

BANK OF MONTREAL /CAN/
Form F-3
July 03, 2013
Table of Contents

As filed with the Securities and Exchange Commission on July 3, 2013

Registration No. 333- []

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM F-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

Bank of Montreal
BMO Covered Bond Guarantor Limited Partnership

(Exact name of Registrant as specified in its charter)

CANADA

(State or other jurisdiction of incorporation or organization)

13-4941092

(I.R.S. Employer Identification No.)

100 King St. West

1 First Canadian Place

Toronto, Ontario

Canada M5X 1A1

(416) 867-6785

(Address and telephone number of Registrant's principal executive offices)

Colleen Hennessy

Bank of Montreal

111 West Monroe Street, P.O. Box 755

Chicago, Illinois 60690

(312) 461-7745

(Name, address and telephone number of agent for service)

Please send copies to:

**Lawton M. Camp
Allen & Overy LLP
1221 Avenue of the Americas
New York, New York 10020
(212) 610-6300**

**Jerry R. Marlatt
Morrison & Foerster LLP
1290 Avenue of the Americas
New York, New York 10104
(212) 468-8000**

Approximate date of commencement of proposed sale to the public: At such time or times on or after the effective date of this registration statement as the Registrants shall determine.

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If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, please check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a registration statement pursuant to General Instruction I.C. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.C. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered ⁽¹⁾	Proposed maximum aggregate price per security	Proposed maximum aggregate offering price ^{(2) (3)}	Amount of registration fee ⁽¹⁾
Covered Bonds	U.S. \$1,000,000	100%	U.S. \$1,000,000	U.S. \$136.40

- (1) This Registration Statement also includes an indeterminate amount of securities of the classes specified above that may be reoffered and resold on an ongoing basis after their initial sale in market-making transactions by affiliates of the Registrant. These securities consist of an indeterminate amount of such securities that are initially being registered, and will initially be offered and sold, under this Registration Statement. All such market-making reoffers and resales of these securities that are made pursuant to a registration statement after the effectiveness of this registration statement are being made solely pursuant to this Registration Statement.
- (2) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(o) under the Securities Act.
- (3) Separate consideration may not be received for registered securities that are issuable on exercise, conversion or exchange of other securities.

The Registrants hereby amend this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to Section 8(a) of the Act, may determine.

Table of Contents

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion, Dated July 3, 2013

Bank of Montreal

unconditionally and irrevocably guaranteed by

BMO Covered Bond Guarantor Limited Partnership

Covered Bonds

up to an aggregate initial offering price of U.S.\$

or the equivalent thereof in other currencies under the global registered covered bond program

This prospectus describes some of the general terms that may apply to these covered bonds and the related guarantee and the general manner in which they may be offered. We will give you the specific prices and other terms of the covered bonds we are offering in supplements to this prospectus. You should read this prospectus and the applicable prospectus supplement carefully before you invest. We may sell the covered bonds to or through one or more dealers or agents. The names of the dealers or agents will be set forth in supplements to this prospectus.

Prospective investors should be aware that the acquisition of the covered bonds described herein may have tax consequences both in the United States and in Canada. Such consequences may not be described fully herein or in any applicable prospectus supplement.

Investing in the covered bonds involves risks. See *Risk Factors* beginning on page 24 of this prospectus.

The enforcement by investors of civil liabilities under United States federal securities laws may be affected adversely by the fact that Bank of Montreal is a Canadian bank, that many of its officers and directors are residents of Canada, that BMO Covered Bond Guarantor Limited Partnership is a limited partnership existing under the laws of the Province of Ontario, that some or all of the dealers or experts named in the registration statement may be residents outside of the United States, and that all or a substantial portion of the assets of Bank of Montreal, BMO Covered Bond Guarantor Limited Partnership and such persons may be located outside the United States.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined that this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The covered bonds described herein will not constitute deposits that are insured under the *Canada Deposit Insurance Corporation Act* (Canada) or by the United States Federal Deposit Insurance Corporation.

THE COVERED BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY CANADA MORTGAGE AND HOUSING CORPORATION (CMHC) NOR HAS CMHC PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. THE COVERED BONDS ARE NEITHER INSURED NOR GUARANTEED BY CMHC OR THE GOVERNMENT OF CANADA OR ANY OTHER AGENCY THEREOF.

Arrangers for the Program

Barclays

The date of this prospectus is , 2013

BMO Capital Markets

Table of Contents

Table of Contents

	Page
<u>ABOUT THIS PROSPECTUS</u>	1
<u>SUMMARY</u>	7
<u>PROGRAM STRUCTURE DIAGRAM</u>	10
<u>SUMMARY OF THE COVERED BOND PROGRAM</u>	11
<u>RISK FACTORS</u>	20
<u>USE OF PROCEEDS</u>	45
<u>CONSOLIDATED EARNINGS RATIOS</u>	46
<u>CONSOLIDATED CAPITALIZATION OF THE BANK</u>	47
<u>BANK OF MONTREAL</u>	48
<u>BMO COVERED BOND GUARANTOR LIMITED PARTNERSHIP</u>	51
<u>DESCRIPTION OF THE COVERED BONDS</u>	54
<u>TERMS AND CONDITIONS OF THE COVERED BONDS</u>	61
<u>SUMMARY OF THE PRINCIPAL DOCUMENTS</u>	106
<u>CASHFLOWS</u>	167
<u>PORTFOLIO</u>	181
<u>LOAN ORIGINATION AND LENDING CRITERIA</u>	183
<u>THE SERVICER</u>	186
<u>DESCRIPTION OF THE CANADIAN REGISTERED COVERED BOND PROGRAMS REGIME</u>	190
<u>PLAN OF DISTRIBUTION (AND CONFLICTS OF INTEREST)</u>	193
<u>TAXATION</u>	197
<u>BENEFIT PLAN INVESTOR CONSIDERATIONS</u>	213
<u>OWNERSHIP AND BOOK-ENTRY</u>	216
<u>EXPERTS</u>	220
<u>LEGAL MATTERS</u>	221
<u>OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION</u>	222
<u>GLOSSARY</u>	223

Table of Contents

In this prospectus, unless the context otherwise indicates, the **Bank** means Bank of Montreal, and **Guarantor** means BMO Covered Bond Guarantor Limited Partnership, and **we**, **us** or **our** means the Bank and Guarantor collectively. In this prospectus and any prospectus supplement, currency amounts are stated in Canadian Dollars (\$), unless specified otherwise.

ABOUT THIS PROSPECTUS

This document is called a prospectus and is part of a registration statement that we filed with the Securities and Exchange Commission (the **SEC**) using a **shelf** registration or continuous offering process. The registration statement containing this prospectus, including exhibits to the registration statement, provides additional information about us and the covered bonds and related guarantee offered under this prospectus. The registration statement can be accessed at the SEC's website at www.sec.gov or inspected at the offices of the SEC.

This prospectus provides you with a general description of the covered bonds the Bank may offer and the Guarantor may guarantee. Each time the Bank offers covered bonds pursuant to this prospectus, it will provide a prospectus supplement containing specific information about the terms of the covered bonds being offered. A prospectus supplement may include a discussion of any risk factors or other special considerations applicable to those covered bonds or to us. A prospectus supplement may also add, update or change information in this prospectus. If there is any inconsistency between the information in this prospectus and the applicable prospectus supplement, you should rely on the information in the prospectus supplement. You should read both this prospectus and any applicable prospectus supplement together with additional information described under the heading *Where You Can Find More Information* on page 7 of this prospectus.

The Bank may sell covered bonds to dealers who will sell the covered bonds to the public on terms fixed at the time of sale. In addition, the covered bonds may be sold by the Bank directly or through agents designated from time to time. If the Bank, directly or through agents, solicits offers to purchase the covered bonds, it reserves the sole right to accept and, together with any agents, to reject, in whole or in part, any of those offers.

Any prospectus supplement will contain the names of the dealers or agents, if any, together with the terms of offering, the compensation of those dealers and the net proceeds to us. Any dealers or agents participating in the offering may be deemed **underwriters** within the meaning of the Securities Act.

DOCUMENTS INCORPORATED BY REFERENCE

The SEC allows us to incorporate by reference into this prospectus the information in documents we file with it. This means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be a part of this prospectus and should be read with the same care. When we update the information contained in documents that have been incorporated by reference by making future filings with the SEC the information incorporated by reference in this prospectus is considered to be automatically updated and superseded. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. In other words, in the case of a conflict or inconsistency between information contained in this prospectus and information

Table of Contents

incorporated by reference into this prospectus, you should rely on the information contained in the document that was filed later. The making of a modifying or superseding statement will not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded will not be deemed, except as so modified or superseded to constitute a part of this prospectus.

The Bank incorporates by reference into this prospectus its annual report on Form 40-F for the fiscal year ended October 31, 2012 (the **2012 Annual Report**), the Bank's reports filed on Form 6-K filed on February 26, 2013 and May 29, 2013, and each of the Bank's reports on Form 6-K after that date in which the Bank states that such report is also incorporated by reference into one or more of the Bank's registration statements filed under the U.S. Securities Act of 1933, as amended (the **Securities Act**). In addition, the Bank will incorporate by reference into this prospectus all documents that it has filed under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act and, to the extent, if any, the Bank designates therein, reports on Form 6-K it furnishes to the SEC after the date of this prospectus and prior to the termination of any offering contemplated in this prospectus.

The Guarantor will file ongoing disclosure regarding the Covered Bond Guarantee and the Portfolio in reports on Form 10-K, Form 8-K, and Form 10-D. The Guarantor incorporates by reference its annual report on Form 10-K filed after the date of this prospectus and each Form 10-D filed with the SEC. In addition, the Guarantor will incorporate by reference into this prospectus all documents that it has filed under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus and prior to the termination of every offering contemplated in this prospectus.

Upon a new annual report and the related annual financial statements being filed by the Bank with, and, where required, accepted by, the SEC, the previous annual report will be deemed no longer incorporated by reference into this prospectus for purposes of future offers and sales of covered bonds under this prospectus.

Upon a new annual report being filed by the Guarantor with, and, where required, accepted by, the SEC, the previous annual report will be deemed no longer incorporated by reference into this prospectus for the purposes of further offers and sales of covered bonds under this prospectus.

All documents incorporated by reference, or to be incorporated by reference, have been filed with or furnished to, or will be filed with or furnished to, the SEC.

You may request a copy of these filings, other than an exhibit to a filing unless that exhibit is specifically incorporated by reference into that filing, at no cost, by writing to or telephoning us at the following address:

Bank of Montreal

Corporate Secretary's Department

100 King Street West 1 First Canadian Place

Toronto, Ontario

Canada M5X 1A1

Telephone: (416) 867-6785

Table of Contents

WHERE YOU CAN FIND MORE INFORMATION

In addition to the continuous disclosure obligations under the securities laws of the provinces and territories of Canada, the Bank and the Guarantor are subject to the informational reporting requirements of the U.S. Securities Exchange Act of 1934, as amended (the **Exchange Act**), and in accordance therewith files reports and other information with the SEC. Under a multijurisdictional disclosure system adopted by the United States and Canada, such reports and other information may be prepared in accordance with the disclosure requirements of the provincial and territorial securities regulatory authorities of Canada, which requirements are different from those of the United States. These reports and other information, when filed or furnished by us in accordance with such requirements, can be inspected and copied by you at the SEC's Public Reference Room located at 100 F Street, N.E., Washington, D.C. 20549. You can get further information about the SEC's Public Reference Room by calling 1-800-SEC-0330. The Bank's and the Guarantor's filings with the SEC are also available to the public through the SEC's website at www.sec.gov. The Bank's common shares are listed on the New York Stock Exchange, and reports and other information concerning the Bank can be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

The Bank and the Guarantor have filed with the SEC a registration statement on Form F-3 with respect to the covered bonds and related guarantee covered by this prospectus. This prospectus does not contain all of the information that is set forth in the registration statement, certain parts of which are omitted in accordance with the rules and regulations of the SEC. Statements made in this prospectus as to the contents of any contract, agreement or other document referred to are not necessarily complete, and in each instance, you should refer to the exhibits that are a part of the registration statement for a copy of the contract, agreement or other document for a more complete description of the matter. For further information with respect to the Bank, the Guarantor, the covered bonds and the related guarantee, reference is made to the registration statement and the exhibits thereto, which are publicly available as described in the preceding paragraph.

Additional information with respect to the Bank, the Guarantor, the Portfolio and certain other matters, together with copies of each of the Transaction Documents and the Monthly Reports filed by the Bank from time to time, is also available on the Bank's website at www.bmo.com/home/about/banking/investor-relations/financial-information/covered-bonds and through the CMHC's covered bond registry at www.cmhc-schl.gc.ca/coveredbonds. Information on or accessible through the Bank's website does not form part of this prospectus and should not be relied upon.

FORWARD-LOOKING STATEMENTS

Our public communications often include oral or written forward-looking statements. Statements of this type are included in this document, and may be included in other filings with Canadian securities regulators or the SEC, or in other communications. All such statements by the Bank are made pursuant to the **safe harbor** provisions of the United States Private Securities Litigation Reform Act of 1995 and any applicable Canadian securities legislation. Forward-looking statements may involve, but are not limited to, comments with respect to our objectives and priorities for 2013 and beyond, our strategies or future actions, our targets, expectations for our financial condition or share price, and the results of or outlook for our operations or for the Canadian and U.S. economies.

Table of Contents

By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions, forecasts, conclusions or projections will not prove to be accurate, that our assumptions may not be correct and that actual results may differ materially from such predictions, forecasts, conclusions or projections. We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to: general economic and market conditions in the countries in which we operate; weak, volatile or illiquid capital and/or credit markets; interest rate and currency value fluctuations; changes in monetary, fiscal or economic policy; the degree of competition in the geographic and business areas in which we operate; changes in laws or in supervisory expectations or requirements, including capital, interest rate and liquidity requirements and guidance; judicial or regulatory proceedings; the accuracy and completeness of the information we obtain with respect to our customers and counterparties; our ability to execute our strategic plans and to complete and integrate acquisitions; critical accounting estimates and the effect of changes to accounting standards, rules and interpretations on these estimates; operational and infrastructure risks; changes to our credit ratings; general political conditions; global capital markets activities; the possible effects on our business of war or terrorist activities; disease or illness that affects local, national or international economies; natural disasters and disruptions to public infrastructure, such as transportation, communications, power or water supply; technological changes; and our ability to anticipate and effectively manage risks associated with all of the foregoing factors.

We caution that the foregoing list is not exhaustive of all possible factors. Other factors could adversely affect our results. For more information, please see the discussion in our 2012 Annual Report and the Bank's reports filed on Form 6-K on February 26, 2013 and May 29, 2013, which are incorporated by reference herein and which outlines in detail certain key factors that may affect the Bank's future results. When relying on forward-looking statements to make decisions with respect to the Bank, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. The Bank does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by the Bank or on its behalf, except as required by law. The forward-looking information contained or incorporated by reference into this prospectus is presented for the purpose of assisting investors in understanding our operations, prospects, risks and other extreme factors that impact us specifically as of and for the periods ended on the dates presented, as well as certain strategic priorities and objectives, and may not be appropriate for other purposes.

PRESENTATION OF FINANCIAL INFORMATION

The Bank prepares its consolidated financial statements in accordance with International Financial Reporting Standards (**IFRS**), which replaced Canadian generally accepted accounting principles (**GAAP**) for publicly accountable enterprises beginning in 2011. IFRS became effective for the Bank for its interim and annual periods commencing November 1, 2011 (adoption date), and includes the preparation and reporting of one year of comparative figures, including an opening balance sheet as of November 1, 2010 (transition date). For additional information regarding the Bank's adoption of IFRS, see Note 30 *Transition to International Financial Reporting Standards* in the Bank's 2012 Annual Report.

Table of Contents

Additionally, we publish our consolidated financial statements in Canadian Dollars. In this prospectus and any applicable supplement, currency amounts are stated in Canadian Dollars (\$), unless specified otherwise. As indicated in the table below, the Canadian dollar has fluctuated in value compared to the U.S. Dollar over time.

The tables below set forth the high and low daily noon exchange rates, the average yearly rate and the rate at period end between Canadian Dollars and U.S. Dollars (in U.S. Dollars per Canadian dollar) for the five-year period ended October 31, 2012 and the high and low daily noon exchange rates for the three months ended January 31, 2013, the three months ended April 30, 2013 and for the period May 1, 2013 through July 2, 2013. On July 2, 2013, the daily noon exchange rate was U.S.\$0.9497 = \$1.00. Our reference to the **daily noon exchange rate** is the daily noon exchange rate as reported by the Bank of Canada.

Year Ended October 31,	High	Low	Average Rate⁽¹⁾	At Period End
2008	1.0905	0.7726	0.9718	0.8220
2009	0.9716	0.7692	0.8603	0.9282
2010	1.0039	0.9278	0.9605	0.9815
2011	1.0583	0.9430	1.0164	1.0065
2012	1.0299	0.9536	0.9968	1.0004
Three months ending			High	Low
January 31, 2013			1.0164	0.9923
April 30, 2013			1.0040	0.9696
Period of			High	Low
May 1, 2013 through July 2, 2013			0.9977	0.9495

(1) The average of the daily noon exchange rates on the last business day of each full month during the relevant period.

Table of Contents

**LIMITATIONS ON THE ENFORCEMENT OF U.S. LAWS
AGAINST THE BANK, OUR MANAGEMENT AND OTHERS**

The Bank is incorporated under the federal laws of Canada under the *Bank Act* (Canada). The Guarantor is an Ontario limited partnership. Substantially all of the Bank's directors and executive officers, including many of the persons who signed the Registration Statement on Form F-3, of which this prospectus forms a part, and some or all of the experts named in this document, reside outside the United States, and all or a substantial portion of the Bank and the Guarantor's assets and the assets of such persons are located outside the United States. As a result, it may be difficult for you to effect service of process within the United States upon such persons, or to realize upon judgments rendered against the Bank or such persons by the courts of the United States predicated upon, among other things, the civil liability provisions of the federal securities laws of the United States. In addition, it may be difficult for you to enforce, in original actions brought in courts in jurisdictions located outside the United States, among other things, civil liabilities predicated upon such securities laws.

The Bank has been advised by our Canadian counsel, Osler, Hoskin & Harcourt LLP, that a judgment of a United States court predicated solely upon civil liability under such laws and that would not be contrary to public policy would probably be enforceable in Canada if the United States court in which the judgment was obtained has a basis for jurisdiction in the matter that was recognized by a Canadian court for such purposes. The Bank has also been advised by such counsel, however, that there is some residual doubt whether an original action could be brought successfully in Canada predicated solely upon such civil liabilities.

Table of Contents

SUMMARY

This summary highlights key information described in greater detail elsewhere, or incorporated by reference, in this prospectus. You should read carefully the entire prospectus and the documents incorporated by reference and any applicable prospectus supplement before making an investment decision.

Bank of Montreal

The Bank is among North America's ten largest banks, as measured by assets and market capitalization and offers a broad range of credit and non-credit products and services directly and through Canadian and non-Canadian subsidiaries, offices and branches. As at October 31, 2012, the Bank had more than 12 million customers, approximately 46,000 full-time equivalent employees, maintained approximately 1,570 bank branches in Canada and the United States and operated internationally in major financial markets and trading areas through its offices in 24 other jurisdictions, including the United States. BMO Financial Corp. (**BMO Harris**) (formerly Harris Financial Corp.), based in Chicago and wholly-owned by Bank of Montreal, operates primarily through its subsidiary BMO Harris Bank N.A., which provides banking, financing, investing and cash management services in select markets in the U.S. Midwest. The Bank provides a full range of investment dealer services through entities including BMO Nesbitt Burns Inc., a major fully-integrated Canadian investment dealer, and BMO Capital Markets Corp., Bank of Montreal's wholly-owned registered securities dealer in the United States.

BMO Covered Bond Guarantor Limited Partnership

The Guarantor is a Canadian limited partnership whose only business is to provide a guarantee of the obligations of the Bank pursuant to covered bonds issued by it from time to time under the Bank's global registered covered bond program, and certain ancillary activities with respect thereto.

The Covered Bond Program

The Bank intends to issue, offer and sell covered bonds under its covered bond program (the **Program**) in the United States pursuant to this prospectus. These covered bonds will be issued under a trust deed governed by Ontario law (the **Trust Deed**). The Bond Trustee acts as the trustee under the Trust Deed. All Series of covered bonds issued under the Program will have the benefit of the Covered Bond Guarantee issued by the Guarantor and be secured by a pledge of the Portfolio to the Bond Trustee. The Bank anticipates that it will continue to issue covered bonds by means other than this prospectus under the Trust Deed from time to time. On March 29, 2013, the Bank was accepted as a registered issuer under Part I.1 of the *National Housing Act* (Canada) and the CMHC Guide in accordance with their terms and on April 1, 2013, the Program was registered as a registered program under Part I.1 of the *National Housing Act* (Canada) and the CMHC Guide. All future covered bonds issued under the Program will be CMHC registered covered bonds under Part I.1 of the *National Housing Act* (Canada) and the CMHC Guide.

The Portfolio

The assets in the **Portfolio** consist primarily of Canadian residential mortgage loans and home equity loans and their related security interest in residential property, cash and in some cases certain Substitution Assets up to a certain threshold amount. As required by the CMHC Guide, the Portfolio does not include any residential mortgages or home equity loans that are insured by a Prohibited Insurer such as the CMHC.

Table of Contents

Global Public Sector Covered Bond Programme

The Bank has previously issued the equivalent of approximately \$9.0 billion of covered bonds in a variety of currencies both outside and in the United States pursuant to the private placement exemptions under the Bank's Global Public Sector Covered Bond Programme utilizing residential mortgage loans insured by the CMHC. \$7.5 billion of these covered bonds remain outstanding as of the date of this prospectus and are secured by a different cover pool.

The Guarantee

Pursuant to the covered bond guarantee (the **Covered Bond Guarantee**), the Guarantor has irrevocably and unconditionally guaranteed the due and punctual payment of the Guaranteed Amounts on the covered bonds in accordance with the Trust Deed.

Program Structure Overview

The covered bonds of each series issued by the Bank are guaranteed by the Guarantor pursuant to the terms of the Trust Deed between the Bank, the Guarantor and the Bond Trustee. The Covered Bond Guarantee is secured by a pledge of certain assets of the Guarantor, which includes the Portfolio, to the Bond Trustee pursuant to the terms of the Security Agreement. The Guarantor purchased the initial loans and their Related Security included in the Portfolio from the Bank using amounts borrowed from the Bank under the Intercompany Loan. Proceeds from the Intercompany Loan may also be used to purchase New Loans and their Related Security for the Portfolio and for other purposes as described in *Summary of the Principal Documents Intercompany Loan Agreement*. The Guarantor and the Bank entered into an Interest Rate Swap Agreement and a Covered Bond Swap Agreement. The Interest Rate Swap Agreement converts interest received on the Portfolio to an amount in excess of the interest rate payable on the Intercompany Loan and, for each series, the Covered Bond Swap Agreement converts a certain portion of the Canadian Dollar payments from the Interest Rate Swap Agreement (or if not then in place for any reason, the Portfolio) to the currency and interest amounts payable on the related covered bonds. No cash flows will be exchanged under the Covered Bond Swap Agreement until after the occurrence of certain specified events.

Risk Factors

An investment in the covered bonds involves risks. You should carefully consider all of the information set forth in this prospectus and any applicable prospectus supplement and, in particular, should evaluate the specific factors set forth under *Risk Factors* in deciding whether to invest in the covered bonds. For a discussion of important business and financial risks relating to the Bank, please see *Risk Factors* in our 2012 Annual Report and our reports filed on Form 6-K on February 26, 2013 and May 29, 2013, which are incorporated in this prospectus by reference (and in any of our annual or quarterly reports for a subsequent financial period that are so incorporated).

Table of Contents

Corporate Offices

The Bank's corporate headquarters are located at 100 King Street West, 1 First Canadian Place, 68th Floor, Toronto, Ontario, Canada M5X 1A1 and the head office is located at 129 rue Saint Jacques, Montréal, Québec, Canada H2Y 1L6. The telephone number is 416-867-6656.

The Guarantor's address is c/o BMO Covered Bond GP, Inc., Suite 6100, 100 King Street West, 1 First Canadian Place, Toronto, Ontario, Canada M5X 1A1. The telephone number is 416-867-6656.

Table of Contents

PROGRAM STRUCTURE DIAGRAM

The following structure diagram provides an indicative summary of the principal features of the Program. The diagram must be read in conjunction with and is qualified in its entirety by the detailed information presented elsewhere in this prospectus and any applicable prospectus supplement.

Table of Contents

SUMMARY OF THE COVERED BOND PROGRAM

This section is a summary and does not describe every aspect of the covered bonds. This section summarizes the material terms of the covered bonds that are common to all series of covered bonds and which are more fully described in this prospectus. This summary is subject to and qualified in its entirety by reference to all the provisions of the Trust Deed and other Transaction Documents, including definitions of certain terms used in the Trust Deed and other Transaction Documents. In this summary, we describe the meaning of only some of the more important terms. This summary is also subject to and qualified by reference to the description of the particular terms of your series or tranche described in the applicable prospectus supplement. Those terms may vary from the terms described in this prospectus. The applicable prospectus supplement relating to each series or tranche of covered bonds will be attached to the front of this prospectus.

Bank:	Bank of Montreal (BMO). For a more detailed description of the Bank, see <i>Bank of Montreal</i> .
Branch of Account:	The main branch of the Bank in Toronto (located at its Executive Offices) will take the deposits evidenced by the covered bonds but without prejudice to the provisions of Condition 5 (<i>Payments</i>). The Bank may also specify any other branch in the prospectus supplement.
Guarantor:	BMO Covered Bond Guarantor Limited Partnership.
Dealers:	BMO Capital Markets Corp., Barclays Capital Inc. and any other dealer appointed from time to time by the Bank generally in respect of the Program or in relation to a particular Series or Tranche of covered bonds.
Seller:	BMO or any New Seller, who may from time to time accede to, and sell Loans and their Related Security or New Loans and their Related Security to the Guarantor.
Servicer:	The Bank, subject to replacement in accordance with the terms of the Servicing Agreement.
Cash Manager:	The Bank, subject to replacement in accordance with the terms of the Cash Management Agreement.
Calculation Agent:	Bank of New York Mellon, acting through its offices located at 101 Barclay Street 4E, New York, NY 10286.
Custodian:	Computershare Trust Company of Canada, acting through its offices located at 100 University Avenue, 11th Floor, Toronto, Ontario Canada M5J 2Y1.
Issuing and Paying Agent, and Transfer Agent:	Bank of New York Mellon, acting through its offices located at 101 Barclay Street 4E, New York, NY 10286.

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U.S. Registrar, Paying Agent, Transfer Agent and Exchange Agent: Bank of New York Mellon, acting through its offices located at 101 Barclay Street 4E, New York, NY 10286.

Table of Contents

Bond Trustee:	Computershare Trust Company of Canada, acting through its offices located at 100 University Avenue, 8th Floor, North Tower, Toronto, Ontario Canada M5J 2Y1.
Cover Pool Monitor:	KPMG LLP, acting through its offices at Bay Adelaide Centre, 333 Bay Street, Suite 4600, Toronto, Ontario, Canada M5H 2S5.
Interest Rate Swap Provider:	The Bank, subject to replacement in accordance with the terms of the Interest Rate Swap Agreement.
Covered Bond Swap Provider:	The Bank, subject to replacement in accordance with the terms of the Covered Bond Swap Agreement.
GDA Provider:	The Bank, acting through its main branch in Toronto.
Account Bank:	The Bank, acting through its main branch in Toronto.
Standby Account Bank:	Royal Bank of Canada, acting through its offices at Royal Bank Plaza, South Tower, 200 Bay Street, Toronto, Ontario Canada M5J 2J5.
Standby GDA Provider:	Royal Bank of Canada, acting through its offices at Royal Bank Plaza, South Tower, 200 Bay Street, Toronto, Ontario Canada M5J 2J5.
Legislative Framework:	The legislative framework established by Part I.1 of the <i>National Housing Act</i> (Canada).
Issuance of Series:	<p>Covered bonds will be issued in series (each, a Series). Each Series may comprise one or more tranches (Tranches and each, a Tranche) issued on different issue dates. The covered bonds of each Series will all be subject to identical terms, except that the issue date and the amount of the first payment of interest may be different in respect of different Tranches.</p> <p>The covered bonds will be issued by the Bank, as a CMHC registered issuer, under its CMHC registered covered bond program, which is registered pursuant to Part I.1 of the <i>National Housing Act</i> (Canada).</p>
Currency and Denomination:	Unless otherwise specified in the applicable prospectus supplement, covered bonds will be issued in U.S.\$ and in such denominations as may be agreed to between the Dealers and the Bank and as set forth in the applicable prospectus supplement.
Maturities:	Such maturities as may be agreed between the Bank and the Dealers or covered bondholders, as the case may be, and as indicated in the prospectus supplement, subject to such minimum or maximum maturities as may be allowed or required from time to

time by the relevant regulator (or equivalent body) or any laws or regulations applicable to the Bank or the relevant specified currency.

