

BANK OF NOVA SCOTIA

Form 424B5

February 23, 2017

Table of Contents

Product Prospectus Supplement No. EQUITY INDICES LIRN-1  
(To Prospectus dated February 1, 2017  
and Prospectus Supplement dated February 13, 2017)  
February 23, 2017

Filed Pursuant to Rule 424(b)(5)  
Registration No. 333-215597

**Leveraged Index Return Notes® LIRNs® Linked to One or More Equity Indices**

- LIRNs are senior unsecured debt securities issued by The Bank of Nova Scotia (the **Bank** ). Any payments due on LIRNs, including any repayment of principal, will be subject to the credit risk of the Bank.

- LIRNs do not guarantee the return of principal at maturity, and we will not pay interest on LIRNs. Instead, the return on LIRNs will be based on the performance of an underlying **Market Measure**, which will be an equity index or a basket of equity indices.

- LIRNs provide an opportunity to earn a multiple of the positive performance of the Market Measure, and may provide limited protection against the risk of losses. You will be exposed to any negative performance of the Market Measure below the Threshold Value (as defined below) on a 1-to-1 basis. If specified in the applicable term sheet, your LIRNs may be Capped LIRNs. In the case of Capped LIRNs, the Redemption Amount will not exceed a specified cap (the **Capped Value** ).

- If the value of the Market Measure increases from its Starting Value to its Ending Value (each as defined below), you will receive at maturity a cash payment per unit (the **Redemption Amount** ) that equals the principal amount plus a multiple of that increase, and in the case of Capped LIRNs, up to the Capped Value.

- If the value of the Market Measure does not change or decreases from its Starting Value to its Ending Value but not below the Threshold Value, then the Redemption Amount will equal the principal amount. However, if the Ending Value is less than the Threshold Value, you will be subject to 1-to-1 downside exposure to the decrease of the Market Measure below the Threshold Value. In such case, you may lose all or a significant portion of the principal amount of your LIRNs.

- This product prospectus supplement describes the general terms of LIRNs, the risk factors to consider before investing, the general manner in which they may be offered and sold, and other relevant information.

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- For each offering of LIRNs, we will provide you with a pricing supplement (which we refer to as a **term sheet** ) that will describe the specific terms of that offering, including the specific Market Measure, the Capped Value, if applicable, the Threshold Value, and certain related risk factors. The term sheet will identify, if applicable, any additions or changes to the terms specified in this product prospectus supplement.
- LIRNs will be issued in denominations of whole units. Unless otherwise set forth in the applicable term sheet, each unit will have a principal amount of \$10. The term sheet may also set forth a minimum number of units that you must purchase.
- Unless otherwise specified in the applicable term sheet, LIRNs will not be listed on a securities exchange or quotation system.
- Merrill Lynch, Pierce, Fenner & Smith Incorporated ( **MLPF&S** ) and one or more of its affiliates may act as our agents to offer LIRNs and MLPF&S will act in a principal capacity in such role.

*LIRNs are unsecured and are not savings accounts or insured deposits of a bank. LIRNs are not insured by the Canada Deposit Insurance Corporation, the U.S. Federal Deposit Insurance Corporation (the **FDIC** ) or any other governmental agency of the United States, Canada, or any other jurisdiction. Potential purchasers of LIRNs should consider the information in **Risk Factors** beginning on page PS-6 of this product prospectus supplement, page S-2 of the accompanying prospectus supplement, and page 6 of the accompanying prospectus. **You may lose all or a significant portion of your investment in LIRNs.***

*None of the Securities and Exchange Commission (the **SEC** ), any state securities commission, or any other regulatory body has approved or disapproved of these securities or passed upon the adequacy or accuracy of this product prospectus supplement, the prospectus supplement, or the prospectus. Any representation to the contrary is a criminal offense.*

**Merrill Lynch & Co.**

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Table of Contents

TABLE OF CONTENTS

|  | <b>Page</b> |
|--|-------------|
| <u>SUMMARY</u>   | PS-3        |
| <u>RISK FACTORS</u>  | PS-6        |
| <u>USE OF PROCEEDS AND HEDGING</u>   | PS-16       |
| <u>DESCRIPTION OF LIRNS</u>  | PS-17       |
| <u>SUPPLEMENTAL PLAN OF DISTRIBUTION</u>                                   | PS-25       |
| <u>SUPPLEMENTAL DISCUSSION OF CANADIAN FEDERAL INCOME TAX CONSEQUENCES</u> | PS-27       |
| <u>SUPPLEMENTAL DISCUSSION OF U.S. FEDERAL INCOME TAX CONSEQUENCES</u>     | PS-28       |
| <u>ERISA CONSIDERATIONS</u>  | PS-35       |

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LIRNs® and Leveraged Index Return Notes® are registered service marks of Bank of America Corporation, the parent corporation of MLPF&S.

Table of Contents

**SUMMARY**

The information in this Summary section is qualified in its entirety by the more detailed explanation set forth elsewhere in this product prospectus supplement, the prospectus supplement, and the prospectus, as well as the applicable term sheet. Neither we nor MLPF&S have authorized any other person to provide you with any information different from the information set forth in these documents. If anyone provides you with different or inconsistent information about the LIRNs, you should not rely on it.

**Key Terms:**

|                        |  |  |
|------------------------|--|--|
| <b>General:</b>        |  | LIRNs are senior unsecured debt securities issued by the Bank, are not guaranteed or insured by the Canada Deposit Insurance Corporation or the FDIC, and are not, either directly or indirectly, an obligation of any third party. They rank equally with all of our other senior unsecured debt from time to time outstanding. <b>Any payments due on LIRNs, including any repayment of principal, are subject to our credit risk.</b> |
|                        |  |  |
|                        |  | The return on LIRNs will be based on the performance of a Market Measure and there is no guaranteed return of principal at maturity. Therefore, you may lose all or a significant portion of your investment if the value of the Market Measure decreases from the Starting Value to an Ending Value that is less than the Threshold Value.  |
|                        |  |  |
|                        |  | Each issue of LIRNs will mature on the date set forth in the applicable term sheet. We cannot redeem LIRNs at any earlier date. We will not make any payments on LIRNs until maturity, and you will not receive any interest payments.   |
| <b>Market Measure:</b> |  | The Market Measure may consist of one or more of the following:  |
|                        |  | • U.S. broad-based equity indices;   |
|                        |  | • U.S. sector or style-based equity indices;   |
|                        |  | • non-U.S. or global equity indices; or  |
|                        |  | • any combination of the above.  |
|                        |  |  |
|                        |  | The Market Measure may consist of a group, or <b>Basket</b> , of the foregoing. We refer to each equity index included in any Basket as a <b>Basket Component</b> . If the Market Measure to which your LIRNs are linked is a Basket, the Basket Components will be set forth in the applicable term sheet.  |

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|                                    |  |  |
| <b>Market Measure Performance:</b> |  | The performance of the Market Measure will be measured according to the percentage change of the Market Measure from its Starting Value to its Ending Value.   |
|                                    |  | Unless otherwise specified in the applicable term sheet:   |
|                                    |  | The <b>Starting Value</b> will be the closing level of the Market Measure on the date when the LIRNs are priced for initial sale to the public (the <b>pricing date</b> ).   |
|                                    |  | If the Market Measure consists of a Basket, the Starting Value will be equal to 100. See Description of LIRNs Basket Market Measures.  |
|                                    |  | The <b>Threshold Value</b> will be a value of the Market Measure that equals a specified percentage (100% or less) of the Starting Value. The Threshold Value will be determined on the pricing date and set forth in the term sheet. If the Threshold Value is equal to 100% of the Starting Value, you will be exposed to any decrease in the value of the Market Measure from the Starting Value to the Ending Value on a 1-to-1 basis, and you may lose all of your investment in LIRNs. |
| PS-3                               |  |  |

Table of Contents

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|                                       |   |
|                                       | The <b>Ending Value</b> will equal the average of the closing levels of the Market Measure on each calculation day during the Maturity Valuation Period (each as defined below).  |
|                                       |   |
|                                       | If a Market Disruption Event (as defined below) occurs and is continuing on a calculation day, or if certain other events occur, the calculation agent will determine the Ending Value as set forth in the section Description of LIRNs The Starting Value and the Ending Value Ending Value.   |
|                                       |   |
|                                       | If the Market Measure consists of a Basket, the Ending Value will be determined as described in Description of LIRNs Basket Market Measures Ending Value of the Basket.   |
|                                       |   |
| <b>Participation Rate:</b>            | The rate at which investors participate in any increase in the value of the Market Measure, as calculated below. The Participation Rate will be greater than or equal to 100%, and will be set forth in the applicable term sheet. If the Participation Rate is 100%, your participation in any upside performance of the Market Measure will not be leveraged.   |
|                                       |   |
| <b>Capped Value:</b>                  | For Capped LIRNs, the maximum Redemption Amount. Your investment return in Capped LIRNs is limited to the return represented by the Capped Value specified in the applicable term sheet. We will determine the applicable Capped Value on the pricing date of each issue of Capped LIRNs.   |
|                                       |   |
| <b>Redemption Amount at Maturity:</b> | At maturity, you will receive a Redemption Amount that is greater than the principal amount if the value of the Market Measure increases from the Starting Value to the Ending Value. In the case of Capped LIRNs, the Redemption Amount will not exceed the Capped Value. If the value of the Market Measure does not change or decreases from the Starting Value to the Ending Value but not below the Threshold Value, then the Redemption Amount will equal the principal amount. If the Ending Value is less than the Threshold Value, you will be subject to 1-to-1 downside exposure to the decrease of the Market Measure below the Threshold Value, and will receive a Redemption Amount that is less than the principal amount and, if the Threshold Value is equal to 100% of the Starting Value, could be zero. |
|                                       |   |
|                                       | <b>Any payments due on the LIRNs, including any repayment of principal, are subject to our credit risk as issuer of LIRNs.</b>  |
|                                       |   |
|                                       | The Redemption Amount, denominated in U.S. dollars, will be calculated as follows:  |
|                                       |   |

PS-4

Table of Contents

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|---------------------------|--|---|
|                           |  |   |
| <b>Principal at Risk:</b> |  | You may lose all or a significant portion of the principal amount of the LIRNs. Further, if you sell your LIRNs prior to maturity, you may find that the market value per LIRN is less than the price that you paid for the LIRNs.  |
| <b>Calculation Agent:</b> |  | The calculation agent will make all determinations associated with the LIRNs. Unless otherwise set forth in the applicable term sheet, we will appoint MLPF&S or one of its affiliates to act as calculation agent for the LIRNs. See the section entitled Description of LIRNs Role of the Calculation Agent.  |
| <b>Agents:</b>            |  | MLPF&S and one or more of its affiliates will act as our agents in connection with each offering of LIRNs and will receive an underwriting discount based on the number of units of LIRNs sold. None of the agents is your fiduciary or advisor solely as a result of the making of any offering of LIRNs, and you should not rely upon this product prospectus supplement, the term sheet, or the accompanying prospectus or prospectus supplement as investment advice or a recommendation to purchase LIRNs. |
| <b>Listing:</b>           |  | Unless otherwise specified in the applicable term sheet, the LIRNs will not be listed on a securities exchange or quotation system.   |

This product prospectus supplement relates only to LIRNs and does not relate to any equity index that composes the Market Measure described in any term sheet. You should read carefully the entire prospectus, prospectus supplement, and product prospectus supplement, together with the applicable term sheet, to understand fully the terms of your LIRNs, as well as the tax and other considerations important to you in making a decision about whether to invest in any LIRNs. In particular, you should review carefully the sections in this product prospectus supplement and the accompanying prospectus supplement and prospectus entitled Risk Factors, which highlight a number of risks of an investment in LIRNs, to determine whether an investment in LIRNs is appropriate for you. If information in this product prospectus supplement is inconsistent with the prospectus or prospectus supplement, this product prospectus supplement will supersede those documents. However, if information in any term sheet is inconsistent with this product prospectus supplement, that term sheet will supersede this product prospectus supplement.

