

## CHARTER

### THE BANK OF NOVA SCOTIA

#### AUDIT AND CONDUCT REVIEW COMMITTEE OF THE BOARD

The Audit and Conduct Review Committee of the Board of Directors (the “Committee”) has the responsibilities and duties as outlined below:

#### AUDIT

##### **A. Mandate**

1. To perform such duties as may be required by:
  - the *Bank Act* (the “Bank Act”) and the regulations thereunder; and
  - other applicable legislation and regulations including those of the Ontario Securities Commission and the Canadian Securities Administrators, the Toronto Stock Exchange, the New York Stock Exchange (“NYSE”), the Securities and Exchange Commission and the *Sarbanes-Oxley Act, 2002*,as more fully described under the heading “**Duties**” below.
2. To assist the Board of Directors (the “Board”) in fulfilling its oversight responsibilities for:
  - the integrity of the Bank’s consolidated financial statements and related quarterly results press releases;
  - the Bank’s compliance with legal and regulatory requirements;
  - the system of internal control, including internal control over financial reporting and disclosure controls and procedures (“internal controls”);
  - the independent auditor’s qualifications and independence;
  - the performance of the Bank’s internal audit function and independent auditors; and
  - the Bank’s internal audit, finance and compliance functions.
3. To perform such other duties as may from time to time be assigned to the Committee by the Board.
4. To act as the audit committee for any federally chartered Canadian financial institution beneficially owned by the Bank as determined by the Board.

##### **B. Authority**

The Committee has authority to:

- conduct or authorize investigations into any matters within its scope of responsibility;
- retain, as appropriate and at the Bank’s expense, independent counsel, accountants or others to advise the Committee or assist in the conduct of an investigation;

- meet with Bank officers, the external auditor or outside counsel, as necessary;
- determine appropriate funding for independent advisors; and
- communicate directly with the internal and external auditors.

**C. Duties**

The Committee shall:

**Financial Information**

- review the quarterly and annual consolidated financial statements of the Bank prior to approval by the Board and disclosure to the public; review should include discussion with management and the external auditor of significant issues, including significant accounting policies, regarding the financial results, accounting principles, practices and management estimates and judgments;
- review the quarterly and annual Management's Discussion & Analysis of Financial Condition and Results of Operations ("MD&A") prior to review and approval by the Board;
- review any material proposed changes in accounting standards and securities policies or regulation relevant to the Bank's consolidated financial statements and approve any material changes in accounting policies related to the Bank's consolidated financial statements;
- be satisfied that adequate procedures are in place for the review of the Bank's public disclosure of all consolidated financial statements, related quarterly results press releases and financial information extracted or derived from the Bank's consolidated financial statements and periodically assess the adequacy of these procedures;
- review material financial press releases prior to public disclosure;
- review earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies prior to public disclosure;
- discuss significant financial risk exposures and the steps management of the Bank has taken to monitor, control and report such exposures;
- review with management and the external auditor all matters required to be communicated to the Committee under generally accepted auditing standards;
- review the Annual Information Form; and
- review the process relating to and the certifications of the Chief Executive Officer and the Chief Financial Officer on the integrity of the Bank's quarterly and annual consolidated financial statements.

**Finance Function:**

- oversee the Finance Department, having regard to its independence, by:
  - reviewing and approving the appointment and/or removal of the Chief Financial Officer of the Bank;
  - annually reviewing and approving the mandate of the Chief Financial Officer and the Charter of the Finance Department;
  - annually reviewing and approving the organizational structure of the Finance Department;

- annually reviewing and approving the Finance Department's resources;
- annually assessing the effectiveness of the Chief Financial Officer and the effectiveness of the Finance Department;
- conveying its view on the assessment of the effectiveness of the Chief Financial Officer to the Human Resources Committee; and
- periodically requesting independent reviews of the Finance Department, reviewing the results of such reviews and reporting such results to the Board.

