

The Bank of Nova Scotia  
U.S. Resolution Plan  
Public Summary  
December 20, 2013



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## Introduction

### The Rules

Section 165(d) of the Dodd-Frank Wall Street Reform and Consumer Protection Act requires certain large financial institutions to prepare and periodically revise plans for their rapid and orderly resolution in the event of their material financial distress or failure. On September 13, 2011, and October 17, 2011, the Federal Deposit Insurance Corporation (“FDIC”) and Federal Reserve Board (“FRB”), respectively, approved a joint rule that implements the resolution plan requirements of Section 165(d) of the Dodd-Frank Act. The joint rule is codified as Regulation QQ for the FRB (12 C.F.R. pt. 243) (the “FRB Rule”) and Part 381 for the FDIC (12 C.F.R. pt. 381) (the “FDIC Rule,” together with the FRB Rule, the “Resolution Plan Rule”).

The Bank of Nova Scotia (“BNS”)<sup>1</sup> is a bank organized under the laws of Canada that maintains a state-licensed branch in Houston and state-licensed agency offices in New York and Miami. BNS also owns Scotiabank de Puerto Rico, an insured depository institution organized under the laws of the Commonwealth of Puerto Rico.

BNS is a registered bank holding company under the Bank Holding Company Act, as amended, and has total consolidated assets in excess of \$50 billion in the United States. Accordingly, BNS is subject to the Resolution Plan Rule and has prepared a resolution plan providing for the rapid and orderly resolution of BNS’s core business lines and material entities in the United States (the “U.S. Resolution Plan”).

As a foreign-based covered company as defined by the Resolution Plan Rule, BNS is required to include in the U.S. Resolution Plan information with respect to its subsidiaries, branches, agencies, critical operations, and core business lines that are domiciled within the United States or conducted in whole or material part in the United States. BNS also is required to demonstrate the process by which each of its identified core business lines and material entities would be resolved under applicable insolvency regimes in a rapid and orderly manner, without the extraordinary support of the United States or any other government. Moreover, the Resolution Plan Rule requires BNS to provide the information described above regarding its U.S. operations, an explanation of how resolution planning for its U.S. operations is integrated into its overall resolution planning, and a description of the interconnections and interdependencies among its U.S. operations and its foreign-based operations.

The U.S. Resolution Plan would facilitate resolution in a manner that substantially minimizes the risk that the failure of these core business lines and material entities would have an adverse effect on the financial stability of the United States. BNS’s material legal entities in the United States for purposes of the U.S. Resolution Plan are: The Bank of Nova Scotia New York Agency

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<sup>1</sup> “BNS” refers to The Bank of Nova Scotia and its global, enterprise-wide operations, while the term “Bank” refers to BNS’s operations in the United States.

(“NYA”); The Bank of Nova Scotia Houston Branch (“Houston Branch”); Scotia Capital (USA) Inc. (“SCUSA”); and Scotiabanc Inc. (“SBI”).<sup>2</sup>

### The Bank of Nova Scotia

BNS is a leading multinational financial services provider and Canada’s most international bank. Since opening in Halifax, Nova Scotia, in 1832, BNS has continued to expand its global reach. Today, through a team of more than 83,000 employees, BNS and its affiliates offer a broad range of products and services, including personal, commercial, wealth management, corporate and investment banking, to in excess of 21 million customers in more than 55 countries around the world.

BNS is committed to helping individuals, companies, and communities to thrive in a changing world. The BNS’s core purpose is to be the best at helping customers become financially better off.

BNS’s continued growth and success is founded on the following key factors:

- A committed team that lives our shared values and works together to provide customers with expert advice and service;
- A solid foundation of key strengths and priorities, including a strong capital base, and excellent risk and expense management skills; and
- A straightforward business model anchored in diversification by business, geography, risk, and people.

BNS has been in the United States for over one hundred years and is one of the leading foreign banks serving large national and multinational corporations in the United States. BNS bases its operations in the United States primarily in offices located in New York and Houston and is able to deliver local and cross-border cash and treasury management solutions to support its multinational clients and financial institutions across the world. BNS has assembled its U.S. team around core industry groups, with clients having access to professionals with intimate knowledge of their markets, competitors and challenges. Drawing on its high-ranked product and service groups, BNS is fully capable of devising and executing tailor-made solutions to today's competitive environment.