Neither we nor any agent is making an offer to sell LIRNs in any jurisdiction where the offer or sale is not permitted.

Certain capitalized terms used and not defined in this product prospectus supplement have the meanings ascribed to them in the prospectus supplement and prospectus. Unless otherwise indicated or unless the context requires otherwise, all references in this product prospectus supplement to we, us, our, or similar references are to the Bank.

You are urged to consult with your own attorneys and business and tax advisors before making a decision to purchase any LIRNs.





Table of Contents

**RISK FACTORS**

*Your investment in LIRNs is subject to investment risks, many of which differ from those of a conventional debt security. Your decision to purchase LIRNs should be made only after carefully considering the risks, including those discussed below, in light of your particular circumstances. LIRNs are not an appropriate investment for you if you are not knowledgeable about the material terms of LIRNs or investments in equity or equity-based securities in general.*

**General Risks Relating to LIRNs**

**Your investment may result in a loss; there is no guaranteed return of principal.** There is no fixed principal repayment amount on LIRNs at maturity. The return on LIRNs will be based on the performance of a Market Measure and therefore, you may lose all or a significant portion of your investment if the value of the Market Measure decreases from the Starting Value to an Ending Value that is less than the Threshold Value. If the Threshold Value is equal to 100% of the Starting Value, the Redemption Amount could be zero and you may lose all of your investment in the LIRNs.

**Your return on the LIRNs may be less than the yield on a conventional fixed or floating rate debt security of comparable maturity.** There will be no periodic interest payments on LIRNs as there would be on a conventional fixed-rate or floating-rate debt security having the same maturity. Any return that you receive on LIRNs may be less than the return you would earn if you purchased a conventional debt security with the same maturity date. As a result, your investment in LIRNs may not reflect the full opportunity cost to you when you consider factors, such as inflation, that affect the time value of money.

**Your investment return is limited to the return represented by the Capped Value, if applicable, and may be less than a comparable investment directly in the Market Measure.** The appreciation potential of Capped LIRNs is limited to the Capped Value. You will not receive a Redemption Amount greater than the Capped Value, regardless of the appreciation of the Market Measure. In contrast, a direct investment in the Market Measure (or the securities included in the Market Measure) would allow you to receive the full benefit of any appreciation in the value of the Market Measure (or those underlying securities).

In addition, unless otherwise set forth in the applicable term sheet, the Ending Value will not reflect the value of dividends paid, or distributions made, on the securities included in the Market Measure or any other rights associated with those securities. Thus, any return on the LIRNs will not reflect the return you would realize if you actually owned the securities underlying the Market Measure.

Additionally, the Market Measure may consist of one or more equity indices that include securities traded in a non-U.S. currency and the equity index(es) are calculated in such non-U.S. currency. If the value of that currency strengthens against the U.S. dollar during the term of your

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LIRNs, you may not obtain the benefit of that increase, which you would have received if you had owned the securities included in the index or indices.

**Payments on LIRNs are subject to our credit risk, and actual or perceived changes in our creditworthiness are expected to affect the value of LIRNs.** LIRNs are our senior unsecured debt securities, and are not, either directly or indirectly, an obligation of any third party. As a result, your receipt of the Redemption Amount at maturity is dependent upon our ability to repay our obligations on the maturity date, regardless of whether the Market Measure increases from the Starting Value to the Ending Value. No assurance can be given as to what our financial condition will be on the maturity date. If we become unable to meet our financial

PS-6

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Table of Contents

obligations as they become due, you may not receive the amounts payable under the terms of the LIRNs.

In addition, our credit ratings are an assessment by ratings agencies of our ability to pay our obligations. Consequently, our perceived creditworthiness and actual or anticipated decreases in our credit ratings or increases in the spread between the yield on our securities and the yield on U.S. Treasury securities (the **credit spread**) prior to the maturity date may adversely affect the market value of LIRNs. However, because your return on LIRNs depends upon factors in addition to our ability to pay our obligations, such as the value of the Market Measure, an improvement in our credit ratings will not reduce the other investment risks related to LIRNs.

**Our initial estimated value of the LIRNs will be lower than the public offering price of the LIRNs.** Our initial estimated value of the LIRNs is only an estimate. The public offering price of the LIRNs will exceed our initial estimated value because it includes costs associated with selling and structuring the LIRNs, as well as hedging our obligations under the LIRNs with a third party, which may include MLPF&S or one of its affiliates. These costs include the underwriting discount and an expected hedging related charge.

**Our initial estimated value of the LIRNs does not represent future values of the LIRNs and may differ from others estimates.** Our initial estimated value of the LIRNs is determined by reference to our internal pricing models when the terms of LIRNs are set. These pricing models consider certain factors, such as our internal funding rate (which is the rate we would pay to borrow funds through the issuance of market-linked notes, such as the LIRNs) on the pricing date, the expected term of the LIRNs, market conditions and other relevant factors existing at that time, and our assumptions about market parameters, which can include volatility, dividend rates, interest rates and other factors. Different pricing models and assumptions could provide valuations for the LIRNs that are different from our initial estimated value. In addition, market conditions and other relevant factors in the future may change, and any of our assumptions may prove to be incorrect. On future dates, the market value of the LIRNs could change significantly based on, among other things, the performance of the Market Measure, changes in market conditions, our creditworthiness, interest rate movements and other relevant factors. These factors, together with various credit, market and economic factors over the term of the LIRNs, are expected to reduce the price at which you may be able to sell the LIRNs in any secondary market and will affect the value of the LIRNs in complex and unpredictable ways. Our initial estimated value does not represent a minimum price at which we or any agents would be willing to buy your LIRNs in any secondary market (if any exists) at any time.

**Our initial estimated value is not determined by reference to credit spreads or the borrowing rate we would pay for our conventional fixed-rate debt securities.** The internal funding rate used in the determination of our initial estimated value of the LIRNs generally represents a discount from the credit spreads for our conventional fixed-rate debt securities and the borrowing rate we would pay for our conventional fixed-rate debt securities. If we were to use the interest rate implied by the credit spreads for our conventional fixed-rate debt securities, or the borrowing rate we would pay for our conventional fixed-rate debt securities, we would expect the economic terms of the LIRNs to be more favorable to you. Consequently, our use of an internal funding rate for the LIRNs would have an adverse effect on the economic terms of the LIRNs, the initial estimated value of the LIRNs on the pricing date, and the price at which you may be able to sell the LIRNs in any secondary market.

**We cannot assure you that there will be a trading market for your LIRNs.** If a secondary market exists, we cannot predict how the LIRNs will trade, or whether that market will be liquid or illiquid. The development of a trading market for LIRNs will depend on various factors, including our financial performance and changes in the value of the Market Measure.

PS-7

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Table of Contents

The number of potential buyers of your LIRNs in any secondary market may be limited. There is no assurance that any party will be willing to purchase your LIRNs at any price in any secondary market.

We anticipate that one or more of the agents or their affiliates will act as a market-maker for LIRNs, but none of them is required to do so and may cease to do so at any time. Any price at which an agent or its affiliate may bid for, offer, purchase, or sell any LIRNs may be higher or lower than the applicable public offering price, and that price may differ from the values determined by pricing models that it may use, whether as a result of dealer discounts, mark-ups, or other transaction costs. These bids, offers, or transactions may adversely affect the prices, if any, at which those LIRNs might otherwise trade in the market. In addition, if at any time any entity were to cease acting as a market-maker for any issue of LIRNs, it is likely that there would be significantly less liquidity in that secondary market. In such a case, the price at which those LIRNs could be sold likely would be lower than if an active market existed.

Unless otherwise stated in the term sheet, we will not list LIRNs on any securities exchange. Even if an application were made to list your LIRNs, we cannot assure you that the application will be approved or that your LIRNs will be listed and, if listed, that they will remain listed for their entire term. The listing of LIRNs on any securities exchange will not necessarily ensure that a trading market will develop, and if a trading market does develop, that there will be liquidity in the trading market.

**The Redemption Amount will not reflect changes in the value of the Market Measure other than during the Maturity Valuation Period.** Changes in the value of the Market Measure during the term of LIRNs other than during the Maturity Valuation Period will not be reflected in the calculation of the Redemption Amount. To calculate the Redemption Amount, the calculation agent will compare only the Ending Value to the Starting Value or the Threshold Value, as applicable. No other values of the Market Measure will be taken into account. As a result, even if the value of the Market Measure has increased at certain times during the term of the LIRNs, you will receive a Redemption Amount that is less than the principal amount if the Ending Value is less than the Threshold Value. In addition, the Ending Value will equal the average of the closing levels of the Market Measure on each calculation day during the Maturity Valuation Period, which may be less than the closing level of the Market Measure on any particular calculation day.

**If your LIRNs are linked to a Basket, changes in the levels of one or more of the Basket Components may be offset by changes in the levels of one or more of the other Basket Components.** The Market Measure of your LIRNs may be a Basket. In such a case, changes in the levels of one or more of the Basket Components may not correlate with changes in the levels of one or more of the other Basket Components. The levels of one or more Basket Components may increase, while the levels of one or more of the other Basket Components may decrease or not increase as much. Therefore, in calculating the value of the Market Measure at any time, increases in the level of one Basket Component may be moderated or wholly offset by decreases or lesser increases in the levels of one or more of the other Basket Components. If the weightings of the applicable Basket Components are not equal, adverse changes in the levels of the Basket Components which are more heavily weighted could have a greater impact upon your LIRNs.

**The respective publishers of the applicable indices may adjust those indices in a way that affects their levels, and these publishers have no obligation to consider your interests.** Unless otherwise specified in the term sheet, we, the agents and our respective affiliates have no affiliation with any publisher of an index to which your LIRNs are linked (each, an **Index Publisher** ). Consequently, we have no control of the actions of any Index Publisher. The Index Publisher can add,

delete, or substitute the securities included in that index or make other methodological changes that could change its level. A new security

PS-8

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Table of Contents

included in an index may perform significantly better or worse than the replaced security, and the performance will impact the level of the applicable index. Additionally, an Index Publisher may alter, discontinue, or suspend calculation or dissemination of an index. Any of these actions could adversely affect the value of your LIRNs. The Index Publishers will have no obligation to consider your interests in calculating or revising any index.

**Exchange rate movements may impact the value of LIRNs.** If any security included in a Market Measure is traded in a currency other than U.S. dollars and, for purposes of the applicable index, is converted into U.S. dollars, then the value of the Market Measure may depend in part on the relevant exchange rates. If the value of the U.S. dollar strengthens against the currencies of that index, the level of the applicable index may be adversely affected and the Redemption Amount may be reduced. Exchange rate movements may be particularly impacted by existing and expected rates of inflation and interest rate levels; political, civil, or military unrest; the balance of payments between countries; and the extent of governmental surpluses or deficits in the countries relevant to the applicable index and the United States. All of these factors are in turn sensitive to the monetary, fiscal, and trade policies pursued by the governments of those countries and the United States and other countries important to international trade and finance.