### Compliance

- receive reports from management on the Bank's compliance with legal and regulatory requirements and the adequacy and effectiveness of the Bank's compliance controls, including:
  - review the annual and other periodic reports of Group Compliance, including compliance with the Bank's Guidelines for Business Conduct and any instances of material deviation therefrom with corrective actions taken;
  - review the quarterly report on litigation matters; and
  - review any plans to remediate any deficiencies identified;
- review the annual letter of certification from the Chief Executive Officer on the Bank's compliance with the Guidelines for Business Conduct;
- review investments and transactions that could adversely affect the well-being of the Bank brought to its attention by the external auditor or by any officer of the Bank;
- meet, on its own or with the Board, with representatives of the Office of the Superintendent of Financial Institutions of Canada ("OSFI") to discuss OSFI's supervisory results;
- meet with Bank management to review and discuss the Bank's response to OSFI's recommendations and suggestions pursuant to their supervisory activities;
- review such returns as specified by OSFI;
- oversee the Group Compliance Department, having regard to its independence, by:
  - reviewing and approving the appointment and/or removal of the Chief Compliance and Regulatory Officer;
  - annually reviewing and approving the job description of the Chief Compliance and Regulatory Officer and the mandate of the Group Compliance Department;
  - annually reviewing and approving the organizational structure of the Group Compliance Department;
  - annually reviewing and approving the Group Compliance Department's resources;
  - annually assessing the effectiveness of the Chief Compliance and Regulatory Officer and the effectiveness of the Group Compliance Department;
  - conveying its view on the assessment of the effectiveness of the Chief and Regulatory Compliance Officer to the Vice-Chairman and Chief Operating Officer; and

- periodically requesting independent reviews of the Group Compliance Department, reviewing the results of such reviews and reporting such results to the Board.

#### Internal Controls

- require Bank management to implement and maintain appropriate internal control procedures including anti-fraud controls and review, evaluate and approve these procedures;
- receive and review reports from management and internal audit on the design and operating effectiveness of internal controls and any significant control breakdowns, including any reports concerning significant deficiencies and material weaknesses in the design or operation of internal controls which are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information, and any fraud involving management or other employees who have a significant role in the Bank's internal controls;
- receive and review the external auditor's audit report on the Bank's internal controls over financial reporting as of the Bank's year end; and
- require management to establish procedures and review and approve the procedures established for processing complaints regarding accounting, internal accounting controls or auditing matters, including confidential, anonymous submissions from employees, as part of the Bank's Whistleblower Policy and Procedures.

#### Anti-Money Laundering and Anti-Terrorist Financing Program

- oversee the Bank's Anti-Money Laundering and Anti-Terrorist Financing program;
- review and approve the Bank's Anti-Money Laundering/Anti-Terrorist Financing Policy and the Mandate of the Bank's Chief Anti-Money Laundering Officer, and any significant changes thereto; and
- at least annually meet with the Chief Anti-Money Laundering Officer to receive a report on the Anti-Money Laundering and Anti-Terrorist Financing Program and receive other reports periodically.

#### Internal Audit

- review the quarterly and other reports of the Chief Internal Auditor;
- regularly meet with the Chief Internal Auditor, or the officer or employee of the Bank acting in a similar capacity, with and/or without management of the Bank, to discuss the effectiveness of the Bank's internal control procedures, risk management and governance processes;
- oversee the Audit Department, having regard to its independence, by:
  - reviewing and approving the appointment and/or removal of the Chief Internal Auditor;
  - annually reviewing and approving the Charter for the Audit Department and the job description for the Chief Internal Auditor;
  - annually reviewing and approving the organizational structure of the Audit Department;

- annually reviewing and approving the annual audit plan, annual budgets and resources of the Audit Department;
- annually reviewing the effectiveness of the Chief Internal Auditor and the Audit Department, taking into consideration the objectivity and independence of the Bank's internal audit function;
- conveying its view on the assessment of the effectiveness of the Chief Internal Auditor to the Vice-Chairman and Chief Operating Officer;
- reviewing the annual performance appraisal of the Chief Internal Auditor; and
- periodically requesting independent reviews of Internal Audit, reviewing the results of such reviews and reporting such results to the Board;
- ensure the Audit Department has a direct and independent reporting line to the Committee;
- provide for an open avenue of communication between the Audit Department and the Board; and
- ensure that the Audit Department's recommendations are adequately considered and acted on, by providing the Audit Department with the authority to follow-up on observations and recommendations.

#### External Auditor

- have responsibility for the oversight of the external auditor who reports directly to the Committee;
- recommend to the Board the retention or termination of the Bank's external auditor, subject to shareholder ratification;
- review the annual audit plan and letter(s) of engagement;
- at least annually review the report of the external auditor;
- review and evaluate the external auditor's qualifications, performance and independence, including a review and evaluation of the lead audit partner;
- review and recommend to the Board the annual fee for the audit of the Bank's consolidated financial statements;
- review and pre-approve in accordance with established pre-approval policy, all services to be provided by the external auditor, including audit and audit related services and permitted tax and non-audit services;
- review external auditor services pre-approved by the delegate of the Committee;
- review annually the total fees paid to the external auditor by required categories;
- at least annually, obtain and review a report from the external auditor describing:
  - the firm's internal quality-control procedures;
  - any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and
  - to assess all relationships between the external auditor and the Bank that pertain to independence;
- review the rotation plan for partners on the engagement;