Table of Contents

Branch of Account:	The head office of the Bank in Toronto, or such other branch as may be specified in the applicable prospectus supplement, any such branch being the Branch of Account for the purposes of the Bank Act, will take the deposits evidenced by the covered bonds, but without prejudice to the provisions of Condition 5 (<i>Payments</i>).
Form of the Covered Bonds:	The covered bonds will be issued in registered form as a global covered bond held through DTC.
Interest:	Covered bonds may be interest bearing or non-interest bearing. Interest (if any) may accrue at a fixed or floating rate (detailed in a formula or otherwise) and may vary during the lifetime of the relevant Series.
Types of covered bonds:	Unless otherwise specified in the prospectus supplement, the types of covered bonds that may be issued pursuant to this prospectus are (i) fixed rate covered bonds and (ii) floating rate covered bonds.
Fixed Rate Covered Bonds:	Fixed rate covered bonds will bear interest at a fixed rate which will be payable on such date or dates as may be agreed between the Bank and the Dealers and on redemption and will be calculated on the basis of such day count basis as may be agreed between the Bank and the Dealers (as set out in the applicable prospectus supplement), provided that if an Extended Due for Payment Date is specified in the prospectus supplement, interest following the Extended Due for Payment Date will continue to accrue and be payable on the unpaid amount in accordance with Condition 4 (<i>Interest</i>), at a rate of interest determined in accordance with Condition 4.1 (<i>Interest on Fixed Rate Covered Bonds</i>) (in the same manner as the rate of interest for floating rate covered bonds) even where the relevant covered bonds are fixed rate covered bonds.
Floating Rate Covered Bonds:	Floating rate covered bonds will bear interest at a rate determined on such basis as may be agreed between the Bank and the Dealers, as set out in the applicable prospectus supplement.

Table of Contents

Other provisions in relation to Floating Rate Covered Bonds:

Floating Rate Covered Bonds may also have a Maximum Rate of Interest, a Minimum Rate of Interest or both (as indicated in the applicable prospectus supplement). Interest on Floating Rate Covered Bonds in respect of each Interest Period, as agreed prior to the issue by the Bank and the relevant Dealer(s), will be payable on such Interest Payment Dates, and will be calculated on a day count basis, in each case as may be agreed between the Bank and the relevant Dealer(s).

Hard Bullet Covered Bonds:

Hard Bullet Covered Bonds may be offered and will be subject to a Pre-Maturity Test. The intention of the Pre-Maturity Test is to test the liquidity of the Guarantor's assets in respect of Hard Bullet Covered Bonds maturing within 12 months from the relevant Pre-Maturity Test Date when the Bank's credit ratings have fallen to a certain level.

Rating Agency Condition:

Any issuance of covered bonds will be conditional upon satisfaction of the Rating Agency Condition.

Listing:

Covered bonds will not be listed on any stock exchange unless otherwise specified in the applicable prospectus supplement.

Redemption:

The applicable prospectus supplement relating to each Tranche of covered bonds will indicate either that the relevant covered bonds of such Tranche cannot be redeemed prior to their stated maturity (other than following an Issuer Event of Default or a Guarantor Event of Default or as indicated below) or that such covered bonds will be redeemable at the option of the Bank upon giving notice to the holders of the covered bonds, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Bank and the Dealers (as set out in the applicable prospectus supplement).

Early redemption will be permitted for taxation reasons and illegality as described in Conditions 6.2 (*Redemption for taxation reasons*) and 6.5 (*Redemption due to illegality or invalidity*), but will otherwise be permitted only to the extent specified in the applicable prospectus supplement.

Extendable obligations under the Covered Bond Guarantee:

The applicable prospectus supplement may also provide that (if a Notice to Pay has been served on the Guarantor) the Guarantor's obligations under the Covered Bond Guarantee to pay the Guaranteed Amounts corresponding to the Final Redemption Amount of the applicable Series of covered bonds on their Final Maturity Date (subject to applicable grace periods) may be deferred until the Extended Due for Payment Date.

Table of Contents

In such case, such deferral will occur automatically (i) if the Bank fails to pay the Final Redemption Amount of the relevant Series of covered bonds on their Final Maturity Date (subject to applicable grace periods) and (ii) if the Guaranteed Amounts equal to the Final Redemption Amount in respect of such Series of covered bonds are not paid in full by the Guarantor by the Extension Determination Date (for example, because the Guarantor has insufficient monies in accordance with the Priorities of Payments to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount of the relevant Series of covered bonds after payment of higher ranking amounts and taking into account amounts ranking *pari passu* in the Priorities of Payments). To the extent a Notice to Pay has been served on the Guarantor and the Guarantor has sufficient time and sufficient monies to pay in part the Final Redemption Amount, such partial payment will be made by the Guarantor on any Interest Payment Date up to and including the relevant Extended Due for Payment Date as described in Condition 6.1 (*Final redemption*). Interest will continue to accrue and be payable on the unpaid amount in accordance with Condition 4 (*Interest*) at a rate of interest determined in accordance with Condition 4 (*Interest*) (in the same manner as the rate of interest for floating rate covered bonds). The Guarantor will pay Guaranteed Amounts constituting Scheduled Interest on each Original Due for Payment Date and the Extended Due for Payment Date and any unpaid amounts in respect thereof will be due and payable on the Extended Due for Payment Date.

Taxation:

Payments in respect of covered bonds will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Canada or any province or territory thereof, or, in the case of covered bonds issued by a branch of the Bank located outside Canada, the country in which such branch is located, or any political subdivision thereof or any authority or agency therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Bank will (subject to customary exceptions) pay such additional amounts as will result in the holders of covered bonds receiving such amounts as they would have received in respect of such covered bonds had no such withholding or deduction been required. Under the Covered Bond Guarantee, the Guarantor will not be liable to pay any such additional amounts as a consequence of any applicable tax withholding or deduction, including such additional amounts which may become payable by the Bank under Condition 7 (*Taxation*).

Table of Contents

If (i) any portion of interest payable on a covered bond 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 criteria or by reference to dividends paid or payable to shareholders of a corporation; (ii) the recipient of interest payable on a covered bond does not deal at arm's length with the Bank or the Guarantor for purposes of the *Income Tax Act* (Canada) (**ITA**); (iii) interest is payable in respect of a covered bond owned by a person with whom the Bank or the Guarantor does not deal at arm's length for purposes of the ITA; or (iv) the recipient of interest payable on a covered bond is a specified shareholder of the Bank or a non-resident person that does not deal at arm's length with a specified shareholder of the Bank (in each case within the meaning of the ITA for purposes of the thin capitalization rules contained in subsection 18(4) of the ITA), such interest may be subject to Canadian nonresident withholding tax. Additional opinions from Canadian tax counsel may be required (see the discussion under the caption *Taxation Canadian Taxation*).

ERISA:

In general, a covered bond may be purchased by U.S. benefit plan investors as defined in Section 3(42) of the U.S. Employee Retirement Income Security Act of 1974, as amended (**ERISA**), subject to certain conditions (see *Benefit Plan Investor Considerations*).

Cross Default:

If a Guarantor Acceleration Notice is served in respect of any covered bonds, then the obligation of the Guarantor to pay Guaranteed Amounts in respect of all covered bonds outstanding will be accelerated.

Status of the Covered Bonds:

The covered bonds will constitute deposits for purposes of the *Bank Act* (Canada), except for in certain limited circumstances as described in the Terms and Conditions, and will constitute legal, valid and binding direct, unconditional, unsubordinated and unsecured obligations of the Bank and will rank *pari passu* with all deposit liabilities of the Bank without any preference among themselves and (save for any applicable statutory provisions) at least equally with all other present and future unsecured and unsubordinated obligations of the Bank, from time to time outstanding.

The covered bonds will not be deposits insured under the *Canada Deposit Insurance Corporation Act* (Canada).

Governing Law and Jurisdiction:

The covered bonds and the Transaction Documents (other than the Underwriting Agreement) will be governed by, and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein. The Underwriting Agreement will be governed by the laws of the State of New York.

Table of Contents

Ontario courts have non-exclusive jurisdiction in the event of litigation in respect of the contractual documentation and the covered bonds governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein.

Terms and Conditions:

A prospectus supplement will be prepared in respect of each Tranche of covered bonds. The terms and conditions applicable to each Tranche will be those described under *Terms and Conditions of the Covered Bonds* as supplemented, modified or replaced by the applicable prospectus supplement.

Clearing System:

DTC and/or, in relation to any covered bonds, any other clearing system as may be specified in the applicable prospectus supplement.

Non-U.S. Selling Restrictions:

There will be specific restrictions on offers, sales and deliveries of covered bonds and on the distribution of offering material in Canada, Japan, the European Economic Area, the United Kingdom, France and Italy, as well as such other restrictions as may be required in connection with a particular issue of covered bonds as set out in the applicable prospectus supplement.

Covered Bond Guarantee:

Payment of interest and principal in respect of the covered bonds when Due for Payment will be irrevocably guaranteed by the Guarantor. The obligations of the Guarantor to make payment in respect of the Guaranteed Amounts when Due for Payment are subject to the condition that a Covered Bond Guarantee Activation Date has occurred. The obligations of the Guarantor under the Covered Bond Guarantee will accelerate against the Guarantor upon the service of a Guarantor Acceleration Notice. The obligations of the Guarantor under the Covered Bond Guarantee constitute direct obligations of the Guarantor secured against the assets of the Guarantor, including the Portfolio.

Payments made by the Guarantor under the Covered Bond Guarantee will be made subject to, and in accordance with, the applicable Priorities of Payments.

Security:

To secure its obligations under the Covered Bond Guarantee and the Transaction Documents to which it is a party, the Guarantor has granted a first ranking security interest over its present and future acquired assets, including the Portfolio, in favor of the Bond Trustee (for itself and on behalf of the other Secured Creditors) pursuant to the terms of the Security Agreement.

Table of Contents

Intercompany Loan:

Under the terms of the Intercompany Loan Agreement, the Bank will make available to the Guarantor, on an unsecured basis, an interest-bearing Intercompany Loan, comprised of a Guarantee Loan and a revolving Demand Loan, in a combined aggregate amount equal to the Total Credit Commitment, subject to increases and decreases as described below. The Intercompany Loan will be denominated in Canadian Dollars. The interest rate on the Intercompany Loan will be a Canadian Dollar floating rate determined by the Bank from time to time, subject to a maximum of the floating rate received by the Guarantor pursuant to the Interest Rate Swap Agreement less a minimum spread and an amount for certain expenses of the Guarantor.

The balance of the Guarantee Loan and Demand Loan will fluctuate with the issuances and redemptions of covered bonds and the requirements of the Asset Coverage Test.

To the extent the Portfolio increases or is required to be increased to meet the Asset Coverage Test, the Bank may increase the Total Credit Commitment to enable the Guarantor to acquire New Loans and their Related Security from the Seller.

The balance of the Guarantee Loan and the Demand Loan will be disclosed in each Monthly Report.

Guarantee Loan:

The Guarantee Loan is in an amount equal to the balance of outstanding covered bonds at any relevant time plus that portion of the Portfolio required in accordance with the Asset Coverage Test as over-collateralization for the covered bonds in excess of the amount of then outstanding covered bonds (see *Summary of the Principal Documents Guarantor Agreement Asset Coverage Test*).

Demand Loan:

The Demand Loan is a revolving credit facility, the outstanding balance of which is equal to the difference between the balance of the Intercompany Loan and the balance of the Guarantee Loan at any relevant time. At any time prior to a Demand Loan Repayment Event, the Guarantor may borrow any withdrawn or committed amount or re-borrow any amount repaid by the Guarantor under the Intercompany Loan for a permitted purpose provided, among other things, (i) such drawing does not result in the Intercompany Loan exceeding the Total Credit Commitment; and (ii) no Issuer Event of Default or Guarantor Event of Default has occurred and is continuing.

Table of Contents

The Proceeds of the Intercompany Loan:	The Guarantor will use advances from the Intercompany Loan to purchase Loans and their Related Security for inclusion in the Portfolio from the Seller in accordance with the terms of the Mortgage Sale Agreement and may use additional advances (i) to purchase New Loans and their Related Security pursuant to the terms of the Mortgage Sale Agreement; and/or (ii) to invest in Substitution Assets in an amount not exceeding the prescribed limit under the CMHC Guide; and/or (iii) subject to complying with the Asset Coverage Test to make Capital Distributions to the Limited Partner; and/or (iv) to make deposits of the proceeds in the Guarantor Accounts (including, without limitation, to fund the Reserve Fund and the Pre-Maturity Liquidity Ledger, in each case to an amount not exceeding the prescribed limit).
Capital Contribution:	The Limited Partner may from time to time make Capital Contributions to the Guarantor including Capital Contributions of New Loans and their Related Security. Each of the Managing GP and the Liquidation GP respectively hold 99 percent and 1 percent of the 0.05 percent general partner interest in the Guarantor. The Limited Partner holds the substantial economic interest in the Guarantor (approximately 99.95 percent).
Consideration:	Under the terms of the Mortgage Sale Agreement, the Seller will sell Loans and their Related Security to the Guarantor for the Portfolio on a fully-serviced basis for cash consideration equal to the fair market value of such Loans on their Purchase Date, or if so determined by the Limited Partner, the Limited Partner may make Capital Contributions of Loans and their Related Security on a fully-serviced basis to the Guarantor in exchange for additional interests in the capital of the Guarantor.
Interest Rate Swap Agreement:	The Guarantor has entered into the Interest Rate Swap Agreement with the Interest Rate Swap Provider to provide a hedge against possible variances in the rates of interest payable on the Loans in the Portfolio (which may, for instance, include variable rates of interest or fixed rates of interest), the amounts payable on the Intercompany Loan and (following the Covered Bond Swap Effective Date) the Covered Bond Swap Agreement.
Covered Bond Swap Agreement:	To provide a hedge against currency risks arising, following the Covered Bond Swap Effective Date, in respect of amounts received by the Guarantor under the Interest Rate Swap Agreement and amounts payable in respect of its obligations under the Covered Bond Guarantee, the Guarantor will enter into the Covered Bond Swap Agreement (which may include a new ISDA Master Agreement schedule and confirmation(s) and credit support annex, if applicable, for each Tranche and/or Series of covered bonds) with the Covered Bond Swap Provider.

Table of Contents

RISK FACTORS

Investment in the covered bonds is subject to various risks including those risks inherent in conducting the business of a diversified financial institution. Before deciding whether to invest in the covered bonds, you should consider carefully the risks described in the documents incorporated by reference in this prospectus (including subsequently filed documents incorporated by reference) and, if applicable, those described in a prospectus supplement, as the case may be, relating to a specific offering of covered bonds.

Risks relating to the covered bonds generally

The covered bonds may not be a suitable investment for all investors

The purchase of covered bonds involve substantial risks and are suitable only for investors who have the knowledge and experience in financial and business matters necessary to enable them to evaluate the risks and the merits of an investment in the covered bonds. Prior to making an investment decision, prospective investors should consider carefully, in light of their own financial circumstances and investment objectives, (i) all the information set forth in this prospectus and, in particular, the considerations set forth below and (ii) all the information set forth in the applicable prospectus supplement. Prospective investors should make such inquiries as they deem necessary without relying on us or any arranger or dealer.

Each potential investor in the covered bonds must determine the suitability of its investment in light of its own circumstances. In particular, each potential investor should:

have sufficient knowledge and experience to make a meaningful evaluation of the covered bonds, the merits and risks of investing in the covered bonds and the information contained in this prospectus or incorporated herein by reference or any applicable supplement;

have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the covered bonds and the impact the covered bonds will have on its overall investment portfolio;

have sufficient financial resources and liquidity to bear all of the risks of an investment in the covered bonds, including covered bonds with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the currency in which the potential investor's financial activities are principally denominated;

understand thoroughly the terms of the covered bonds and be familiar with the behavior of any relevant indices and financial markets; and

be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Table of Contents

Covered bonds are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in covered bonds, which are complex financial instruments, unless it has the expertise (either alone or with a financial adviser) to evaluate how the covered bonds will perform under changing conditions, the resulting effect on the value of the covered bonds and the impact this investment will have on the potential investor's overall investment portfolio.

Certain issues of covered bonds involve a high degree of risk and potential investors should be prepared to sustain a loss of all or part of their investment.

The covered bonds constitute unsecured obligations of the Bank

The covered bonds will constitute deposit liabilities of the Bank for purposes of the *Bank Act* and will constitute direct, unconditional, unsubordinated and unsecured obligations of the Bank and will rank *pari passu* with all deposit liabilities of the Bank without any preference among themselves and (except for any obligations required to be preferred by law) at least *pari passu* with all other present and future unsubordinated and unsecured obligations of the Bank from time to time outstanding. The covered bonds will not be deposits insured under the *Canada Deposit Insurance Corporation Act* (Canada) or under any other governmental insurance scheme of any country. If the Bank enters into any bankruptcy, liquidation, rehabilitation or other winding-up proceedings and there is a default in payment under any of the Bank's secured or unsecured indebtedness or if there is an acceleration of any of the Bank's indebtedness, the value of the covered bonds may decline. Further, the occurrence of an Issuer Event of Default alone does not constitute a Guarantor Event of Default and does not entitle the Bond Trustee to accelerate payment of the Guaranteed Amounts. The Guarantor has no obligation to pay the Guaranteed Amounts payable under the Covered Bond Guarantee until service on the Guarantor of (i) a Notice to Pay following service of an Issuer Acceleration Notice on the Bank following the occurrence of an Issuer Event of Default, or (ii) a Guarantor Acceleration Notice following the occurrence of a Guarantor Event of Default. However, failure by the Guarantor to pay amounts when Due for Payment under the Covered Bond Guarantee constitutes a Guarantor Event of Default (subject to any applicable grace periods) and following service of a Guarantor Acceleration Notice, the covered bonds will become immediately due and payable against the Bank and the obligations of the Guarantor under the Covered Bond Guarantee will be accelerated.

The covered bonds are obligations of the Bank and the Guarantor only and do not extend to any of their affiliates or the other parties to the Program, including the Bond Trustee

The payment obligations in relation to the covered bonds will be solely obligations of the Bank and, subject to the terms of the Covered Bond Guarantee, obligations of the Guarantor. Accordingly, the payment obligations under the covered bonds will not be obligations of, or guaranteed by, any other affiliate of the Bank. In particular, the covered bonds will not be obligations of, and will not be guaranteed by, any of the Arrangers, the Dealers, the Bond Trustee, the Cash Manager, the Custodian, any Swap Provider, any of their agents, any company in the same group of companies as such entities or any other party to the Transaction Documents relating to the Program. Any failure by the Bank or the Guarantor to pay any amount due under the covered bonds will not result in any liability whatsoever in respect of such failure being accepted by any of the Arrangers, any of the Dealers, the Bond Trustee, the Custodian, any Swap Provider, any of their agents, the Partners, any company in the same group of companies as such entities or any other party to the Transaction Documents relating to the Program.

Table of Contents

The obligations under the Covered Bond Guarantee may be subject to an Extended Due for Payment Date and payment on the Final Redemption Amount may be deferred beyond the Final Maturity Date

The prospectus supplement for a Series of covered bonds may specify that they are subject to an Extended Due for Payment Date. If specified in the applicable prospectus supplement, in circumstances where neither the Bank nor the Guarantor has sufficient funds available to pay in full the Final Redemption Amount due on a Series of covered bonds on the relevant Final Maturity Date or within the relevant grace period, then the Final Maturity Date of the relevant Series of covered bonds may be deferred to an Extended Due for Payment Date. If payment has been deferred as discussed below, failure by the Guarantor to make payment in respect of all or any portion of the Final Redemption Amount on the Final Maturity Date (or such later date within any applicable grace period) will not constitute a Guarantor Event of Default.

If and to the extent that the Guarantor has sufficient funds available to partially redeem the relevant Series of covered bonds, either on the Final Maturity Date or on the applicable Original Due for Payment Dates for that Series of covered bonds up to and including the Extended Due for Payment Date, then (assuming that the Guarantee Activation Notice and Notice to Pay for the relevant amount have been served on the Guarantor within the relevant timeframes) the Guarantor will make such partial redemption in accordance with the Guarantee Priorities of Payments and as described in Condition 6.1 (*Final redemption*).

Interest will continue to accrue and be payable on the unpaid amount of the relevant Series of covered bonds in accordance with Condition 4 (*Interest*) and at the rate of interest specified in the applicable prospectus supplement and the Guarantor will pay Guaranteed Amounts constituting Scheduled Interest on each Original Due For Payment Date and the Extended Due for Payment Date.

Failure by the Guarantor to pay Guaranteed Amounts corresponding to the unpaid portion of the Final Redemption Amount or the balance thereof, as the case may be, on the Extended Due for Payment Date and/or pay Guaranteed Amounts constituting Scheduled Interest on any Original Due for Payment Date or the Extended Due for Payment Date will in each case (subject to any applicable grace period) constitute a Guarantor Event of Default.

Covered bonds issued under the Program will rank pari passu with each other and will accelerate at the same time

Covered bonds issued under the Program (except for the first issue of the covered bonds) will either be fungible with an existing Series of covered bonds or have different terms from an existing Series of covered bonds (in which case they will constitute a new Series). All covered bonds issued under the Program from time to time will rank *pari passu* with each other in all respects and as obligations of the Bank, and *pari passu* with covered bonds issued previously under the Bank's Global Public Sector Covered Bond Programme. Following the occurrence of an Issuer Event of Default and service by the Bond Trustee of an Issuer Acceleration Notice, all outstanding covered bonds will under the Program accelerate against the Bank but will be subject to, and have the benefit of, the Guaranteed Amounts under the Covered Bond Guarantee (following a Notice to Pay having been served by the Bond Trustee on the Guarantor).

Following the occurrence of an Issuer Event of Default and service by the Bond Trustee of an Issuer Acceleration Notice, all outstanding covered bonds will accelerate against the Bank but will be subject to, and have the benefit of, the Guaranteed Amounts under the Covered Bond Guarantee (following a Notice to Pay having been served by the Bond Trustee on the Guarantor).

Table of Contents

Following the occurrence of a Guarantor Event of Default and service by the Bond Trustee of a Guarantor Acceleration Notice, all outstanding covered bonds will accelerate against the Bank (if not already accelerated following service of an Issuer Acceleration Notice) and the obligations of the Guarantor under the Covered Bond Guarantee will accelerate.

All covered bonds issued under the Program will share *pari passu* in the Security granted by the Guarantor under the Security Agreement on a *pro rata* basis. Accordingly, the holders of each Series of covered bonds issued under the Program will be required to share recovery proceeds from the Security with all other holders of the covered bonds issued under the Program on a *pro rata* and *pari passu* basis. However, holders of covered bonds issued under the Program will not share in the security granted under the Bank's Global Public Sector Covered Bond Programme, which is guaranteed by a different guarantor entity and secured by a different pool.

Credit ratings assigned to the covered bonds may not reflect all risks

The rating assigned to the covered bonds may not reflect the potential impact of all risks related to structure, market, and other factors that may affect the value of the covered bonds. The ratings assigned to the covered bonds with respect to Fitch address the following: the likelihood of full and timely payment to covered bondholders of all payments of interest on each Interest Payment Date; and the likelihood of ultimate payment of principal in relation to covered bonds on (a) their applicable Final Maturity Date, or (b) if the covered bonds are subject to an Extended Due for Payment Date in respect of the covered bond Guarantee in accordance with the applicable prospectus supplement, the applicable Extended Due for Payment Date. With respect to DBRS, the ratings assigned to the covered bonds address the risk that the issuer will fail to satisfy its financial obligations in accordance with the terms under which the covered bonds have been issued and are based on quantitative and qualitative considerations relating to the issuer and the relevant ranking of claims. With respect to Moody's, the ratings assigned to the covered bonds address the expected loss posed to investors.

Any Rating Agency may lower or withdraw its rating if, in the sole judgment of the Rating Agency, the credit quality of the covered bonds has declined or is in question. If any rating assigned to the covered bonds is lowered or withdrawn, the market value of the covered bonds may be reduced. A downgrade or potential downgrade in these ratings, the assignment of new ratings that are lower than existing ratings, or a downgrade or potential downgrade in the ratings assigned to the Bank or any other securities of the Bank could reduce the number of potential investors in the covered bonds and adversely affect the price and liquidity of the covered bonds. A rating is based upon information furnished by the Bank or obtained by the rating agency from its own sources and is subject to revision, suspension or withdrawal by the rating agency at any time. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time.

Modifications, waivers and substitution under the covered bonds may, in certain circumstances, be made without consent of the covered bondholders

The Conditions contain provisions for calling meetings of covered bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all covered bondholders including covered bondholders who did not attend and vote at the relevant meeting and covered bondholders who voted in a manner contrary to the majority. Except to the extent the Trust Indenture Act applies, an individual covered bondholder may not be in a position to affect the outcome of the resolutions adopted by the meetings of covered bondholders.

Table of Contents

The Conditions of the covered bonds also provide that the Bond Trustee may, without the consent of covered bondholders, agree to (a) any modification, waiver or authorization, of any breach, or proposed breach, of any of the provisions of the covered bonds or (b) determine, without the consent of the covered bondholders, that any Registered Title Event, Issuer Event of Default or Guarantor Event of Default will not be treated as such, (c) the substitution of another company as principal debtor under any covered bonds in place of the Bank or the Guarantor or (d) any modification which is of a formal, minor or technical nature or to correct a manifest error or an error which, in the opinion of the Bond Trustee, is proven, in the circumstances described in Condition 14 (*Meetings of Covered Bondholders, Modification, Waiver and Substitution*). The covered bondholders will not be in a position to give instructions to the Bond Trustee in relation to the matters set out above.

The Guarantor's ability to make payments under the Covered Bond Guarantee will depend primarily on the Portfolio

The Guarantor's ability to meet its obligations under the Covered Bond Guarantee will depend primarily on the realizable value of Loans and Substitution Assets in the Portfolio, the amount of Revenue Receipts and Principal Receipts generated by the Portfolio and the timing thereof, amounts received from, and payable to, the Swap Providers and the receipt by it of credit balances and interest on credit balances in the GDA Account and the other Guarantor Accounts. The Guarantor will not have any other source of funds available to meet its obligations under the Covered Bond Guarantee. In addition, the Security granted pursuant to the Security Agreement may not be sufficient to meet the claims of all the Secured Creditors, including the covered bondholders. Following enforcement of the Security, Secured Creditors may still have an unsecured claim against the Bank for the deficiency, which will rank *pari passu* with the other deposit obligations of the Bank. However, there can be no assurance that the Bank will have sufficient funds to pay that shortfall.

If there is a call on the Covered Bond Guarantee, the claims of covered bondholders will be limited to the Guarantor's available funds from time to time, which may be limited due to a lack of liquidity in respect of the Portfolio

If there is a call on the Covered Bond Guarantee and sale of the Portfolio, the proceeds from the sale of the Portfolio will depend on market conditions at the time of sale. If market conditions are unfavorable, the sale of the Portfolio may result in proceeds that are less than the amount due on the covered bonds. Furthermore, the maturities of the Loans in the Portfolio may not match those of the covered bonds which may require the Guarantor to sell Loans in order to pay principal on those covered bonds. Any such sale of Loans exposes investors to market risk, as the then current market value of the Loans may be less than the principal amount on the covered bonds. In addition, should an Issuer Event of Default or other Registered Title Event occur, there may be a delay in any and all borrowers switching payments to the new Servicer or the Guarantor.

There is no tax gross-up under the Covered Bond Guarantee

All payments of principal and interest in respect of the covered bonds will be made by the Bank without withholding or deduction for, or on account of, taxes imposed by any governmental or other taxing authority (subject to customary exceptions), unless such withholding or deduction is required by law. In the event that any such withholding or deduction is imposed by a tax jurisdiction specified under the Conditions, the Bank will, save in certain limited circumstances provided in the Conditions, be required to pay additional amounts to cover the amounts so deducted. By contrast, under the terms of the Covered Bond Guarantee, the Guarantor will not be liable to pay any such additional amounts payable by the Bank under the Conditions, or to pay any additional amounts in respect of any amount withheld or deducted for, or on account of, taxes from a payment by the Guarantor under the Covered Bond Guarantee.

Table of Contents

The Guarantor may not be able to sell Loans prior to maturity of Hard Bullet Covered Bonds upon a breach of the Pre-Maturity Test or upon an Asset Coverage Test Breach Notice or Notice to Pay

Upon the breach of the Pre-Maturity Test and unless the Pre-Maturity Liquidity Ledger is otherwise fully funded from Capital Contributions, the Guarantor is obligated to sell Selected Loans (selected on a random basis) to a purchaser in order to generate sufficient cash to enable the Guarantor to pay the Final Redemption Amount on any Hard Bullet Covered Bond in the event that the Bank fails to pay that amount on the relevant Final Maturity Date. If an Asset Coverage Test Breach Notice or a Notice to Pay is served on the Guarantor, the Guarantor may be obliged to sell Selected Loans (selected on a random basis) in order to remedy a breach of the Asset Coverage Test or to make payments to the Guarantor's creditors, including payments under the Covered Bond Guarantee, as appropriate. There is no guarantee that a purchaser will be found to acquire Selected Loans at the times required and there can be no guarantee or assurance as to the price, which may be obtained, which may affect the ability of the Guarantor to make payments under the Covered Bond Guarantee.