**If you attempt to sell LIRNs prior to maturity, their market value, if any, will be affected by various factors that interrelate in complex ways, and their market value may be less than the principal amount.** The LIRNs are not designed to be short-term trading instruments. The limited protection, if any, against the risk of losses provided by the Threshold Value will only apply if you hold LIRNs to maturity. You have no right to have your LIRNs redeemed prior to maturity. If you wish to liquidate your investment in LIRNs prior to maturity, your only option would be to sell them. At that time, there may be an illiquid market for your LIRNs or no market at all. Even if you were able to sell your LIRNs, there are many factors outside of our control that may affect their market value, some of which, but not all, are stated below. The impact of any one factor may be offset or magnified by the effect of another factor. The following paragraphs describe a specific factor's expected impact on the market value of LIRNs, assuming all other conditions remain constant.

- **Value of the Market Measure.** We anticipate that the market value of LIRNs prior to maturity generally will depend to a significant extent on the value of the Market Measure. In general, it is expected that the market value of LIRNs will decrease as the value of the Market Measure decreases, and increase as the value of the Market Measure increases. However, as the value of the Market Measure increases or decreases, the market value of LIRNs is not expected to increase or decrease at the same rate. If you sell your LIRNs when the value of the Market Measure is less than, or not sufficiently above the applicable Starting Value, then you may receive less than the principal amount of your LIRNs.

In addition, because the Redemption Amount for Capped LIRNs will not exceed the applicable Capped Value, we do not expect that Capped LIRNs will trade in any secondary market at a price that is greater than the Capped Value.



- **Volatility of the Market Measure.** Volatility is the term used to describe the size and frequency of market fluctuations. Increases or decreases in the volatility of the Market Measure may have an adverse impact on the market value of LIRNs. Even if the value of the Market Measure increases after the applicable pricing date, if you are able to sell your LIRNs before their maturity date, you may receive substantially less than the amount that would be payable at maturity based on that value because of the anticipation that the value of the Market Measure will continue to fluctuate until the Ending Value is determined.

PS-9

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Table of Contents

- **Economic and Other Conditions Generally.** The general economic conditions of the capital markets in the United States, as well as geopolitical conditions and other financial, political, regulatory, and judicial events and related uncertainties that affect stock markets generally, may adversely affect the value of the Market Measure and the market value of LIRNs. If the Market Measure includes one or more indices that have returns that are calculated based upon securities prices in one or more non-U.S. markets (a **non-U.S. Market Measure**), the value of your LIRNs may also be adversely affected by similar events in the markets of the relevant foreign countries.
- **Interest Rates.** We expect that changes in interest rates will affect the market value of LIRNs. In general, if U.S. interest rates increase, we expect that the market value of LIRNs will decrease, and conversely, if U.S. interest rates decrease, we expect that the market value of LIRNs will increase. In general, we expect that the longer the amount of time that remains until maturity, the more significant the impact of these changes will be on the value of the LIRNs. In the case of non-U.S. Market Measures, the level of interest rates in the relevant foreign countries may also affect their economies and in turn the value of the non-U.S. Market Measure, and, thus, the market value of the LIRNs may be adversely affected.
- **Dividend Yields.** In general, if the cumulative dividend yields on the securities included in the Market Measure increase, we anticipate that the market value of LIRNs will decrease; conversely, if those dividend yields decrease, we anticipate that the market value of your LIRNs will increase.
- **Exchange Rate Movements and Volatility.** If the Market Measure of your LIRNs includes any non-U.S. Market Measures, changes in, and the volatility of, the exchange rates between the U.S. dollar and the relevant non-U.S. currency or currencies could have a negative impact on the value of your LIRNs, and the Redemption Amount may depend in part on the relevant exchange rates. In addition, the correlation between the relevant exchange rate and any applicable non-U.S. Market Measure reflects the extent to which a percentage change in that exchange rate corresponds to a percentage change in the applicable non-U.S. Market Measure, and changes in these correlations may have a negative impact on the value of your LIRNs.
- **Our Financial Condition and Creditworthiness.** Our perceived creditworthiness, including any increases in our credit spreads and any actual or anticipated decreases in our credit ratings, may adversely affect the market value of the LIRNs. In general, we expect the longer the amount of time that remains until maturity, the more significant the impact will be on the value of the LIRNs. However, a decrease in our credit spreads or an improvement in our credit ratings will not necessarily increase the market value of LIRNs.
- **Time to Maturity.** There may be a disparity between the market value of the LIRNs prior to maturity and their value at maturity. This disparity is often called a time value, premium, or discount, and reflects expectations concerning the value of the Market Measure prior to the maturity date. As the time to maturity decreases, this disparity may decrease, such that the value of the LIRNs will approach the expected Redemption Amount to be paid at

maturity.

**Trading and hedging activities by us, the agents, and our respective affiliates may affect your return on the LIRNs and their market value.** We, the agents, and our respective affiliates may buy or sell the securities included in the Market Measure, or futures, options contracts, or exchange-traded instruments on the Market Measure or its component securities or other instruments whose value is derived from the Market Measure or its component securities. We, the agents, or our respective affiliates may execute such purchases or sales for our own or their own accounts, for business reasons, or in connection with hedging our

PS-10

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Table of Contents

obligations under LIRNs. These transactions could adversely affect the value of these securities and, in turn, the value of a Market Measure in a manner that could be adverse to your investment in LIRNs. On or before the applicable pricing date, any purchases or sales by us (including those for the purpose of hedging some or all of our anticipated exposure in connection with the LIRNs), the agents, and our respective affiliates, or others on our or their behalf may increase the value of a Market Measure or its component securities. Consequently, the values of that Market Measure or the securities included in that Market Measure may decrease subsequent to the pricing date of an issue of LIRNs, adversely affecting the market value of LIRNs.

We, the agents, or one or more of our respective affiliates may also engage in hedging activities that could increase the value of the Market Measure on the applicable pricing date. In addition, these activities may decrease the market value of your LIRNs prior to maturity, including during the Maturity Valuation Period, and may reduce the Redemption Amount. We, the agents, or one or more of our respective affiliates may purchase or otherwise acquire a long or short position in LIRNs, and may hold or resell LIRNs. For example, the agents may enter into these transactions in connection with any market making activities in which they engage. We cannot assure you that these activities will not adversely affect the value of the Market Measure, the market value of your LIRNs prior to maturity or the Redemption Amount.

**Our trading, hedging and other business activities, and those of the agents or one or more of our respective affiliates, may create conflicts of interest with you.** We, the agents, or one or more of our respective affiliates may engage in trading activities related to the Market Measure and to securities included in the Market Measure that are not for your account or on your behalf. We, the agents, or one or more of our respective affiliates also may issue or underwrite other financial instruments with returns based upon the applicable Market Measure. In addition, in the ordinary course of their business activities, the agents and their affiliates may hold and trade our or our affiliates' debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Certain of the agents or their affiliates may also have lending or other capital markets relationships with us. In order to hedge such exposure, the agents may enter into transactions such as the purchase of credit default swaps or the creation of short positions in our or our affiliates' securities, including potentially the LIRNs. Any such positions could adversely affect future trading prices of the LIRNs. These trading and other business activities may present a conflict of interest between your interest in LIRNs and the interests we, the agents and our respective affiliates may have in our proprietary accounts, in facilitating transactions, including block trades, for our or their other customers, and in accounts under our or their management. These trading and other business activities, if they influence the value of the Market Measure or secondary trading in your LIRNs, could be adverse to your interests as a beneficial owner of LIRNs.

We, the agents, and our respective affiliates expect to enter into arrangements or adjust or close out existing transactions to hedge our obligations under the LIRNs. We, the agents, or our respective affiliates also may enter into hedging transactions relating to other notes or instruments that we or they issue, some of which may have returns calculated in a manner related to that of a particular issue of LIRNs. We may enter into such hedging arrangements with one or more of our subsidiaries or affiliates, or with one or more of the agents or their affiliates. Such a party may enter into additional hedging transactions with other parties relating to LIRNs and the applicable Market Measure. This hedging activity is expected to result in a profit to those engaging in the hedging activity, which could be more or less than initially expected, but could also result in a loss. We, the agents, and our respective affiliates will price these hedging transactions with the intent to realize a profit, regardless of whether the value of LIRNs increases or decreases or whether the Redemption Amount on the LIRNs is more or less than the principal amount of the LIRNs. Any profit in connection with such hedging activities will be in addition to any other compensation that we, the agents, and

Table of Contents

our respective affiliates receive for the sale of LIRNs, which creates an additional incentive to sell LIRNs to you.

**There may be potential conflicts of interest involving the calculation agent. We have the right to appoint and remove the calculation agent.** We expect to appoint MLPF&S or one of its affiliates as the calculation agent for LIRNs and, as such, it will determine the Starting Value, the Threshold Value, the Ending Value, and the Redemption Amount. As the calculation agent, MLPF&S or one of its affiliates will have discretion in making various determinations that affect your LIRNs, such as when a Market Disruption Event occurs or an index is discontinued. The exercise of this discretion by the calculation agent could adversely affect the value of your LIRNs and may present the calculation agent with a conflict of interest of the kind described under Trading and hedging activities by us, the agents, and our respective affiliates may affect your return on the LIRNs and their market value and Our trading, hedging and other business activities, and those of the agents or one or more of our respective affiliates, may create conflicts of interest with you above.

**The U.S. federal income tax consequences of an investment in LIRNs are uncertain, and may be adverse to a holder of LIRNs.** Significant aspects of the tax treatment of the LIRNs are uncertain. There is no direct legal authority as to the proper U.S. federal income tax treatment of the LIRNs, and we do not plan to request a ruling from the Internal Revenue Service (the **IRS**) or any Canadian authorities regarding the tax treatment of the LIRNs, and the IRS, the Canada Revenue Agency or a court may not agree with the tax treatment described in this product prospectus supplement or in the term sheet. If the IRS were successful in asserting an alternative treatment for the LIRNs, the timing and/or character of income on the LIRNs could be affected materially and adversely.

The IRS has issued a notice indicating that it and the U.S. Treasury Department are actively considering whether, among other issues, a holder should be required to accrue interest over the term of an instrument such as the LIRNs even though that holder will not receive any payments with respect to the LIRNs until maturity and whether all or part of the gain a holder may recognize upon sale, exchange, redemption or maturity of an instrument such as the LIRNs should be treated as ordinary income. The outcome of this process is uncertain and could apply on a retroactive basis.

Please read carefully the sections entitled Supplemental Discussion of U.S. Federal Income Tax Consequences in this product prospectus supplement and the term sheet and the sections Certain Income Tax Consequences in the prospectus supplement and United States Taxation in the accompanying prospectus.

For a more complete discussion of the Canadian federal income tax consequences of investing in the LIRNs, please see Canadian Taxation in the accompanying prospectus, Certain Income Tax Consequences Certain Canadian Income Tax Considerations in the accompanying prospectus supplement and any further Canadian tax discussions in the term sheet. You should consult your tax advisors about your own tax situation and the consequences of acquiring, holding and disposing of the LIRNs and receiving the payments that might be due under the LIRNs.