- meet with the external auditor and with management to discuss the quarterly and the annual consolidated financial statements including the Bank's disclosure under MD&A;
- review with the external auditor any audit problems or difficulties and management's response;
- discuss with the external auditor the OSFI returns, investments or transactions reviewed by the Committee pursuant to the Compliance responsibilities in this charter;
- resolve any disputes between the external auditor and management; and
- review and approve policies for the Bank's employment of current and former employees or partners of the current or former external auditor.

#### Other Duties

- provide for an open avenue of communication between internal audit, the external auditor and the Board of Directors;
- meet separately, at least quarterly, with management, the Chief Internal Auditor and with the external auditor;
- annually, review the charter for the Committee and evaluate the Committee's effectiveness in fulfilling its mandate;
- provide consent, where appropriate, for a director's service on more than three audit committees of public company boards;
- annually, approve a core plan of reports to be presented to the Committee on matters within its mandate;
- to prepare a committee report for inclusion in the Bank's management proxy circular; and
- institute and oversee special investigations as needed.

### **CONDUCT REVIEW**

#### **D. Mandate**

1. To perform the duties with respect to the Bank's procedures for ensuring its transactions with its related parties comply with Part XI of the Bank Act and any regulations thereunder as more fully described under the heading "**Duties**" below.
2. In the event a widely held bank holding company or insurance holding company has a significant interest in any class of shares of the Bank:
  - to establish policies for entering into transactions referred to in subsection 495.1(1) of the Bank Act, including transactions with a holding company or any other related party of the Bank that is an entity in which the holding company has a substantial investment; and
  - to review certain of the Bank's transactions that are referred to in subsection 495.3(1) of the Bank Act including any transaction with a widely held insurance or bank holding company or any other related party in which they hold a substantial investment.

3. To perform such duties as are required by the Bank Act to be dealt with by a committee of the Board concerning the monitoring of adherence to procedures for identifying potential conflicts of interest and for resolving such conflicts of interest, for restricting the use of confidential information, for providing disclosure of information to customers and for dealing with customer complaints as required under subsection 455(1) of the Bank Act, and as more fully described under the heading "**Duties**" below.
4. To perform such other duties as are required under the Bank Act or by OSFI, or as may from time to time be assigned by the Board.
5. To monitor and fulfill the compliance requirements of the Bank in respect of the Financial Consumer Agency of Canada.
6. To act as the Conduct Review Committee for any federally chartered Canadian financial institution beneficially owned by the Bank as determined by the Board.

**E. Duties**

1. Establish criteria for determining whether the value of transactions with related parties of the Bank is nominal or immaterial to the Bank;
2. Approve the terms and conditions of:
  - loans, other than margin loans, to senior officers of the Bank on terms and conditions more favourable to the senior officers than those offered to the public;
  - loans to spouses of senior officers of the Bank on the security of mortgages of the principal residences of such spouses on terms and conditions more favourable than those offered to the public;
3. Approve the practice of the Bank making financial services, other than loans or guarantees, available to senior officers of the Bank or to spouses, or children who are less than 18 years of age of senior officers of the Bank, on terms and conditions more favourable than those offered to the public, provided the financial services are offered by the Bank to its employees on those favourable terms and conditions;
4. Require Bank management to establish procedures to enable the Bank to verify that its transactions with related parties of the Bank comply with Part XI of the Bank Act and to review those procedures and their effectiveness. These procedures should, among other things, enable management to verify that:
  - all related party transactions are on terms and conditions at least as favourable to the Bank as market terms and conditions, other than transactions referred to in clauses 2 and 3 above; and
  - loans to full-time senior officers, other than margin loans and mortgages on their principal residences, do not exceed the greater of twice their annual salaries and \$100,000; and
  - aggregate loans or guarantees to, and investments in the securities of any related party (subject to certain exceptions) do not exceed 2% of the Bank's

regulatory capital unless the approval of 2/3 of the Board has been obtained;  
and

- aggregate loans or guarantees to, and investments in the securities of all related parties (subject to certain exceptions) do not exceed 50% of the Bank's regulatory capital;
5. Review the practices of the Bank to identify any transactions with related parties of the Bank that may have a material effect on the stability or solvency of the Bank;
  6. Monitor the procedures established by the Board to resolve conflicts of interest, including techniques for the identification of potential conflict situations, and to restrict the use of confidential information; and
  7. Monitor the procedures established by the Board to provide disclosure to customers of the Bank of information that is required to be disclosed by the Bank Act, and for dealing with and reporting complaints made by customers of the Bank who have requested or received products or services in Canada and to satisfy itself that these procedures are being adhered to by the Bank.