In addition, the Guarantor will not be permitted to give representations and warranties or indemnities for those Selected Loans. There is no obligation for the Seller to give, and no assurance that the Seller would give, any representations and warranties or indemnities in respect of the Selected Loans. Any representations or warranties or indemnities previously given by the Seller in respect of Loans in the Portfolio may not have value for a purchaser if the Seller is then insolvent. Accordingly, there is a risk that the realizable value of the Selected Loans could be adversely affected by the lack of representations, warranties or indemnities which in turn could adversely affect the ability of the Guarantor to meet its obligations under the Covered Bond Guarantee.

Later maturing covered bonds may not be paid in full or at all under the Covered Bond Guarantee as Portfolio assets are not segregated by different Series of covered bonds and will be used to repay earlier maturing covered bonds first

Although each Series of covered bonds will rank *pari passu* with all other Series of covered bonds, each Series of covered bonds may not necessarily have the same Final Maturity Date. As Portfolio assets are not segregated in relation to each Series of covered bonds and will be used to repay earlier maturing covered bonds first, there is a risk that later maturing covered bonds will not be paid in full (or at all) under the Covered Bond Guarantee. The Amortization Test may not mitigate this risk. A breach of the Amortization Test will occur if the aggregate principal amount outstanding of the covered bonds is greater than the aggregate value of the Portfolio's assets. Upon the occurrence of a breach of the Amortization Test, a Guarantor Event of Default will also occur which will (subject to the Conditions) lead to the service of a Guarantor Acceleration Notice on the Guarantor and the acceleration of the obligations under the Covered Bond Guarantee in relation to all covered bonds then outstanding (hence any further timing subordination will cease to exist). There is however no guarantee that the remaining Portfolio assets will be sufficient to meet the claims of the remaining covered bondholders under the covered bond Guarantee in full.

Table of Contents

Reliance on certain transaction parties

The Guarantor and the covered bondholders place significant reliance on the Bank in connection with the servicing of the Loans in the Portfolio and such reliance may give rise to conflicts of interest

The Guarantor and the covered bondholders place significant reliance on the Bank in connection with the servicing of the Loans in the Portfolio, as well as for the Guarantor's administration and funding. In particular, the Bank performs the initial roles of (a) Cash Manager, (b) Servicer, (c) GDA Provider, (d) Swap Provider, (e) Intercompany Loan Provider, and (f) Calculation Agent. The Bank holds substantially all of the interests in the Guarantor and is the sole shareholder of the initial Managing GP. The Bank, under the Servicing Agreement, will be responsible for servicing and administering the Loans and their Related Security. Furthermore, the Bank, as the principal Seller of assets to the Portfolio, has considerable discretion to substitute Portfolio assets during the course of the Program and can generate and store the data and documentation relating to the Portfolio assets underlying the transfer, retransfer and servicing of the Loans and the Related Security, which data is also provided to third parties in their respective functions under the Program. The Bank, as Cash Manager, has, prior to the earlier of (i) its credit rating falling below the Cash Manager Required Ratings, or (ii) the occurrence of a Cash Manager Termination Event, unrestricted access to the funds standing to the credit accounts of the Guarantor. The Guarantor is also reliant on the Swap Providers to provide it with the funds matching its obligations under advances and the Covered Bond Guarantee. In view of these multiple roles of the Bank, such reliance may give rise to a wide variety of substantial conflicts of interests. The Bank will have significant influence over important services required to maintain the Program and provided to the Guarantor, which may conflict with the interests of the Guarantor and holders of the covered bonds. This influence could adversely affect the Program and value of the covered bonds. If the Bank does not adequately perform or withdraws from performing such services for the Guarantor or if there are disputes between the Bank and the Guarantor, the Guarantor's performance of its obligations could be affected. There can be no assurance that the conflicts of interest described above will not have a material adverse effect on the Guarantor's performance of its payment and other obligations and/or on the covered bondholders.

Further, the Bond Trustee is not obliged under any circumstances to act as a Servicer, as Cash Manager or as any other third party on which the Guarantor relies, or to monitor the performance of any obligations of any third parties under any relevant agreement.

Replacement of the Bank as services provider may not be found on acceptable terms or within an acceptable time period and the ability of the Guarantor to perform its obligations may be impaired

As noted above, the Bank performs a number of initial roles. In addition, the Bank will, as Servicer of the Loans and Related Security, continue to service and administer the Loans and Related Security until revocation of the relevant authority by the Guarantor.

Table of Contents

In certain circumstances, the Bank is required to be replaced as provider of these services for instance if it ceases to have the requisite minimum rating (and it is unable to take other mitigating steps), or if an Issuer Event of Default occurs in relation to the Bank. If the Bank is replaced as Cash Manager, then the Guarantor will be obliged to procure that the funds in the Guarantor's accounts deposited with the Bank are transferred to a newly opened account with a bank having an appropriate credit rating.

There is no certainty that a relevant replacement third party services provider/counterparty could be found who would be willing to enter into the relevant agreement with the Guarantor. The ability of that servicer/counterparty to perform fully its services would depend in part on the information, software and records which are then available to it. In addition, the replacement servicer may be required to acquire or develop new servicing systems or platforms, which may require substantial time and expense to implement. There can be no assurance that the Guarantor will be able to enter into such replacement agreements and transactions on acceptable terms and within a time period which will ensure uninterrupted payments of amounts due by the Guarantor under the Covered Bond Guarantee (if called). Moreover, any entity appointed as Servicer would not become bound by the Bank's obligations under the Mortgage Sale Agreement.

In the event that any of the Cash Manager, the Account Bank, the Custodian, the Servicer, a Swap Provider, the Custodian or other relevant party providing services to the Guarantor under the Transaction Documents fails to perform its obligations or the Guarantor is unable to replace such service providers in a timely manner, the Guarantor's ability to perform its payment and other obligations may be compromised. Furthermore, any delay or inability to appoint a suitable replacement Servicer may have an impact on the realizable value of the Portfolio's assets.

Depending on market conditions and the existence of a potential replacement Swap Provider with the required ratings and other applicable characteristics, the Guarantor may not be able to enter into replacement swaps if the Bank is required to be replaced as Swap Provider. If no such replacement swaps are executed, an investor in the relevant covered bonds will be exposed to the interest rate and currency risks that were otherwise hedged by the relevant swaps prior to their termination. Such exposure may result in a reduction of the amounts available to be paid on the covered bonds.

In addition, should the applicable criteria cease to be satisfied, the parties to the relevant Transaction Document may agree to amend or waive certain of the terms of such document, including the applicable criteria, in order to avoid the need for a replacement entity to be appointed. Although in certain circumstances the consent of the Bond Trustee and satisfaction of the Rating Agency Condition may be required, the consent of covered bondholders may not be required in relation to such amendments and/or waivers.

Table of Contents

Bankruptcy or Insolvency Risk

The assignments of the Portfolio assets from the Seller to the Guarantor pursuant to the terms of the Mortgage Sale Agreement are intended by the Seller and the Guarantor to be, and have been documented as, sales for legal purposes. As the subject of a legal sale, the Portfolio assets would not form part of the assets of the Bank available for distribution to the creditors of the Bank. However, if the Seller or the Guarantor were to become bankrupt or otherwise subject to insolvency, winding-up, receivership and/or restructuring proceedings, the Superintendent of Financial Institutions (the **Superintendent**), appointed pursuant to the *Office of the Superintendent of Financial Institutions Act* (Canada), Canada Deposit Insurance Corporation, appointed as receiver pursuant to the *Canada Deposit Insurance Corporation Act* (Canada), or any liquidator or other stakeholder of the Seller, could attempt to re-characterize the sale of the Portfolio assets as a loan from the Guarantor to the Seller secured by the Portfolio assets, to challenge the sale under the fraudulent transfer or similar provisions of the *Winding-up and Restructuring Act* (Canada) (**WURA**) or other applicable laws or to consolidate the assets of the Seller with the assets of the Guarantor. In this regard, the Transaction Documents contain restrictions on the Seller and the Guarantor intended to reduce the possibility that a Canadian court would order consolidation of the assets and liabilities of the Seller and the Guarantor given, among other things, current jurisprudence on the matter. Further, the Legislative Framework contains provisions that will limit the application of the laws of Canada and the provinces and territories relating to bankruptcy, insolvency and fraudulent conveyance to the assignments of the Portfolio assets from the Seller to the Guarantor. Nonetheless, any attempt to challenge the transaction or to consolidate the assets of the Seller with the assets of the Guarantor, even if unsuccessful, could result in a delay or reduction of collections on the Portfolio assets available to the Guarantor to meet its obligations under the Covered Bond Guarantee, which could prevent timely or ultimate payment of amounts due to the Guarantor, and consequently, the holders of the covered bonds.

The interests of the Guarantor may be subordinate to statutory deemed trusts and other non-consensual liens, trusts and claims created or imposed by statute or rule of law on the property of the Seller arising prior to the time that the Portfolio assets are transferred to the Guarantor, which may reduce the amounts that may be available to the Guarantor and, consequently, the holders of the covered bonds. The Guarantor will not, at the time of sale, give notice to borrowers of the transfer to the Guarantor of the Portfolio assets or the grant of a security interest therein to the Bond Trustee. However, under the Mortgage Sale Agreement, the Seller will warrant that the Portfolio assets have been or will be transferred to the Guarantor free and clear of the security interest or lien of any third party claiming an interest therein, through or under the Seller, other than certain permitted security interests. The Guarantor will warrant and covenant that it has not taken and will not take any action to encumber or create any security interests or other liens in any of the property of the Guarantor, except for the security interest granted to the Bond Trustee and except as permitted under the Transaction Documents.

Amounts that are on deposit from time to time in the Guarantor Accounts may be invested in certain permitted investments pursuant to the Transaction Documents. In the event of the liquidation, insolvency, receivership or administration of any entity with which an investment of the Guarantor is made (such as pursuant to the Guaranteed Deposit Account Contract or the Standby Guaranteed Deposit Account Contract) or which is an issuer, obligor or guarantor of any investment, the ability of the Guarantor to enforce its rights to any such investments and the ability of the Guarantor to make payments to holders of the covered bonds in a timely manner may be adversely affected and may result in a loss on the covered bonds. In order to reduce this risk, these investments must satisfy certain criteria.

Payments of interest and principal on the covered bonds are subordinate to certain payments (including payments for certain services provided to the Guarantor), taxes and the reimbursement of all costs, charges and expenses of and incidental to the enforcement of the Trust Deed and the other Transaction Documents to which the Bond Trustee is a party, including the appointment of a receiver in respect of the Portfolio assets (including legal fees and disbursements) and the exercise by the receiver or the Bond Trustee of all or any of the powers granted to them under the Trust Deed and the other Transaction Documents to which the Bond Trustee is a party, and the reasonable remuneration of such receiver or any agent or employee of such receiver or any agent of the Bond Trustee and all reasonable costs, charges and expenses properly incurred by such receiver or the Bond Trustee in exercising their power. These amounts could increase, especially in adverse circumstances such as the occurrence of a Guarantor Event of Default, the insolvency of the Bank or the Guarantor or a Servicer Termination Event. If after the insolvency of the Bank such expenses or the costs of a receiver or the Bond Trustee become too great, payments of interest on and principal of the covered bonds may be reduced or delayed.

Table of Contents

The ability of the Bond Trustee (for itself and on behalf of the other Secured Creditors) to exercise remedies in respect of the covered bonds and the Covered Bond Guarantee and to enforce the security granted to it pursuant to the terms of the Security Agreement is subject to the bankruptcy and insolvency laws of Canada. The *Bankruptcy and Insolvency Act* (Canada) (**BIA**) and the *Companies Creditors Arrangement Act* (Canada) (**CCAA**) both provide regimes pursuant to which debtor companies are entitled to seek temporary relief from their creditors. The BIA applies to limited partnerships. In addition, Canadian jurisprudence makes it clear that both the BIA and the CCAA can apply to limited partnerships. Further, it is a possibility that the Seller, a liquidator or receiver of the Seller, another creditor of the Guarantor or the Superintendent could seek the court appointment of a receiver of the Guarantor or a winding-up of the Guarantor, or might commence involuntary bankruptcy or insolvency proceedings against the Guarantor under the BIA or the CCAA.

If the Guarantor or Bank, including as Seller and initial Servicer, voluntarily or involuntarily becomes subject to bankruptcy, insolvency or winding-up proceedings including pursuant to the BIA, the CCAA or the WURA or if a receiver is appointed over the Bank or the Guarantor, notwithstanding the protective provisions of the Legislative Framework, this may delay or otherwise impair the exercise of rights or any realization by the Bond Trustee (for itself and on behalf of the other Secured Creditors) under the covered bonds, the Covered Bond Guarantee and/or the Security Agreement and/or impair the ability of the Guarantor or Bond Trustee to trace and recover any funds which the Servicer has commingled with any other funds held by it prior to such funds being paid into the GDA Account. In the event of a Servicer Termination Event as a result of the insolvency of the Bank, the right of the Guarantor to appoint a successor Servicer may be stayed or prevented.

Risks relating to the Portfolio

When realizing assets of the Portfolio following the occurrence of a Guarantor Event of Default, the proceeds may be insufficient to repay all amounts due to covered bondholders

All Guaranteed Amounts will immediately become due and payable following the occurrence of a Guarantor Event of Default and the service of a Guarantor Acceleration Notice on the Guarantor. At such time, the Bond Trustee will then be entitled to liquidate the Portfolio and otherwise enforce assets under the Portfolio in accordance with, and subject to, the provisions of the Security Agreement. The enforcement proceeds thereof may be used to make payments to the Guarantor's creditors, including payments under the Covered Bond Guarantee in accordance with the Post-Enforcement Priorities of Payments, described below in *Cashflows*. However, there is no guarantee that the proceeds of enforcement of the Portfolio will be in an amount sufficient to repay all amounts due to the covered bondholders and any relevant creditors.

Table of Contents

In the case of insolvency of the Account Bank, the Guarantor will only have an unsecured claim against the estate for funds deposited

While the Guarantor has undertaken to transfer the funds standing to the credit of the Account Bank to another bank or to obtain a guarantee from a financial institution with the requisite credit ratings or to take any alternative remedial measures if the credit rating of the Account Bank falls below the Account Bank Required Ratings, there can be no assurance that such transfer would be completed before the Account Bank becomes insolvent. If such an event occurs, the Guarantor would have a claim as an unsecured creditor of the Account Bank. Accordingly, there is a potential risk of a loss of the Guarantor's funds held with the Account Bank in the event that the Account Bank has insufficient funds to meet all the claims of its unsecured creditors.

The Asset Coverage Test, Amortization Test, Valuation Calculation and Pre-Maturity Liquidity Test may not ensure that adequate funds will be available to satisfy the Guarantor's obligations in full

While the Asset Coverage Test, the Amortization Test and the Pre-Maturity Liquidity Test have been designed to mitigate certain economic and legal stresses in connection with the performance and valuation of the Portfolio in order to ensure that the Guarantor is able to meet its ongoing requirements at all relevant times, in setting the values and criteria for such tests, modeling has been undertaken on the basis of certain assumptions in certain stress scenarios. No assurance can be given that the assumptions utilized in such modeling have been able to incorporate or examine all possible scenarios that may occur in respect of the Guarantor and the Portfolio. As such, no assurance can be given that the methodology and modeling utilized to set the relevant values and criteria within such tests will be sufficient in all scenarios to ensure that the Guarantor will be able to meet its obligations in full.

The Bond Trustee will not be responsible for monitoring compliance with, or the monitoring of, the Asset Coverage Test, the Amortization Test, the Valuation Calculation or the Pre-Maturity Liquidity Test or any other test, or supervising the performance by any other party of its obligations under any Transaction Document. See *Summary of the Principal Documents Guarantor Agreement*.

While the Guarantor is required to perform the Valuation Calculation to monitor exposure to volatility of interest rate and currency market risk by measuring the present value of the Portfolio relative to the market value of the obligations guaranteed under the Covered Bond Guarantee, there is no obligation on the part of the Bank or the Guarantor to take any action in respect of the Valuation Calculation to the extent it shows the market value of the Portfolio is less than the market value of the obligations guaranteed under the Covered Bond Guarantee.

Borrowers may default in paying amounts due under the Loans. The inability of borrowers to pay amounts due under the Loans may reduce the amount of the Guarantor's available funds.

Borrowers may for a variety of reasons default on their obligations due under the Loans. Various factors influence mortgage delinquency rates and the ultimate payment of interest and principal. Examples of such factors include changes in the national or international economic climate, regional economic or housing conditions, changes in tax laws, interest rates, inflation, the availability of financing, yields on alternative investments, political developments and government policies. Other factors in a borrower's individual, personal or financial circumstances may affect the ability of the borrower to repay the Loan. Loss of earnings, illness, divorce and other similar factors may also lead to an increase in delinquencies by and bankruptcies of borrowers, and could ultimately have an adverse impact on the ability of borrowers to repay the Loans. In addition to the above, the ability of a borrower to sell a property at a price sufficient to repay the amounts outstanding under that Loan will depend upon a number of factors, including the availability of purchasers for that property, the value of that property and property values in general at the time. See also *Risks relating to the Canadian residential mortgage market such as a deterioration in the market for real estate, could negatively affect the value and marketability of the covered bonds*.

Table of Contents

Risks relating to the Canadian residential mortgage market such as a deterioration in the market for real estate, could negatively affect the value and marketability of the covered bonds

A severe correction in the housing market could create strains in the residential mortgage market by causing an economic recession (and associated loss of income) and a reduction in homeowner equity, leading to rising delinquencies. The risk of a severe correction is considered low in most regions of the country, as valuations are moderate, affordability is reasonable and interest rates are likely to remain low for some time. The risk of a correction is somewhat larger in the Greater Vancouver and Toronto areas, which account for about one-quarter of the population, as valuations are high and affordability of detached properties is strained. The risk of a severe correction would increase if interest rates rose sharply or an external shock caused the economy to contract. In this case, the subsequent housing downturn would impair economic circumstances and create greater stress in the mortgage market.

Prior to the completion of a transfer of payments collected from the Loans and their Related Security to the Guarantor, monies collected by the Servicer on behalf of the Guarantor are commingled with the funds of the Servicer, and there can be no assurance as to the ability of the Guarantor to obtain effective direct payments from borrowers

Notice is usually given to borrowers of the transfer of the Loan and Related Security to the Guarantor only after the occurrence of a Registered Title Event. Such notice will instruct the relevant borrower to pay all further amounts due under the relevant Loan to an account in the name of the Guarantor (as specified in such notice). As a matter of Canadian law, until such notice is received by the borrower, the borrower may continue to pay all amounts due under the relevant Loan to the Seller and receive good discharge for such payments.

There can be no assurance that upon the occurrence of a Registered Title Event, (a) notification to the borrower will be made duly and timely or (b) the Guarantor will have the ability to obtain effective direct payments from the borrower under the Loan and the Related Security.

Under the Servicing Agreement, the Servicer may receive funds belonging to the Guarantor that arise from the Loans and their Related Security comprised in the Portfolio and are to be paid into the GDA Account. Prior to a downgrade in the ratings of the Servicer by the Rating Agencies below the Servicer Deposit Threshold Ratings, the Servicer will transfer such funds on or before the next Guarantor Payment Date (i) to the Cash Manager prior to a downgrade in the ratings of the Cash Manager by the Rating Agencies below the Cash Management Deposit Ratings, and (ii) following a downgrade of the ratings of the Cash Manager by the Rating Agencies below the Cash Management Deposit Ratings, directly into the GDA Account. In the event of a downgrade in the ratings of the Servicer by the Rating Agencies below the Servicer Deposit Threshold Ratings, the Servicer will transfer such funds (i) to the Cash Manager prior to a downgrade in the ratings of the Cash Manager by the Rating Agencies below the Cash Management Deposit Ratings, and (ii) following a downgrade of the ratings of the Cash Manager by the Rating Agencies below the Cash Management Deposit Ratings, directly into the GDA Account, in each case within two Canadian Business Days of the collection and/or receipt thereof.

Table of Contents

Until completion of the transfer of such payments collected on the Loans and Related Security to the Guarantor and prior to the circumstances as set out above, monies collected by the Seller and any additional Servicer on the account of the Guarantor are commingled with the funds of that of the Seller and any additional Servicer. This may adversely affect the timing and amount of payments on the covered bonds. Moreover, the Bank also serves as initial Account Bank to the Guarantor. Therefore, even if the transfer of such payments to the Guarantor's account with the Bank is completed, the covered bondholders bear the risk of an insolvency of the Bank unless the Bank has been replaced as Account Bank and transfer of the funds has been completed prior to such event.

The Lending Criteria applicable to any New Loans at the time of its origination may not be the same as those set out in this prospectus, including lower creditworthiness

Each of the Loans originated by the Seller will have been originated in accordance with its Lending Criteria at the time of origination. Since the Portfolio is dynamic, Loans made based on different lending criteria may be included in the Portfolio so long as the Loan Representations and Warranties are satisfied as of the applicable Purchase Date with respect to each such Loan. It is expected that the Seller's Lending Criteria will generally consider type of property, term of loan, age of applicant, the Loan-to-Value Ratio, insurance policies, high loan-to-value fees and credit history. In connection with the sale of any Loans and Related Security to the Guarantor, the Seller will warrant only that such Loans and Related Security were originated in all material respects in accordance with the Seller's Lending Criteria applicable at the time of origination except for such exceptions as would be acceptable to a reasonable and prudent institutional lender in the Seller's market. The Seller retains the right to revise its Lending Criteria from time to time but would only do so to the extent that such a change would be acceptable to reasonable and prudent institutional mortgage lenders in the Seller's market. If the Lending Criteria of the Seller changes in a manner that affects the creditworthiness of the Loans, that may lead to increased defaults by borrowers and may affect the realizable value of the Portfolio, or part thereof, and the ability of the Guarantor to make payments under the Covered Bond Guarantee.

In addition, New Sellers who are affiliates of the Bank may in the future accede to the Program, become a limited partner of the Guarantor and sell Loans and their Related Security to the Guarantor. Any loans originated by a New Seller will have been originated in accordance with the lending criteria of the New Seller, which may differ from the Lending Criteria for Loans originated by the Seller. If the lending criteria differ in a way that affects the creditworthiness of the Loans in the Portfolio, that may lead to increased defaults by borrowers and may affect the realizable value of the Portfolio or any part thereof or the ability of the Guarantor to make payments under the Covered Bond Guarantee.

Table of Contents

Levels of arrears in the Portfolio included in the applicable prospectus supplement are as of the applicable cut-off dates, and may have changed at the date of the issuance of the relevant Series of covered bonds

For each Series of covered bonds, selected information about the Loans in the Portfolio, including information in respect of arrears as at the cut-off date prior to the time of the relevant issue of such Series of covered bonds, will be set out in the applicable prospectus supplement. Except as otherwise indicated in such prospectus supplement, the selected information will be prepared using the current balance as at the relevant cut-off date, which includes all principal and accrued interest for the Loans as at the relevant cut-off date and may not be a true reflection of the Loans as at the date of issuance of such Series of covered bonds. The selected information will not include any Loans assigned to the Portfolio since the relevant cut-off date.

Risks particular to Readiline Loans

The Bank expects that the Portfolio will from time to time include Readiline Loans. For a detailed description of the Readiline Loans, see *Summary of the Principal Documents Mortgage Sale Agreement Readiline Accounts*. Readiline Loans are subject to certain additional risks which include, among others, the risk that Readiline Loans that are secured by the same Readiline Mortgage may be sold to third parties. While as a condition precedent to a sale of such a Readiline LOC, such third party must first enter into a Security Sharing Agreement and provide a Release of Security to the Custodian to be held in trust, the Custodian must obtain an opinion of legal counsel that the conditions precedent to the exercise of such Release of Security have occurred. There can be no assurance that a delay by the Custodian in exercising such Release of Security would not have an adverse effect on the Portfolio.

New Loan Types may be included in the Portfolio without the consent of covered bondholders

As at the date of this prospectus, the Portfolio is comprised of Loans secured on residential property located in Canada which have been fully advanced at the date of sale to the Guarantor. In the event that New Loan Types are subsequently included, amendments will be made to the Loan Representations and Warranties, subject to satisfaction of the Rating Agency Condition with respect thereto. While New Loan Types will be required to comply with the eligibility requirements under Part I.1 of the *National Housing Act* (Canada) and the CMHC Guide, the consent of the covered bondholders to these changes will not need to be obtained and as a consequence the interests of the covered bondholders may be adversely affected.

The Guarantor does not have registered or recorded title to the Loans and their Related Security in the Portfolio on the relevant Purchase Date, which could affect its rights against borrowers

The Seller will transfer all of its right, title and interest in the Loans and their Related Security to the Guarantor pursuant to the Mortgage Sale Agreement on the relevant Purchase Date. However, the registered or recorded title to the transferred Loans and their Related Security will remain with the Seller until the occurrence of a Registered Title Event. As a result (and until such time) application will not be made to the applicable land registry offices to register or record the Guarantor's ownership interest in the

Table of Contents

Loans and their Related Security and notice of the sale of the Loans and their Related Security will not be given to any borrower. Since prior to the occurrence of a Registered Title Event, the Guarantor will not have perfected its ownership interest in the Loans and their Related Security by completing the applicable registrations at the appropriate land registry or land titles office or providing notice of the sale of the Loans to the borrowers, the following risks exist:

first, if the Seller sells a Loan and its Related Security, which has already been sold to the Guarantor, to another Person and that Person acted in good faith and did not have notice of the interest of the Guarantor in the Loan and its Related Security, then such Person might obtain good title to the Loan and its Related Security, free from the interest of the Guarantor. If this occurs then the Guarantor may not have good title in the affected Loan and its Related Security and it may not be entitled to payments by a borrower in respect of that Loan.

second, the rights of the Guarantor may be subject to the rights of the borrowers against the Seller, such as rights of set-off that may occur in relation to transactions or deposits made between borrowers and the Seller and the rights of borrowers to redeem their mortgages by repaying the Loans directly to the Seller; and

third, unless the Guarantor has perfected the sale of the Loans (which it is only entitled to do in certain circumstances), the Guarantor may not be able to enforce any borrower's obligations under the relevant Loan itself but may have to join the Seller as a party to any legal proceedings.

If any of the risks described in the bullet points above were to occur, then the realizable value of the Portfolio or any part thereof and/or the ability of the Guarantor to make payments under the Covered Bond Guarantee may be adversely affected. In addition, the exercise of set-off rights by borrowers may also adversely affect the amount that the Bond Trustee (for covered bondholders and on behalf of the other Secured Creditors) is able to realize on the Portfolio under the Security Agreement.

Limitations on recourse to the Seller may adversely affect the Portfolio

The Guarantor and the Bond Trustee will not undertake any investigations, searches or other actions on any Loan or its Related Security and will rely instead on the representations and warranties provided by the Seller in connection with the transfer of such Loans and their Related Security. If any of the representations and warranties prove to be untrue or there is a material breach of these representations and warranties (subject to the Seller remedying such breach within a certain period of time) the Guarantor will be entitled to require the Seller to repurchase the Loan and its Related Security. There can be no assurance that the Seller will have the financial resources to repurchase the Loans and their Related Security. However, if the Seller does not repurchase those Loans and their Related Security that are in breach, those Loans will be given a zero value for the purposes of any calculation of the Asset Coverage Test, the Valuation Calculation Test and/or the Amortization Test. There is no further recourse to the Sellers for a breach of a Loan Representation or Warranty.

Table of Contents***The Portfolio consists of Loans and their Related Security to be randomly selected by the Seller which are represented to satisfy the Loan Representations and Warranties***

None of the Arrangers, the Guarantor, the Cover Pool Monitor, any Dealer, Bond Trustee, or the Custodian has undertaken or will undertake any due diligence with respect to the wording or content of the individual agreements underlying such Portfolio assets or the facts and circumstances relating to the particular relationship between the relevant borrower or the related Property, respectively, and the Seller, all of which may impact the viability and interpretation of such agreements. Instead, the Guarantor will rely on the Loan Representations and Warranties given by the Seller in the Mortgage Sale Agreement. The remedies provided for in the Mortgage Sale Agreement to the Guarantor in respect of non-compliance with the Loan Representation and Warranties (other than where such breach was waived at the point of transfer to the Guarantor), will be limited to the repurchase by the Seller of the related Loan and its Related Security for an amount equal to the applicable Repurchase Amount. Such obligation is not guaranteed by nor will it be the responsibility of any person other than the Seller and neither the Guarantor nor the Bond Trustee will have recourse to any other person in the event that the Seller, for whatever reason, fails to meet such obligation.