**Any conclusion that no portion of the interest paid or credited or deemed to be paid or credited on a LIRN will be Participating Debt Interest (as defined below) subject to Canadian withholding tax is based in part on the current published administrative position of the Canada Revenue Agency (the **CRA**). There cannot be any assurance that CRA's current published administrative practice**

will not be subject to change, including potential expansion in the current administrative interpretation of Participating Debt Interest subject to Canadian withholding tax. If, at any time, the interest paid or credited or deemed to be paid or credited on a LIRN is subject to Canadian withholding tax, you will receive an

PS-12

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Table of Contents

amount that is less than the Redemption Amount. **You should consult your own adviser as to the potential for such withholding and the potential for reduction or refund of part or all of such withholding, including under any bilateral Canadian tax treaty the benefits of which you may be entitled.**

**Risks Relating to the Market Measures**

**You must rely on your own evaluation of the merits of an investment linked to the applicable Market Measure.** In the ordinary course of business, we, the agents, and our respective affiliates may have expressed views on expected movements in a Market Measure or the securities included in the Market Measure, and may do so in the future. These views or reports may be communicated to our clients and clients of these entities. However, these views are subject to change from time to time. Moreover, other professionals who deal in markets relating to a Market Measure may at any time have significantly different views from our views and the views of these entities. For these reasons, you are encouraged to derive information concerning a Market Measure and its component securities from multiple sources, and you should not rely on our views or the views expressed by these entities.

**You will have no rights as a security holder, you will have no rights to receive any of the securities represented by the Market Measure, and you will not be entitled to dividends or other distributions by the issuers of these securities.** LIRNs are our debt securities. They are not equity instruments, shares of stock, or securities of any other issuer. Investing in LIRNs will not make you a holder of any of the securities represented by the Market Measure. You will not have any voting rights, any rights to receive dividends or other distributions, or any other rights with respect to those securities. As a result, the return on your LIRNs may not reflect the return you would realize if you actually owned those securities and received the dividends paid or other distributions made in connection with them. Additionally, the levels of certain indices reflect only the prices of the securities included in that index and do not take into consideration the value of dividends paid on those securities. Your LIRNs will be paid in cash and you have no right to receive any of these securities.

**If the Market Measure to which your LIRNs are linked includes equity securities traded on foreign exchanges, your return may be affected by factors affecting international securities markets.** The value of securities traded outside of the U.S. may be adversely affected by a variety of factors relating to the relevant securities markets. Factors which could affect those markets, and therefore the return on your LIRNs, include:

- **Market Liquidity and Volatility.** The relevant foreign securities markets may be less liquid and/or more volatile than U.S. or other securities markets and may be affected by market developments in different ways than U.S. or other securities markets.
- **Political, Economic, and Other Factors.** The prices and performance of securities of companies in foreign countries may be affected by political, economic, financial, and social factors in those regions. Direct or indirect

government intervention to stabilize a particular securities market and cross-shareholdings in companies in the relevant foreign markets may affect prices and the volume of trading in those markets. In addition, recent or future changes in government, economic, and fiscal policies in the relevant jurisdictions, the possible imposition of, or changes in, currency exchange laws, or other laws or restrictions, and possible fluctuations in the rate of exchange between currencies, are factors that could negatively affect the relevant securities markets. The relevant foreign economies may differ from the U.S. economy in economic factors such as growth of gross national product, rate of inflation, capital reinvestment, resources, and self-sufficiency.

PS-13

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Table of Contents

In particular, many emerging nations are undergoing rapid change, involving the restructuring of economic, political, financial and legal systems. Regulatory and tax environments may be subject to change without review or appeal, and many emerging markets suffer from underdevelopment of capital markets and tax systems. In addition, in some of these nations, issuers of the relevant securities face the threat of expropriation of their assets, and/or nationalization of their businesses. The economic and financial data about some of these countries may be unreliable.

- **Publicly Available Information.** There is generally less publicly available information about foreign companies than about U.S. companies that are subject to the reporting requirements of the SEC. In addition, accounting, auditing, and financial reporting standards and requirements in foreign countries differ from those applicable to U.S. reporting companies.

**Unless otherwise set forth in the applicable term sheet, we and the agents do not control any company included in any Market Measure and have not verified any disclosure made by any other company.** We, the agents, or our respective affiliates currently, or in the future, may engage in business with companies included in a Market Measure, and we, the agents, or our respective affiliates may from time to time own securities of companies included in a Market Measure. However, none of us, the agents, or any of our respective affiliates has the ability to control the actions of any of these companies or has undertaken any independent review of, or made any due diligence inquiry with respect to, any of these companies, unless (and only to the extent that) the securities of us, the agents, or our respective affiliates are represented by that Market Measure. In addition, unless otherwise set forth in the applicable term sheet, none of us, the agents, or any of our respective affiliates is responsible for the calculation of any index represented by a Market Measure. Unless otherwise specified therein, any information in the term sheet regarding the Market Measure is derived from publicly available information. You should make your own investigation into the Market Measure.

Unless otherwise set forth in the applicable term sheet, none of the Index Publishers, their affiliates, or any companies included in the Market Measure will be involved in any offering of LIRNs or will have any obligation of any sort with respect to LIRNs. As a result, none of those companies will have any obligation to take your interests as holders of LIRNs into consideration for any reason, including taking any corporate actions that might adversely affect the value of the securities represented by the Market Measure or the value of LIRNs.

**Our business activities and those of the agents relating to the companies represented by a Market Measure or the LIRNs may create conflicts of interest with you.** We, the agents, and our respective affiliates, at the time of any offering of LIRNs or in the future, may engage in business with the companies represented by the Market Measure, including making loans to, equity investments in, or providing investment banking, asset management, or other services to those companies, their affiliates, and their competitors.

In connection with these activities, any of these entities may receive information about those companies that we will not divulge to you or other third parties. We, the agents, and our respective affiliates have published, and in the future may publish, research reports on one or more of these companies. The agents may also publish research reports relating to our or our affiliates' securities, including the LIRNs. This research is modified from time to time without notice and may express opinions or provide recommendations that are inconsistent with purchasing or holding your LIRNs. Any of these activities may adversely affect the value of the Market Measure and, consequently, the market value of your LIRNs. None of us, the agents, or our respective affiliates makes any representation to any purchasers of the LIRNs regarding any matters

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whatsoever relating to the issuers of the securities included in a Market Measure. Any prospective purchaser of the LIRNs should undertake an independent investigation of the

PS-14

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Table of Contents

companies included in the Market Measure to a level that, in its judgment, is appropriate to make an informed decision regarding an investment in the LIRNs. The composition of the Market Measure does not reflect any investment recommendations from us, the agents, or our respective affiliates.

**Other Risk Factors Relating to the Applicable Market Measure**

The applicable term sheet may set forth additional risk factors as to the Market Measure that you should review prior to purchasing LIRNs.

PS-15

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Table of Contents

**USE OF PROCEEDS AND HEDGING**

We will use the net proceeds we receive from each sale of LIRNs for the purposes described in the prospectus supplement under Use of Proceeds. In addition, we expect that we or our affiliates may use a portion of the net proceeds to hedge our obligations under LIRNs.

PS-16

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Table of Contents

**DESCRIPTION OF LIRNS**

**General**

Each issue of LIRNs will be part of a series of medium-term notes entitled "Senior Note Program, Series A" that will be issued under the senior debt indenture, as amended and supplemented from time to time. The senior debt indenture is described more fully in the prospectus and prospectus supplement. The following description of LIRNs supplements and, to the extent it is inconsistent with, supersedes the description of the general terms and provisions of the notes and debt securities set forth under the headings "Description of the Notes" in the prospectus supplement and "Description of the Debt Securities We May Offer" in the prospectus. These documents should be read in connection with the applicable term sheet.

The maturity date of the LIRNs and the aggregate principal amount of each issue of LIRNs will be stated in the term sheet. If the scheduled maturity date is not a business day, we will make the required payment on the next business day, and no interest will accrue as a result of such delay.

We will not pay interest on LIRNs. LIRNs do not guarantee the return of principal at maturity. LIRNs will be payable only in U.S. dollars.

Prior to the maturity date, LIRNs are not redeemable at our option or repayable at the option of any holder. LIRNs are not subject to any sinking fund. LIRNs are not subject to the defeasance provisions described in the prospectus under the caption "Description of the Debt Securities We May Offer - Defeasance."

LIRNs will be issued only in global form through The Depository Trust Company ( "DTC" ). We will issue LIRNs in denominations of whole units. Unless otherwise set forth in the applicable term sheet, each unit will have a principal amount of \$10. The CUSIP number for each issue of LIRNs will be set forth in the applicable term sheet. You may transfer LIRNs only in whole units.

**Payment at Maturity**

At maturity, subject to our credit risk as issuer of LIRNs, you will receive a Redemption Amount, denominated in U.S. dollars. The **Redemption Amount** will be calculated as follows:

- If the Ending Value is greater than the Starting Value, then the Redemption Amount will equal:

If your LIRNs are Capped LIRNs, the Redemption Amount will not exceed a **Capped Value** set forth in the term sheet.

- If the Ending Value is equal to or less than the Starting Value, but is greater than or equal to the Threshold Value, then the Redemption Amount will equal the principal amount.

PS-17

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Table of Contents

- If the Ending Value is less than the Threshold Value, then the Redemption Amount will equal:

The Redemption Amount will not be less than zero.

The **Threshold Value** will be a value of the Market Measure that equals a specified percentage of the Starting Value, which will be less than or equal to 100%. The Threshold Value will be determined on the pricing date and set forth in the term sheet. If the Threshold Value is equal to 100% of the Starting Value, then the Redemption Amount for LIRNs will be less than the principal amount if there is any decrease in the value of the Market Measure from the Starting Value to the Ending Value, and you may lose all of your investment in LIRNs.

Your participation in any upside performance of the Market Measure underlying your LIRNs will also be impacted by the Participation Rate. The **Participation Rate** may be greater than or equal to 100%. The Participation Rate applicable to your LIRNs will be set forth in the term sheet. If the applicable term sheet specifies that the Participation Rate is 100%, your participation in any upside performance of the Market Measure will not be leveraged.

Each term sheet will provide examples of Redemption Amounts based on a range of hypothetical Ending Values.

The term sheet will set forth information as to the specific Market Measure, including information as to the historical values of the Market Measure. However, historical values of the Market Measure are not indicative of its future performance or the performance of your LIRNs.

An investment in LIRNs does not entitle you to any ownership interest, including any voting rights, dividends paid, or other distributions made, in the securities of any of the companies included in a Market Measure.

### **The Starting Value and the Ending Value**

#### **Starting Value**

Unless otherwise specified in the term sheet, the **Starting Value** will be the closing level of the Market Measure on the pricing date.

**Ending Value**

Unless otherwise specified in the term sheet, the **Ending Value** will equal the average of the closing levels of the Market Measure determined on each calculation day during the Maturity Valuation Period.

The **Maturity Valuation Period** means the period consisting of one or more calculation days shortly before the maturity date. The timing and length of the period will be set forth in the term sheet.

A **calculation day** means any Market Measure Business Day during the Maturity Valuation Period on which a Market Disruption Event has not occurred.

Unless otherwise specified in the applicable term sheet, a **Market Measure Business Day** means a day on which (1) the New York Stock Exchange (the **NYSE**) and The NASDAQ Stock Market, or their successors, are open for trading and (2) the applicable index(es) (or any successor) is calculated and published.



Table of Contents

If (i) a Market Disruption Event occurs on a scheduled calculation day during the Maturity Valuation Period or (ii) any scheduled calculation day is determined by the calculation agent not to be a Market Measure Business Day by reason of an extraordinary event, occurrence, declaration, or otherwise (any such day in either (i) or (ii) being a **non-calculation day**), the closing level of the Market Measure for the applicable non-calculation day will be the closing level of the Market Measure on the next calculation day that occurs during the Maturity Valuation Period. For example, if the first and second scheduled calculation days during the Maturity Valuation Period are non-calculation days, then the closing level of the Market Measure on the next calculation day will also be the closing level for the Market Measure on the first and second scheduled calculation days during the Maturity Valuation Period. If no further calculation days occur after a non-calculation day, or if every scheduled calculation day after that non-calculation day is also a non-calculation day, then the closing level of the Market Measure for that non-calculation day and each following non-calculation day, if any, (or for all the scheduled calculation days during the Maturity Valuation Period, if applicable) will be determined (or, if not determinable, estimated) by the calculation agent in a commercially reasonable manner on the last scheduled calculation day during the Maturity Valuation Period, regardless of the occurrence of a Market Disruption Event on that last scheduled calculation day.