## **COMMITTEE OPERATIONS**

### **F. Reporting**

After each meeting of the Committee, the Committee is required to report to the Board on matters reviewed by the Committee.

The Chair of the Committee shall review, for completeness, the Board's report with respect to conduct review matters to the Superintendent of Financial Institutions on the Committee's activities during the year. This report must be filed within 90 days after the Bank's financial year-end.

The Committee shall review and assess the adequacy of this Charter on an annual basis and report the results of this review to the Corporate Governance and Pension Committee of the Board.

### **G. Composition**

#### **Structure**

The Committee shall consist of a minimum of 3 Directors, a majority of whom shall be resident Canadians.

Each member must be financially literate or become financially literate within a reasonable period of time subsequent to his/her appointment to the Committee. At least one member must be a financial expert and at all times a majority of members must be financially literate.

### Independence

No member of the Committee may be a current or former officer or employee of the Bank or of any of its subsidiaries or affiliates. No member may be a person who is affiliated with the Bank or any of its subsidiaries or affiliates or be related or non-independent as determined by the Board for the purposes of the NYSE Corporate Governance Rules or Multilateral Instrument 52-110. No member may hold 5% or more of the voting shares of the Bank.

Directors' fees (annual retainer and/or attendance fees) are the only compensation a member of the Committee may be paid by the Bank.

### Appointment of Committee Members

Members of the Committee are appointed or reappointed annually by the Board, such appointments to take effect immediately following the annual meeting of the shareholders of the Bank. Members of the Committee shall hold office until their successors are appointed, or until they cease to be Directors of the Bank.

### Vacancies

Vacancies may be filled for the remainder of the current term of appointment of members of the Committee by the Board, subject to the requirements under the headings "Structure" and "Independence" above.

### Appointment and Qualifications of Committee Chair

The Board shall appoint from the Committee membership, a Chair for the Committee to preside at meetings. In the absence of the Chair, one of the other members of the Committee present shall be chosen by the Committee to preside at that meeting.

The Chair for the Committee must have all of the qualifications for Committee membership and have accounting or related financial management expertise.

## **H. Meetings**

### Calling of Meetings

Meetings of the Committee may be called by the Chair, by any member of the Committee or the external auditor. Members may participate in meetings in person or by telephone, electronic or other communications facilities.

The Committee shall not transact business at a meeting unless a majority of the members present are resident Canadians except where:

- a resident Canadian member who is unable to be present approves in writing or by telephone, electronic or other communications facilities the business transacted at the meeting; and
- a resident Canadian majority of members would have been present if the absent member had been present.

Written resolutions in lieu of a meeting are not permitted.

The Committee shall hold an in camera session immediately prior to and/or following the conclusion of the regular agenda matters. The Committee shall also hold in camera sessions, separately at each Committee meeting, with each of the Chief Financial Officer, Chief Internal Auditor, Chief Compliance and Regulatory Officer and the external auditor.

The Committee may invite any director, officer or employee or any other person to attend meetings to assist the Committee with its deliberations.

#### Notice of Meetings

Notice of meeting of the Committee shall be sent by prepaid mail, by personal delivery or other means of transmitted or recorded communication or by telephone at least 12 hours before the meeting to each member of the Committee at the member's address or communication number last recorded with the Secretary. A Committee member may in any manner waive notice of a meeting of the Committee and attendance at a meeting is a waiver of notice of the meeting, except where a member attends for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called.

#### Notice to the Internal Auditor and External Auditor

The Chief Internal Auditor and the external auditor are entitled to receive notice of every meeting of the Committee and, at the expense of the Bank, to attend and be heard at each meeting and to have the opportunity to discuss matters with the independent directors, without the presence of management.

#### Frequency

The Committee shall meet at least quarterly.

#### Quorum

The quorum for a meeting of the Committee shall be 40% of the number of members, subject to a minimum of 2 members.

#### Secretary and Minutes

The Secretary or, in the absence of the Secretary, an Assistant Secretary of the Bank shall act as Secretary of the Committee.

Minutes of meetings of the Committee shall be recorded and maintained by the Secretary and subsequently presented to the Committee and to the Board, if required by the Board.

**This Charter was last reviewed and approved by the Board on December 2, 2011.**