#### **A. Names of Material Entities**

The Resolution Plan Rule defines a material entity as a subsidiary or foreign office of a covered company that is significant to the activities of a critical operation or core business line of the company. BNS has identified the following entities as material entities under the Resolution Plan Rule:

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<sup>2</sup> Scotiabank de Puerto Rico was determined to not be a material legal entity for purposes of the U.S. Resolution Plan.

- New York Agency: NYA, which is licensed by the New York State Department of Financial Services, provides a broad range of wholesale financial products and services to large national, multi-national and institutional clients. NYA is limited in its deposit taking abilities to generally receiving deposits from non-U.S. persons and entities. NYA is overseen by the Federal Reserve Bank of New York and the New York State Department of Financial Services.
- Houston Branch: Houston Branch, which is licensed by the Texas Department of Banking, provides a broad range of wholesale financial products and services to large national, multi-national and institutional clients and is authorized to, and does take, wholesale deposits (amounts in excess of USD \$250,000), generally from corporate clients. Houston Branch is overseen by the Federal Reserve Bank of Dallas, through its Houston office, and the Texas Department of Banking.
- Scotia Capital USA Inc.: SCUSA is a registered broker-dealer under the United States Securities Exchange Act of 1934 and member of the Financial Industry Regulatory Authority. SCUSA is based in New York City and maintains branches in Houston, New Orleans and Toronto. SCUSA's primary business activities include debt and equity securities underwriting; fixed income trading and equity trading; securities borrowing and lending; and repurchase agreement ("repo") activities. SCUSA's principal revenue sources are underwriting fees, execution commissions, trading gains, and interest income.
- Scotiabanc Inc.: SBI is a non-bank commercial finance company based in Houston, Texas. SBI's asset portfolio consists of corporate loans including syndicated loans, intra-group credit lines, and investments.

## **B. Description of Core Business Lines**

The Resolution Plan Rule defines core business lines as those business lines of the covered company, including associated operations, services, functions and support that, in the view of the covered company, upon failure would result in a material loss of revenue, profit, or franchise value for the covered company. BNS has identified the following core business lines:

- Debt Capital Markets: The Debt Capital Markets business primarily involves underwriting U.S. dollar-denominated corporate bonds. Most of Debt Capital Markets' clients are domiciled in the United States, but the group also provides underwriting for non-U.S. companies seeking access to capital markets in the United States. All of Debt Capital Market's underwriting is done through SCUSA.
- Corporate Lending: The Corporate Lending group offers corporate lending facilities, letter of credit facilities and combination cash/letter of credit facilities to major U.S. corporations. Corporate Lending is the Bank's largest business line in the United States and is operated through NYA, Houston Branch and SBI.

- U.S. Rates: U.S. Rates is the Bank's government securities trading business. Through its U.S. Rates business, NYA acts as a primary dealer for debt issued by the United States and offers repo, derivative and other related products. U.S. Rates operates through NYA.
- ScotiaMocatta: ScotiaMocatta is a division of BNS that deals in precious and base metals trading, finance, and physical metal distribution. ScotiaMocatta operates its business through NYA.

### **C. Consolidated Financial Information Regarding Assets, Liabilities, Capital, and Major Funding Sources**

Group Treasury is responsible for managing BNS's global treasury, liquidity, and investments, including public and private debt and equity investment portfolios. This includes liquidity management, foreign currency short-term funding for the Parent Bank,<sup>3</sup> medium-term and capital funding issuance, debt and equity investments and hedging balance sheet risks. Group Treasury provides strategic direction and oversight over the funding and liquidity profile of BNS, and is directly responsible for wholesale and capital funding and liquidity management of the Parent Bank.

The following is a consolidated statement of financial position which identifies the assets, liabilities, and equity as of BNS's fiscal year end October 31, 2012.

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<sup>3</sup> The term "Parent Bank" refers to all significant Canadian banking operations and the key foreign branches of The Bank of Nova Scotia and foreign subsidiaries that are primarily engaged in wholesale banking activities with limited ability to source deposits.