If the Market Measure consists of a Basket, the Starting Value and the Ending Value of the Basket will be determined as described in **Basket Market Measures**.

**Market Disruption Events**

For an index, a **Market Disruption Event** means any of the following events, as determined by the calculation agent in its sole discretion:

- (A) the suspension of or material limitation on trading, in each case, for more than two consecutive hours of trading, or during the one-half hour period preceding the close of trading, on the primary exchange where the securities included in an index trade (without taking into account any extended or after-hours trading session), in 20% or more of the securities which then compose the index or any successor index; and
- (B) the suspension of or material limitation on trading, in each case, for more than two consecutive hours of trading, or during the one-half hour period preceding the close of trading, on the primary exchange that trades options contracts or futures contracts related to the index (without taking into account any extended or after-hours trading session), whether by reason of movements in price otherwise exceeding levels permitted by the relevant exchange or otherwise, in options contracts or futures contracts related to the index, or any successor index.

For the purpose of determining whether a Market Disruption Event has occurred:

- (1) a limitation on the hours in a trading day and/or number of days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of the relevant exchange;
- (2) a decision to permanently discontinue trading in the relevant futures or options contracts related to the index, or any successor index, will not constitute a Market Disruption Event;

Table of Contents

- (3) a suspension in trading in a futures or options contract on the index, or any successor index, by a major securities market by reason of (a) a price change violating limits set by that securities market, (b) an imbalance of orders relating to those contracts, or (c) a disparity in bid and ask quotes relating to those contracts will constitute a suspension of or material limitation on trading in futures or options contracts related to the index;
- (4) a suspension of or material limitation on trading on the relevant exchange will not include any time when that exchange is closed for trading under ordinary circumstances; and
- (5) if applicable to indices with component securities listed on the NYSE, for the purpose of clause (A) above, any limitations on trading during significant market fluctuations under NYSE Rule 80B, or any applicable rule or regulation enacted or promulgated by the NYSE or any other self-regulatory organization or the SEC of similar scope as determined by the calculation agent, will be considered material.

**Adjustments to an Index**

After the applicable pricing date, an Index Publisher may make a material change in the method of calculating an index or in another way that changes the index such that it does not, in the opinion of the calculation agent, fairly represent the level of the index had those changes or modifications not been made. In this case, the calculation agent will, at the close of business in New York, New York, on each date that the closing level is to be calculated, make adjustments to the index. Those adjustments will be made in good faith as necessary to arrive at a calculation of a level of the index as if those changes or modifications had not been made, and calculate the closing level of the index, as so adjusted.

**Discontinuance of an Index**

After the pricing date, an Index Publisher may discontinue publication of an index to which an issue of LIRNs is linked. The Index Publisher or another entity may then publish a substitute index that the calculation agent determines, in its sole discretion, to be comparable to the original index (a **successor index** ). If this occurs, the calculation agent will substitute the successor index as calculated by the relevant Index Publisher or any other entity and calculate the Ending Value as described under The Starting Value and the Ending Value or Basket Market Measure, as applicable. If the calculation agent selects a successor index, the calculation agent will give written notice of the selection to the trustee, to us and to the holders of the LIRNs.

If an Index Publisher discontinues publication of the index before the end of the Maturity Valuation Period and the calculation agent does not select a successor index, then on each day that would have been a calculation day, until the earlier to occur of:

- the determination of the Ending Value; and
- a determination by the calculation agent that a successor index is available,

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the calculation agent will compute a substitute level for the index in accordance with the procedures last used to calculate the index before any discontinuance as if that day were a calculation day. The calculation agent will make available to holders of the LIRNs information regarding those levels by means of Bloomberg L.P., Thomson Reuters, a website, or any other means selected by the calculation agent in its reasonable discretion.

PS-20

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Table of Contents

If a successor index is selected or the calculation agent calculates a level as a substitute for an index, the successor index or level will be used as a substitute for all purposes, including for the purpose of determining whether a Market Disruption Event exists.

Notwithstanding these alternative arrangements, any modification or discontinuance of the publication of any index to which your LIRNs are linked may adversely affect trading in the LIRNs.

**Basket Market Measures**

If the Market Measure to which your LIRNs are linked is a Basket, the Basket Components and if necessary, the definition of Market Measure Business Day will be set forth in the term sheet. We will assign each Basket Component a weighting (the **Initial Component Weight**) so that each Basket Component represents a percentage of the Starting Value of the Basket on the pricing date. We may assign the Basket Components equal Initial Component Weights, or we may assign the Basket Components unequal Initial Component Weights. The Initial Component Weight for each Basket Component will be stated in the term sheet.

**Determination of the Component Ratio for Each Basket Component**

The **Starting Value** of the Basket will be equal to 100. We will set a fixed factor (the **Component Ratio**) for each Basket Component on the pricing date, based upon the weighting of that Basket Component. The Component Ratio for each Basket Component will equal:

- the Initial Component Weight (expressed as a percentage) for that Basket Component, multiplied by 100; *divided by*
- the closing level of that Basket Component on the pricing date.

Each Component Ratio will be rounded to eight decimal places.

The Component Ratios will be calculated in this way so that the Starting Value of the Basket will equal 100 on the pricing date. The Component Ratios will not be revised subsequent to their determination on the pricing date, except that the calculation agent may in its good faith judgment adjust the Component Ratio of any Basket Component in the event that Basket Component is materially changed or modified in a manner that does not, in the opinion of the calculation agent, fairly represent the value of that Basket Component had those material changes or modifications not been made.



Table of Contents

The following table is for illustration purposes only, and does not reflect the actual composition, Initial Component Weights, or Component Ratios, which will be set forth in the term sheet.

Example: The **hypothetical** Basket Components are Index ABC, Index XYZ, and Index RST, with their Initial Component Weights being 50.00%, 25.00% and 25.00%, respectively, on a **hypothetical** pricing date:

| Basket Component | Initial Component Weight | Hypothetical Closing Level(1) | Hypothetical Component Ratio(2) | Initial Basket Value Contribution |
|------------------|--------------------------|-------------------------------|---------------------------------|-----------------------------------|
| Index ABC        | 50.00%                   | 500.00                        | 0.10000000                      | 50.00                             |
| Index XYZ        | 25.00%                   | 2,420.00                      | 0.01033058                      | 25.00                             |
| Index RST        | 25.00%                   | 1,014.00                      | 0.02465483                      | <u>25.00</u>                      |
| Starting Value   |                          |                               |                                 | 100.00                            |

(1) This column sets forth the **hypothetical** closing level of each Basket Component on the **hypothetical** pricing date.

(2) The **hypothetical** Component Ratio for each Basket Component equals its Initial Component Weight (expressed as a percentage) multiplied by 100, and then divided by the closing level of that Basket Component on the **hypothetical** pricing date, with the result rounded to eight decimal places.

Unless otherwise stated in the term sheet, if a Market Disruption Event occurs on the pricing date as to any Basket Component, the calculation agent will establish the closing level of that Basket Component (the **Basket Component Closing Level** ), and thus its Component Ratio, based on the closing level of that Basket Component on the first Market Measure Business Day following the pricing date on which no Market Disruption Event occurs for that Basket Component. In the event that a Market Disruption Event occurs for that Basket Component on the pricing date and on each day to and including the second scheduled Market Measure Business Day following the pricing date, the calculation agent (not later than the close of business in New York, New York on the second scheduled Market Measure Business Day following the pricing date) will estimate the Basket Component Closing Level, and thus the applicable Component Ratio, in a manner that the calculation agent considers commercially reasonable. The final term sheet will provide the Basket Component Closing Level, a brief statement of the facts relating to the establishment of the Basket Component Closing Level (including the applicable Market Disruption Event(s)), and the applicable Component Ratio.

For purposes of determining whether a Market Disruption Event has occurred as to any Basket Component, **Market Disruption Event** will have the meaning stated above in

Market Disruption Events.

**Ending Value of the Basket**

The calculation agent will calculate the value of the Basket by summing the products of the Basket Component Closing Level on a calculation day and the Component Ratio for each Basket Component. The value of the Basket will vary based on the increase or decrease in the level of each Basket Component. Any increase in the level of a Basket Component (assuming no change in the level of the other Basket Component or Basket Components) will result in an

PS-22

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Table of Contents

increase in the value of the Basket. Conversely, any decrease in the level of a Basket Component (assuming no change in the level of the other Basket Component or Basket Components) will result in a decrease in the value of the Basket.

The **Ending Value** of the Basket will equal the average value of the Basket on each calculation day during the Maturity Valuation Period.

Unless otherwise specified in the term sheet, if, for any Basket Component (an **Affected Basket Component**), (i) a Market Disruption Event occurs on a scheduled calculation day during the Maturity Valuation Period or (ii) any scheduled calculation day is determined by the calculation agent not to be a Market Measure Business Day by reason of an extraordinary event, occurrence, declaration, or otherwise (any such day in either (i) or (ii) being a **non-calculation day**), the calculation agent will determine the closing levels of the Basket Components for such non-calculation day, and as a result, the Ending Value, as follows:

- The closing level of each Basket Component that is not an Affected Basket Component will be its closing level on such non-calculation day.
- The closing level of each Basket Component that is an Affected Basket Component for the applicable non-calculation day will be determined in the same manner as described in the fifth paragraph of subsection The Starting Value and the Ending Value Ending Value, provided that references to Market Measure will be references to Basket Component.

**Role of the Calculation Agent**

The calculation agent has the sole discretion to make all determinations regarding LIRNs as described in this product prospectus supplement, including determinations regarding the Starting Value, the Threshold Value, the Ending Value, the Market Measure, the Redemption Amount, any Market Disruption Events, a successor index, Market Measure Business Days, business days, calculation days, non-calculation days, and determinations related to any adjustments to, or the discontinuance of, any index. Absent manifest error, all determinations of the calculation agent will be conclusive for all purposes and final and binding on you and us, without any liability on the part of the calculation agent.

We expect to appoint MLPF&S or one of its affiliates as the calculation agent for each issue of LIRNs. However, we may change the calculation agent at any time without notifying you. The identity of the calculation agent will be set forth in the applicable term sheet.

**Same-Day Settlement and Payment**



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LIRNs will be delivered in book-entry form only through DTC against payment by purchasers of LIRNs in immediately available funds. We will pay the Redemption Amount in immediately available funds so long as the LIRNs are maintained in book-entry form.

### **Events of Default and Acceleration**

Events of default are defined in the senior debt indenture. If such an event occurs and is continuing, unless otherwise stated in the term sheet, the amount payable to a holder of LIRNs upon any acceleration permitted under the senior debt indenture will be equal to the Redemption Amount described under the caption **Payment at Maturity**, determined as if the LIRNs matured on the date of acceleration, and as if the final calculation day of the Maturity Valuation Period were the fifth Market Measure Business Day prior to the date of acceleration. If a bankruptcy proceeding is commenced in respect of us, your claim may be limited under

PS-23

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Table of Contents

applicable bankruptcy law. In case of a default in payment of LIRNs, whether at their maturity or upon acceleration, they will not bear a default interest rate. For additional discussion of these matters, please see the discussion in the prospectus under the headings

Description of the Debt Securities We May Offer Modification and Waiver of the Debt Securities beginning on page 23 and Events of Default beginning on page 27.