The sale of real property upon the enforcement of a mortgage security is subject to Canadian real property and insolvency regulations, property transfer taxes, capital gain taxes and legal liens

Limitations on enforceability of mortgage security. Generally, a lender's right to realize on its mortgage security may be subject to or regulated by statutes, the existing practice and procedures of a court of competent jurisdiction and that court's equitable powers. Under certain circumstances, a court may exercise equitable powers to relieve a borrower from the effects of certain defaults or acceleration. Certain proceedings taken by a lender to realize upon its mortgage security, such as foreclosure and judicial sale, are subject to most of the delays and expenses of other lawsuits, particularly if defenses or counterclaims are asserted, sometimes requiring up to several years to complete. If a borrower makes a proposal or an assignment or initiates or becomes subject to any other proceedings under the *Bankruptcy and Insolvency Act* (Canada) or other insolvency, arrangement or other legislation for the relief of debtors, the Seller or the Guarantor may not be permitted to accelerate the maturity of the related Loan, to foreclose on the Property or to exercise power of sale or other mortgage enforcement proceedings for a considerable period of time. For Readiline Loans in the Province of Quebec, since the Readiline LOC Creditors will be entitled to an undivided interest in the Readiline Mortgage to the extent of the outstanding indebtedness due under any related Readiline LOC, the Guarantor will have to join such Readiline LOC Creditor in enforcement proceedings against the related borrower.

Where a borrower or any beneficial owner of a Property is or subsequently becomes a non-resident of Canada under the ITA and remains a non-resident at the time that enforcement proceedings are taken under the Loan, the specific remedies available to the lender may be practically limited by the requirement that the lender comply with section 116 of the ITA upon any sale of the Property under or in respect of the related Loan which may require the lender to withhold from realization proceeds an amount equal to (or, in certain cases, greater than) the tax applicable to any accrued capital gain of such non-resident Person triggered by such sale. Many of the Loans contain due-on-sale clauses, which permit the acceleration of the maturity of the related Loan if the borrower sells the related Property. The Loans also generally include a debt-acceleration clause, which permits the acceleration of the Loan upon a monetary or non-monetary default by the borrower. The enforceability of such due-on-sale and debt-acceleration clauses is subject to and may be affected by (i) applicable bankruptcy, insolvency and other laws of general application limiting the enforcement of creditors' rights and remedies generally, and (ii) applicable principles of law and equity, and in some provinces, applicable statutory provisions which limit restraint on alienation of real property and provide relief to a borrower, in certain circumstances, from the effects of certain defaults or acceleration.

Table of Contents

Prior liens. The priority of mortgages securing the Loans may be subject to prior liens resulting from the operation of law, such as liens in favor of governmental authorities and Persons having supplied work or materials to the relevant Property. In each province and territory, the priority of a mortgage against real property may be subject to a prior lien for unpaid realty taxes in favor of the applicable taxing authorities. In the Province of Québec, the priority of a hypothec on rents may be subject to a prior claim in favor of the government for amounts due under fiscal laws.

Registered title. The Mortgages securing the Loans will be registered in the name of the Seller, as agent, bare trustee and nominee in trust for the Guarantor. Upon the occurrence of a Registered Title Event, the Guarantor will have the right to demand that the Seller provide it with registered or recorded title to the Loans and their Related Security at the expense of the Seller, and if the Seller fails to do so, the Guarantor will exercise certain powers of attorney granted to it by the Seller, and record assignments and transfers of all Loans in its name (or in any other name it may decide or, for Readiline Loans in Quebec, to record an assignment of the related Mortgage to the extent of the Guarantor's interest therein). If such registration becomes necessary, there may be costs and delays associated with effecting such registrations (potentially resulting in delays in commencing, prosecuting and completing enforcement proceedings). The Seller will be responsible for meeting all costs associated with such registrations. However, if the Seller does not have the funds to pay such costs, any related expenses the Guarantor is required to pay may reduce the amounts available to pay the covered bondholders.

Adverse environmental conditions on a Property may affect the value of a Loan

If an adverse environmental condition exists with respect to a Property, the related Loan may be subject to the following risks: (i) a diminution in the value of such Property or the practical ability to foreclose or take other enforcement proceedings against such Property; (ii) the potential that the related borrower may default on the related Loan due to such borrower's inability to pay high remediation costs or difficulty in bringing the Property into compliance with environmental laws; (iii) in certain circumstances as more fully described below, the liability for clean-up costs or other remedial actions could exceed the value of the Property; or (iv) the practical inability to sell the Property or the related Loan in the secondary market. Under certain provincial laws, the reimbursement of remedial costs incurred by regulatory agencies to correct environmental conditions may be secured by a statutory lien over the subject property, which lien, in some instances, may be prior to the lien of an existing mortgage. Any such lien arising in respect of a Loan could adversely affect the value of such Loan and could make any foreclosure or other enforcement proceedings impracticable. Under various federal and provincial laws and regulations, a current or previous owner or operator of real property, as well as certain other categories of parties, may be liable for the costs of removal or remediation of hazardous or toxic substances on, under, adjacent to or in such property. The cost of any required remediation and the owner's liability therefor is generally not limited under applicable laws, and could exceed the value of the property and/or the assets of the owner. Under some environmental laws, a secured lender may be found to be an owner or operator or person in charge, management or control of, or otherwise responsible for, the Property. In such cases, a secured lender may be liable for the costs of any required removal or remediation of adverse environmental conditions. The Guarantor and/or the Bond Trustee's exposure to liability for clean-up costs will increase if it or its agent actually takes possession of a Property.

Table of Contents

The entire real property securing the Loans in the Portfolio is located in Canada and a deterioration in the market for real estate in Canada could negatively affect the value of the covered bonds

All the real property securing the Loans in the Portfolio is located in Canada. The performance of the Loans will therefore be affected by general economic conditions in Canada and the condition of the residential housing market in Canada. A significant deterioration in the market for residential or other real estate could negatively affect the value of the real property in the underlying Portfolio and the Canadian residential mortgage market, which in turn could have an adverse effect on the value and marketability of the covered bonds and the ability of the Guarantor to make payments under the Covered Bond Guarantee.

Interest obligations may be greater than the monthly installment payment for certain products and borrowers may refuse to pay excess amounts

When the BMO Prime Rate increases, the amount of interest payable by a borrower under a variable rate loan increases. The borrower's installment payment, however, remains constant (except as discussed below) and, the portion of the borrower's monthly mortgage payment allocated towards the payment of principal is reduced. If the interest rate on a Loan reaches the level at which the borrower's mortgage payment is insufficient to cover the interest payable, the difference is capitalized and added to the principal balance of the Loan. For certain variable rate products this may result in the principal balance of the Loan being greater than the original principal amount of the Loan. If the principal balance of the Loan increases in excess of 105 percent of the original principal amount of the Loan, the Bank may require the borrower to pay the excess amount, increase the amount of the borrower's monthly installment, or (if the borrower has the right to do so under the Loan) convert the Loan to a Fixed Rate Loan.

The Portfolio consists of Loans with renewal risk due to short maturities

Canadian mortgage loans generally provide for the renewal of the loans periodically (e.g., every five years), but the amortization period of the loans is generally much longer (e.g., 25 years). See *Portfolio Characteristics of the Loans*. The borrower faces a change, perhaps a substantial change, in the applicable interest rate on the loan at the time of renewal and the prospect of seeking a replacement loan from another lender if the current lender does not renew the loan. In an adverse economic environment, obtaining a replacement loan may be difficult. Accordingly, if prevailing interest rates have risen significantly, an existing lender may need to renew the loan at below market rates in order to avoid a default on a loan up for renewal.

If the Bank renews Loans at below market rates, it may adversely affect the market value of such Loans in the Portfolio and in the event that the Guarantor must liquidate some Loans in order to meet its obligations under the Covered Bond Guarantee it may realize less than the principal amount of the Loans liquidated. If the Guarantor is required to liquidate a large number of Loans that have interest rates significantly below the prevailing interest rates, the Guarantor may not realize sufficient proceeds to pay the covered bonds in full.

Table of Contents

Risks relating to the Guarantor

There are limited Events of Default with respect to the Guarantor

Service of an Issuer Acceleration Notice on the Bank does not constitute an event of default with respect to the Guarantor and, therefore, does not in itself trigger an acceleration of the payment obligations of the Guarantor under the Covered Bond Guarantee. Instead, the Conditions contain limited events of default with respect to the Guarantor, the occurrence of which would entitle covered bondholders to accelerate payment obligations under the Covered Bond Guarantee. Acceleration of the covered bonds following a Guarantor Event of Default may not lead to accelerated payments to covered bondholders, since there can be no assurance that the Guarantor or the Bond Trustee will be able to promptly sell the Portfolio.

Currency risks and risks related to Swaps

Differences in timing of obligations of the Guarantor and the Covered Bond Swap Provider under the Covered Bond Swap Agreement could adversely affect the Guarantor's ability to meet its obligations

Following the Covered Bond Swap Effective Date, the Guarantor will, on each Guarantor Payment Date, pay or provide for payment of an amount to the Covered Bond Swap Provider based on CDOR for the agreed period. The Covered Bond Swap Provider may not be obliged to make corresponding swap payments to the Guarantor until amounts are due and payable by the Guarantor under the Intercompany Loan Agreement or Due for Payment under the Covered Bond Guarantee. If the Covered Bond Swap Provider does not meet its payment obligations to the Guarantor under the Covered Bond Swap Agreement or does not make a termination payment that has become due from it to the Guarantor under the Covered Bond Swap Agreement, the Guarantor may have a larger shortfall in funds with which to make payments under the Covered Bond Guarantee with respect to the covered bonds than if the Covered Bond Swap Provider satisfied its payment obligations on the same date as the date on which the Guarantor's payment obligations under the Covered Bond Swap were due. Hence, the difference in timing between the obligations of the Guarantor and the obligations of the Covered Bond Swap Provider under the Covered Bond Swaps may affect the Guarantor's ability to make payments under the Covered Bond Guarantee with respect to the covered bonds. To mitigate the risk, the Covered Bond Swap Provider will be required, pursuant to the terms of the relevant Covered Bond Swap Agreement, to post collateral with the Guarantor if the Guarantor's net exposure to the Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement exceeds a certain threshold level or if certain ratings requirements are not met.

Risks related to the structure of a particular issue of covered bonds

Changes of law

The structure of the issue of the covered bonds and the ratings which are to be assigned to them are based on the laws of the Province of Ontario and the federal laws of Canada applicable therein including banking, bankruptcy and income tax laws in effect as at the date of this prospectus, unless otherwise indicated. No assurance can be given as to the impact of any possible change to these laws, including the *National Housing Act* (Canada) and the regulations and policies thereunder with respect to CMHC guidelines, the applicable laws, regulations and policies with respect to the issuance of covered bonds, the covered bonds themselves or the bankruptcy and receivership of the Bank or the Guarantor after the date of this prospectus, nor can any assurance be given as to whether such change could adversely affect the ability of the Bank to meet its obligations in respect of the covered bonds or the Guarantor to meet its obligations under the Covered Bond Guarantee.

Table of Contents

The covered bonds may be subject to optional redemption by the Bank

An optional redemption feature of a Series of covered bonds is likely to limit their market value. During any period when the Bank may elect to redeem such covered bonds, the market value of those covered bonds generally will not rise substantially above the price at which they can be redeemed. This also may occur prior to any redemption period.

The Bank may be expected to redeem such Series of covered bonds when its cost of borrowing is lower than the interest rate on the Series of covered bonds. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Series of covered bonds being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

The Bank may issue covered bonds that bear interest at a rate that converts from a Fixed Rate to a Floating Rate, or from a Floating Rate to a Fixed Rate

The Bank may issue a Tranche of covered bonds that bear interest at a rate that converts from a Fixed Rate to a Floating Rate, or from a Floating Rate to a Fixed Rate. Where the Bank has the right to affect such a conversion, this may affect the secondary market and the market value of the covered bonds since the Bank may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Bank converts from a Fixed Rate to a Floating Rate, in such circumstances, the spread on such covered bonds may be less favorable than the prevailing spreads on comparable Floating Rate covered bonds tied to the same Reference Rate. In addition, the new Floating Rate at any time may be lower than the rates on the other covered bonds. If the Bank converts from a Floating Rate to a Fixed Rate, in such circumstances, the Fixed Rate may be lower than the prevailing rates on the other covered bonds.

Covered bonds issued at a substantial discount or premium may experience significant price volatility

The issue price of covered bonds specified in the applicable prospectus supplement may be more than the market value of such covered bonds as of the issue date, and the price, if any at which a dealer or any other person is willing to purchase the covered bonds in secondary market transactions may be lower than the issue price. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest bearing securities with comparable maturities.

Additional risk factors

Additional risk factors in relation to specific issues of covered bonds may be included in the applicable prospectus supplement.

Table of Contents***The covered bonds have no established trading market when issued and there is no assurance that an active and liquid secondary market will develop for the covered bonds***

Covered bonds may have no established trading market when issued, and no assurance is provided that an active and liquid secondary market for the covered bonds will develop. To the extent a secondary market exists or develops, it may not continue for the life of the covered bonds or it may not provide covered bondholders with liquidity of investment with the result that a covered bondholder may not be able to find a buyer to buy its covered bonds readily or at prices that will enable the covered bondholder to realize a desired yield. This is particularly the case for covered bonds that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of covered bonds generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may severely and adversely affect the market value of covered bonds.

Lack of liquidity in the secondary market may adversely affect the value of the covered bonds

There is not, at present, an active and liquid secondary market for the covered bonds, and there can be no assurance that a secondary market for the covered bonds will develop. If a secondary market does develop, it may not continue for the life of the covered bonds or it may not provide holders of the covered bonds with liquidity of investment with the result that a holder of the covered bonds may not be able to find a buyer to buy its covered bonds readily or at prices that will enable the holder of the covered bonds to realize a desired yield.

The covered bonds will initially be held in book-entry form and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies

Unless and until definitive U.S. Registered Covered Bonds are issued in exchange for book-entry interests in the covered bonds, owners of the book-entry interests will not be considered owners or holders of the covered bonds. Instead, the registered holder, or their respective nominee, will be the sole holder of the covered bonds. Payments of principal, interest and other amounts owing on or in respect of the covered bonds in global form will be made to Paying Agent, which will make payments to DTC. Thereafter, payments will be made by DTC to participants in these systems and then by such participants to indirect participants. After payment to the common depository neither we, the Bond Trustee nor the Paying Agent will have any responsibility or liability of any aspect of the records related to, or payments of, interest, principal or other amounts to DTC or to owners of book-entry interests.

Since the covered bonds are not represented in physical form, it may make it difficult for you to pledge the covered bonds as security if covered bonds in physical form are required or necessary for such purposes. Unlike holders of the covered bonds themselves, owners of book-entry interests will not have the direct right to act upon our solicitations or consents or requests for waivers or other actions from holders of the covered bonds that we may choose to make in the future. Rather, owners of book-entry interests will be permitted to act only to the extent that they have received appropriate proxies to do so from DTC or, if applicable, from a participant. We cannot assure you that procedures implemented for the granting of such proxies will be sufficient to enable you to vote on any such solicitations or requests for actions on a timely basis.

Issuance of covered bonds in book-entry form may affect liquidity and the ability to pledge the covered bonds

Some investors are required by law or otherwise to hold physical certificates for securities they invest in and are not be permitted to hold securities in book-entry form. Unless a prospectus supplement provides to the contrary, it is expected that the covered bonds will be issued in registered form as global covered bonds through DTC and, accordingly, some investors may not be permitted to own covered bonds. This may reduce the liquidity for the covered bonds by limiting the purchasers eligible to purchase the covered bonds in the secondary market.

Exchange rate risks and exchange controls

The Bank will pay principal and interest on the covered bonds and the Guarantor will make any payments under the Covered Bond Guarantee in U.S. Dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than U.S. Dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of the U.S. Dollar or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the U.S. Dollar would decrease (i) the Investor's Currency-equivalent yield on the covered bonds, (ii) the Investor's Currency-equivalent value of the principal payable on the covered bonds and (iii) the Investor's Currency-equivalent market value of the covered bonds.

Table of Contents

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in Fixed Rate Covered Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Covered Bonds.

Program related legal and regulatory risks

The covered bonds and the Bank's activities are subject to the remedial powers of the Superintendent under the Bank Act and the requirements of the CMHC Guide

The Superintendent, under Section 645(1) of the Bank Act, has the power, where in the opinion of the Superintendent, a bank, or a person with respect to a bank, is committing, or is about to commit, an act that is an unsafe or unsound practice in conducting the business of the bank, or is pursuing or is about to pursue any course of conduct that is an unsafe or unsound practice in conducting the business of the bank, to direct the bank or person, as the case may be, to cease or refrain from committing the act or pursuing the course of conduct and to perform such acts as in the opinion of the Superintendent are necessary to remedy the situation.

Although the above remedial power exists, following an initial review of potential regulatory and policy concerns associated with the issuance of covered bonds by Canadian deposit taking institutions (during which it requested that financial institutions refrain from issuing covered bonds), the Office of the Superintendent of Financial Institutions (**OSFI**) confirmed by letter dated June 27, 2007 that Canadian deposit taking institutions may issue covered bonds, provided certain conditions are met. The conditions are as follows: (i) at the time of issuance, the covered bonds must not make up more than four percent of the OSFI Total Assets of the relevant deposit taking institution; (ii) if at any time after issuance the four percent limit is exceeded, the relevant deposit taking institution must immediately notify OSFI; and (iii) excesses (above the four percent limit) due to factors not under the control of the issuing institution, such as foreign exchange fluctuations, will not require the relevant deposit taking institution to take action to reduce the amount outstanding, however, for other excesses, the relevant deposit taking institution must provide a plan showing how it proposes to eliminate the excess quickly. **OSFI Total Assets** for the purpose of the foregoing limit, will be equal to the numerator of the asset-to-capital multiple of the relevant deposit taking institution. In addition, relevant deposit taking institutions are expected, prior to issuing any covered bonds, to amend the pledging policies they are required to maintain under the Bank Act to take into account the issuance of covered bonds consistent with the above limits and to obtain board and/or committee approval for such amendments prior to issuance of any covered bonds.

The full Program amount, when combined with the outstanding balance of the covered bonds issued by the Bank under its previous program, is less than four percent of the OSFI Total Assets of the Bank as of the date of this prospectus. The Bank did not issue covered bonds prior to June 27, 2007, and the Bank previously received the requisite board approval for amendments to its pledging policies which take into account the issuance of covered bonds under the Program.

Table of Contents

In 2012, the *National Housing Act* (Canada) (the **NHA**) was amended to establish a legislative framework for covered bonds (the **Legislative Framework**). The amendments to the NHA have given CMHC the responsibility to administer the Legislative Framework, with discretionary authority to establish conditions and restrictions applicable to registered issuers and registered covered bond programs and to oversee and enforce compliance with those conditions and terms. On December 17, 2012, CMHC published the Canadian Registered Covered Bond Programs Guide (the **CMHC Guide**) implementing the Legislative Framework. The CMHC Guide elaborates on the role and powers of CMHC as administrator of the Legislative Framework and sets out the conditions and restrictions applicable to registered covered bond issuers and registered covered bond programs. The Bank and the Program are required to comply with the requirements of the NHA and CMHC Guide.

No assurance can be given that additional regulations or guidance from CMHC, OSFI, the Canadian Deposit Insurance Corporation or any other regulatory authority will not arise with regard to the mortgage market in Canada generally, the Seller's or the Guarantor's particular sector in that market or specifically in relation to the Seller or the Guarantor. Any such action or developments may have a material adverse effect on the Sellers and/or the Guarantor and their respective businesses and operations. This may adversely affect the ability of the Guarantor to dispose of the Portfolio or any part thereof in a timely manner and/or the realizable value of the Portfolio or any part thereof, and accordingly, affect the ability of the Bank and the Guarantor, respectively, to meet their obligations under the covered bonds in the case of the Bank and the Covered Bond Guarantee in the case of the Guarantor.

Suspension of the Bank's ability to issue covered bonds under Part I.1 of the National Housing Act (Canada) and the CMHC Guide could negatively impact the covered bonds

Part I.1 of the *National Housing Act* (Canada) and the CMHC Guide impose certain ongoing obligations on both the Bank and the Guarantor and permit CMHC to take certain actions in respect of the Bank if such obligations are not complied with from time to time. Such actions include suspending the right of the Bank to issue covered bonds under the Program, and directing the Bank to take specified steps for the purpose of complying with the CMHC Guide. There is a risk that suspending the right of the Bank to issue covered bonds under the Program or any non-compliance with a request from CMHC may negatively impact the value and/or liquidity of the covered bonds. However, pursuant to 9.1(a) (*Issuer Events of Default*), non-compliance by the Bank with Part I.1 of the *National Housing Act* (Canada) or the CMHC Guide will not constitute an Issuer Event of Default.

The Bank's residential mortgage underwriting practices and procedures may be affected by regulatory guidelines

Guideline B-20 Residential Mortgage Underwriting Practices and Procedures (**Guideline B-20**), published by OSFI in June 2012, sets out OSFI's expectations for prudent residential mortgage underwriting by federally-regulated financial institutions, which includes the Seller in respect of Loans originated by it. Guideline B-20 calls for the establishment of a Residential Mortgage Underwriting Policy by the Seller and sets out expectations with respect to borrower due diligence, collateral management and appraisal processes and credit and counterparty risk management practices and procedures by the Seller. OSFI's expectation was for full compliance with Guideline B-20 by the end of the Seller's fiscal year 2012 and it had indicated that, where possible, federally-regulated financial institutions should comply immediately.

Table of Contents

Loans that may be sold to the Guarantor in the future may have characteristics differing from current Loans generated before the implementation of Guideline B-20, including in respect of loss experience, delinquencies, revenue experience and monthly payment rates. Although uncertain at this time, compliance with Guideline B-20 may impact the Seller's ability to generate New Loans at the same rate as the Seller originated prior to Guideline B-20 coming into effect.

Guideline B-20 also provides that where a federally-regulated financial institution acquires a residential mortgage loan, including a home equity line of credit, that has been originated by a third party, such federally regulated financial institution should ensure that the underwriting standards of that third party are consistent with those set out in the Residential Mortgage Underwriting Policy of the federally-regulated financial institution and compliant with Guideline B-20. To the extent that the Bond Trustee realizes upon the security it has on the Loans and Related Security, the Bond Trustee may be limited in its ability to sell such assets to a federally-regulated financial institution if such purchaser determines that the sale would not be in compliance with Guideline B-20.

Canadian usury laws

Unless otherwise indicated, all covered bonds issued under the Program are governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein. The *Criminal Code* (Canada) prohibits the receipt of interest at a criminal rate (namely, an effective annual rate of interest that exceeds 60 percent). Accordingly, the provisions for the payment of interest or a redemption amount in excess of the aggregate principal amount of the covered bonds may not be enforceable if the provision provides for the payment of interest in excess of an effective annual rate of interest of 60 percent

Implementation of the Basel III risk-weighted asset framework may result in changes to the risk-weighting of the covered bonds

The implementation of the Basel III framework could affect risk-weighting of the covered bonds for investors who are subject to capital adequacy requirements that follow, or are based on, the Basel III framework. Consequently, investors should consult their own advisers as to the consequences to, and effect on, them of the application of the Basel III framework and any relevant implementing measures. Proposals and guidelines for implementing the Basel III framework in certain participating jurisdictions are still in development and no predictions can be made as to the precise effects of potential changes on any investor or otherwise.

The Bank will act in its own interest in connection with the Program, and such actions may not be in the best interests of and may be detrimental to the holders of covered bonds

The Bank has a number of roles pursuant to the Program including, but not limited to, Seller, Servicer, Cash Manager, counterparty under the Swap Agreements, and Limited Partner. In respect of the Program, the Bank will act in its own interest subject to compliance with the Transaction Documents. Such actions by the Bank may not be in the best interests of and may be detrimental to the holders of the covered bonds. Subject to compliance with the Transaction Documents, the Bank may act in its own interest without incurring any liability to the holders of any Series or Tranche of covered bonds.

Table of Contents

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (i) covered bonds are legal investments for it; (ii) covered bonds can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of any covered bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of covered bonds under any applicable risk-based capital or similar rules.

Interest of Dealers

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Bank and its affiliates in the ordinary course of business.

The Bank may sell the covered bonds to one or more of the Dealers, including BMO Capital Markets Corp. which is an affiliate of the Bank. The terms of the Program were negotiated at arm's length between the Bank and the Dealers. BMO Capital Markets Corp. will receive a portion of any fees and commissions payable in connection with any such offering of covered bonds in its capacity as a Dealer.

U.S. Foreign Account Tax Compliance Act withholding may apply to payments in respect of the covered bonds

The U.S. **Foreign Account Tax Compliance Act** (or **FATCA**) imposes a new reporting regime and, potentially, a 30% withholding tax with respect to (i) certain payments from sources within the United States, (ii) **foreign passthru payments** made to certain non-U.S. financial institutions that do not comply with this new reporting regime, and (iii) payments to certain investors that do not provide identification information with respect to interests issued by a participating non-U.S. financial institution. The Bank is classified as a financial institution for these purposes. If an amount in respect of such withholding tax were to be deducted or withheld from interest, principal or other payments made in respect of the covered bonds, neither the Bank nor any paying agent nor any other person would, pursuant to the conditions of the covered bonds, be required to pay additional amounts as a result of the deduction or withholding. As a result, investors may receive less interest or principal than expected. Prospective investors should refer to the section *Taxation U.S. Federal Income Taxation Foreign Account Tax Compliance Act*.

Covered bonds that bear interest at rates based on LIBOR and/or EURIBOR may be adversely affected by a change in the Bank's inter-bank lending rate reporting practices or the method in which LIBOR and/or EURIBOR is determined

Regulators and law enforcement agencies from a number of governments have been conducting investigations relating to the calculation of the London inter-bank lending rate

Table of Contents

(**LIBOR**) across a range of maturities and currencies, and certain financial institutions that are member banks surveyed by the British Bankers Association (the **BBA**) in setting daily LIBOR have entered into agreements with the U.S. Department of Justice, the U.S. Commodity Futures Trading Commission and/or the Financial Services Authority in order to resolve the investigations. In addition, in September 2012, the U.K. government published the results of its review of LIBOR, which is referred to as the **Wheatley Review**. The Wheatley Review made a number of recommendations for changes with respect to LIBOR, including the introduction of statutory regulation of LIBOR, the transfer of responsibility for LIBOR from the BBA to an independent administrator, changes to the method of compilation of lending rates, new regulatory oversight and enforcement mechanisms for rate-setting and the corroboration of LIBOR, as far as possible, by transactional data. Based on the Wheatley Review, on March 25, 2013, final rules for the regulation and supervision of LIBOR by the Financial Conduct Authority (the **FCA**) were published (the **FCA Rules**). In particular, the FCA Rules include requirements that (1) an independent LIBOR administrator monitor and survey LIBOR submissions to identify breaches of practice standards and/or potentially manipulative behavior, and (2) firms submitting data to LIBOR establish and maintain a clear conflicts of interest policy and appropriate systems and controls. The FCA Rules took effect on April 2, 2013. It is anticipated that a reform of EURIBOR will be implemented also, which may (but will not necessarily) be in a similar fashion. Accordingly, EURIBOR calculation and publication could be altered, suspended or discontinued.

It is not possible to predict the effect of changes in the methods pursuant to which the LIBOR and/or EURIBOR rates are determined, any other reforms to LIBOR and/or EURIBOR that will be enacted in the U.K. and elsewhere, and any actions taken by any new administrator of LIBOR and/or EURIBOR that may be appointed, each of which may adversely affect the trading market for LIBOR and/or EURIBOR-based securities, including any covered bonds that bear interest at rates based on LIBOR and/or EURIBOR. Any such changes or reforms in the method pursuant to which the LIBOR and/or EURIBOR rates are determined or actions taken by any new administrator of LIBOR and/or EURIBOR may result in a sudden or prolonged increase or decrease in the reported LIBOR and/or EURIBOR rates. If that were to occur and to the extent that the value of any covered bonds that bear interest at rates based on LIBOR and/or EURIBOR is affected by reported LIBOR and/or EURIBOR rates, the amount of interest payable under and the value of such covered bonds may be affected.

Further, uncertainty as to the extent and manner in which the Wheatley Review recommendations with respect to LIBOR will continue to be adopted and the timing of such changes may adversely affect the current trading market for LIBOR-based securities and the value of any covered bonds that bear interest at rates based on LIBOR.

Since the Bank and the Guarantor reside outside of the United States and a substantial portion of their respective assets is located outside the United States, there is a risk that service of process, enforcement of judgments and bringing of original actions will be more difficult.