**Figure 1 – Consolidated Statement of Financial Position (October 31, 2012)**

<b>Consolidated Statement of Financial Position of Scotiabank as of October 31, 2012</b>	
(\$ millions)	
<b>ASSETS</b>	
Cash and deposits with banks	54,804
Precious Metals	12,387
Trading assets	87,596
Financial assets designated at fair value through profit or loss	197
Securities purchased under resale agreements	47,354
Investment securities	33,361
Derivatives	30,327
Loans	364,766
Other assets	37,252
<b>Total assets</b>	<b>668,044</b>
<b>Liabilities</b>	
Deposits by banks	29,970
Customer accounts	433,639
Acceptances	8,932
Obligations related to securities sold short	18,622
Derivative financial instruments	35,299
Obligations related to securities sold under repurchase agreements	56,949
Subordinated debentures	10,143
Capital instruments	1,358
Other liabilities	31,753
<b>Total liabilities</b>	<b>626,665</b>
<b>Equity</b>	
Total Common equity	35,252
Preferred shares	4,384
Non-controlling interests	1,743
<b>Total equity</b>	<b>41,379</b>
<b>Total liabilities and equity</b>	<b>668,044</b>

**Figure 2 – Capital Ratios (October 31, 2012)**

<b>Scotiabank Capital Ratios as of October 31, 2012</b>	
International Financial Reporting Standards (IFRS)	
Tier 1 Capital Ratio	13.60%
Total Capital Ratio	16.70%
Assets-to-capital multiple	15.0x

#### **D. Description of Derivative Activities and Hedging Activities**

##### Derivative Activities

Derivative financial instruments are contracts whose value is derived from interest rates, foreign exchange rates, commodities, equity prices or other financial variables. Most derivative financial instruments can be characterized as interest rate contracts, foreign exchange and gold contracts,

commodity contracts, equity contracts or credit contracts. Derivative financial instruments are either exchange-traded contracts or negotiated over-the-counter contracts. Negotiated over-the-counter contracts include swaps, forwards and options.

BNS, which is a registered Swaps Dealer with the National Futures Association and regulated by the Commodity Futures Trading Commission, enters into derivative contracts for trading purposes, as well as to manage its risk exposures (*i.e.*, to manage BNS's non-trading interest rate, foreign currency and other exposures). Trading activities are undertaken to meet the needs of BNS's customers, as well as for BNS's own account.

All derivatives, including embedded derivatives that must be separately accounted for, are recorded at fair value in the Consolidated Statement of Financial Position. The determination of the fair value of derivatives includes consideration of credit risk and ongoing direct costs over the life of the instruments. Inception gains or losses on derivatives are only recognized where the valuation is dependent on observable market data, otherwise, they are deferred over the life of the related contract, or until the valuation inputs become observable.

### Hedging Activities

BNS formally documents all hedging relationships and its risk management objective and strategy for undertaking hedge transactions at their inception. The hedge documentation includes identification of the asset, liability, firm commitment or highly probable forecasted transaction being hedged, the nature of the risk being hedged, the hedging instrument used and the method used to assess the effectiveness of the hedge. BNS also formally assesses, both at a hedge's inception and on an ongoing basis, whether a hedging instrument is highly effective in offsetting changes in fair value or cash flows of hedged items.

BNS engages in three types of hedges: fair value hedges, cash flow hedges and net investment hedges.

- Fair Value Hedges: BNS utilizes fair value hedges primarily to convert fixed rate financial instruments to floating rate financial instruments. Hedged items include available-for-sale debt and equity securities, loans deposit liabilities and subordinated debentures. Hedging instruments include single-currency interest rate swaps, cross-currency interest rate swaps and foreign currency liabilities.
- Cash Flow Hedges: For cash flow hedges, the change in fair value of the hedging instrument, to the extent effective, is recorded in other comprehensive income until the corresponding gains and losses on the hedged item is recognized in income. BNS utilizes cash flow hedges primarily to hedge the variability in cash flows relating to floating rate financial instruments and highly probable forecasted revenues. Hedged items include available-for-sale debt securities, loans, deposit liabilities and highly probable forecasted revenues. Hedging instruments include single-currency interest rate swaps, cross-currency interest rate swaps and foreign currency forwards.