**Listing**

Unless otherwise specified in the applicable term sheet, the LIRNs will not be listed on a securities exchange or quotation system.

PS-24

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Table of Contents

**SUPPLEMENTAL PLAN OF DISTRIBUTION**

MLPF&S and one or more of its affiliates may act as our agents for any offering of the LIRNs, and MLPF&S will act in a principal capacity in such role, unless otherwise specified in the applicable term sheet. Each agent will be a party to the distribution agreement described in the Supplemental Plan of Distribution (Conflicts of Interest) beginning on page S-23 of the accompanying prospectus supplement.

Each agent will receive an underwriting discount that is a percentage of the aggregate principal amount of LIRNs sold through its efforts, which will be set forth in the applicable term sheet. You must have an account with the applicable agent in order to purchase LIRNs.

None of the agents is acting as your fiduciary or advisor solely as a result of the making of any offering of the LIRNs, and you should not rely upon this product prospectus supplement, the term sheet, or the accompanying prospectus or prospectus supplement as investment advice or a recommendation to purchase any LIRNs. You should make your own investment decision regarding LIRNs after consulting with your legal, tax, and other advisors.

MLPF&S and its affiliates may use this product prospectus supplement, the prospectus supplement, and the prospectus, together with the applicable term sheet, in market-making transactions for any LIRNs after their initial sale solely for the purpose of providing investors with the description of the terms of LIRNs that were made available to investors in connection with the initial distribution of LIRNs. Secondary market investors should not, and will not be authorized to rely on these documents for information regarding the Bank or for any purpose other than that described in the immediately preceding sentence.

**Selling Restrictions**

**European Economic Area**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), MLPF&S has represented and agreed, and each further dealer appointed under the program will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**), it has not made and will not make an offer of the LIRNs to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such LIRNs to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant dealer or dealers nominated by the Bank for any such offer; or

(c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of the LIRNs referred to in (a) to (c) above shall require the Bank or any dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

PS-25

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Table of Contents

For the purposes of this provision, the expression an offer of the LIRNs to the public in relation to any LIRNs in any Relevant Member State, means the communication in any form and by any means of sufficient information on the terms of the offer and the LIRNs to be offered so as to enable an investor to decide to purchase or subscribe for the LIRNs, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression **Prospectus Directive** means Directive 2003/71/EC as amended by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

**United Kingdom**

MLPF&S has represented and agreed, and each further dealer appointed under the program will be required to represent and agree, that:

(a) in relation to any LIRNs which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing, or disposing of investments (as principal or as agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any LIRNs other than to persons whose ordinary activities involve them in acquiring, holding, managing, or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage, or dispose of investments (as principal or as agent) for the purposes of their businesses where the issue of the LIRNs would otherwise constitute a contravention of section 19 of the Financial Services and Markets Act 2000 (the **FSMA**) by the Bank;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any LIRNs in circumstances in which section 21(1) of the FSMA does not apply to the Bank; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the LIRNs in, from or otherwise involving the United Kingdom.

Table of Contents

**SUPPLEMENTAL DISCUSSION OF CANADIAN FEDERAL INCOME TAX CONSEQUENCES**

In the opinion of Osler, Hoskin & Harcourt, LLP, Canadian counsel to the Bank, the following is a summary of the principal Canadian federal income tax considerations generally applicable to a purchaser who acquires, as a beneficial owner, LIRNs, including entitlement to all payments thereunder, pursuant to the initial offering by the Bank made in connection with the original issuance of LIRNs and who, at all relevant times, for purposes of the application of the Income Tax Act (Canada) and the Income Tax Regulations (collectively, the **Act**) is not, and is not deemed to be, resident in Canada, deals at arm's length with the Bank and any transferee resident (or deemed to be resident) in Canada to whom the purchaser disposes of LIRNs, does not use or hold LIRNs in a business carried on in Canada, and is not a specified non-resident shareholder of the Bank for purposes of the Act or a non-resident person not dealing at arm's length with a specified shareholder (as defined in subsection 18(5) of the Act) of the Bank (a **Non-Resident Holder**). Special rules, which are not discussed in this summary, may apply to a non-Canadian holder that is an insurer carrying on an insurance business in Canada and elsewhere.

This summary is based upon the current provisions of the Act and an understanding of the current administrative policies and assessing practices of the CRA published in writing prior to the date hereof. This summary takes into account all specific proposals to amend the Act publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the **Proposals**) and assumes that all Proposals will be enacted in the form proposed. However, no assurances can be given that the Proposals will be enacted as proposed, or at all. This summary does not otherwise take into account any changes in law or administrative practices or assessing policies, whether by legislative, administrative or judicial action, nor does it take into account tax legislation or considerations of any province, territory or foreign jurisdiction, which may differ from those discussed herein.

This summary assumes that no interest paid on the LIRNs will be in respect of a debt or other obligation to pay an amount to a person with whom the Bank does not deal at arm's length, within the meaning of the Act.

This summary is of a general nature only and is not, and is not intended to be, legal or tax advice to any particular holder. This summary is not exhaustive of all Canadian federal income tax considerations. Accordingly, prospective purchasers should consult their own tax advisors with regard to their own particular circumstances.

Interest paid or credited or deemed for purposes of the Act to be paid or credited on a LIRN (including any amount paid at maturity in excess of the principal amount and interest deemed to be paid on the LIRN in certain cases involving the assignment, deemed assignment or other transfer of a LIRN to the Bank or any other resident or deemed resident of Canada) to a Non-Resident Holder will not be subject to Canadian non-resident withholding tax unless any portion of such interest is contingent or dependent on the use of or production from property in Canada or is computed by reference to revenue, profit, cash flow, commodity price or any other similar criterion or by reference to dividends paid or payable to shareholders of any class of shares of the capital stock of a corporation (**Participating Debt Interest**) subject to certain exceptions. Unless otherwise specified in the relevant term sheet, no portion of the interest paid or credited or deemed to be paid or credited on a LIRN will be Participating Debt Interest. Any conclusion that interest paid or credited or deemed to be paid or credited on a LIRN will not be Participating Debt Interest will be based in part on the published administrative position of the CRA.

No other Canadian federal taxes on income or gains will be payable by a Non-Resident Holder on interest or principal, or on proceeds received by a Non-Resident Holder on the disposition of a LIRN, including on a redemption, payment on maturity, repurchase or purchase for cancellation.



Table of Contents

**SUPPLEMENTAL DISCUSSION OF U.S. FEDERAL INCOME TAX CONSEQUENCES**

*The U.S. federal income tax consequences of your investment in the LIRNs are uncertain. The following is a general description of certain material U.S. federal income tax considerations relating to the LIRNs. It does not purport to be a complete analysis of all tax consequences relating to the LIRNs. In addition, the discussion below assumes that an investor in the LIRNs will be subject to a significant risk that it will lose a significant amount of its investment in the LIRNs. If an investor in the LIRNs is not subject to a significant risk that it will lose a significant amount of its investment in the LIRNs, the federal income tax treatment of that LIRN may differ substantially from that described in the discussion below and such treatment will be described in the term sheet. The discussion below also assumes that the LIRNs will not provide for the payment of a coupon. If the LIRNs provide for the payment of a coupon, the federal income tax treatment of the coupon will be described in the term sheet. Prospective purchasers of the LIRNs should consult their tax advisors as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of Canada and the U.S. of acquiring, holding and disposing of the LIRNs and receiving payments under the LIRNs. This summary is based upon the law as in effect on the date of this product prospectus supplement and is subject to any change in law that may take effect after such date. For additional information, see *Certain Income Tax Consequences* in the prospectus supplement and *United States Taxation* in the prospectus. The following section supplements the discussion of U.S. federal income taxation the prospectus supplement and the prospectus.*

The term sheet may contain a further discussion of the special federal income tax consequences applicable to certain LIRNs. The summary of the federal income tax considerations contained in the term sheet supersedes the following summary to the extent it is inconsistent therewith.

This discussion applies to you only if you acquire your LIRNs upon initial issuance and hold your LIRNs as capital assets for U.S. federal income tax purposes. This discussion does not apply to you if you are a member of a class of holders subject to special rules, such as:

- a dealer in securities or currencies,
- a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings,
- a financial institution or a bank,
- a regulated investment company (a RIC ) or a real estate investment trust (a REIT ) or a common trust fund,
- a life insurance company,
- a tax-exempt organization or an investor holding the LIRNs in a tax-advantaged account (such as an Individual Retirement Account or Roth IRA ), as defined in Section 408 or 408A of the Internal Revenue Code of 1986, as amended (the Code ), respectively,
- a person that owns LIRNs as part of a hedging transaction, straddle, synthetic security, conversion transaction, or other integrated transaction, or enters into a constructive sale with respect to the LIRNs or a wash sale with respect to the LIRNs or the Market Measure, or
- a U.S. holder (as defined below) whose functional currency for tax purposes is not the U.S. dollar.



This discussion is based on the Code, its legislative history, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations as of the date of this product prospectus supplement, and changes to any of which subsequent to the date of this product prospectus supplement may affect the U.S. federal income tax consequences described herein. If you are considering the purchase of a LIRN, you should consult your tax advisor concerning the application of the U.S. federal income tax laws to your

PS-28

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Table of Contents

particular situation, as well as any tax consequences arising under the laws of any state, local or non-U.S. jurisdictions.

Except as otherwise noted under **Non-U.S. Holders** below, this discussion is only applicable to you if you are a U.S. holder. You are a U.S. holder if you are a beneficial owner of a LIRN and you are: (i) a citizen or resident of the U.S., (ii) a domestic corporation or other entity taxable as a corporation, created or organized in or under the laws of the U.S. or any political subdivision thereof, (iii) an estate whose income is subject to U.S. federal income tax regardless of its source, or (iv) a trust if a U.S. court can exercise primary supervision over the trust's administration, and one or more U.S. persons are authorized to control all substantial decisions of the trust.

An individual may, subject to certain exceptions, be deemed to be a resident of the U.S. by reason of being present in the U.S. for at least 31 days in the calendar year and for an aggregate of at least 183 days during a three-year period ending in the current calendar year (counting for such purposes all of the days present in the current year, one-third of the days present in the immediately preceding year, and one-sixth of the days present in the second preceding year).

If a partnership, or any entity treated as a partnership for U.S. federal income tax purposes, holds the LIRNs, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. A partner in a partnership holding the LIRNs should consult its tax advisor with regard to the U.S. federal income tax treatment of an investment in the LIRNs.

**No statutory, judicial or administrative authority directly discusses how your LIRNs should be treated for U.S. federal income tax purposes. As a result, the U.S. federal income tax consequences of your investment in the LIRNs are uncertain. Accordingly, we urge you to consult your tax advisor as to the tax consequences of your investment in the LIRNs (and having agreed to the required tax treatment of your LIRNs described below and as to the application of state, local or other tax laws (including non-U.S. tax law) to your investment in your LIRNs and the possible effects of changes in federal or other tax laws.**

Unless otherwise specified in the term sheet, we expect our counsel, Cadwalader, Wickersham & Taft LLP, would be able to opine that it would be reasonable to treat your LIRNs as a pre-paid derivative contract with respect to the Market Measure or Basket and the terms of the LIRNs require you and us (in the absence of a statutory, regulatory, administrative or judicial ruling to the contrary) to treat the LIRNs for all tax purposes in accordance with such characterization. If the LIRNs are so treated, subject to the discussion below of the constructive ownership rules, you should generally not accrue any income with respect to the LIRNs during the term of the LIRNs until sale, exchange, redemption or maturity of the LIRNs and you should generally recognize capital gain or loss upon the sale, exchange, redemption or maturity of your LIRNs in an amount equal to the difference between the amount you receive at such time and your tax basis in the LIRNs. In general, your tax basis in your LIRNs will be equal to the amount you paid for your LIRNs. Subject to the discussion below of the constructive ownership rules, such recognized gain or loss should generally be long-term capital gain or loss if you have held your LIRNs for more than one year (otherwise, such gain or loss would be short-term capital gain or loss if held for one year or less). The deductibility of capital losses is subject to limitations.