The Bank is incorporated under the federal laws of Canada under the Bank Act (Canada). The Guarantor is an Ontario limited partnership. Substantially all of the Bank's directors and executive officers, including many of the persons who signed the Registration Statement on Form F-3, of which this prospectus forms a part, and some or all of the experts named in this document, reside outside the United States, and all or a substantial portion of the Bank and the Guarantor's assets and the assets of such persons are located outside the United States. As a result, it may be difficult for you to effect service of process within the United States upon such persons, or to realize upon judgments rendered against the Bank or such persons by the courts of the United States predicated upon, among other things, the civil liability provisions of the federal securities laws of the United States. In addition, it may be difficult for you to enforce, in original actions brought in courts in jurisdictions located outside the United States, among other things, civil liabilities predicated upon such securities laws.

USE OF PROCEEDS

Except as otherwise set forth in the prospectus supplement, the net proceeds from the sale of the covered bonds will be added to the Bank's general working capital and will be used for general working capital purposes.

Table of Contents**CONSOLIDATED EARNINGS RATIOS**

The following table provides the Bank's consolidated ratios of earnings to fixed charges, calculated in accordance with Canadian GAAP for each of the years in the three year period ended October 31, 2010 and in accordance with IFRS for each of the six month periods ended April 30, 2013 and 2012 and the years in the two year period ended October 31, 2012.

	Six Months Ended April 30,		Years Ended October 31,				
	2013 ⁽¹⁾	2012 ⁽¹⁾	2012 ⁽¹⁾	2011 ⁽¹⁾	2010 ⁽²⁾	2009 ⁽²⁾	2008 ⁽²⁾
Consolidated Ratios of Earnings to Fixed Charges							
Excluding interest on deposits	3.35	3.11	3.08	2.57	4.56	2.90	1.79
Including interest on deposits	2.06	2.07	2.01	1.76	2.06	1.40	1.20
Consolidated Ratios of Earnings to Combined Fixed Charges and Preferred Dividends							
Excluding interest on deposits	3.12	2.89	2.88	2.39	3.90	2.58	1.74
Including interest on deposits	1.99	1.99	1.94	1.70	1.96	1.37	1.19

(1) Calculated in accordance with IFRS.

(2) Calculated in accordance with Canadian GAAP.
For purposes of computing these ratios:

earnings represent income from continuing operations plus income taxes and fixed charges (excluding capitalized interest);

fixed charges, excluding interest on deposits, represent interest (including capitalized interest), estimated interest within rent, and amortization of debt issuance costs; and

fixed charges, including interest on deposits, represent all interest.

Table of Contents**CONSOLIDATED CAPITALIZATION OF THE BANK**

The following table sets forth the consolidated capitalization of the Bank as at April 30, 2013:

	As at April 30, 2013 (In millions of Canadian Dollars)
Subordinated Debt	4,071
Capital Trust Securities⁽¹⁾	
BMO Tier 1 Notes Series A	462
Equity	
Preferred Shares ⁽²⁾	2,265
Common Shares	12,014
Contributed Surplus	320
Retained Earnings	14,336
Accumulated Other Comprehensive Income	410
Total Shareholders' Equity	29,345
Non-controlling Interest in Subsidiaries	1,071
Total Equity	30,416
Total Capitalization	34,949

Notes:

- (1) For more information on the classification of Capital Trust Securities, please refer to Note 18 of the audited consolidated financial statements of Bank of Montreal for the year ended October 31, 2012.
- (2) Preferred Shares classified under Shareholders' Equity consist of Class B Preferred Shares Series 13, 14, 15, 16, 18, 21, 23 and 25. For more information on the classification of Preferred Shares, please refer to Note 20 of the audited consolidated financial statements of Bank of Montreal for the year ended October 31, 2012.

Table of Contents

BANK OF MONTREAL

Bank of Montreal (**Bank of Montreal** or the **Bank**) commenced business in Montreal in 1817 and was incorporated in 1821 by an Act of Lower Canada as the first Canadian chartered bank. Since 1871, the Bank has been a chartered bank under the Bank Act, and is named in Schedule I of the *Bank Act* (Canada) (the **Bank Act**). The Bank Act is the charter of the Bank and governs its operations. The Bank is a registered holding company under the Bank Holding Company Act of 1956 and is certified as a financial holding company under the Gramm-Leach-Bliley Act.

The Bank's head office is located at 129 rue Saint Jacques, Montreal, Quebec, H2Y 1L6, and its executive offices are located at 100 King Street West, 1 First Canadian Place, Toronto, Ontario, M5X 1A1. The Bank's telephone number is (416) 867-6785.

The Bank offers a broad range of credit and non-credit products and services directly and through Canadian and non-Canadian subsidiaries, offices and branches. As at October 31, 2012, the Bank had more than 12 million customers, approximately 46,000 full-time equivalent employees, maintained approximately 1,570 bank branches in Canada and the United States and operated internationally in major financial markets and trading areas through its offices in 24 other jurisdictions, including the United States. BMO Financial Corp. (formerly Harris Financial Corp.), based in Chicago and wholly-owned by Bank of Montreal, operates primarily through its subsidiary BMO Harris Bank N.A., which provides banking, financing, investing and cash management services in select markets in the U.S. Midwest. The Bank provides a full range of investment dealer services through entities including BMO Nesbitt Burns Inc., a major fully-integrated Canadian investment dealer, and BMO Capital Markets Corp., Bank of Montreal's wholly-owned registered securities dealer in the United States.

The Bank primarily conducts business through three operating groups: Personal and Commercial Banking (**P&C**) comprised of P&C Canada and P&C U.S.; Private Client Group (**PCG**); and BMO Capital Markets. P&C Canada operates across Canada, offering banking, financing, and investing solutions as well as card and payment services. Operating predominately in the U.S. Midwest under the BMO Harris brand, P&C U.S. provides personal and commercial clients with banking, lending, and treasury management services. PCG, the Bank's wealth management business, serves a full range of client segments from mainstream to ultra-high net worth and institutional, with a broad offering of wealth management products and solutions including insurance products. PCG operates in both Canada and the United States as well as in Asia and Europe. BMO Capital Markets provides capital raising, investing, advisory, treasury and research services to corporate, institutional, and government clients in Canada, the United States, South America, Europe, Asia and Australia. The Bank's Corporate Services group, which includes Technology and Operations, provides risk management, information technology and other corporate services to the three operating groups.

Table of Contents

Certain Matters Relating to the Bank's Board of Directors

Under the Bank Act, the Bank's board of directors must have at least seven members and the Bank's board of directors may establish by by-law a minimum and maximum number of directors. The Bank Act also requires that no more than two-thirds of the directors may be affiliated with the Bank, as specified by the Bank Act, and no more than 15% of the directors may be employees of the Bank or a subsidiary of the Bank, except that up to four of these employees may be directors if they constitute not more than 50% of the directors. Subject to the foregoing residency requirements, a majority of directors will constitute a quorum at any meeting of the board of directors. Under the Bank Act, a majority of the directors of the Bank must be resident Canadians and, except in limited circumstances, directors may not transact business at a meeting of directors or a committee of directors at which a majority of the directors present are not resident Canadians. The Bank Act also requires the directors of a bank to appoint from their members a chief executive officer who must ordinarily be resident in Canada. Under the Bank's by-laws, the minimum number of directors is seven and the maximum number of directors is 40. The Bank's by-laws provide that the number of directors to be elected at any annual meeting of shareholders of the Bank will be fixed by the board of directors before the meeting. Directors may be elected to terms of one, two or three years. The Bank currently has 13 directors.

Under the Bank Act, any director or the entire board of directors may be removed with the approval of a majority of the votes cast at a special meeting of shareholders. A vacancy created by such removal may be filled at the meeting or by a quorum of the directors. Bank policies stipulate that a director will not stand for re-election at the first annual meeting after reaching the age of 70, and, in addition, directors are subject to maximum term limits of 15 years for new directors (elected after January 1, 2010), except a director serving as chairman, who is subject to a maximum term limit of 20 years.

Conflicts of Interest

The Bank Act contains detailed provisions with regard to a director's power to vote on a material proposal, arrangement or contract in which the director is interested. These provisions include procedures for: disclosure of the conflict of interest and the timing for such disclosure; the presence of directors at board meetings where the proposal, arrangement or contract giving rise to the conflict of interest is being considered, and voting with respect to the proposal, arrangement or contract giving rise to the conflict of interest; and other provisions for dealing with such conflicts of interest. The Bank Act also contains detailed provisions regarding transactions with persons who are related parties of the Bank, including directors of the Bank. See *Borrowing Powers*.

Compensation

The by-laws of the Bank have provisions with regard to remuneration of directors. The board of directors may, from time to time, by resolution determine their remuneration that may be paid, but such remuneration may not exceed in each year an aggregate cap set out in the by-laws, and individually may be in such amounts as the board may determine by resolution. The directors may also be paid their reasonable out-of-pocket expenses incurred in attending meetings of the board, shareholders or committees of the board or otherwise in the performance of their duties.

Table of Contents

Directors are required to hold at least eight times the cash retainer portion of their annual retainer fee in either common shares or deferred share units under the Bank's Deferred Share Unit Plan for Non-Employee Directors (**Deferred Share Units**) and until this level is obtained, directors must take 100% of their annual retainer in the form of either common shares (which are purchased on the open market) or Deferred Share Units. Once this threshold has been reached, directors receive a minimum of \$100,000 of their \$175,000 annual retainer fee in common shares (which are purchased on the open market) or in Deferred Share Units. A Deferred Share Unit is an amount owed by the Bank to directors having the same value as one common share, but is not paid out (in cash or in common shares purchased on the open market) until such time as the director leaves the board, thereby providing an ongoing equity stake in the Bank throughout the director's period of board service. Directors have the option to receive up to 100% of their annual retainer and meeting fees in this manner. Only non-employee directors can receive Deferred Share Units.

Borrowing Powers

The directors of the Bank may, without authorization of the shareholders, authorize the Bank to borrow money. The Bank Act, however, prohibits the Bank from entering into transactions with persons who are deemed to be related parties of the Bank, subject to certain exceptions. Related party transactions may include loans made on the credit of the Bank. In addition, the by-laws of the Bank may be amended, as described in *Description of Common Shares and Preferred Shares - Amendments to the Rights, Privileges, Restrictions and Conditions of the Bank's Share Capital* in the Bank's 2012 Annual Report, to vary the borrowing authority of directors in this regard.

Table of Contents**BMO COVERED BOND GUARANTOR LIMITED PARTNERSHIP**

The Guarantor is a Canadian limited partnership whose only business is (i) providing services to the Bank in respect of the Program by entering into the Intercompany Loan Agreement and accepting Capital Contributions from the Partners; (ii) using the proceeds from the Intercompany Loan and Capital Contributions (a) to purchase the Initial Portfolio consisting of Loans and their Related Security from the Seller in accordance with the terms of the Mortgage Sale Agreement and New Loans and their Related Security pursuant to the terms of the Mortgage Sale Agreement; and/or (b) to invest in Substitution Assets in an amount not exceeding the prescribed limit in the CMHC Guide; and/or (c) subject to complying with the Asset Coverage Test to from time to time make Capital Distributions to the Limited Partner; and/or (d) to make deposits of the proceeds in the Guarantor Accounts (including to fund the Reserve Fund (to an amount not exceeding the prescribed limit) and the Pre-Maturity Liquidity Ledger); (iii) arranging for the servicing of the Portfolio by the Servicer; (iv) entering into the Trust Deed, giving the Covered Bond Guarantee and entering into the Security Agreement; (v) entering into the other Transaction Documents to which it is a party; and (vi) performing its obligations under the Transaction Documents and in respect thereof and doing all things incidental or ancillary thereto.

The Guarantor has not, since its formation, engaged in, and will not, while there are covered bonds outstanding, engage in any material activities other than activities relating to the business of the Guarantor described above and/or incidental or ancillary thereto. The Guarantor and its General Partners are not required by applicable Canadian law (including the *Limited Partnership Act* (Ontario)) to publish any financial statements, and will not be required by the SEC to publish any financial statements in its annual reports on Form 10-K. Instead the Guarantor will file an annual report in accordance with General Instruction J of Form 10-K and will include in the Form 10-K information required by the following provisions of Regulation AB: Item 1112(b), Item 1114(b)(2), Item 1115(b), Item 1117, Item 1119, Item 1122 and Item 1123. The Guarantor has no employees.

The current partners (the **Partners**) of the Guarantor are BMO Covered Bond GP, Inc., as the managing general partner (the **Managing GP**), 8429065 Canada Inc., as the liquidation general partner (the **Liquidation GP**), and the Bank, as the sole limited partner. The Bank holds substantially all of the capital in the Guarantor with the Managing GP and the Liquidation GP each holding a nominal interest in the Guarantor. Pursuant to the terms of the *Limited Partnership Act* (Ontario), the liability of a limited partner for the liabilities, debts and obligations of the Guarantor is limited to the amount contributed by it or agreed to be contributed by it to the Guarantor, unless, in addition to exercising rights and powers as a limited partner, such limited partner takes part in control of the business of the Guarantor and such limited partner will, subject to applicable law, otherwise have no liability in respect of the liabilities, debts and obligations of the partnership. Each of the general partners of the Guarantor will have unlimited liability for any obligation of the Guarantor unless the holder of such obligation agrees otherwise.

Each of the Partners has covenanted in the Guarantor Agreement that, except as provided in the Transaction Documents, it will not sell, transfer, convey, create or permit to arise any security interest on, declare a trust over, create any beneficial interest in or otherwise dispose of its interest in the Guarantor without the prior written consent of the Guarantor and, while there are covered bonds outstanding, the Bond Trustee.

Table of Contents

Ownership Structure of the Guarantor

The following diagram sets forth the ownership structure of the Guarantor:

Ownership Structure of the Managing GP

The Managing GP is a wholly-owned subsidiary of the Bank. The directors and officers of the Managing GP are officers and employees of the Bank.

Ownership Structure of the Liquidation GP

91 percent of the issued and outstanding shares in the capital of the Liquidation GP are held by the Corporate Services Provider, as trustee of the BMO Covered Bond LGP Trust (the **LGP Trust**) and 9 percent of the issued and outstanding shares in the capital of the Liquidation GP are held by the Bank. A majority of the directors of the Liquidation GP are appointed by the Corporate Services Provider, as trustee of the LGP Trust, and are independent of the Bank. The Bank is entitled to have one nominee on the board of the Liquidation GP who is an officer or employee of the Bank.

Table of Contents

The beneficiary of the LGP Trust is one or more charities registered under the ITA.

Withdrawal or Removal of the General Partners

The Managing GP or Liquidation GP may resign as managing general partner or liquidation general partner, as the case may be, on not less than 180 days prior written notice to the Partners and the Bond Trustee, provided that neither the Managing GP nor Liquidation GP may resign if the effect would be to dissolve the Guarantor. In the event that the Liquidation GP resigns as liquidation general partner, the Managing GP will use its best commercially reasonable efforts to, without delay, find a replacement liquidation general partner acceptable to the limited partner(s) of the Guarantor and the Bond Trustee and which satisfies the requirements of the CMHC Guide, to accept the role of liquidation general partner formerly held by the Liquidation GP and acquire a general partner interest in the Guarantor.

In the event the Managing GP resigns, an Issuer Event of Default occurs and is continuing, or a winding-up or insolvency of the Managing GP occurs, the Managing GP will forthwith, or in the case of resignation at the expiry of the notice period described above, cease to be the managing general partner of the Guarantor and the Liquidation GP will assume the role and responsibilities (but not the interest in the Guarantor) of the Managing GP and continue the business of the Guarantor as Managing GP.

If at any time the Liquidation GP becomes the Managing GP pursuant to the foregoing, it may appoint a replacement Managing GP acceptable to the limited partner(s) of the Guarantor and the Bond Trustee and which satisfies the requirements of the CMHC Guide to act as Managing GP and acquire a general partner interest in the Guarantor. Following the appointment of the replacement Managing GP pursuant to the foregoing, the replacement Managing GP will have the powers, duties and responsibilities of the Managing GP of the Guarantor and the Liquidation GP will resume its role, as it was, prior to assuming the role and responsibility of the Managing GP.

Table of Contents

DESCRIPTION OF THE COVERED BONDS

General

The Bank may issue, and the Guarantor may guarantee, as many distinct Series of the covered bonds under the Trust Deed as the Bank wishes. The provisions of the Trust Deed allow the Bank not only to issue covered bonds with terms different from those previously issued, but also to re-open a previous issue of a Series of covered bonds and issue additional covered bonds of that Series. The Bank may issue covered bonds in amounts that exceed the total amount specified on the cover of the prospectus supplement at any time without the consent of holders of covered bonds and without notifying them.

This section summarizes the material terms of the covered bonds that are common to all series subject to any modifications contained in an applicable prospectus supplement. As you read this section, please remember that the specific terms of your covered bonds as described in the applicable prospectus supplement will supplement and, if applicable, may modify or replace the general terms described in this section. If there are any differences between the information in the applicable prospectus supplement and this prospectus, the information in the applicable prospectus supplement will control. Because this section is a summary of the material terms and provisions of the covered bonds, it does not describe every aspect of the covered bonds. This description is subject to and qualified in its entirety by reference to all the provisions of the Trust Deed and other Transaction Documents, including definitions of certain terms used in the Trust Deed and other Transaction Documents. In this description, the meaning of only some of the more important terms that are applicable to U.S. Registered Covered Bonds is described. Reference should be made to the Trust Deed and the other Transaction Documents for the most complete description of what is described in summary form in this prospectus.

This description is also subject to and qualified by reference to the description of the particular terms of your Series described in the prospectus supplement. Those terms may vary from the terms described in this prospectus. The applicable prospectus supplement relating to each Series or Tranche of U.S. Registered Covered Bonds will be attached to the front of this prospectus.

Credit Structure

The covered bonds will constitute direct, unconditional, unsubordinated and unsecured deposit liabilities of the Bank for purposes of the Bank Act, except for in certain limited circumstances as described in the Terms and Conditions. The covered bonds will rank *pari passu* with all deposit liabilities of the Bank without any preference among themselves and (except for any obligations required to be preferred by law) at least *pari passu* with all other present and future unsubordinated and unsecured obligations of the Bank from time to time outstanding. The covered bonds will not be deposits insured under the *Canada Deposit Insurance Corporation Act* (Canada) or under any other governmental insurance scheme of any country.

The Guarantor has no obligation to pay the Guaranteed Amounts under the Covered Bond Guarantee until the occurrence of an Issuer Event of Default, service by the Bond Trustee on the Bank of an Issuer Acceleration Notice and on the Guarantor of a Notice to Pay or, if earlier, following the occurrence of a Guarantor Event of Default and service by the Bond Trustee of a Guarantor Acceleration Notice on the Bank and the Guarantor. The Bank will not be relying on payments by the Guarantor with respect to advances under the Intercompany Loan Agreement or receipt of Revenue Receipts or Principal Receipts from the Portfolio in order to pay interest or repay principal under the covered bonds. The recourse of the covered bondholders to the Guarantor under the Covered Bond Guarantee will be limited to the Portfolio and will be subject to the applicable Priorities of Payments.

Table of Contents

The Program includes certain features relating to the timely, and, as applicable, ultimate payments of principal and interest to covered bondholders:

the Covered Bond Guarantee and Portfolio provide credit support to the covered bondholders;

the Pre-Maturity Test is intended to test the liquidity of the Guarantor's assets with respect to principal due on the Final Maturity Date of Hard Bullet Covered Bonds;

the Asset Coverage Test is intended to ensure that the asset coverage of the Guarantor's assets with respect to the covered bonds is maintained at a certain level;

the Amortization Test is intended to test the asset coverage of the Guarantor's assets in respect of the covered bonds following the occurrence of an Issuer Event of Default and service of a Notice to Pay on the Guarantor;

the Valuation Calculation is intended to ensure that the Program's exposure to market risk is monitored;

a Reserve Fund (if the Bank's ratings fall below the Reserve Fund Required Amount Ratings) will be established by the Guarantor (or the Cash Manager on its behalf) in the GDA Account to reserve Available Revenue Receipts and Available Principal Receipts up to a specified amount; and

under the terms of the Guaranteed Deposit Account Contract, the GDA Provider has agreed to pay a variable rate of interest on all amounts held by the Guarantor in the GDA Account at a floor of percent below CDOR having a term of 30 days that appears on the Reuters Screen as of 10:00 a.m. (Toronto time) on the date of determination, as reported by the GDA Provider (and if such screen is not available, any successor or similar service as may be selected by the GDA Provider) or such greater amount as the Guarantor and the GDA Provider may agree from time to time.

Covered Bond Guarantee

The Covered Bond Guarantee provided by the Guarantor under the Trust Deed guarantees payment of Guaranteed Amounts when they become Due for Payment in connection with all covered bonds issued under the Program following the service of a Notice to Pay on the Guarantor. The Covered Bond Guarantee will not guarantee any amount becoming payable on the covered bonds for any other reason, including any accelerated payment pursuant to Condition 9 (*Events of Default, Acceleration and Enforcement*) following service of a Notice to Pay. Under this circumstance (and until a Guarantor Event of Default occurs and a Guarantor Acceleration Notice is served), the Guarantor's obligations will only be to pay the Guaranteed Amounts as they fall Due for Payment. However, should any payments made by the Guarantor under the Covered Bond Guarantee be subject to any withholding or deduction on account of taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Canada or any province or territory thereof or by any authority therein or thereof having the power to tax, the Guarantor will not be obliged to pay any additional amount as a consequence.

Table of Contents***Pre-Maturity Liquidity***

Certain Series of covered bonds may be scheduled to be redeemed in full on their respective Final Maturity Dates without any provision for scheduled redemption other than on the Final Maturity Date (the **Hard Bullet Covered Bonds**). The applicable prospectus supplement will identify whether any Series of covered bonds is a Series of Hard Bullet Covered Bonds. The Pre-Maturity Test is intended to test the liquidity of the Guarantor's assets with respect to the Hard Bullet Covered Bonds when the Bank's ratings fall below a certain level. On each Canadian Business Day that falls within the twelve months of the Final Maturity Date of any series of Hard Bullet Covered Bonds (each, a **Pre-Maturity Test Date**) prior to the occurrence of an Issuer Event of Default or the occurrence of a Guarantor Event of Default, the Guarantor or the Cash Manager on its behalf will determine if the Pre-Maturity Test has been breached, and if so, it will immediately notify the Sellers and the Bond Trustee. The Guarantor is required to undertake certain actions upon the failure or breach of the Pre-Maturity Test (subject to any ledgers, reserve funds or cure) by the Bank, including the sale of selected loans. See *Summary of Principal Documents Guarantor Agreement Sale of Selected Loans following a breach of the Pre-Maturity Test*.

Asset Coverage Test

The Covered Bond Guarantee has the benefit of the Asset Coverage Test which is conducted on the Portfolio on each Calculation Date. The Asset Coverage Test has been structured to ensure that the assets and cashflows of the Guarantor, including the Loans and their Related Security in the Portfolio, will be adequate to enable the Guarantor to meet its obligations under the Covered Bond Guarantee following the occurrence of the Covered Bond Guarantee Activation Date. If the Asset Coverage Test is not met on two consecutive Calculation Dates, an Asset Coverage Test Breach Notice will be served on the Guarantor and if not revoked (in accordance with the terms of the Transaction Documents) on or before the Guarantor Payment Date immediately following the next Calculation Date after service of such Asset Coverage Test Breach Notice, will constitute an Issuer Event of Default and entitle the Bond Trustee to serve a Notice to Pay on the Guarantor.

The Bank will use all reasonable efforts to ensure that the Guarantor is in compliance with the Asset Coverage Test which should reduce the risk of there being a breach of the Asset Coverage Test although there is no assurance of this result and the sale of Loans and their Related Security by the Seller to the Guarantor, advances under the Intercompany Loan or additional Capital Contributions by the Limited Partner may be required to avoid or, before or after delivery of an Asset Coverage Test Breach Notice, remedy a breach of the Asset Coverage Test. There is no specific recourse available to the Guarantor in respect of any failure by the Bank to make a Capital Contribution in any circumstances, including following receipt of an Asset Coverage Test Breach Notice. See *Summary of the Principal Documents Guarantor Agreement Asset Coverage Test*.

Amortization Test

The Covered Bond Guarantee has the benefit of the Amortization Test which is conducted on the Portfolio on each Calculation Date following an Issuer Event of Default that is continuing. The Amortization Test has been structured to ensure that the assets of the Guarantor, including the Loans and their Related Security in the Portfolio, do not fall below the threshold required to ensure that the assets of the Guarantor are sufficient to meet its obligations under the Covered Bond Guarantee following service of a Notice to Pay. A breach of the Amortization Test will constitute a Guarantor Event of Default and will entitle the Bond Trustee to serve a Guarantor Acceleration Notice on the Guarantor. See *Summary of the Principal Documents Guarantor Agreement Amortization Test*.

Table of Contents

Valuation Calculation

The Guarantor is required to perform the Valuation Calculation to monitor exposure to the volatility to interest rate and currency exchange rates by measuring the present value of the Portfolio relative to the market value of the obligations guaranteed under the Covered Bond Guarantee. However, there is no obligation on the part of the Bank or the Guarantor to take any action in respect of the Valuation Calculation to the extent it shows the market value of the Portfolio is less than the market value of the obligations guaranteed under the Covered Bond Guarantee. See *Summary of the Principal Documents Guarantor Agreement Valuation Calculation*.

Reserve Fund

If at any time prior to the occurrence of an Issuer Event of Default, the Bank's ratings fall below the Reserve Fund Required Amount Ratings, the Guarantor will be required to credit Available Revenue Receipts to the Reserve Fund up to an amount equal to the Reserve Fund Required Amount. The Reserve Fund Required Amount will be funded from Available Revenue Receipts and Available Principal Receipts, after the Guarantor has paid all of its obligations in respect of items ranking higher than the Reserve Ledger in the applicable Priorities of Payments on each Guarantor Payment Date and may in certain circumstances be funded through an advance under the Intercompany Loan or a Cash Capital Contribution. Following the occurrence of an Issuer Event of Default, service of an Issuer Acceleration Notice and service of a Notice to Pay on the Guarantor, amounts standing to the credit of the Reserve Fund will be added to certain other income of the Guarantor in calculating Available Revenue Receipts.

Terms and Conditions

The covered bonds of each Series issued pursuant to this prospectus will be in fully registered form, without interest coupons.

A global covered bond will be deposited with a custodian for, and registered in the name of The Depository Trust Company (**DTC**), or its nominee. Persons holding beneficial interests in global covered bonds will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive covered bonds in fully registered form.

Interests in a global covered bond will be exchangeable (free of charge), in whole but not in part, for definitive covered bonds without interest coupons only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that either DTC has notified the Bank that it is unwilling, or unable, to continue to act as depository for the covered bonds and no alternative clearing system is available or DTC has ceased to constitute a clearing agency registered under the Exchange Act. The Bank will promptly give notice to holders of covered bonds if an Exchange Event occurs by delivery of the notice to DTC for communication to the holders of the covered bonds. Notice will be deemed to have been given to the holders of the covered bonds on the day on which the notice is given to DTC. In the event of the occurrence of an Exchange Event, DTC (acting on the instructions of any holder of an interest in such global covered bond) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described above, the Bank may also give notice to the Registrar requesting exchange. Any such exchange will occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

Table of Contents

No holder of covered bonds will be entitled to proceed directly against the Bank unless the Bond Trustee, having become bound so to proceed, fails to do so within a reasonable period of time and the failure is continuing, *provided that* the right of any holder of a covered bond to receive payment of principal and interest on or after the due date or to bring suit for enforcement of any such payment after the due date may not be impaired or affected without the holder's consent.

The terms and conditions applicable to covered bonds will be endorsed on such covered bonds and will consist of the terms and conditions attached as Schedule I to the Trust Deed and the provisions of the applicable prospectus supplement that supplement, amend and/or replace such terms and conditions. The *Terms and Conditions of the Covered Bonds* set forth below, are the terms and conditions that will be applicable to U.S. Registered Covered Bonds, which may be supplemented, amended or replaced by the terms in the applicable prospectus supplement applicable to the covered bonds. Certain provisions of the Terms and Conditions attached as Schedule I to the Trust Deed are not applicable to U.S. Registered Covered Bonds and have therefore been intentionally omitted, but the numbering has been preserved to assist in a comparison to Schedule I.

The *Terms and Conditions of the Covered Bonds* set forth below are organized as follows:

	Condition	Page
1.	Form, Denomination and Title	63
2.	Transfers of Registered Covered Bonds	64
3.	Status of the Covered Bonds and the Covered Bond Guarantee	65
4.	Interest	66
5.	Payments	84
6.	Redemption and Purchase	86
7.	Taxation	91
8.	Prescription	92
9.	Events of Default, Acceleration and Enforcement	93
10.	Replacement of Covered Bonds	97
11.	Principal Paying Agent, Paying Agents, Registrar, Transfer Agent and Exchange Agent	97
13.	Notices	98
14.	Meetings of covered bondholders, Modification, Waiver and Substitution	99
15.	Indemnification of the Bond Trustee. Contracting with the Bank and/or the Guarantor	103
16.	Further Issues	104
17.	Ratings Confirmations	104
18.	Governing Law	105

The following is a general overview of key provisions of the Terms and Conditions applicable to the covered bonds:

Condition 3 (*Status of the Covered Bonds and the Covered Bond Guarantee*) provides that the covered bonds constitute deposit liabilities of the Bank for purposes of the Bank Act, but will not be insured under the *Canada Deposit Insurance Corporation Act* (Canada). The covered bonds will be direct obligations of the Bank, ranking equally with the deposit liabilities of the Bank and at least equally with all unsubordinated and unsecured obligations of the Bank except as otherwise prescribed by law.