- **Net Investment Hedges:** For net investment hedges, the change in fair value of the hedging instrument, to the extent effective, is recorded in other comprehensive income until the corresponding cumulative translation adjustments on the hedged net investment is recognized in income. BNS designates foreign currency liabilities and foreign currency forwards as hedging instruments to manage the foreign currency exposure and impact on capital ratios arising from foreign operations.

#### **E. Memberships in Material Payment, Clearing, and Settlement Systems**

BNS participates in many different payment, clearing, and settlement systems in Canada, the United States, and other countries. Each of these systems has its own rules and is subject to a regulatory framework. BNS operates in good standing with all such systems. BNS identifies the Federal Reserve Wire Network (“FedWire”), the Clearing House Interbank Payments System (“CHIPS”), the National Securities Clearing Corporation (“NSCC”), the Fixed Income Clearing Corporation (“FICC”), the Depository Trust & Clearing Corporation (“DTCC”), the Chicago Mercantile Exchange (“CME”) and the Bank of New York Mellon as the payment, clearing and settlement systems on which BNS conducts a material number or value amount of transactions. These systems allow BNS to serve as a broker-dealer for securities transactions and assist with the managing of risk with regard to derivative transactions.

BNS is a direct participant in the payment, clearing, and settlement systems in USD funds via FedWire and CHIPS. FedWire is a real time gross settlement system operated by the U.S. Federal Reserve. CHIPS is a bank-owned, privately operated electronic payments system and is a deferred net settlement system.

BNS is also a direct participant in NSCC, FICC and DTCC. NSCC is a subsidiary of the DTCC that provides clearing, settlement, risk management and central counterparty services for U.S. securities. FICC is also a subsidiary of DTCC, and it provides real-time trade matching, clearing, risk management and netting of trades in U.S. Government debt. DTCC provides clearing, settlement and information services and DTCC’s depository provides custody and asset servicing.

Finally, BNS conducts a material number or value amount of transactions on CME and with the Bank of New York Mellon. As a direct participant in CME, BNS has access to the largest futures and options market in the world. The Bank of New York Mellon, which is normally categorized as a clearing bank, also provides clearance and settlement of security transactions through its network foreign custodians who have membership in local clearing systems.

#### **F. Description of Foreign Operations**

BNS is a global institution based in Canada with operations in more than 55 countries worldwide. BNS’s global activities are organized under the following four business platforms: Canadian Banking, International Banking, Global Banking and Markets and Global Wealth & Insurance.

- Canadian Banking: Canadian Banking provides a full suite of financial advice and solutions, supported by an excellent customer experience, to over 7.5 million personal and business customers across Canada, via 1,037 branches, 3,527 automated banking machines, as well as internet, mobile and telephone banking, specialized sales teams, and third-party channels. Canadian Banking comprises two main businesses:
  - Retail and Small Business Banking provides financial advice and solutions to individuals and small businesses, such as day-to-day banking products, including debit cards, deposit accounts, credit cards, investments, mortgages, loans, and related creditor insurance products.
  - Commercial Banking delivers advisory services and a full solutions suite to medium and large businesses including a broad array of lending, deposit and cash management solutions.
- International Banking: International Banking encompasses BNS's retail and commercial banking operations in more than 55 countries outside Canada. This business line has operations in Latin America, the Caribbean and Central America, and Asia, with more than 73,000 employees (including subsidiaries and affiliates). A full range of personal and commercial financial services is provided to over 13.5 million customers through a network of over 3,000 branches and offices, 7,516 automated banking machines, mobile, internet and telephone banking, in-store banking kiosks, and specialized sales forces.
- Global Banking and Markets: Global Banking and Markets ("GBM") is the wholesale banking and capital markets arm of BNS. It offers an extensive number of products to corporate, government and institutional investor clients. GBM is a full-service lender and investment dealer in Canada and Mexico and offers a wide range of products in the United States, Central and South America, and in select markets in Europe and the Asia-Pacific region. GBM provides corporate lending, equity and debt underwriting, and mergers and acquisitions advisory services, as well as capital markets products and services, such as fixed income, derivatives, prime brokerage, securitization, foreign exchange, equity sales, trading and research, energy and agricultural commodities and, through ScotiaMocatta, precious and base metals.
- Global Wealth & Insurance: BNS's Global Wealth & Insurance ("GWI") business line combines BNS's wealth management and insurance operations in Canada and internationally, and Global Transaction Banking ("GTB").
  - Global Wealth is diversified across multiple geographies, product lines and strong businesses. GWI is an integrated business including asset management and client-facing businesses. The asset management business is focused on developing innovative investment solutions for both retail and institutional investors. The global client-facing wealth business units include private client, online and full service brokerage, institutional client

services and the independent advisor channel. Its focus is on providing advice and solutions for clients in Canada and internationally.