It is possible that the IRS could assert that your holding period in respect of your LIRNs should end on the date on which the amount you are entitled to receive upon maturity of your LIRNs is determined, even though you will not receive any amounts from the Bank in respect of your LIRNs prior to the maturity of your LIRNs. In such case, you may be treated as having a holding period in respect of your LIRNs ending prior to the maturity date for your LIRNs, and



Table of Contents

such holding period may be treated as less than one year even if you receive cash on the maturity date of your LIRNs at a time that is more than one year after the beginning of your holding period.

**Section 1260**

If a LIRN references a component security of the Market Measure that is treated as equity in a RIC, certain trusts, certain ETFs, a REIT, a passive foreign investment company (a PFIC), a partnership, or other pass-thru entity for purposes of Section 1260 of the Code, it is possible that the constructive ownership transaction rules of Section 1260 of the Code may apply, in which case the tax consequences of sale, exchange, redemption or maturity of the LIRNs could be affected materially and adversely. Under the constructive ownership rules, if an investment in the LIRNs is treated as a constructive ownership transaction, any long-term capital gain recognized by a U.S. holder in respect of such LIRNs will be recharacterized as ordinary income to the extent such gain exceeds the amount of net underlying long-term capital gain (as defined in Section 1260 of the Code) of the U.S. holder (the Excess Gain). In addition, an interest charge would also apply to any deemed underpayment of tax in respect of any Excess Gain to the extent such gain would have resulted in gross income inclusion for the U.S. holder in taxable years prior to the taxable year of the sale, exchange, redemption or maturity of the LIRN (assuming such income accrued such that the amount in each successive year is equal to the income in the prior year increased at a constant rate equal to the applicable federal rate as of the date of sale, exchange, redemption or maturity of the LIRN).

Because the application of the constructive ownership rules to the LIRNs is unclear, you are urged to consult your tax advisors regarding the potential application of the constructive ownership rules to an investment in the LIRNs.

**Section 1297**

We will not attempt to ascertain whether any component security of a Market Measure would be treated as a PFIC. In general, if a U.S. taxpayer holds an interest in a PFIC, such U.S. taxpayer is required to report any gain on disposition of an interest in such PFIC as ordinary income, rather than as capital gain, and the taxpayer is subject to tax on such gain in the year such gain is recognized at the highest ordinary income tax rate and for a non-deductible interest charge at the federal underpayment rate as if the gain had been earned ratably over each day in such taxpayer's holding period and such tax liabilities had been due with respect to each prior year in the taxpayer's holding periods. In the event that any component security of the Market Measure is treated as a PFIC, the application of the PFIC rules to the LIRNs would be unclear, and it is possible that U.S. holders of LIRNs could be subject to the PFIC rules to the extent that the LIRNs directly or indirectly references shares in one or more PFICs. Accordingly, you should consult your tax advisor regarding the potential application of the PFIC rules to an investment in the LIRNs.

**Alternative Treatments**

Because of the absence of authority regarding the appropriate tax characterization of your LIRNs, it is possible that the IRS could seek to characterize your LIRNs in a manner that results in tax consequences to you that are materially different from those described above and could adversely affect the timing and/or character of income or loss with respect to the LIRNs. The IRS has released a notice that may affect the taxation of holders of the LIRNs. According to Notice 2008-2, the IRS and the Treasury Department are actively considering whether the holder of an instrument such as the LIRNs should be required to accrue ordinary income on a current basis, and they are seeking taxpayer comments on

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the subject. It is not possible to determine what guidance they will ultimately issue, if any. It is possible, however, that under such guidance, holders of the LIRNs will ultimately be required to accrue income currently and this could be applied on a retroactive basis. The IRS and the Treasury Department are also

PS-30

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Table of Contents

considering other relevant issues, including whether additional gain or loss from such instruments should be treated as ordinary or capital, whether non-U.S. holders of such instruments should be subject to withholding tax on any deemed income accruals, and whether the special constructive ownership rules of Section 1260 of the Code should be applied to such instruments. Holders are urged to consult their tax advisors concerning the significance, and the potential impact, of the above considerations. Except to the extent otherwise required by law, we intend to treat your LIRNs for U.S. federal income tax purposes in accordance with the treatment described above unless and until such time as the IRS and the Treasury Department determine that some other treatment is more appropriate.

*Contingent Payment Debt Instrument.* If the LIRNs have a term greater than one year, it is possible that the LIRNs could be treated as a debt instrument subject to the special tax rules governing contingent payment debt instruments. If the LIRNs are so treated, you would be required to accrue interest income over the term of your LIRNs based upon the yield at which we would issue a non-contingent fixed-rate debt instrument with other terms and conditions similar to your LIRNs. You would recognize gain or loss upon the sale, exchange, redemption or maturity of your LIRNs in an amount equal to the difference, if any, between the amount you receive at such time and your adjusted basis in your LIRNs. In general, your adjusted basis in your LIRNs would be equal to the amount you paid for your LIRNs, increased by the amount of interest you previously accrued with respect to your LIRNs. Any gain you recognize upon the sale, exchange, redemption or maturity of your LIRNs would be ordinary income and any loss recognized by you at such time would be ordinary loss to the extent of interest you included in income in the current or previous taxable years in respect of your LIRNs, and thereafter, would be capital loss.

*Contingent Short-Term Debt Instrument.* Similarly, if the LIRNs have a term of one year or less, it is possible that the LIRNs could be treated as a debt instrument subject to the special rules for short-term debt instruments. You should consult your tax advisor as to the tax consequences of such characterization.

*Other Alternative Treatments.* The IRS could also possibly assert that (i) you should be treated as owning the Market Measure, any Basket Components or the component securities of the Market Measure, (ii) any gain or loss that you recognize upon the exchange or maturity of the LIRNs should be treated as ordinary gain or loss or short-term capital gain or loss, (iii) you should be required to accrue interest income over the term of your LIRNs, (iv) you should be required to include in ordinary income an amount equal to any increase in the Market Measure, any Basket Components or any component securities of the Market Measure that is attributable to ordinary income that is realized in respect of the Market Measure, any Basket Components or any component securities of the Market Measure, such as interest, dividends or net-rental income or (v) you should be required to recognize taxable gain upon a rollover, rebalancing or change, if any, of any component securities of the Market Measure. You should consult your tax advisor as to the tax consequences of such characterization and any possible alternative characterizations of your LIRNs for U.S. federal income tax purposes.

**Medicare Tax on Net Investment Income**

U.S. holders that are individuals, estates, and certain trusts are subject to an additional 3.8% tax on all or a portion of their net investment income or undistributed net investment income in the case of an estate or trust, which may include any income or gain realized with respect to the

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LIRNs, to the extent of their net investment income that when added to their other modified adjusted gross income or undistributed net investment income (as the case may be), that when added to their other modified adjusted gross income, exceeds \$200,000 for an unmarried individual, \$250,000 for a married taxpayer filing a joint return (or a surviving spouse), or \$125,000 for a married individual filing a separate return, or the dollar amount at which the highest tax bracket begins for an estate or trust. The 3.8% Medicare tax is

PS-31

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Table of Contents

determined in a different manner than the income tax. U.S. holders should consult their advisors with respect to their consequences with respect to the 3.8% Medicare tax.

**Specified Foreign Financial Assets**

U.S. holders may be subject to reporting obligations with respect to their LIRNs if they do not hold their LIRNs in an account maintained by a financial institution and the aggregate value of their LIRNs and certain other specified foreign financial assets (applying certain attribution rules) exceeds \$50,000. Significant penalties can apply if a U.S. holder is required to disclose its LIRNs and fails to do so.

**Treasury Regulations Requiring Disclosure of Reportable Transactions**

Treasury regulations require U.S. taxpayers to report certain transactions ( Reportable Transactions ) on IRS Form 8886. An investment in the LIRNs or a sale of the LIRNs generally should not be treated as a Reportable Transaction under current law, but it is possible that future legislation, regulations or administrative rulings could cause your investment in the LIRNs or a sale of the LIRNs to be treated as a Reportable Transaction. You should consult with your tax advisor regarding any tax filing and reporting obligations that may apply in connection with acquiring, owning and disposing of LIRNs.

**Backup Withholding and Information Reporting**

The proceeds received from a sale, exchange, redemption or maturity of the LIRNs will be subject to information reporting unless you are an exempt recipient and may also be subject to backup withholding at the rate specified in the Code if you fail to provide certain identifying information (such as an accurate taxpayer number, if you are a U.S. holder) or meet certain other conditions. If you are a non-U.S. holder and you provide a properly executed and fully completed applicable IRS Form W-8, you will generally establish an exemption from backup withholding.

Amounts withheld under the backup withholding rules are not additional taxes and may be refunded or credited against your U.S. federal income tax liability, provided the required information is furnished to the IRS.

**Non-U.S. Holders**

Subject to the discussion below with respect to Section 871(m) of the Code and FATCA, if you are a non-U.S. holder, you should generally not be subject to U.S. withholding tax with respect to payments on your LIRNs or to generally applicable information reporting and backup withholding requirements with respect to payments on your LIRNs if you comply with certain certification and identification requirements as to your non-U.S. status, including providing us (and/or the applicable withholding agent) a fully completed and validly executed applicable IRS



Form W-8.

In general, gain realized on the sale, exchange, redemption or maturity of the LIRNs by a non-U.S. holder will not be subject to federal income tax, unless:

- the gain with respect to the LIRNs is effectively connected with a trade or business conducted by the non-U.S. holder in the U.S.; or
- the non-U.S. holder is a nonresident alien individual who holds the LIRNs as a capital asset and is present in the U.S. for more than 182 days in the taxable year of such sale, exchange or settlement and certain other conditions are satisfied, or has certain other present or former connections with the U.S.

If the gain realized on the sale, exchange, redemption or maturity of the LIRNs by the non-U.S. holder is described in either of the two preceding bullet points, the non-U.S. holder

PS-32

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Table of Contents

may be subject to U.S. federal income tax with respect to the gain except to the extent that an income tax treaty reduces or eliminates the tax and the appropriate documentation is provided.

*Section 897.* We will not attempt to ascertain whether the issuer of any component security of the Market Measure would be treated as a United States real property holding corporation within the meaning of Section 897 of the Code. We will also not attempt to determine whether the LIRNs should be treated as United States real property interests as defined in Section 897 of the Code. If the issuer of any component security of the Market Measure were treated as a United States real property holding corporation or the LIRNs were treated as United States real property interests, certain adverse U.S. federal income tax consequences could possibly apply, including subjecting any gain to a non-U.S. holder in respect of a LIRN upon a sale, exchange, redemption or other taxable disposition of the LIRN to U.S. federal income tax on a net basis, and the proceeds from such a taxable disposition to a 15% withholding tax. Non-U.S. holders should consult their tax advisors regarding the potential treatment of the issuer of any component security of the Market Measure as a United States real property holding corporation or the LIRNs as United States real property interests.