Table of Contents

Condition 3 (*Status of the Covered Bonds and the Covered Bond Guarantee*) also provides the terms of the Covered Bond Guarantee and the conditions precedent to the obligation of the Guarantor to make payment of Guaranteed Amounts. The obligations of the Guarantor, following the occurrence of a Covered Bond Guarantee Activation Date, are direct and unconditional, secured by the pledge of the assets of the Guarantor which includes the Portfolio pursuant to the terms of the Security Agreement. A Covered Bond Guarantee Activation Date will occur on the earlier of (i) an Issuer Event of Default, together with service by the Bond Trustee of an Issuer Acceleration Notice on the Bank and a Notice to Pay on the Guarantor and (ii) a Guarantor Event of Default, together with service by the Bond Trustee of a Guarantor Acceleration Notice on the Bank and the Guarantor.

Condition 4 (*Interest*) sets forth the terms of the interest rates that may apply to the covered bonds. The specific terms of interest payable on a covered bond that you purchase will be disclosed in the applicable prospectus supplement.

Condition 5 (*Payments*) provides that payments of principal, interest and any other amount in respect of the registered global covered bonds (other than the final installments of principal of a covered bond) will be made to the person shown on the Register as the registered holder of the registered global covered bonds. None of the Bank, any Paying Agent and the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the registered global covered bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. Final installments of principal will be made against presentation and surrender of the global covered bond at the specified office of the Registrar or any of the Paying Agents.

Condition 6 (*Redemption and Purchase*) provides for redemption of the covered bonds on their maturity dates and for the early payment of covered bonds under certain conditions, including for taxation reasons, changes in law, illegality or as the result of the exercise of call option or put option features of covered bonds, if applicable, as specified in the related prospectus supplement.

Condition 7 (*Taxation*) provides that all payments by the Bank on the covered bonds will be paid free and clear of any taxes, duties, assessment, or charges of any kind imposed by Canada or any political subdivision of Canada or, if the covered bonds are issued by a branch of the Bank located outside Canada, by any taxing authority of the jurisdiction where the branch is located unless required by law. Except for certain conditions, if a tax or other levy is imposed, the Bank will pay additional amounts sufficient so that the holder will receive the same net amount that would have been received absent the tax or other duty, assessment or charge.

Condition 9 (*Events of Default, Acceleration and Enforcement*) sets forth the conditions that will constitute an Issuer Event of Default and a Guarantor Event of Default. Condition 9.3 (*Enforcement*) provides for the enforcement of the obligations of the Bank and the Guarantor. Under the Condition, the Bond Trustee is not required to take proceedings against the Bank or the Guarantor to seek enforcement of the provisions of the Trust Deed and the covered bonds unless it will be directed by an Extraordinary Resolution of the holders of the covered bonds of all Series or by holders of not less than 25 percent of the aggregate Principal Amount Outstanding of the covered bonds of all Series then outstanding and it has been indemnified to its satisfaction.

Table of Contents

Condition 14 (*Meetings of Covered Bondholders, Modification, Waiver and Substitution*) provides for convening meetings of holders of covered bonds to consider matters that affect one or more Series of covered bonds or all of the covered bonds under the Program, which may include among other things, a modification of the Terms and Conditions or the provisions of the Trust Deed. A resolution adopted at a meeting to effect such a modification will be binding on all holders of all covered bonds of any Series for which the meeting was convened. Condition 14 (*Meetings of covered bondholders, Modification, Waiver and Substitution*) also provides that the Bond Trustee, the Guarantor and the Bank may agree to certain modifications without the consent of holders of covered bonds of any Series.

Table of Contents

TERMS AND CONDITIONS OF THE COVERED BONDS

The following are the Terms and Conditions of the covered bonds which will be incorporated by reference into each Global Covered Bond (as defined below) and each Definitive Covered Bond (as defined below), in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Bank and the relevant Dealer(s) at the time of issue but, if not so permitted and agreed, such Definitive Covered Bond will have endorsed thereon or attached thereto such Terms and Conditions. The applicable prospectus supplement in relation to any Tranche of covered bonds may specify other terms and conditions which will, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such covered bonds. The applicable prospectus supplement (or the relevant provisions thereof) will be endorsed on, or attached to, each Global Covered Bond and Definitive Covered Bond. Reference should be made to Form of the Covered Bonds for a description of the content of the prospectus supplement which will specify which of such terms are to apply in relation to the relevant covered bonds.

This covered bond is one of a Series (as defined below) of covered bonds issued by the Bank constituted by a trust deed dated the Program Date made between the Bank, BMO Covered Bond Guarantor Limited Partnership (the **Guarantor**) and Computershare Trust Company of Canada, as Bond Trustee (and such trust deed as further modified and/or supplemented and/or restated from time to time, the **Trust Deed**).

Save as provided for in Conditions 9 (*Events of Default, Acceleration and Enforcement*) and 14 (*Meetings of covered bondholders, Modification, Waiver and Substitution*), references herein to the covered bonds will be references to the covered bonds of this Series and will mean:

- (a) any registered covered bond representing covered bonds (a **Global Covered Bond**); and
- (b) any definitive covered bonds in registered form representing covered bonds issued under a registration statement under the Securities Act (the **Definitive Covered Bonds**) (whether or not issued in exchange for a Global Covered Bond in registered form).

The covered bonds have the benefit of an agency agreement dated the Program Date, made between the Bank, the Guarantor, the Bond Trustee, BNY Mellon as principal paying agent (in such capacity, the **Principal Paying Agent**, which expression will include any successor Principal Paying Agent, and together with any other paying agents, the **Paying Agents**, which expression will include any additional or successor Paying Agents), BNY Mellon as registrar (together, as the **Registrar**, which expression will include any successor Registrar), and BNY Mellon as transfer agent (the **Transfer Agent**, which expression will include any successor Transfer Agent), and BNY Mellon as the exchange agent (the **Exchange Agent**, which expression will include any successor Exchange Agent, and together with the Paying Agents, Registrar, and Transfer Agent, the **Agents**) (such agency agreement as further amended and/or supplemented and/or restated from time to time, the **Agency Agreement**).

Table of Contents

The prospectus supplement for the covered bonds supplements these Terms and Conditions (the **Terms and Conditions**) and may specify other terms and conditions which will, to the extent so specified or to the extent inconsistent with the Terms and Conditions, replace or modify the Terms and Conditions for the purposes of the covered bonds. References to the applicable prospectus supplement are to the prospectus supplement (or the relevant provisions thereof) endorsed on or attached to the covered bond.

The Bond Trustee acts for the benefit of the holders for the time being of the covered bonds (the **covered bondholders**), and for the holders of each other Series of covered bonds in accordance with the provisions of the Trust Deed.

As used herein, **Tranche** means covered bonds which are identical in all respects (including as to listing and admission to trading) and **Series** means a Tranche of covered bonds together with any further Tranche or Tranches of covered bonds which are (i) expressed to be consolidated and form a single Series, and (ii) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

The Guarantor has, in the Trust Deed, irrevocably and unconditionally guaranteed payment of Guaranteed Amounts in respect of the covered bonds as and when the same will become Due for Payment, but only after service of a Notice to Pay on the Guarantor following service of an Issuer Acceleration Notice on the Bank (after the occurrence of an Issuer Event of Default) or service of a Guarantor Acceleration Notice on the Guarantor (after the occurrence of a Guarantor Event of Default) and subject to the applicable Priorities of Payments. The recourse of the covered bondholders to the Guarantor under the Covered Bond Guarantee will be limited to the Portfolio and will be subject to the applicable Priorities of Payments.

The security for the obligations of the Guarantor under the Covered Bond Guarantee and the other Transaction Documents to which it is a party has been created in and pursuant to, and on the terms set out in, a security agreement dated the Program Date and made between the Guarantor, the Bond Trustee and certain other Secured Creditors (such security agreement as amended and/or supplemented and/or restated from time to time, the **Security Agreement**). The obligations of the Guarantor are secured against the Portfolio and recourse against the Guarantor is limited to the Portfolio and is subject to the applicable Priorities of Payments.

These Terms and Conditions include summaries of, and are subject to, the provisions of the Trust Deed, the Security Agreement and the Agency Agreement.

Copies of the Trust Deed, the Security Agreement, the Master Definitions and Construction Agreement (as defined below), the Agency Agreement and each of the other Transaction Documents in respect of each loan (in redacted or other general form and subject to any exclusions pursuant to applicable law, including, without limitation, privacy law, and policies of the Bank relating to confidentiality and privacy matters) are available for inspection during normal business hours at the office for the time being of the Bond Trustee being at 100 University Avenue, 8th Floor, North Tower, Toronto, Ontario M5J 2Y1, and at the specified office of each of the Paying Agents. Copies of the applicable prospectus supplement for all covered bonds of each Series (including in relation to unlisted covered bonds of any Series) are obtainable during normal business hours at the registered office of the Bank and at the specified office of each of the Paying Agents. The covered bondholders are deemed to have notice of, are bound by all the provisions of, and definitions contained in, the Trust Deed, the Security Agreement, the Master Definitions and Construction Agreement, the Agency Agreement, each of the other Transaction Documents and the applicable prospectus supplement which are applicable to them.

Table of Contents

Except where the context otherwise requires, capitalized terms used and not otherwise defined in these Terms and Conditions (including the preceding paragraphs) will bear the meanings given to them in the applicable prospectus supplement and/or the master definitions and construction agreement made between the parties to the Transaction Documents on the Program Date (and as further amended and/or supplemented and/or restated from time to time, the **Master Definitions and Construction Agreement**), a copy of each of which may be obtained as described above.

1. Form, Denomination and Title

The covered bonds are in registered form as specified in the applicable prospectus supplement and, in the case of Definitive Covered Bonds, serially numbered, in the Specified Denomination(s). Unless otherwise specified in the applicable prospectus supplement, covered bonds of one Specified Denomination may not be exchanged for covered bonds of another Specified Denomination.

The covered bonds in a Series may be Fixed Rate Covered Bonds, Floating Rate Covered Bonds, or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable prospectus supplement. Prior to issuing a Series of covered bonds (if such covered bonds are not Fixed Rate Covered Bonds or Floating Rate Covered Bonds), the Bank has obtained confirmation from each of the Rating Agencies that the covered bonds of all Series then outstanding will not be downgraded or withdrawn as a result of the issuance of this Series of covered bonds.

Other than as set out below, title to the Registered Covered Bonds will pass upon registration of transfers in accordance with the provisions of the Agency Agreement. The Bank, the Guarantor, the Paying Agents and the Bond Trustee will (except as otherwise required by law) deem and treat the registered holder of any Registered Covered Bond as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Covered Bond, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the covered bonds are represented by a Global Covered Bond held on behalf of or, as the case may be, registered in the name of a nominee for DTC, each Person (other than DTC) who is for the time being shown in the records of DTC as the holder of a particular nominal amount of such covered bonds (in which regard any certificate or other document issued by DTC as to the nominal amount of such covered bonds standing to the account of any Person will be conclusive and binding for all purposes save in the case of manifest or proven error and any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system in accordance with its usual procedures and in which the holder of a particular nominal amount of the covered bonds is clearly identified with the amount of such holding) will be treated by the Bank, the Guarantor, the Paying Agents and the Bond Trustee as the holder of such nominal amount of such covered bonds for all purposes other than with respect to the payment of principal or interest or other amounts on such nominal amount of such covered bonds and the expressions **covered bondholder** and **holder** and related expressions should be construed accordingly.

Covered bonds which are represented by a Global Covered Bond will be transferable only in accordance with the rules and procedures for the time being of DTC or any other relevant clearing system, as the case may be.

Table of Contents

References to DTC will, whenever the context so permits, be deemed to include a reference to any successor operator and/or successor clearing system and/or any additional or alternative clearing system specified in the applicable prospectus supplement or as may otherwise be approved by the Bank, the Principal Paying Agent and the Bond Trustee.

2. Transfers of Registered Covered Bonds

2.1. Transfers of interests in Registered Global Covered Bonds

Transfers of beneficial interests in Registered Global Covered Bonds will be effected by DTC and, in turn, by other participants and, if appropriate, indirect participants in DTC acting on behalf of beneficial transferors and transferees of such interests. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer covered bonds represented by a Registered Global Covered Bond to such persons may depend upon the ability to exchange such covered bonds for covered bonds in definitive form. Similarly, because DTC can only act on behalf of direct participants in the DTC system who in turn act on behalf of indirect participants, the ability of a person having an interest in covered bonds represented by a Registered Global Covered Bond accepted by DTC to pledge such covered bonds to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such covered bonds may depend upon the ability to exchange such covered bonds for covered bonds in definitive form. A beneficial interest in a Registered Global Covered Bond will, subject to compliance with all applicable legal and regulatory restrictions, be exchangeable for Registered Definitive Covered Bonds or for a beneficial interest in another Registered Global Covered Bond only in the Specified Denomination(s) set out in the applicable prospectus supplement and only in accordance with the rules and operating procedures for the time being of DTC and in accordance with the terms and conditions specified in the Agency Agreement.

2.2. Transfers of Registered Covered Bonds in definitive form

Subject as provided in Conditions 2.3 (*Registration of transfer upon partial redemption*) and 2.4 (*Costs of registration*), upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Definitive Covered Bond may be transferred in whole or in part in the Specified Denomination(s) set out in the applicable prospectus supplement. In order to effect any such transfer (a) the holder or holders must (i) surrender the Registered Definitive Covered Bond for registration of the transfer of the Registered Definitive Covered Bond (or the relevant part of the Registered Definitive Covered Bond) at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly Authorized in writing, and (ii) complete and deposit such other certifications as may be required by the Registrar or, as the case may be, the relevant Transfer Agent, and (b) the Registrar or, as the case may be, the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the Person making the request.

Any such transfer will be subject to such reasonable regulations as the Bank, the Bond Trustee and the Registrar may from time to time prescribe (the initial such regulations being set out in the Agency Agreement).

Table of Contents

Subject as provided above, the Registrar or, as the case may be, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail to such address as the transferee may request, a new Registered Definitive Covered Bond of a like aggregate nominal amount to the Registered Definitive Covered Bond (or the relevant part of the Registered Definitive Covered Bond) transferred.

In the case of the transfer of only part of a Registered Definitive Covered Bond, a new Registered Definitive Covered Bond in respect of the balance of the Registered Definitive Covered Bond not transferred will (in addition to the new Registered Definitive Covered Bond in respect of the nominal amount transferred) be so authenticated and delivered or (at the risk of the transferor) sent by uninsured mail to the address specified by the transferor.

2.3. Registration of transfer upon partial redemption

In the event of a partial redemption of covered bonds under Condition 6 (*Redemption and Purchase*), the Bank will not be required to register the transfer of any Registered Covered Bond, or part of a Registered Covered Bond, called for partial redemption.

2.4. Costs of registration

Covered bondholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Bank, the Registrar or the Transfer Agent may require the payment of a sum sufficient to cover any stamp duty, Taxes or any other governmental charge that may be imposed in relation to the registration.

2.7. Definitions

In these Terms and Conditions, the following expression will have the following meanings:

U.S. Registered Covered Bond means a covered bond issued under a registration statement under the Securities Act.

3. Status of the Covered Bonds and the Covered Bond Guarantee

3.1. Status of the Covered Bonds

The covered bonds will constitute deposit liabilities of the Bank for purposes of the Bank Act and will rank *pari passu* with all deposit liabilities of the Bank without any preference among themselves and (save for any obligations required to be preferred by law) at least *pari passu* with all other present and future unsubordinated and unsecured obligations of the Bank from time to time outstanding, except in certain limited circumstances described in Conditions 9.1 (*Issuer Events of Default*) and 14 (*Meetings of covered bondholders, Modification, Waiver and Substitution*).

Table of Contents

The covered bonds will not be deposits insured under the *Canada Deposit Insurance Corporation Act* or under any other governmental insurance scheme of any country.

The covered bonds will constitute direct, unconditional, unsubordinated and unsecured obligations of the Bank, except in certain limited circumstances described in Conditions 9.1 (*Issuer Events of Default*) and 14 (*Meetings of covered bondholders, Modification, Waiver and Substitution*).

3.2. Status of the Covered Bond Guarantee

The payment of Guaranteed Amounts in respect of the covered bonds when the same will become Due for Payment has been unconditionally (save as set out below) and irrevocably guaranteed by the Guarantor in favor of the Bond Trustee for and on behalf of the covered bondholders pursuant to a guarantee (the **Covered Bond Guarantee**) in the Trust Deed. However, the Guarantor will have no obligation under the Covered Bond Guarantee to pay any Guaranteed Amounts when the same will become Due for Payment under the covered bonds or the Trust Deed until service of a Notice to Pay by the Bond Trustee on the Guarantor (which the Bond Trustee will be required to serve following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice by the Bond Trustee on the Bank) or, if earlier, the occurrence of a Guarantor Event of Default and service of a Guarantor Acceleration Notice by the Bond Trustee on the Bank and the Guarantor. The obligations of the Guarantor under the Covered Bond Guarantee are subject to the applicable Priorities of Payments, and subject as aforesaid, are unsubordinated obligations of the Guarantor, which are secured and subject to limitations on recourse as provided in the Security Agreement.

As security for the Guarantor's obligations under the Covered Bond Guarantee and the other Transaction Documents to which it is a party, the Guarantor has granted a security interest over all of its assets under the Security Agreement in favor of the Bond Trustee (for covered bondholders and on behalf of the other Secured Creditors).

4. Interest

4.1. Interest on Fixed Rate Covered Bonds

Each Fixed Rate Covered Bond bears interest on its Principal Amount Outstanding from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable, subject as provided in these Terms and Conditions, in arrears on the Interest Payment Date(s) in each year up to (and including) the Final Maturity Date.

If the covered bonds are in definitive form, except as provided in the applicable prospectus supplement, the amount of interest payable on each Interest Payment Date in respect of the Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable prospectus supplement, amount to the Broken Amount so specified.

Table of Contents

Except in the case of covered bonds in definitive form where a Fixed Coupon Amount or Broken Amount is specified in the applicable prospectus supplement, interest will be calculated in respect of any period by applying the Rate of Interest to (i) in the case of Fixed Rate Covered Bonds which are represented by a Global Covered Bond, the aggregate outstanding nominal amount of the Fixed Rate Covered Bonds represented by such Global Covered Bond, or (ii) in the case of Fixed Rate Covered Bonds in definitive form, the Calculation Amount; and in each case, multiplying such sum by a 30/360 day count basis or the applicable day count basis set forth in the applicable prospectus supplement, and rounding the resultant figure to the nearest sub unit of the relevant specified currency, half of any such sub unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Covered Bond in definitive form comprises more than one Calculation Amount, the amount of interest payable in respect of such Fixed Rate Covered Bond will be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

The applicable prospectus supplement may provide that if the payment of the Final Redemption Amount of a Series of Fixed Rate Covered Bonds on its Final Maturity Date is deferred until the applicable Extended Due for Payment Date in accordance with the Terms and Conditions, interest will accrue and be payable on the unpaid portion of the Final Redemption Amount up to the Extended Due for Payment Date at the Rate of Interest specified in the applicable prospectus supplement which may provide that such Series of Fixed Rate Covered Bonds will continue to bear interest at a Fixed Rate or at a Floating Rate despite the fact that interest accrued and was payable on such covered bonds prior to the Final Maturity Date at a Fixed Rate.

4.6. Interest on U.S. Registered Covered Bonds

Condition 4.6 will only apply to U.S. Registered Covered Bonds.

Each covered bond will bear interest from its date of issue at the rate per annum, in the case of a Fixed Rate Covered Bond, or pursuant to the interest rate formula, in the case of a Floating Rate Covered Bond, in each case as specified in the prospectus supplement, until the principal thereof is paid. Interest payments on covered bonds will be made in respect of Fixed Rate Covered Bonds and Floating Rate Covered Bonds in an amount equal to the interest accrued from and including the immediately preceding Interest Payment Date in respect of which interest has been paid or from and including the date of issue, if no interest has been paid, to but excluding the applicable Interest Payment Date or the Final Maturity Date, as the case may be (each an **Interest Period**).

Interest on Fixed Rate Covered Bonds and Floating Rate Covered Bonds will be payable in arrears on each Interest Payment Date and on the Final Maturity Date. The first payment of interest on any covered bonds originally issued between a Regular Record Date (as defined below) and the related Interest Payment Date will be made on the Interest Payment Date immediately following the next succeeding record date to the registered holder on the next succeeding record date. The **Regular Record Date** will be the fifteenth calendar day, whether or not a Business Day, immediately preceding the related Interest Payment Date. For the purpose of determining the holder at the close of business on a Regular Record Date when business is not being conducted, the close of business will mean 5:00 P.M., New York City time, on that day.

Table of Contents

4.7. Interest Rates Applicable to U.S. Registered Covered Bonds

Condition 4.7 will only apply to U.S. Registered Covered Bonds.

The applicable prospectus supplement will specify the Interest Payment Dates for a Fixed Rate Covered Bond as well as the Final Maturity Date. Interest on Fixed Rate Covered Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months or such other day count basis set forth in the prospectus supplement.

Fixed Rate Covered Bonds

If any Interest Payment Date, redemption date, repayment date or Final Maturity Date of a Fixed Rate Covered Bond falls on a day that is not a Business Day, the required payment of principal, premium, if any, and/or interest will be made on the next succeeding Business Day, and no additional interest will accrue in respect of the payment made on that next succeeding Business Day.

U.S. Registered Covered Bonds that are Floating Rate Covered Bonds

The following will only apply to Floating Rate Covered Bonds.

Interest Rate Basis. Floating Rate Covered Bonds will bear interest at rates based on one or more of the following interest rate bases:

commercial paper rate;

U.S. prime rate;

LIBOR;

EURIBOR;

treasury rate;

CMT rate;

CD rate;

CMS rate; and/or

federal funds rate.

The applicable prospectus supplement will specify the interest rate basis that applies to a specific Series or Tranche of Floating Rate Covered Bonds.

Table of Contents

Calculation of Interest. Calculations relating to Floating Rate Covered Bonds will be made by the Calculation Agent. The prospectus supplement for a particular Floating Rate Covered Bond will name the Calculation Agent for that covered bond as of its original issue date. A successor institution may be appointed to serve as Calculation Agent for such covered bonds from time to time after the original issue date of such covered bonds without the consent of covered bondholders or notification of the change.

For each Floating Rate Covered Bond, the Calculation Agent will determine, on the corresponding interest calculation date or on the interest determination date, as described below, the interest rate that takes effect on each interest reset date. In addition, the Calculation Agent will calculate the amount of interest that has accrued during each interest period that is, the period from and including the original issue date, or the last date to which interest has been paid or made available for payment, to but excluding the payment date. For each Interest Period, the Calculation Agent will calculate the amount of accrued interest by multiplying the face or other specified amount of the Floating Rate Covered Bond by an accrued interest factor for the Interest Period. This factor will equal the sum of the interest factors calculated for each day during the Interest Period. The interest factor for each day will be expressed as a decimal and will be calculated by dividing the interest rate, also expressed as a decimal, applicable to that day by 360 or by the actual number of days in the year, as specified in the applicable prospectus supplement.

Upon the request of the covered bondholder of any Floating Rate Covered Bond, the Calculation Agent will provide for that covered bond the interest rate then in effect and, if determined, the interest rate that will become effective on the next interest reset date. The Calculation Agent's determination of any interest rate, and its calculation of the amount of interest for any Interest Period, will be final and binding in the absence of manifest error.

All percentages resulting from any calculation relating to a covered bond will be rounded upward or downward, as appropriate, to the next higher or lower one hundred-thousandth of a percentage point, *e.g.*, 9.876541% (or 0.09876541) being rounded down to 9.87654% (or 0.0987654) and 9.876545% (or 0.09876545) being rounded up to 9.87655% (or 0.0987655). All amounts used in or resulting from any calculation relating to a Floating Rate Covered Bond will be rounded upward or downward, as appropriate, to the nearest cent, in the case of U.S. Dollars, or to the nearest corresponding hundredth of a unit, in the case of a currency other than U.S. Dollars, with one-half cent or one-half of a corresponding hundredth of a unit or more being rounded upward.

In determining the interest rate basis that applies to a Floating Rate Covered Bond during a particular Interest Period, the Calculation Agent may obtain rate quotes from various banks or dealers active in the relevant market, as discussed below. Those reference banks and dealers may include the Calculation Agent itself and its affiliates, as well as any agent participating in the distribution of the relevant floating rate covered bonds and its affiliates, and they may include affiliates of the Bank.

Initial Interest Rate. For any Floating Rate Covered Bond, the interest rate in effect from the original issue date to the first interest reset date will be the initial interest rate. The initial interest rate or the manner in which it is determined will be set forth in the applicable prospectus supplement.

Spread or Spread Multiplier. In some cases, the interest rate basis for a Floating Rate Covered Bond may be adjusted:

Table of Contents

by adding or subtracting a specified number of basis points, called the spread, with one basis point being 0.01 percent; or

by multiplying the interest rate basis by a specified percentage, called the spread multiplier.

For any Floating Rate Covered Bond, the applicable prospectus supplement will indicate whether a spread or spread multiplier will apply to the covered bond and, if so, the amount of the spread or spread multiplier.

Maximum and Minimum Rates. The actual interest rate, after being adjusted by the spread or spread multiplier, may also be subject to either or both of the following limits:

a maximum rate *i.e.*, a specified upper limit that the actual interest rate in effect at any time may not exceed; and/or

a minimum rate *i.e.*, a specified lower limit that the actual interest rate in effect at any time may not fall below.

For any Floating Rate Covered Bond, the applicable prospectus supplement will indicate whether a maximum rate and/or minimum rate will apply to the covered bond and, if so, what those rates are.

Whether or not a maximum rate applies, the interest rate on a floating rate covered bond will in no event be higher than the maximum rate permitted by New York law, as it may be modified by U.S. law of general application and the law of Ontario and the laws of Canada applicable therein.

Interest Reset Dates. The rate of interest on a Floating Rate Covered Bond will be reset, by the Calculation Agent described below, daily, weekly, monthly, quarterly, semi-annually or annually. The date on which the interest rate resets and the reset rate becomes effective is called the interest reset date. Except as otherwise specified in the applicable prospectus supplement, the interest reset date will be as follows:

for Floating Rate Covered Bonds that reset daily, each Business Day;

for Floating Rate Covered Bonds that reset weekly and are not treasury rate covered bonds, the Wednesday of each week;

for treasury rate covered bonds that reset weekly, the Tuesday of each week;

for Floating Rate Covered Bonds that reset monthly, the third Wednesday of each month;

for Floating Rate Covered Bonds that reset quarterly, the third Wednesday of each of four months of each year as indicated in the applicable prospectus supplement;

Table of Contents

for Floating Rate Covered Bonds that reset semi-annually, the third Wednesday of each of two months of each year as indicated in the applicable prospectus supplement; and

for Floating Rate Covered Bonds that reset annually, the third Wednesday of one month of each year as indicated in the applicable prospectus supplement.

For a Floating Rate Covered Bond, the interest rate in effect on any particular day will be the interest rate determined with respect to the latest interest reset date that occurs on or before that day. There are several exceptions, however, to the reset provisions described above.

If any interest reset date for a Floating Rate Covered Bond would otherwise be a day that is not a Business Day, the interest reset date will be postponed to the next day that is a Business Day. For a LIBOR or EURIBOR covered bond, however, if that Business Day is in the next succeeding calendar month, the interest reset date will be the immediately preceding Business Day.

Interest Determination Dates. The interest rate that takes effect on an interest reset date will be determined by the Calculation Agent by reference to a particular date called an interest determination date. Except as otherwise indicated in the applicable prospectus supplement:

for commercial paper rate, federal funds rate and U.S. prime rate covered bonds, the interest determination date relating to a particular interest reset date will be the Business Day preceding the interest reset date;

for LIBOR covered bonds, the interest determination date relating to a particular interest reset date will be the second London Business Day preceding the interest reset date, unless the index currency is pounds sterling, in which case the interest determination date will be the interest reset date. An interest determination date for a LIBOR covered bond is referred to as a LIBOR interest determination date;

for EURIBOR covered bonds, the interest determination date relating to a particular interest reset date will be the second Euro Business Day preceding the interest reset date. An interest determination date for a EURIBOR covered bond is referred to as a EURIBOR interest determination date;

for treasury rate covered bonds, the interest determination date relating to a particular interest reset date, which is referred to as a treasury interest determination date, will be the day of the week in which the interest reset date falls on which treasury bills *i.e.*, direct obligations of the U.S. government would normally be auctioned. Treasury bills are usually sold at auction on the Monday of each week, unless that day is not a Business Day, in which case the auction is usually held on the following Tuesday, except that the auction may be held on the preceding Friday. If as the result of a Monday not being a Business Day an auction is held on the preceding Friday, that Friday will be the treasury interest determination date relating to the interest reset date occurring in the next succeeding week; and

Table of Contents

for CD rate, CMT rate and CMS rate covered bonds, the interest determination date relating to a particular interest reset date will be the second Business Day preceding the interest reset date.

