24,647</b>	<b>38,364</b>
<b>Balance at 12/31/2018</b>	<b>185</b>	<b>13,162</b>	<b>23,785</b>	<b>37,132</b>

(i) See note 11.

**20 Equity**

The fully paid-in capital is represented by 4,204,886,326 (2018 - 4,204,886,326) nominative common shares with no par value. Management decides on the allocation of adjusted net income every period, as established in article 202 of Law 6,404/76.

During 2018, as per the Minutes of the Extraordinary General Meeting (EGM), occurred capital increases with funds from shareholders in the amount of R\$474,915 and upon the merger of SPS into the Bank in the amount of R\$843, represented by 1.983.259.169 nominative common shares with no par value. Those processes were approved by BACEN on February 19, 2018 and December 18, 2019 respectively.

**a. Profit reserves**

The legal reserve is formed at the rate of 5% of the net income for the period, up to the limit defined by the current legislation. 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.

**b. Dividends and interest on net equity**

On December 19, 2019, as per Minute of the Extraordinary General Meeting (EGM), the following payments were approved: i) dividends in the amount of R\$3,000 and ii) interest on net equity in the amount of R\$51,850, net of withholding income tax in the amount of R\$9,150. The tax effect arising from the payment of interest on net equity, recognized in profit or loss for the year, totaled R\$24,400.

## 21 Income and social contribution taxes

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

	2019		2018	
	Income tax	Social contribution	Income tax	Social contribution
Income before taxation and after profit sharing	113,886	113,886	104,592	104,592
Payment of interest on net equity	(61,000)	(61,000)	-	-
Temporary additions (exclusions)	33,217	33,217	25,730	25,730
Mark-to-market - Securities and derivatives	28,037	28,037	25,870	25,870
Allowance for loan losses	2,883	2,883	9,145	9,145
Provision for credit risks - Debentures	(335)	(335)	(9,115)	(9,115)
Others	2,632	2,632	(170)	(170)
Permanent additions (exclusions)	6,236	848	5,375	1,308
<b>Taxable base</b>	<b>92,339</b>	<b>86,951</b>	<b>135,697</b>	<b>131,630</b>
Offsetting of tax loss and negative basis of social contribution	-	-	(6,082)	(15,188)
<b>Tax base after offsetting</b>	<b>92,339</b>	<b>86,951</b>	<b>129,615</b>	<b>116,442</b>
Rates	25%	15%	25%	20%
<b>Total IRPJ and CSLL - current values before tax incentives</b>	<b>(23,061)</b>	<b>(13,043)</b>	<b>(32,380)</b>	<b>(23,288)</b>
Tax incentives	879	-	1,319	-
<b>Total income and social contribution taxes – current values</b>	<b>(22,182)</b>	<b>(13,043)</b>	<b>(31,061)</b>	<b>(23,288)</b>
Deferred tax assets	1,684	7,096	(1,247)	(3,673)
Deferred tax liabilities	6,621	530	6,154	7,571
<b>Total</b>	<b>(13,877)</b>	<b>(5,417)</b>	<b>(26,154)</b>	<b>(19,390)</b>

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

Deferred tax assets	Balance at 12/31/2018	Formation	Realization / Reversal	Balance at 12/31/2019
<b>Reflected in income (loss)</b>	<b>47,826</b>	<b>12,495</b>	<b>(3,715)</b>	<b>56,606</b>
Allowance for loan losses	33,373	5,831	(559)	38,645
Provision for tax and labor risks	10,589	1,722	(91)	12,220
Other	3,864	4,942	(3,065)	5,741
<b>Total</b>	<b>47,826</b>	<b>12,495</b>	<b>(3,715)</b>	<b>56,606</b>
	<b>Balance at 12/31/2018</b>	<b>Formation</b>	<b>Realization / Reversal</b>	<b>Balance at 12/31/2019</b>
<b>Deferred tax liabilities</b>				
<b>Reflected in income (loss)</b>	<b>(38,131)</b>	<b>(23,497)</b>	<b>30,648</b>	<b>(30,980)</b>
Mark-to-market of derivatives	(30,288)	(21,887)	30,287	(21,888)
Mark-to-market of securities classified as trading securities	(361)	(151)	361	(151)
Inflation adjustment of judicial deposits	(7,482)	(1,459)	-	(8,941)
<b>Reflected in shareholders' equity</b>	<b>(5,688)</b>	<b>(5,438)</b>	<b>5,690</b>	<b>(5,436)</b>
Mark-to-market of securities classified as available for sale	(5,688)	(5,438)	5,690	(5,436)
<b>Total</b>	<b>(43,819)</b>	<b>(28,935)</b>	<b>36,338</b>	<b>(36,416)</b>

**c. Estimated realization of deferred tax assets on temporary differences**

Realization term	Temporary differences	Total
1st year (i)	12,765	12,765
2nd year	8,061	8,061
3rd year	23,551	23,551
4th year	-	-
5th year	-	-
6th to 10th year	12,229	12,229
<b>Total</b>	<b>56,606</b>	<b>56,606</b>
<b>Present value (ii)</b>	<b>49,650</b>	<b>49,650</b>

- (i) For the realization foreseen in January and February 2020, the rate of 15% was used to calculate the CSLL and, from March 2020, the rate of 20%, as provided for in the article 32 of the Constitutional Amendment 103.
- (ii) For the adjustment to present value, the projected annual CDI rate was used.

At the balance sheet date, there were no tax credits without activation.

## 22 Related parties

Transactions between related parties are disclosed in conformity with the CMN Resolution 4,636, and observing the Technical Pronouncement CPC 05 (R1) – Disclosure of Related Parties. These operations are carried out at usual market values, terms and average rates in effect at the respective dates.