- Global Insurance has four main businesses in Canada: creditor, life and health, home and auto and travel. Internationally, a full range of insurance products (creditor, non-creditor, life and health, and property) are sold to bank customers through a number of different BNS channels.
- GTB is a virtual business offering comprehensive business solutions – cash management, payment services, electronic banking, business deposits, and trade services – on a global basis to the small business, commercial and corporate customers of BNS. It also provides correspondent banking products and services to other financial institutions globally. The results of this unit are included in Canadian Banking, International Banking and GBM.

### **G. Material Supervisory Authorities**

NYA and Houston Branch are uninsured offices of BNS that are licensed under applicable state law and are supervised by the State of New York Department of Financial Services and the Texas Department of Banking, respectively. In addition, NYA and Houston branch are supervised by the Federal Reserve Banks of New York and Dallas, respectively. SCUSA is registered broker-dealer regulated by the Securities and Exchange Commission.

### **H. Principal Officers for U.S. Core Business Lines**

**Figure 3 – Principal Officers for U.S. Core Business Lines**

<b>Officer</b>	<b>Title</b>	<b>Business Line</b>
Kevin Ray	Vice Chair & Co-Head US Corporate Banking & Head of Origination	Corporate Lending
Gary Rupert	CEO Scotia Capital (USA) Inc.	Debt Capital Markets
Tim Dinneny	Global Head of Marketing, ScotiaMocatta	ScotiaMocatta
Kurt Von Uffel	Managing Director, Head of U.S. Rates	U.S. Rates

### **I. Corporate Governance Structure and Processes Related to Resolution Planning**

Executive oversight and governance of the U.S. Resolution Plan is managed by the office of the Chief Administrative Officer of BNS’s GBM division. The Resolution Plan Working Group, overseen by the Resolution Plan Committee, is responsible for the preparation, submission, and periodic maintenance of the plan. BNS’s Board of Directors has delegated to the Resolution

Plan Committee, which is made up of senior-level Canadian and U.S. management employees, the authority to review and approve the U.S. Resolution Plan.

Senior management at each core business line is responsible for validating the accuracy of the information in the U.S. Resolution Plan with regard to their specific business line.

#### **J. Description of Material Management Information Systems**

BNS uses a variety of Management Information Systems (“MIS”) to support overall risk management of the Bank and ensures the Bank’s risk profile remains within its risk appetite. The MIS reporting allows effective management within the Bank for accounting, operations, finance, and regulatory reporting purposes. Among other things, these MIS systems are used in connection with:

- Consolidation and financial reporting;
- Modeling and pricing new or revised credit transactions;
- Managing market, credit, operational and liquidity risks;
- Managing counterparty credit risk
- Determining value-at-risk; and
- Monitoring risk limits.

BNS recognizes the importance of MIS and the value it brings to the management decision making process. BNS is continuously enhancing the timeliness, accuracy and completeness of information to support management decision making with respect to liquidity, interest rate risk, financial management, credit risk and capital management.

#### **K. High-level Description of Resolution Strategy**

As required by the Resolution Plan Rule, the U.S. Resolution Plan identifies core business lines and material entities, and provides for the means through which they would be resolved in a rapid and orderly manner without adversely affecting the financial stability of the United States. Taking into consideration the baseline scenarios for the economic and financial conditions upon which the U.S. Resolution Plan is based, the plan assumes that the Bank will not be able to rely on the United States or any other government to provide funding and liquidity. The approach to resolve each business in a rapid and orderly fashion involves the simultaneous wind down of each business within a prescribed timeframe; with the exception of ScotiaMocatta, which would be divested. Core business lines and material entities that could not be wound down prior to failure would be resolved under Chapter 11 of the U.S. Bankruptcy Code, the Securities Investor Protection Act or the banking laws of the States of New York and Texas, as applicable.