The interest determination date pertaining to a Floating Rate Covered Bond the interest rate of which is determined with reference to two or more interest rate bases will be the latest Business Day which is at least two Business Days before the related interest reset date for the applicable floating rate covered bond on which each interest rate basis is determinable.

Interest Calculation Dates. As described above, the interest rate that takes effect on a particular interest reset date will be determined by reference to the corresponding interest determination date. Except for LIBOR covered bonds and EURIBOR covered bonds, however, the determination of the rate will actually be made on a day no later than the corresponding interest calculation date. The interest calculation date will be the earlier of the following:

the tenth calendar day after the interest determination date or, if that tenth calendar day is not a Business Day, the next succeeding Business Day; and

the Business Day immediately preceding the Interest Payment Date or the maturity, whichever is the day on which the next payment of interest will be due.

The Calculation Agent need not wait until the relevant interest calculation date to determine the interest rate if the rate information it needs to make the determination is available from the relevant sources sooner.

Interest Payment Dates. The Interest Payment Dates for a Floating Rate Covered Bond will depend on when the interest rate is reset and, unless otherwise specified in the applicable prospectus supplement, will be as follows:

for Floating Rate Covered Bonds that reset daily, weekly or monthly, the third Wednesday of each month;

for Floating Rate Covered Bonds that reset quarterly, the third Wednesday of the four months of each year specified in the applicable prospectus supplement;

for Floating Rate Covered Bonds that reset semi-annually, the third Wednesday of the two months of each year specified in the applicable prospectus supplement; or

for Floating Rate Covered Bonds that reset annually, the third Wednesday of the month specified in the applicable prospectus supplement.

Notwithstanding the above, if a covered bond is originally issued after the Regular Record Date and before the date that would otherwise be the first Interest Payment Date, the first Interest Payment Date will be the date that would otherwise be the second Interest Payment Date.

Table of Contents

In addition, the following special provision will apply to a Floating Rate Covered Bond with regard to any Interest Payment Date other than one that falls on the maturity. If the Interest Payment Date would otherwise fall on a day that is not a Business Day, then the Interest Payment Date will be the next day that is a Business Day. However, if the floating rate covered bond is a LIBOR covered bond or a EURIBOR covered bond and the next Business Day falls in the next calendar month, then the Interest Payment Date will be advanced to the next preceding day that is a Business Day. If the Final Maturity Date of a Floating Rate Covered Bond falls on a day that is not a Business Day, the required payment of principal, premium, if any, and interest will be made on the next succeeding Business Day, and no additional interest will accrue in respect of the payment made on that next succeeding Business Day.

Commercial Paper Rate Covered Bonds

A commercial paper rate covered bond will bear interest at an interest rate equal to the commercial paper rate and adjusted by the spread or spread multiplier, if any, indicated in the applicable prospectus supplement.

The commercial paper rate will be the money market yield of the rate, for the relevant interest determination date, for commercial paper having the index maturity indicated in the applicable prospectus supplement, as published in H.15(519) under the heading Commercial Paper Nonfinancial. If the commercial paper rate cannot be determined as described above, the following procedures will apply.

If the rate described above does not appear in H.15(519) by 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from that source at that time, then the commercial paper rate will be the rate, for the relevant interest determination date, for commercial paper having the index maturity specified in the applicable prospectus supplement, as published in H.15 daily update or any other recognized electronic source used for displaying that rate, under the heading Commercial Paper Nonfinancial.

If the rate described above does not appear in H.15(519), H.15 daily update or another recognized electronic source by 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from one of those sources at that time, the commercial paper rate will be the money market yield of the arithmetic mean of the following offered rates for U.S. Dollar commercial paper that has the relevant index maturity and is placed for an industrial issuer whose bond rating is Aa , or the equivalent, from a nationally recognized rating agency: the rates offered as of 11:00 A.M., New York City time, on the relevant interest determination date, by three leading U.S. Dollar commercial paper dealers in New York City selected by the Calculation Agent.

If fewer than three dealers selected by the Calculation Agent are quoting as described above, the commercial paper rate for the new interest period will be the commercial paper rate in effect for the prior interest period. If the initial interest rate has been in effect for the prior interest period, however, it will remain in effect for the new interest period.

Table of Contents

U.S. Prime Rate Covered Bonds

A U.S. prime rate covered bond will bear interest at an interest rate equal to the U.S. prime rate and adjusted by the spread or spread multiplier, if any, indicated in the applicable prospectus supplement.

The U.S. prime rate will be the rate, for the relevant interest determination date, published in H.15(519) opposite the heading Bank Prime Loan. If the U.S. prime rate cannot be determined as described above, the following procedures will apply.

If the rate described above does not appear in H.15(519) by 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from that source at that time, then the U.S. prime rate will be the rate, for the relevant interest determination date, as published in H.15 daily update or another recognized electronic source used for the purpose of displaying that rate, under the heading Bank Prime Loan.

If the rate described above does not appear in H.15(519), H.15 daily update or another recognized electronic source by 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from one of those sources at that time, then the U.S. prime rate will be the arithmetic mean of the following rates as they appear on the Reuters screen US PRIME 1 page: the rate of interest publicly announced by each bank appearing on that page as that bank's prime rate or base lending rate, as of 11:00 A.M., New York City time, on the relevant interest determination date.

If fewer than four of these rates appear on the Reuters screen US PRIME 1 page, the U.S. prime rate will be the arithmetic mean of the prime rates or base lending rates, as of the close of business on the relevant interest determination date, of three major banks in New York City selected by the Calculation Agent. For this purpose, the Calculation Agent will use rates quoted on the basis of the actual number of days in the year divided by a 360-day year.

If fewer than three banks selected by the Calculation Agent are quoting as described above, the U.S. prime rate for the new interest period will be the U.S. prime rate in effect for the prior interest period. If the initial interest rate has been in effect for the prior interest period, however, it will remain in effect for the new interest period.

LIBOR Covered Bonds

A LIBOR covered bond will bear interest at an interest rate equal to LIBOR, which will be the London interbank offered rate for deposits in U.S. Dollars or any other index currency, as specified in the applicable prospectus supplement. In addition, when LIBOR is the interest rate basis the applicable LIBOR rate will be adjusted by the spread or spread multiplier, if any, indicated in the applicable prospectus supplement. LIBOR will be determined in the following manner:

LIBOR will be the offered rate appearing on the Reuters Page LIBOR01 as of 11:00 A.M., London time, on the relevant LIBOR interest determination date, for deposits of the relevant index currency having the relevant index maturity beginning on the relevant interest reset date. The applicable prospectus supplement will indicate the index currency, the index maturity and the reference page that apply to the LIBOR covered bond. If no reference page is mentioned in the prospectus supplement, Reuters Page LIBOR01 will apply to the LIBOR covered bond.

Table of Contents

If Reuters Page LIBOR01 applies and the rate described above does not appear on that page, then LIBOR will be determined on the basis of the rates, at approximately 11:00 A.M., London time, on the relevant LIBOR interest determination date, at which deposits of the following kind are offered to prime banks in the London interbank market by four major banks in that market selected by the Calculation Agent: deposits of the index currency having the relevant index maturity, beginning on the relevant interest reset date, and in a representative amount. The Calculation Agent will request the principal London office of each of these banks to provide a quotation of its rate. If at least two quotations are provided, LIBOR for the relevant LIBOR interest determination date will be the arithmetic mean of the quotations.

If fewer than two quotations are provided as described above, LIBOR for the relevant LIBOR interest determination date will be the arithmetic mean of the rates for loans of the following kind to leading European banks quoted, at approximately 11:00 A.M., in the applicable principal financial center, on that LIBOR interest determination date, by three major banks in that financial center selected by the Calculation Agent: loans of the index currency having the relevant index maturity, beginning on the relevant interest reset date and in a representative amount.

If fewer than three banks selected by the Calculation Agent are quoting as described above, LIBOR for the new interest period will be LIBOR in effect for the prior interest period. If the initial interest rate has been in effect for the prior interest period, however, it will remain in effect for the new interest period.

EURIBOR Covered Bonds

A EURIBOR covered bond will bear interest at an interest rate equal to the interest rate for deposits in euro, designated as EURIBOR and sponsored jointly by the European Banking Federation and ACI the Financial Market Association, or any company established by the joint sponsors for purposes of compiling and publishing that rate. In addition, when EURIBOR is the interest rate basis the EURIBOR base rate will be adjusted by the spread or spread multiplier, if any, specified in the applicable prospectus supplement. EURIBOR will be determined in the following manner:

EURIBOR will be the offered rate for deposits in euros having the index maturity specified in the applicable prospectus supplement, beginning on the second Euro Business Day after the relevant EURIBOR interest determination date, as that rate appears on Reuters page EURIBOR01 as of 11:00 A.M., Brussels time, on the relevant EURIBOR interest determination date.

Table of Contents

If the rate described above does not appear on Reuters page EURIBOR01, EURIBOR will be determined on the basis of the rates, at approximately 11:00 A.M., Brussels time, on the relevant EURIBOR interest determination date, at which deposits of the following kind are offered to prime banks in the euro-zone interbank market by the principal euro-zone office of each of four major banks in that market selected by the Calculation Agent: euro deposits having the relevant index maturity, beginning on the relevant interest reset date, and in a representative amount. The Calculation Agent will request the principal euro-zone office of each of these banks to provide a quotation of its rate. If at least two quotations are provided, EURIBOR for the relevant EURIBOR interest determination date will be the arithmetic mean of the quotations.

If fewer than two quotations are provided as described above, EURIBOR for the relevant EURIBOR interest determination date will be the arithmetic mean of the rates for loans of the following kind to leading euro-zone banks quoted, at approximately 11:00 A.M., Brussels time on that EURIBOR interest determination date, by three major banks in the euro-zone selected by the Calculation Agent: loans of euros having the relevant index maturity, beginning on the relevant interest reset date, and in a representative amount.

If fewer than three banks selected by the Calculation Agent are quoting as described above, EURIBOR for the new interest period will be EURIBOR in effect for the prior interest period. If the initial interest rate has been in effect for the prior interest period, however, it will remain in effect for the new interest period.

Treasury Rate Covered Bonds

A treasury rate covered bond will bear interest at an interest rate equal to the treasury rate and adjusted by the spread or spread multiplier, if any, indicated in the applicable prospectus supplement.

The treasury rate will be the rate for the auction, on the relevant treasury interest determination date, of treasury bills having the index maturity specified in the applicable prospectus supplement, as that rate appears on Reuters page USAUCTION 10/11. If the treasury rate cannot be determined in this manner, the following procedures will apply.

If the rate described above does not appear on either page by 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from that source at that time, the treasury rate will be the bond equivalent yield of the rate, for the relevant interest determination date, for the type of treasury bill described above, as published in H.15 daily update, or another recognized electronic source used for displaying that rate, under the heading U.S. Government Securities/Treasury Bills/Auction High.

If the rate described in the prior paragraph does not appear in H.15 daily update or another recognized electronic source by 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from one of those sources at that time, the treasury rate will be the bond equivalent yield of the auction rate, for the relevant treasury interest determination date and for treasury bills of the kind described above, as announced by the U.S. Department of the Treasury.

Table of Contents

If the auction rate described in the prior paragraph is not so announced by 3:00 P.M., New York City time, on the relevant interest calculation date, or if no such auction is held for the relevant week, then the treasury rate will be the bond equivalent yield of the rate, for the relevant treasury interest determination date and for treasury bills having a remaining maturity closest to the specified index maturity, as published in H.15(519) under the heading U.S. Government Securities/Treasury Bills/Secondary Market.

If the rate described in the prior paragraph does not appear in H.15(519) by 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from one of those sources at that time, then the treasury rate will be the rate, for the relevant treasury interest determination date and for treasury bills having a remaining maturity closest to the specified index maturity, as published in H.15 daily update, or another recognized electronic source used for displaying that rate, under the heading U.S. Government Securities/Treasury Bills/Secondary Market.

If the rate described in the prior paragraph does not appear in H.15 daily update or another recognized electronic source by 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from one of those sources at that time, the treasury rate will be the bond equivalent yield of the arithmetic mean of the following secondary market bid rates for the issue of treasury bills with a remaining maturity closest to the specified index maturity: the rates bid as of approximately 3:30 P.M., New York City time, on the relevant treasury interest determination date, by three primary U.S. government securities dealers in New York City selected by the Calculation Agent.

If fewer than three dealers selected by the Calculation Agent are quoting as described in the prior paragraph, the treasury rate in effect for the new interest period will be the treasury rate in effect for the prior interest period. If the initial interest rate has been in effect for the prior interest period, however, it will remain in effect for the new interest period.

CD Rate Covered Bonds

A CD rate covered bond will bear interest at an interest rate equal to the CD rate and adjusted by the spread or spread multiplier, if any, indicated in the applicable prospectus supplement.

The CD rate will be the rate, on the relevant interest determination date, for negotiable U.S. Dollar certificates of deposit having the index maturity specified in the applicable prospectus supplement, as published in H.15(519) under the heading CDs (Secondary Market). If the CD rate cannot be determined in this manner, the following procedures will apply.

If the rate described above does not appear in H.15(519) by 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from that source at that time, then the CD rate will be the rate, for the relevant interest determination date, described above as published in H.15 daily update, or another recognized electronic source used for displaying that rate, under the heading CDs (Secondary Market).

Table of Contents

If the rate described above does not appear in H.15(519), H.15 daily update or another recognized electronic source by 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from one of those sources at that time, the CD rate will be the arithmetic mean of the following secondary market offered rates for negotiable U.S. Dollar certificates of deposit of major U.S. money market banks with a remaining maturity closest to the specified index maturity, and in a representative amount: the rates offered as of 10:00 A.M., New York City time, on the relevant interest determination date, by three leading non-bank dealers in negotiable U.S. Dollar certificates of deposit in New York City, as selected by the Calculation Agent.

If fewer than three dealers selected by the Calculation Agent are quoting as described above, the CD rate in effect for the new interest period will be the CD rate in effect for the prior interest period. If the initial interest rate has been in effect for the prior interest period, however, it will remain in effect for the new interest period.

CMT Rate Covered Bonds

A CMT rate covered bond will bear interest at an interest rate equal to the CMT rate and adjusted by the spread or spread multiplier, if any, indicated in the applicable prospectus supplement.

The CMT rate will be the following rate displayed on the designated CMT Reuters page under the heading . . . Treasury Constant Maturities . . . Federal Reserve Board Release H.15 Mondays Approximately 3:45 P.M. , under the column for the designated CMT index maturity:

if the designated CMT Reuters page is Reuters page FRBCMT, the rate for the relevant interest determination date; or

if the designated CMT Reuters page is Reuters page FEDCMT, the weekly or monthly average, as specified in the applicable prospectus supplement, for the week that ends immediately before the week in which the relevant interest determination date falls, or for the month that ends immediately before the month in which the relevant interest determination date falls, as applicable.

If the CMT rate cannot be determined in this manner, the following procedures will apply.

If the applicable rate described above is not displayed on the relevant designated CMT Reuters page at 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from that source at that time, then the CMT rate will be the applicable treasury constant maturity rate described above *i.e.*, for the designated CMT index maturity and for either the relevant interest determination date or the weekly or monthly average, as applicable as published in H.15(519).

Table of Contents

If the applicable rate described above does not appear in H.15(519) by 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from one of those sources at that time, then the CMT rate will be the treasury constant maturity rate, or other U.S. treasury rate, for the designated CMT index maturity and with reference to the relevant interest determination date, that:

is published by the Board of Governors of the Federal Reserve System, or the U.S. Department of the Treasury; or

as is otherwise announced by the Federal Reserve Bank of New York for the week or month, as applicable, ended immediately preceding the week or month, as applicable, in which such CMT rate interest determination date falls; and

in either case, is determined by the Calculation Agent to be comparable to the applicable rate formerly displayed on the designated CMT Reuters page and published in H.15(519).

If the rate described in the prior paragraph does not appear by 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from one of those sources at that time, then the CMT rate will be the yield to maturity of the arithmetic mean of the following secondary market bid rates for the most recently issued treasury covered bonds having an original maturity equal to the designated CMT index maturity and a remaining term to maturity of not less than the designated CMT index maturity minus one year, and in a representative amount: the bid rates, as of approximately 3:30 P.M., New York City time, on the relevant interest determination date, of three primary U.S. government securities dealers in New York City selected by the Calculation Agent. In selecting these bid rates, the Calculation Agent will request quotations from five of these primary dealers and will disregard the highest quotation or, if there is equality, one of the highest and the lowest quotation or, if there is equality, one of the lowest. Treasury covered bonds are direct, non-callable, fixed rate obligations of the U.S. government.

If the Calculation Agent is unable to obtain three quotations of the kind described in the prior paragraph, the CMT rate will be the yield to maturity of the arithmetic mean of the following secondary market bid rates for treasury covered bonds with an original maturity longer than the designated CMT index maturity, with a remaining term to maturity closest to the designated CMT index maturity and in a representative amount: the bid rates, as of approximately 3:30 P.M., New York City time, on the relevant interest determination date, of three primary U.S. government securities dealers in New York City selected by the Calculation Agent. In selecting these bid rates, the Calculation Agent will request quotations from five of these primary dealers and will disregard the highest quotation (or, if there is equality, one of the highest) and the lowest quotation (or, if there is equality, one of the lowest). If two treasury covered bonds with an original maturity longer than the designated CMT index maturity have remaining terms to maturity that are equally close to the designated CMT index maturity, the Calculation Agent will obtain quotations for the treasury covered bond with the shorter remaining term to maturity.

Table of Contents

If fewer than five but more than two of these primary dealers are quoting as described in the prior paragraph, then the CMT rate for the relevant interest determination date will be based on the arithmetic mean of the bid rates so obtained, and neither the highest nor the lowest of those quotations will be disregarded.

If two or fewer primary dealers selected by the Calculation Agent are quoting as described above, the CMT rate in effect for the new interest period will be the CMT rate in effect for the prior interest period. If the initial interest rate has been in effect for the prior interest period, however, it will remain in effect for the new interest period.

CMS Rate Covered Bonds

A CMS rate covered bond will bear interest at an interest rate equal to the CMS rate and adjusted by the spread or spread multiplier, if any, indicated in the applicable prospectus supplement.

The CMS rate will be the rate for U.S. Dollar swaps with a maturity for a specified number of years, expressed as a percentage in the applicable prospectus supplement, which appears on the Reuters page ISDAFIX1 as of 11:00 a.m., New York City time, on the interest rate determination date.

If the CMS rate cannot be determined as described above, the following procedures will be used:

If the applicable rate described above is not displayed on the relevant designated CMS Reuters page by 11:00 a.m., New York City time, on the interest rate determination date, then the CMS rate will be a percentage determined on the basis of the mid-market, semi-annual swap rate quotations provided by five leading swap dealers in the New York City interbank market at approximately 11:00 a.m., New York City time, on the interest rate determination date. For this purpose, the semi-annual swap rate means the mean of the bid and offered rates for the semi-annual fixed leg, calculated on a 30/360 day count basis, of a fixed-for-floating U.S. Dollar interest rate swap transaction with a term equal to the maturity designated in the applicable prospectus supplement commencing on that interest rate determination date with an acknowledged dealer of good credit in the swap market, where the floating leg, calculated on an Actual/360 day count basis, is equivalent to LIBOR Reuters with a maturity of three months. The Calculation Agent will select the five swap dealers after consultation with us and will request the principal New York City office of each of those dealers to provide a quotation of its rate. If at least three quotations are provided, the CMS rate for that interest rate determination date will be the arithmetic mean of the quotations, eliminating the highest and lowest quotations or, in the event of equality, one of the highest and one of the lowest quotations.

Table of Contents

If fewer than three leading swap dealers selected by the Calculation Agent are quoting as described above, the CMS rate will remain the CMS rate in effect on that interest rate determination date or, if that interest rate determination date is the first reference rate determination date, the initial interest rate.

Federal Funds Rate Covered Bonds

A federal funds rate covered bond will bear interest at an interest rate equal to the federal funds rate and adjusted by the spread or spread multiplier, if any, indicated in the applicable prospectus supplement.

The federal funds rate will be the rate for U.S. Dollar federal funds as of the relevant interest determination date, as published in H.15(519) under the heading Federal Funds (Effective), as that rate is displayed on Reuters page FEDFUNDS1. If the federal funds rate cannot be determined in this manner, the following procedures will apply.

If the rate described above is not displayed on Reuters page FEDFUNDS1 by 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from that source at that time, then the federal funds rate, as of the relevant interest determination date, will be the rate described above as published in H.15 daily update, or another recognized electronic source used for displaying that rate, under the heading Federal Funds (Effective).

If the rate described above is not displayed on Reuters page FEDFUNDS1 and does not appear in H.15(519), H.15 daily update or another recognized electronic source by 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from one of those sources at that time, the federal funds rate will be the arithmetic mean of the rates for the last transaction in overnight, U.S. Dollar federal funds arranged, before 9:00 A.M., New York City time, on the Business Day following the relevant interest determination date, by three leading brokers of U.S. Dollar federal funds transactions in New York City selected by the Calculation Agent.

If fewer than three brokers selected by the Calculation Agent are quoting as described above, the federal funds rate in effect for the new interest period will be the federal funds rate in effect for the prior interest period. If the initial interest rate has been in effect for the prior interest period, however, it will remain in effect for the new interest period.

Special Rate Calculation Terms

For the purposes of this Condition 4.7:

The term **bond equivalent yield** means a yield expressed as a percentage and calculated in accordance with the following formula:

$$\text{bond equivalent yield} = \frac{D \times N}{360 \times (D \times M)} \times 100$$

Table of Contents

where,

D means the annual rate for treasury bills quoted on a bank discount basis and expressed as a decimal;

N means 365 or 366, as the case may be; and

M means the actual number of days in the applicable interest reset period.

The term **Business Day** means, for any covered bond, a day that meets all the following applicable requirements:

- (a) for all covered bonds, is a Monday, Tuesday, Wednesday, Thursday or Friday that is neither a legal holiday nor a day on which banking institutions are authorized or required by law to close in New York City or Toronto, and, in the case of a Floating Rate covered bond, London;
- (b) if the covered bond has a specified currency other than U.S. Dollars or euros, is also a day on which banking institutions are not authorized or obligated by law, regulation or executive order to close in the applicable principal financial center; and
- (c) if the covered bond is a EURIBOR covered bond or has a specified currency of euros, or is a LIBOR covered bond for which the index currency is euros, is also a Euro Business Day.

The term **designated CMT index maturity** means the index maturity for a CMT rate covered bond and will be the original period to maturity of a U.S. treasury security either 1, 2, 3, 5, 7, 10, 20 or 30 years specified in the applicable prospectus supplement.

The term **designated CMT Reuters page** means the Reuters page that displays treasury constant maturities as reported in H.15(519). If no Reuters page is so specified, then the applicable page will be Reuters page FEDCMT. If Reuters page FEDCMT applies but the applicable prospectus supplement does not specify whether the weekly or monthly average applies, the weekly average will apply.

The term **Euro Business Day** means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System, or any successor system, is open for business.

The term **euro-zone** means, at any time, the region comprised of the member states of the European Economic and Monetary Union that, as of that time, have adopted a single currency in accordance with the Treaty on European Union of February 1992.

H.15(519) means the weekly statistical release entitled Statistical Release H.15(519) , or any successor publication, published by the Board of Governors of the Federal Reserve System.

Table of Contents

H.15 daily update means the daily update of H.15(519) available through the worldwide website of the Board of Governors of the Federal Reserve System, at <http://www.federalreserve.gov/releases/h15/update>, or any successor site or publication.

The term **index currency** means, with respect to a LIBOR covered bond, the currency specified as such in the applicable prospectus supplement. The index currency may be U.S. Dollars or any other currency, and will be U.S. Dollars unless another currency is specified in the prospectus supplement.

The term **index maturity** means, with respect to a floating rate covered bond, the period to maturity of the instrument or obligation on which the interest rate formula is based, as specified in the applicable prospectus supplement.

Interest Period has the meaning given to such term in Condition 4.6 (*Interest on U.S. Registered Covered Bonds*).

London business day means any day on which dealings in the relevant index currency are transacted in the London interbank market.

The term **money market yield** means a yield expressed as a percentage and calculated in accordance with the following formula:

$$\text{money market yield} = \frac{D \times 360}{360 - (D \times M)} \times 100$$

where,

D means the annual rate for commercial paper quoted on a bank discount basis and expressed as a decimal; and

M means the actual number of days in the relevant interest reset period.

The term **principal financial center** means the capital city of the country to which an index currency relates (or the capital city of the country issuing the specified currency, as applicable), except that with respect to U.S. Dollars, Australian dollars, Canadian Dollars, South African rands and Swiss francs, the principal financial center means The City of New York, Sydney, Toronto, Johannesburg and Zurich, respectively, and with respect to euros the principal financial center means London.

The term **representative amount** means an amount that, in the Calculation Agent's judgment, is representative of a single transaction in the relevant market at the relevant time.

Reuters Page LIBOR01 means the display designated as LIBOR01 on Reuters 3000 Xtra (or any successor service) (or such other page as may replace Page LIBOR01 on Reuters 3000 Xtra or any successor service).

Reuters screen US PRIME 1 page means the display on the US PRIME 1 page on the Reuters Monitor Money Rates Service, or any successor service, or any replacement page or pages on that service, for the purpose of displaying prime rates or base lending rates of major U.S. banks.

Table of Contents

Reuters page means the display on Reuters 3000 Xtra, or any successor service or any replacement page or pages on that service.

If, when using the terms designated CMT Reuters page, H.15(519), H.15 daily update, Reuters screen US PRIME 1 page, Reuters Page LIBOR01 or Reuters page, a particular heading or headings is referenced on any of those pages, those references include any successor or replacement heading or headings as determined by the Calculation Agent.

5. Payments

5.1. Method of payment

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment but without prejudice to the provisions of Condition 7 (*Taxation*).

5.4. Payments in respect of Registered Covered Bonds

Payments of principal in respect of each Registered Covered Bond (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Covered Bond at the specified office of the Registrar or any of the Paying Agents. Such payments will be made in accordance with Condition 5.1 (*Method of Payment*) by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Covered Bond appearing in the register of holders of the Registered Covered Bonds maintained by the Registrar (the **Register**) at the close of business on the tenth business day (**business day** being for the purposes of this Condition 5.4 a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date (the **Record Date**). Notwithstanding the previous sentence, if (i) a holder does not have a Designated Account, or (ii) the principal amount of the covered bonds held by a holder is less than U.S.\$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a check drawn on a Designated Bank (as defined below). For these purposes,

Designated Account means the account (which, in the case of a payment in Yen to a non resident of Japan, will be a non resident account) maintained by a holder with a Designated Bank and identified as such in the Register and **Designated Bank** means a bank in the City of New York.

Payments of interest in respect of each Registered Covered Bond (whether or not in global form) will be made by a check in the specified currency drawn on a Designated Bank and mailed by uninsured mail on the business day immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Registered Covered Bond appearing in the Register at the close of business on the Record Date at the holder's address shown in the Register on the Record Date and at the holder's risk. Upon application of the holder to the specified office of the Registrar not less than three business days before the due date for any payment of interest in respect of a Registered Covered Bond, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer will be deemed to relate to all future payments of interest (other than interest due on redemption) in respect of the Registered Covered Bonds which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Covered Bond on redemption will be made in the same manner as payment of the principal in respect of such Registered Covered Bond.

Table of Contents

Holders of Registered Covered Bonds will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Covered Bond as a result of a check posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses will be charged to such holders by the Registrar or any of the Paying Agents in respect of any payments of principal or interest in respect of the Registered Covered Bonds.

None of the Bank, the Guarantor, the Bond Trustee or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

5.5. General provisions applicable to payments

The holder of a Global Covered Bond (or, as provided in the Trust Deed, the Bond Trustee) will be the only Person entitled to receive payments in respect of covered bonds represented by such Global Covered Bond and the obligations of the Bank or, as the case may be, the Guarantor under the Covered Bond Guarantee will be discharged by payment to, or to the order of, the holder of such Global Covered Bond (or the Bond Trustee, as the case may be) in respect of each amount so paid. Each of the Persons shown in the records of DTC as the beneficial holder of a particular nominal amount of covered bonds represented by such Global Covered Bond must look solely to DTC for his share of each payment so made by the Bank or the Guarantor under the Covered Bond Guarantee to, or to the order of, the holder of such Global Covered Bond (or the Bond Trustee, as the case may be). No Person other than the holder of the relevant Global Covered Bond (or, as provided in the Trust Deed, the Bond Trustee) will have any claim against the Bank or the Guarantor under the Covered Bond Guarantee in respect of any payments due on that Global Covered Bond.