**a. Related party transactions**

Transactions with related parties are basically characterized by:

	<u>Assets / (liabilities)</u>		<u>Revenue / (Expenses)</u>	
	2019	2018	01/01 a 12/31/2019	01/01 a 12/31/2018
<b>Cash and cash equivalents</b>	<b>161</b>	<b>1,658</b>	<b>8,929</b>	<b>39,678</b>
BNS	161	1,658	8,929	39,678
<b>Foreign exchange portfolio - asset position</b>	<b>9,596</b>	<b>8,183</b>	<b>(10)</b>	<b>346</b>
BNS	9,596	8,183	(10)	346
<b>Amounts receivable (payable) related companies / service revenues (expenses)</b>	<b>1,948</b>	<b>7,678</b>	<b>12,678</b>	<b>37,509</b>
BNS	983	4,649	12,379	33,466
Scotiabank & Trust (Cayman)	11	1,476	739	4,037
Scotiabank Inverlat (México)	350	1,031	(506)	6
Banco Colpatría (Colombia)	604	522	81	-
Scotiabank Peru	-	-	(15)	-
<b>Borrowings</b>	<b>(569,415)</b>	<b>(1,838,267)</b>	<b>(71,715)</b>	<b>(154,306)</b>
BNS	(569,415)	(1,838,267)	(71,715)	(154,306)
<b>Repass borrowings</b>	<b>(1,623,753)</b>	<b>(1,170,551)</b>	<b>(90,389)</b>	<b>(159,094)</b>
BNS	(1,623,753)	(1,170,551)	(90,389)	(159,094)
<b>Foreign exchange portfolio - liability position</b>	<b>(9,564)</b>	<b>(8,135)</b>	<b>46</b>	<b>(473)</b>
BNS	(9,564)	(8,135)	46	(473)

**b. Management compensation**

For the purpose of disclosing management remuneration, only statutory officers were considered. Expenses on management remuneration for the year ended December 31, 2019 totaled R\$13,210 (2018 - R\$9,722), of which R\$8,373 (2018 - R\$7,635) represent salaries and payroll charges, profit sharing, and bonus and charges on bonus, denominated short-term benefits, and R\$4,837 (2018 - R\$2,087) that represents share-based remuneration and charges. There are no post-employment benefits, other long-term benefits or work agreement termination benefits.

**23 Share-based payment**

Share-based payment plans are evaluated based on BNS common share price traded at Toronto Stock Exchange (TSX) in Canada. BNS share price fluctuations change the unit value, which affects the Bank's share-based payment expenses. The 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 income for the period against a provision in liabilities. Eligible employees are paid based on this variable remuneration according to one of the following plans: RSU, PSU or DPP.

**a. Restricted Share Unit Plan (RSU)**

According to the 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, 2019, the amount of liabilities provisioned for this plan is R\$1,896 (2018 - R\$815) and the total number of shares is 24,253 units measured at the weighted fair value of R\$0.231 per share. Total expenses recorded in this plan for the period are R\$2,382 (2018 - R\$407).

**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, 2019, the amount of liabilities provisioned for this plan is R\$2,395 (2018 - R\$1,609) and the total number of shares is 28,300 units measured at weighted fair value of R\$0.231 per share. Total expenses recorded in this plan for the period are R\$2,824 (2018 - R\$1,100).

**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 and are paid to employees in each of the three following years. As of December 31, 2019, the amount of liabilities provisioned for this plan is R\$492 (2018 - R\$1,405) and the total number of shares is 2,327 units measured at weighted average fair value of R\$0.211 per share, calculated based on the original share prices when granted. Total expenses recorded in this plan for the period are R\$257 (2018 - R\$220).

## **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 contributions. After the employee's termination these contributions are ceased. Total personnel expenses on this plan for the year ended December 31, 2019 are R\$814 (2018 - R\$859).

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 index and Operational Limits**

The Bank follows the determination of the Basel limits based on the BACEN guidelines. As of December 2019, the Bank's Basel capital ratio was 27.20% (2018 - 25.13%), the notional capital (Tier 1 capital + Tier 2 capital) was R\$1,094,897 (2018 - R\$1,067,060) and the minimum notional capital requirement for risk weighted assets (RWA) was R\$322,065 (2018 - R\$366,166). 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.

## 26 Other information

### a. Restricted receivables

As of December 31, 2019, the Bank had restricted receivables within the scope of the CMN Resolution 2,921, with only one debtor, stated in the following table:

	<u>Assets / (Liabilities)</u>		<u>Revenue / (Expenses)</u>	
	2019	2018	01/01 a 12/31/2019	01/01 a 12/31/2018
<b>Loan operations</b>				
NCE (Note 9 "a")	1,623,753	1,170,732	69,227	159,185
<b>Repass borrowings</b>				
Foreign onlendings (Note 16)	<u>(1,623,753)</u>	<u>(1,170,551)</u>	<u>(69,227)</u>	<u>(159,094)</u>
<b>Net income</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>91</u>

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. Effects arising from the increase in the social contribution rate

Under Constitutional Amendment 103, as from March 1, 2020, the 20% Social Contribution on Net Income (CSLL) rate will be the one levied on the balance sheet of financial institutions. Impacts arising from the increase in the CSLL rate from 15% to 20% as of December 31, 2019 were R\$6,086 on tax credits and R\$4,046 on deferred tax liabilities.

### c. Other operating income (expenses)

As of December 31, 2019, they basically refer to: (i) "Other operating income", income from correction of taxes and deposits in court, and reversal of operating provisions; (ii) "Other operating expenses", correction of taxes on income, provision for tax contingent liabilities.

### d. 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, 2019.