*Section 871(m).* A 30% withholding tax (which may be reduced by an applicable income tax treaty) is imposed on certain dividend equivalents paid or deemed paid to a non-U.S. holder with respect to a specified equity-linked instrument that references one or more indices containing dividend-paying U.S. equity securities. The withholding tax can apply even if the instrument does not provide for payments that reference dividends. Treasury regulations provide that the withholding tax applies to all dividend equivalents paid or deemed paid on specified equity-linked instruments that have a delta of one ( delta one specified equity-linked instruments ) issued after 2016 and to all dividend equivalents paid or deemed paid on all specified equity-linked instruments issued after 2017.

The 30% withholding tax may also apply if the LIRNs are deemed to be reissued for tax purposes upon the occurrence of certain events affecting the LIRNs, the Market Measure or the component securities of the Market Measure, and following such occurrence the LIRNs could be treated as delta one specified equity-linked instruments that are subject to withholding on dividend equivalent payments. It is also possible that withholding tax or other Section 871(m) tax could apply to the LIRNs under these rules if a non-U.S. holder enters, or has entered, into certain other transactions in respect of the LIRNs, the Market Measure or the component securities of the Market Measure. Because of the uncertainty regarding the application of the 30% withholding tax on dividend equivalent payments to the LIRNs, non-U.S. holders are urged to consult their tax advisor regarding the potential application of Section 871(m) (including in the context of their other transactions in respect of the Market Measure, component securities of the Market Measure or the LIRNs, if any) and the 30% withholding tax to an investment in the LIRNs.

*U.S. Federal Estate Tax Treatment of Non-U.S. Holders.* LIRNs may be subject to U.S. federal estate tax if an individual non-U.S. holder holds the LIRNs at the time of his or her death. The gross estate of a non-U.S. holder domiciled outside the U.S. includes only property situated in the U.S. Individual non-U.S. holders should consult their tax advisors regarding the U.S. federal estate tax consequences of holding the LIRNs at death.

**Foreign Account Tax Compliance Act**

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The Foreign Account Tax Compliance Act ( FATCA ) was enacted on March 18, 2010, and imposes a 30% U.S. withholding tax on withholdable payments (i.e., certain U.S.-source payments, including interest (and original issue discount), dividends, other fixed or determinable annual or periodical gain, profits, and income, and on the gross proceeds from a disposition of property of a type which can produce U.S. -source interest or dividends) and passthru payments (i.e., certain payments attributable to withholdable payments) made to certain foreign financial institutions (and certain of their affiliates) unless the payee foreign

PS-33

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Table of Contents

financial institution agrees (or is required), among other things, to disclose the identity of any U.S. individual with an account of the institution (or the relevant affiliate) and to annually report certain information about such account. FATCA also requires withholding agents making withholdable payments to certain foreign entities that do not disclose the name, address, and taxpayer identification number of any substantial U.S. owners (or do not certify that they do not have any substantial U.S. owners) to withhold tax at a rate of 30%. Under certain circumstances, a holder may be eligible for refunds or credits of such taxes.

Pursuant to final and temporary Treasury regulations and other IRS guidance, the withholding and reporting requirements under FATCA generally apply to certain withholdable payments, and will generally apply to certain gross proceeds on a sale or disposition occurring after December 31, 2018, and certain foreign passthru payments made after December 31, 2018 (or, if later, the date that final regulations defining the term foreign passthru payment are published). In addition, withholding tax under FATCA would not be imposed on withholdable payments solely because the relevant obligation is treated as giving rise to a dividend equivalent (pursuant to Section 871(m) and the regulations thereunder) where such obligation is executed on or before the date that is six months after the date on which obligations of its type are first treated as giving rise to dividend equivalents. If, however, withholding is required, we (or the applicable paying agent) will not be required to pay additional amounts with respect to the amounts so withheld. Foreign financial institutions and non-financial foreign entities located in jurisdictions that have an intergovernmental agreement with the U.S. governing FATCA may be subject to different rules.

Investors should consult their own advisors about the application of FATCA, in particular if they may be classified as financial institutions (or if they hold their LIRNs through a non-U.S. entity) under the FATCA rules.

**Proposed Legislation**

In 2007, legislation was introduced in Congress that, if enacted, would have required holders of LIRNs purchased after the bill was enacted to accrue interest income over the term of the LIRNs despite the fact that there will be no interest payments over the term of the LIRNs. It is impossible to predict whether a similar or identical bill will be enacted in the future, or whether any such bill would affect the tax treatment of your LIRNs.

Furthermore, in 2013, the House Ways and Means Committee released in draft form certain proposed legislation relating to financial instruments. If enacted, the effect of this legislation generally would be to require instruments such as the LIRNs to be marked to market on an annual basis with all gains and losses to be treated as ordinary, subject to certain exceptions. It is impossible to predict whether a similar or identical bill will be enacted in the future, or whether any such bill would affect the tax treatment of your LIRNs. You are urged to consult your tax advisor regarding the possibility that any legislative or administrative action may adversely affect the tax treatment of your LIRNs.

**Both U.S. and non-U.S. holders should consult their tax advisors regarding the U.S. federal income tax consequences of an investment in the LIRNs (including possible application of Section 1260 of the Code and alternative treatments and the issues presented by Notice 2008-2), as well as any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction (including that of the issuers of the component securities of a Market Measure).**



Table of Contents

**ERISA CONSIDERATIONS**

Each fiduciary of a pension, profit-sharing, or other employee benefit plan subject to the Employee Retirement Income Security Act of 1974, as amended ( **ERISA** ) (a **Plan** ), should consider the fiduciary standards of ERISA in the context of the Plan's particular circumstances before authorizing an investment in the LIRNs. Accordingly, among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the Plan.

In addition, we, the agents, and certain of our respective subsidiaries and affiliates may be each considered a party in interest within the meaning of ERISA, or a disqualified person (within the meaning of Section 4975 of the Code), with respect to many Plans, as well as many individual retirement accounts and Keogh plans (also **Plans** ). Prohibited transactions within the meaning of ERISA or the Code would likely arise, for example, if the LIRNs are acquired by or with the assets of a Plan with respect to which we or any of our affiliates is a party in interest or a disqualified person, unless the LIRNs are acquired under an exemption from the prohibited transaction rules. A violation of these prohibited transaction rules could result in an excise tax or other liabilities under ERISA and/or Section 4975 of the Code for such persons, unless exemptive relief is available under an applicable statutory or administrative exemption.

Under ERISA and various prohibited transaction class exemptions ( **PTCEs** ) issued by the U.S. Department of Labor, exemptive relief may be available for direct or indirect prohibited transactions resulting from the purchase, holding, or disposition of the LIRNs. Those exemptions include PTCE 96-23 (for certain transactions determined by in-house asset managers), PTCE 95-60 (for certain transactions involving insurance company general accounts), PTCE 91-38 (for certain transactions involving bank collective investment funds), PTCE 90-1 (for certain transactions involving insurance company separate accounts), PTCE 84-14 (for certain transactions determined by independent qualified asset managers), and the exemption under Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code for certain transactions with a person that is a party in interest or disqualified person solely by reason of providing services to Plans or being an affiliate of such a service provider and in connection with which the Plan receives no less nor pays no more, than adequate consideration (the **Service Provider Exemption** ).

Because we and the Bank each may be considered a party in interest or disqualified person with respect to many Plans, the LIRNs may not be purchased, held, or disposed of by any Plan, any entity whose underlying assets include plan assets by reason of any Plan's investment in the entity (a **Plan Asset Entity** ) or any person investing plan assets of any Plan, unless such purchase, holding, or disposition is eligible for exemptive relief, including relief available under PTCE 96-23, 95-60, 91-38, 90-1, or 84-14 or the Service Provider Exemption, or such purchase, holding, or disposition is otherwise not prohibited. Any purchaser, including any fiduciary purchasing on behalf of a Plan, transferee or holder of the LIRNs will be deemed to have represented, in its corporate and its fiduciary capacity, by its purchase and holding of the LIRNs that either (a) it is not and will not be a Plan or a Plan Asset Entity and is not purchasing such LIRNs on behalf of or with plan assets of any Plan or any plan subject to similar laws or (b) its purchase, holding, and disposition will not constitute or result in a non-exempt prohibited transaction due to the application of a statutory or administrative exemption or such purchase, holding, and disposition will not otherwise be prohibited under ERISA or Section 4975 of the Code or a violation of any similar laws.

Further, any person acquiring or holding the LIRNs on behalf of any plan or with any plan assets shall be deemed to represent on behalf of itself and such plan that (x) the plan is paying no more than, and is receiving no less than, adequate consideration within the meaning

Table of Contents

of Section 408(b)(17) of ERISA and/or Section 4975(f)(10) of the Code in connection with the transaction or any redemption of the LIRNs, (y) none of us, MLPF&S or any other agent directly or indirectly exercises any discretionary authority or control or renders investment advice or otherwise acts in a fiduciary capacity with respect to the assets of the plan within the meaning of ERISA and/or Section 4975 of the Code and (z) in making the foregoing representations and warranties, such person has applied sound business principles in determining whether fair market value will be paid, and has made such determination acting in good faith.

The fiduciary investment considerations summarized above generally apply to employee benefit plans maintained by private-sector employers and to individual retirement accounts and other arrangements subject to Section 4975 of the Code, but generally do not apply to governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA), and foreign plans (as described in Section 4(b)(4) of ERISA). However, these other plans may be subject to similar provisions under applicable federal, state, local, foreign, or other regulations, rules, or laws ( **similar laws** ). The fiduciaries of plans subject to similar laws should also consider the foregoing issues in general terms as well as any further issues arising under the applicable similar laws.

In addition, any purchaser, that is a Plan or a Plan Asset Entity or that is acquiring the LIRNs on behalf of a Plan or a Plan Asset Entity, including any fiduciary purchasing on behalf of a Plan or Plan Asset entity, will be deemed to have represented, in its corporate and its fiduciary capacity, by its purchase and holding of the LIRNs that (a) none of us, MLPF&S, or any of our respective affiliates is a **fiduciary** (under Section 3(21) of ERISA, or under any final or proposed regulations thereunder, or with respect to a governmental, church, or foreign plan under any similar laws) with respect to the acquisition, holding or disposition of the LIRNs, or as a result of any exercise by us or our affiliates of any rights in connection with the LIRNs, (b) no advice provided by us or any of our affiliates has formed a primary basis for any investment decision by or on behalf of such purchaser in connection with the LIRNs and the transactions contemplated with respect to the LIRNs, and (c) such purchaser recognizes and agrees that any communication from us or any of our affiliates to the purchaser with respect to the LIRNs is not intended by us or any of our affiliates to be impartial investment advice and is rendered in its capacity as a seller of such LIRNs and not a fiduciary to such purchaser. Purchasers of the LIRNs have exclusive responsibility for ensuring that their purchase, holding, and disposition of the LIRNs do not violate the prohibited transaction rules of ERISA or the Code or any similar regulations applicable to governmental or church plans, as described above.

This discussion is a general summary of some of the rules which apply to benefit plans and their related investment vehicles. This summary does not include all of the investment considerations relevant to Plans and other benefit plan investors such as governmental, church, and foreign plans and should not be construed as legal advice or a legal opinion. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries or other persons considering purchasing the LIRNs on behalf of or with plan assets of any Plan or other benefit plan investor consult with their legal counsel prior to directing any such purchase.