5.6. Payment Day

If the date for payment of any amount in respect of any covered bond is not a Payment Day (as defined below), the holder thereof will not be entitled to payment of the relevant amount due until the next following Payment Day and will not be entitled to any interest or other sum in respect of any such delay. In this Condition (unless otherwise specified in the applicable prospectus supplement), **Payment Day** means any day which (subject to Condition 8 (*Prescription*)) is a day on which commercial banks and foreign exchange markets in the City of New York settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits).

5.7. Interpretation of principal and interest

Any reference in these Terms and Conditions to principal in respect of the covered bonds will be deemed to include, as applicable:

Table of Contents

- (a) any additional amounts which may be payable with respect to principal under Condition 7 (*Taxation*) or under any undertakings or covenants given in addition thereto, or in substitution therefor, pursuant to the Trust Deed;
- (b) the Final Redemption Amount of the covered bonds;
- (c) the Early Redemption Amount of the covered bonds, but excluding any amount of interest referred to therein;
- (d) the Optional Redemption Amount(s) (if any) of the covered bonds;
- (e) any premium and any other amounts (other than interest) which may be payable under or in respect of the covered bonds; and
- (f) any Excess Proceeds attributable to principal which may be deposited by the Bond Trustee into the GDA Account in respect of the covered bonds, and following a Guarantor Event of Default and service of a Guarantor Acceleration Notice deposited or paid in such other manner as the Bond Trustee may direct.

Any reference in these Terms and Conditions to interest in respect of the covered bonds will be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 7 (*Taxation*) or under any undertakings given in addition thereto, or in substitution therefor, pursuant to the Trust Deed.

6. Redemption and Purchase

6.1. Final redemption

Unless previously redeemed or purchased and cancelled as specified below, each covered bond will be redeemed by the Bank at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable prospectus supplement in the relevant specified currency on the Final Maturity Date.

Without prejudice to Condition 9 (*Events of Default, Acceleration and Enforcement*), if an Extended Due for Payment Date is specified in the applicable prospectus supplement for a Series of covered bonds and the Bank has failed to pay the Final Redemption Amount on the Final Maturity Date specified in the prospectus supplement (in each case after the expiry of the grace period set out in Condition 9.1(a) (*Issuer Events of Default*)) and following service of a Notice to Pay on the Guarantor by no later than the date falling one Business Day prior to the Extension Determination Date, the Guarantor has insufficient funds available under the Guarantee Priorities of Payments to pay the Guaranteed Amounts corresponding to the Final Redemption Amount in full in respect of the relevant Series of covered bonds on the date falling on the earlier of (a) the date which falls two Business Days after service of a Notice to Pay on the Guarantor or, if later, the Final Maturity Date (in each case after the expiry of the grace period set out in Condition 9.2(a) (*Guarantor Events of Default*)), and (b) the Extension Determination Date, under the Covered Bond Guarantee, then (subject as provided below) payment of the unpaid portion of the Final Redemption Amount by the Guarantor under the Covered Bond Guarantee will be deferred until the Extended Due for Payment Date, *provided* that any amount representing the Final Redemption Amount due and remaining unpaid on the earlier of (a) and (b) above will be paid by the Guarantor to the extent it has sufficient funds available under the Guarantee Priorities of Payments on any Interest Payment Date thereafter up to (and including) the relevant Extended Due for Payment Date.

Table of Contents

The Bank will confirm to the Principal Paying Agent as soon as reasonably practicable and in any event at least four Business Days prior to the Final Maturity Date of a Series of covered bonds whether (a) payment will be made in full of the Final Redemption Amount in respect of a Series of covered bonds on that Final Maturity Date or (b) payment will not be made in full of the Final Redemption Amount in respect of a Series of covered bonds on that Final Maturity Date. Any failure by the Bank to notify the Principal Paying Agent will not affect the validity or effectiveness of the extension.

The Guarantor will notify the relevant covered bondholders (in accordance with Condition 13 (*Notices*)), the Rating Agencies, the Bond Trustee, the Principal Paying Agent and (in the case of Registered Covered Bonds) the Registrar as soon as reasonably practicable and in any event at least one Business Day prior to the date specified in (a) or (b) of the second preceding paragraph (as appropriate) of any inability of the Guarantor to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of a Series of covered bonds pursuant to the Covered Bond Guarantee. Any failure by the Guarantor to notify such parties will not affect the validity or effectiveness of the extension nor will any rights accrue to any of them by virtue thereof.

In the circumstances outlined above, the Guarantor will on the earlier of (a) the date falling two Business Days after service of a Notice to Pay or, if later, the Final Maturity Date (in each case after the expiry of the grace period set out in Condition 9.2(a) (*Guarantor Events of Default*)), and (b) the Extension Determination Date, under the Covered Bond Guarantee, apply the funds (if any) available (after paying or providing for payment of higher ranking or *pari passu* amounts in accordance with the Guarantee Priorities of Payments) *pro rata* in part payment of an amount equal to the Final Redemption Amount of each covered bond of the relevant Series of covered bonds and will pay Guaranteed Amounts constituting the corresponding part of Scheduled Interest in respect of each such covered bond on such date. The obligation of the Guarantor under the Covered Bond Guarantee to pay any amounts in respect of the balance of the Final Redemption Amount not so paid will be deferred as described above. Such failure to pay by the Guarantor will not constitute a Guarantor Event of Default.

Any discharge of the obligations of the Bank as a result of the payment of Excess Proceeds to the Bond Trustee will be disregarded for the purposes of determining the liabilities of the Guarantor under the Covered Bond Guarantee in connection with this Condition 6.1 (*Final redemption*).

6.2. Redemption for taxation reasons

The covered bonds may be redeemed at the option of the Bank in whole, but not in part, at any time (if the relevant covered bond is not a Floating Rate Covered Bond) or on any Interest Payment Date (if the relevant covered bond is a Floating Rate Covered Bond), on giving not less than 30 nor more than 60 days notice to the Bond Trustee and, in accordance with Condition 13 (*Notices*), the covered bondholders (which notice will be irrevocable), if the Bank satisfies the Bond Trustee immediately before the giving of such notice that on the occasion of the next date for payment of interest on the relevant covered bonds, that the Bank is or would be required to pay additional amounts as provided or referred to in Condition 7 (*Taxation*). Covered bonds redeemed pursuant to this Condition 6.2 will be redeemed at their Early Redemption Amount referred to in Condition 6.7 (*Early redemption amounts*) together (if appropriate) with interest accrued to (but excluding) the date of redemption.

Table of Contents**6.3. Redemption at the option of the Bank (Issuer Call)**

If an Issuer Call is specified in the applicable prospectus supplement, the Bank may, having given not less than 15 nor more than 30 days notice or such other period of notice as may be specified in the applicable prospectus supplement to the Bond Trustee, the Principal Paying Agent, the Registrar (in the case of the redemption of Registered Covered Bonds) and, in accordance with Condition 13 (*Notices*), the covered bondholders (which notice will be irrevocable) redeem all or only some of the covered bonds then outstanding on any Optional Redemption Date(s) and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable prospectus supplement together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date(s). The Bank will be bound to redeem the covered bonds on the date specified in such notice. In the event of a redemption of only some of the covered bonds, such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount (if any) as specified in the applicable prospectus supplement. In the case of a partial redemption of covered bonds, the covered bonds to be redeemed (the **Redeemed Covered Bonds**) will be selected individually by lot, in the case of Redeemed Covered Bonds represented by Definitive Covered Bonds, and in accordance with the rules of DTC, in the case of Redeemed Covered Bonds represented by a Global Covered Bond, in each case, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Covered Bonds represented by Definitive Covered Bonds, a list of the serial numbers of such Redeemed Covered Bonds will be published in accordance with Condition 13 (*Notices*) not less than 15 days (or such shorter period as may be specified in the applicable prospectus supplement) prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Covered Bonds represented by Definitive Covered Bonds or represented by Global Covered Bonds will, in each case, bear the same proportion to the aggregate nominal amount of all Redeemed Covered Bonds as the aggregate nominal amount of Definitive Covered Bonds or Global Covered Bonds outstanding bears, in each case, to the aggregate nominal amount of the covered bonds outstanding on the Selection Date, *provided* that such nominal amounts will, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination. No exchange of the relevant Global Covered Bond will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 6.3 and notice to that effect will be given by the Bank to the covered bondholders in accordance with Condition 13 (*Notices*) at least five days (or such shorter period as is specified in the applicable prospectus supplement) prior to the Selection Date.

6.4. Redemption at the option of the covered bondholders (Investor Put)

If an Investor Put is specified in the prospectus supplement for a covered bond, then if and to the extent specified in the applicable prospectus supplement and provided that an Issuer Event of Default has not occurred and is continuing, upon the covered bondholder giving to the Bank, in accordance with Condition 13 (*Notices*), not less than 30 nor more than 60 days notice (which notice will be irrevocable), the Bank will, upon the expiry of such notice *provided* that the Cash Manager has notified the Bond Trustee in writing that there will be sufficient funds available to pay any termination payment due to the Covered Bond Swap Provider, redeem subject to, and in accordance with, the terms specified in the applicable prospectus supplement in whole (but not in part) such covered bond on the Optional Redemption Date and at the relevant Optional Redemption Amount as specified in, or determined in the manner specified in, the applicable prospectus supplement, together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date.

Table of Contents

If the covered bond is in definitive form, to exercise the right to require redemption of such covered bond, the covered bondholder must deliver such covered bond, on any Business Day falling within the above mentioned notice period at the specified office of any Paying Agent, accompanied by a duly signed and completed notice of exercise of the Investor Put in the form (for the time being currently) obtainable from any specified office of any Paying Agent and in which the holder must specify a bank account (or, if payment is by check, an address) to which payment is to be made under this Condition 6.4.

It may be that before an Investor Put can be exercised, certain conditions and/or circumstances will need to be satisfied. Where relevant, the provisions will be set out in the applicable prospectus supplement.

6.5. Redemption due to illegality or invalidity

- (a) The covered bonds of all Series may be redeemed at the option of the Bank in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days notice to the Bond Trustee, the Principal Paying Agent, the Registrar and, in accordance with Condition 13 (*Notices*), all covered bondholders (which notice will be irrevocable), if the Bank satisfies the Bond Trustee immediately before the giving of such notice that it has, or will, before the next Interest Payment Date of any covered bond of any Series, become unlawful for the Bank to make, fund or allow to remain outstanding any Guarantee Loan made by it to the Guarantor under the Intercompany Loan Agreement, as a result of any change in, or amendment to, the applicable laws or regulations or any change in the application or official interpretation of such laws or regulations, which change or amendment has become or will become effective before the next such Interest Payment Date.
- (b) Covered bonds redeemed pursuant to Condition 6.5(a) will be redeemed at their Early Redemption Amount referred to in Condition 6.7 (*Early Redemption Amounts*) together (if appropriate) with interest accrued to (but excluding) the date of redemption.

6.6. General

Prior to the publication of any notice of redemption pursuant to Conditions 6.2 (*Redemption for taxation reasons*) or 6.5(a) (*Redemption due to illegality or invalidity*), the Bank will deliver to the Bond Trustee a certificate signed by two authorized signatories stating that the Bank is entitled or required to effect such redemption and setting forth a statement of facts showing that the conditions set out in Conditions 6.2 (*Redemption for taxation reasons*) or, as the case may be, 6.5(a) (*Redemption due to illegality or invalidity*) for such right or obligation (as applicable) of the Bank to arise have been satisfied and the Bond Trustee will be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions set out above, in which event it will be conclusive and binding on all covered bondholders.

Table of Contents

6.7. Early Redemption Amounts

For the purpose of Conditions 6.2 (*Redemption for taxation reasons*), 6.5(a) (*Redemption due to illegality or invalidity*) and 9 (*Events of Default, Acceleration and Enforcement*), each covered bond will be redeemed (unless otherwise stated in the applicable prospectus supplement) at its Early Redemption Amount calculated at the amount specified in, or determined in the manner specified in, the applicable prospectus supplement or, if no such amount or manner is so specified in the applicable prospectus supplement, at its Principal Amount Outstanding, together with interest accrued to (but excluding) the date fixed for redemption.

6.8. Purchases

The Bank or any of its Subsidiaries, or the Guarantor, may at any time purchase or otherwise acquire covered bonds at any price in the open market either by tender or private agreement or otherwise. If purchases are made by tender, tenders must be available to all covered bondholders alike. Such covered bonds may be held, reissued, resold or, at the option of the Bank or the relevant Subsidiary, surrendered to any Paying Agent and/or the Registrar for cancellation (except that any covered bonds purchased or otherwise acquired by the Guarantor must immediately be surrendered to any Paying Agent and/or the Registrar for cancellation).

6.9. Cancellation

All covered bonds which are redeemed will forthwith be cancelled. All covered bonds so cancelled and any covered bonds purchased and surrendered for cancellation pursuant to Condition 6.8 (*Purchases*) and cancelled will be forwarded to the Principal Paying Agent and cannot be reissued or resold.

6.10. Late Payment

If any amount payable in respect of any covered bond is improperly withheld or refused upon its becoming due and payable or is paid after its due date, the amount due and payable in respect of such covered bond (the **Late Payment**) will itself accrue interest (both before and after any judgment or other order of a court of competent jurisdiction) from (and including) the date on which such payment was improperly withheld or refused or, as the case may be, became due, to (but excluding) the Late Payment Date at the rate determined in accordance with Condition 4.1 (*Interest on Fixed Rate Covered Bonds*) and on the basis of the day count basis specified in the applicable prospectus supplement or, if none is specified, on a 30/360 basis.

For the purpose of this Condition 6.10, the **Late Payment Date** will mean the earlier of:

- (i) the date which the Bond Trustee determines to be the date on which, upon further presentation of the relevant covered bond, payment of the full amount (including interest as aforesaid) in the relevant currency in respect of such covered bond is to be made; and

Table of Contents

(ii) the seventh day after notice is given to the relevant covered bondholder (whether individually or in accordance with Condition 13 (*Notices*)) that the full amount (including interest as aforesaid) in the relevant currency in respect of such covered bond is available for payment,
provided that in the case of both (i) and (ii), upon further presentation thereof being duly made, such payment is made.

7. Taxation

All payments of principal and interest (if any) in respect of the covered by or on behalf of the Bank or the Guarantor under the Covered Bond Guarantee, as the case may be, will be made without withholding or deduction for, or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature unless such withholding or deduction of such taxes, duties, assessments or governmental charges is required by law or regulation or administrative practice of any jurisdiction.

In the event that any payments made by the Bank are or become subject to a withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of (i) the Government of Canada or any province, territory or political division thereof or any authority or agency therein or thereof having power to tax, or (ii) in the case of covered bonds issued by a branch of the Bank located outside of Canada, the country in which such branch is located or any political subdivision thereof or any authority or agency therein or thereof having power to tax, in respect of any payment of principal and interest on the covered bonds, the Bank will pay such additional amounts as will be necessary in order that the net amounts received by the covered bondholders after such withholding or deduction will equal the respective amounts of principal and interest, if any, which would otherwise have been receivable in respect of the covered bonds, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts will be payable with respect to any covered bond presented for payment:

- (a) to, or to a third party on behalf of, a covered bondholder who is liable to such taxes, duties, assessments or government charges in respect of such covered bond by reason of such covered bondholder having some connection with Canada or the jurisdiction imposing such tax otherwise than the mere holding of such covered bond;
- (b) presented for payment more than 30 days after the Relevant Date except to the extent that the holder thereof would have been entitled to such additional amount on presenting the same for payment on or before such thirtieth day;
- (c) where such withholding or deduction is imposed on a payment and is required to be made pursuant to European Council Directive 2003/48/EC or any other law implementing or complying with, or introduced in order to conform to, such Directive;
- (d) presented for payment by or on behalf of a covered bondholder who would have been able to avoid such withholding or deduction by presenting the relevant covered bond to another Paying Agent in a Member State;

Table of Contents

- (e) to, or to a third party on behalf of, a covered bondholder in respect of whom such tax, duty, assessment or governmental charge is required to be withheld or deducted by reason of such covered bondholder or other Person entitled to payments on the covered bond being a Person not dealing at arm's length (within the meaning of the ITA) with the Bank; or

- (f) to, or to a third party on behalf of, a covered bondholder who is liable for such taxes, duties, assessments or other charges by reason of such covered bondholder's failure to comply with any certification, identification, documentation or other reporting requirement concerning the nationality, residence, identity or connection with Canada of such covered bondholder, if (i) compliance is required by law as a precondition to, exemption from, or reduction in the rate of, the tax, assessment or other charge and (ii) the Bank has given such covered bondholder or, if such covered bondholder is not the beneficial owner of the covered bond in question, the beneficial owner of such covered bond at least 30 days' notice that such covered bondholder or beneficial owner will be required to provide such certification, identification, documentation or other requirement.

As used herein, the **Relevant Date** means the date on which payment in respect of the covered bond first becomes due and payable but, if the full amount of the funds payable on such date has not been received by the Principal Paying Agent or the Bond Trustee on or prior to such date, the Relevant Date will be the date on which such funds will have been so received and notice to that effect has been given to covered bondholders in accordance with Condition 13 (*Notices*).

If any payments made by the Guarantor under the Covered Bond Guarantee are or become subject to any withholding or deduction on account of any taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Canada or any political subdivision thereof or by any authority therein or thereof having power to tax or, in the case of covered bonds issued by a branch of the Bank located outside of Canada, the country in which such branch is located or any political subdivision thereof or any authority or agency therein or thereof having power to tax, the Guarantor will not be obliged to pay any additional amount as a consequence.

8. Prescription

The covered bonds will become void unless presented for payment within 10 years (in the case of principal) and five years (in the case of interest) in each case from the Relevant Date (as defined in Condition 7 (*Taxation*)) therefor, subject in each case to the provisions of Condition 5 (*Payments*).

The Bank will be discharged from its obligation to pay principal on a Registered Covered Bond to the extent that the relevant Registered Covered Bond certificate has not been surrendered to the Registrar by, or a check which has been duly dispatched in the specified currency remains uncashed at, the end of the period of 10 years from the Relevant Date for such payment.

The Bank will be discharged from its obligation to pay interest on a Registered Covered Bond to the extent that a check which has been duly dispatched in the specified currency remains uncashed at the end of the period of five years from the Relevant Date in respect of such payment.

Table of Contents
9. Events of Default, Acceleration and Enforcement**9.1. Issuer Events of Default**

The Bond Trustee at its discretion may, and if so requested in writing by the holders of at least 25 percent of the aggregate Principal Amount Outstanding of the covered bonds (which for this purpose or the purpose of any Extraordinary Resolution referred to in this Condition 9.1 means the covered bonds of a Series together with the covered bonds of any other Series constituted by the Trust Deed) then outstanding as if they were a single Series (with the nominal amount of covered bonds not denominated in Canadian Dollars converted into Canadian Dollars at the relevant Covered Bond Swap Rate) or if so directed by an Extraordinary Resolution of all the covered bondholders will (subject in each case to being indemnified and/or secured to its satisfaction), give notice (an **Issuer Acceleration Notice**) in writing to the Bank that as against the Bank (but not, for the avoidance of doubt, against the Guarantor under the Covered Bond Guarantee) each covered bond of each Series is, and each such covered bond will thereupon immediately become, due and repayable at its Early Redemption Amount together with (to the extent not included in the Early Redemption Amount) accrued interest as provided in the Trust Deed if any of the following events (each, an **Issuer Event of Default**) will occur and be continuing:

- (a) if default is made by the Bank for a period of 10 Business Days or more in the payment of any principal or 30 days or more in the payment of any interest due in respect of the covered bonds or any of them; or
- (b) if the Bank fails to perform or observe any of its other obligations under the covered bonds of any Series or the Trust Deed or any other Transaction Documents to which the Bank is a party (other than any dealership agreement, subscription agreement or underwriting agreement), but excluding any obligation of the Bank to comply with the Asset Coverage Test or any Loan Representations and Warranties given by the Bank thereunder or pursuant thereto, and (except where the Bond Trustee considers such failure to be incapable of remedy when no such continuation or notice as is hereinafter referred to will be required) such failure continues for the period of 30 days (or such longer period as the Bond Trustee may permit) after written notice thereof has been given by the Bond Trustee to the Bank requiring the same to be remedied; or
- (c) if an Insolvency Event has occurred with respect to the Bank; or
- (d) if an Asset Coverage Test Breach Notice has been served and not revoked (in accordance with the terms of the Transaction Documents) on or before the immediately succeeding Calculation Date following service of such Asset Coverage Test Breach Notice; or
- (e) if the Pre-Maturity Test in respect of any Series of Hard Bullet Covered Bonds is breached and the Guarantor has not cured the breach before the earlier to occur of: (i) 10 Canadian Business Days from the date that the Seller is notified of the breach of the Pre-Maturity Test and (ii) the Final Maturity date of that Series of Hard Bullet Covered Bonds; or

Table of Contents

(f) if a Ratings Trigger prescribed by the Conditions or the Transaction Documents (and not otherwise specifically provided for in this Condition 9.1) is breached and the prescribed remedial action is not taken within the specified time period, unless, in respect of any Ratings Trigger other than the Account Bank Required Ratings and the Standby Account Bank Threshold Ratings, such breach occurs at a time that the Guarantor is Independently Controlled and Governed, *provided* that the condition, event or act described in subparagraphs (b) or (c) above will only constitute an Issuer Event of Default if the Bond Trustee has certified in writing to the Bank and the Guarantor that such condition, event or act is, in its opinion, materially prejudicial to the interests of the covered bondholders of any Series.

Upon the covered bonds becoming immediately due and payable against the Bank pursuant to this Condition 9.1, the Bond Trustee will forthwith serve on the Guarantor a notice to pay (the **Notice to Pay**) pursuant to the Covered Bond Guarantee. If a Notice to Pay has been served, the Guarantor will be required to make payments of Guaranteed Amounts when the same will become Due for Payment in accordance with the terms of the Covered Bond Guarantee and the Trust Deed.

Following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice, the Bond Trustee may or will take such proceedings against the Bank in accordance with the first paragraph of Condition 9.3 (*Enforcement*).

The Trust Deed provides that all funds received by the Bond Trustee from the Bank or any liquidator or Person with similar powers appointed in relation to the Bank following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice (the **Excess Proceeds**), will be deposited by the Bond Trustee on behalf of the covered bondholders, as soon as practicable, into the GDA Account, and following a Guarantor Event of Default and service of a Guarantor Acceleration Notice, deposited or paid in such other manner as the Bond Trustee may direct, and in either case, will be distributed in accordance with the applicable Priorities of Payments. The Excess Proceeds will thereafter form part of the Portfolio and, if deposited into the GDA Account, will be used by the Guarantor in the same manner as all other funds from time to time standing to the credit of the GDA Account and distributed in accordance with the applicable Priorities of Payments.

By subscribing for or purchasing covered bonds, each covered bondholder will be deemed to have irrevocably directed the Bond Trustee to deposit the Excess Proceeds into the GDA Account in the manner described above, or following a Guarantor Event of Default and service of a Guarantor Acceleration Notice, deposit or pay the Excess Proceeds in such other manner as the Bond Trustee may direct, *provided* that in each case, distributions thereof will be made in accordance with the applicable Priorities of Payments.

Upon deposit of any Excess Proceeds into the GDA Account, the Guarantor will be deemed to have assumed all of the obligations of the Bank (other than the obligation to make any payments in respect of additional amounts which may become payable by the Bank pursuant to Condition 7 (*Taxation*)), and be solely liable as principal obligor, and not as a guarantor, in respect of the obligation to pay to the covered bondholders interest and principal in respect of covered bonds to which the Excess Proceeds relate (to the extent distributable to covered bondholders under the applicable Priorities of Payments), and the covered bondholders will have no rights against the Bank with respect to payment of such Excess Proceeds.

Table of Contents
9.2. Guarantor Events of Default

The Bond Trustee at its discretion may, and if so requested in writing by the holders of at least 25 percent of the aggregate Principal Amount Outstanding of the covered bonds (which for this purpose and the purpose of any Extraordinary Resolution referred to in this Condition 9.2 means the covered bonds of a Series together with the covered bonds of any other Series constituted by the Trust Deed) then outstanding as if they were a single Series (with the nominal amount of covered bonds not denominated in Canadian Dollars converted into Canadian Dollars at the relevant Covered Bond Swap Rate) or if so directed by an Extraordinary Resolution of all the covered bondholders will (subject in each case to being indemnified and/or secured to its satisfaction), give notice (the **Guarantor Acceleration Notice**) in writing to the Bank and the Guarantor, that (i) each covered bond of each Series is, and each covered bond of each Series will as against the Bank (if not already due and repayable against the Bank following service of an Issuer Acceleration Notice), thereupon immediately become, due and repayable at its Early Redemption Amount together with (to the extent not already included in the Early Redemption Amount) accrued interest, and (ii) all amounts payable by the Guarantor under the Covered Bond Guarantee will thereupon immediately become due and payable at the Guaranteed Amount corresponding to the Early Redemption Amount for each covered bond of each Series together with (to the extent not already included in the Early Redemption Amount) accrued interest, in each case as provided in the Trust Deed and thereafter the Security will become enforceable if any of the following events (each, a **Guarantor Event of Default**) will occur and be continuing:

- (a) if default is made by the Guarantor for a period of seven days or more in the payment of any Guaranteed Amounts which are Due for Payment on the relevant Guaranteed Amounts Due Date in respect of the covered bonds of any Series except in the case of the payments of a Guaranteed Amount which is Due for Payment under Condition 6.1 (*Final redemption*) when the Guarantor will be required to make payments of Guaranteed Amounts which are Due for Payment on the dates specified therein; or
- (b) if default is made by the Guarantor in the performance or observance of any obligation, condition or provision binding on it (other than any obligation for the payment of Guaranteed Amounts in respect of the covered bonds of any Series) under the Trust Deed, the Security Agreement or any other Transaction Document to which the Guarantor is a party (other than the obligation of the Guarantor to (i) repay the Demand Loan pursuant to the terms of the Intercompany Loan Agreement, and (ii) to make a payment under a Swap Agreement if it has insufficient funds therefor), and (except where such default is or the effects of such default are, in the opinion of the Bond Trustee, not capable of remedy when no such continuation and notice as is hereinafter mentioned will be required, such default continues for 30 days (or such longer period as the Bond Trustee may permit) after written notice thereof has been given by the Bond Trustee to the Guarantor requiring the same to be remedied; or
- (c) if an Insolvency Event has occurred with respect to the Guarantor; or

Table of Contents

- (d) if there is a failure to satisfy the Amortization Test (as set out in the Guarantor Agreement) on any Calculation Date following an Issuer Event of Default that is continuing, or
- (e) if the Covered Bond Guarantee is not, or is claimed by the Guarantor not to be, in full force and effect; or
- (f) if a Ratings Trigger prescribed by the Conditions or the Transaction Documents (and not otherwise specifically provided for in this Condition 9.2) is breached and the prescribed remedial action is not taken within the specified time period, unless, in respect of any Ratings Trigger other than the Account Bank Required Ratings and the Standby Account Bank Threshold Ratings, such breach occurs at a time that the Guarantor is Independently Controlled or Governed,
provided that the condition, event or act described in subparagraphs (b) to (e) above will only constitute a Guarantor Event of Default if the Bond Trustee has certified in writing to the Bank and the Guarantor that such condition, event or act is, in its opinion, materially prejudicial to the interests of the covered bondholders of any Series.

Following the occurrence of a Guarantor Event of Default and service of a Guarantor Acceleration Notice on the Guarantor, the Bond Trustee may or will take such proceedings or steps in accordance with the first and third paragraphs, respectively, of Condition 9.3 (*Enforcement*).

Upon service of a Guarantor Acceleration Notice, the covered bondholders will have a claim against the Guarantor, under the Covered Bond Guarantee, for an amount equal to the Early Redemption Amount in respect of each covered bond together with (to the extent not included in the Early Redemption Amount) accrued but unpaid interest and any other amount due under such covered bonds (other than additional amounts payable under Condition 7 (*Taxation*)) as provided in the Trust Deed.

9.3. Enforcement

The Bond Trustee may at any time, at its discretion and without further notice, take such proceedings against the Bank or the Guarantor, as the case may be, and/or any other Person as it may think fit to enforce the provisions of the Trust Deed, the covered bonds or any other Transaction Document, but it will not be bound to take any such enforcement proceedings in relation to the Trust Deed, the covered bonds or any other Transaction Document unless (i) it has been so directed by an Extraordinary Resolution of all the covered bondholders of all Series (with the covered bonds of all Series taken together as a single Series as aforesaid) or so requested in writing by the holders of not less than 25 percent of the aggregate Principal Amount Outstanding of the covered bonds of all Series then outstanding (taken together and converted into Canadian Dollars at the relevant Covered Bond Swap Rate as aforesaid), and (ii) it has been indemnified and/or secured to its satisfaction against all liabilities to which it may thereafter render itself liable or which it may incur by so doing.

In exercising any of its powers, trusts, authorities and discretions, the Bond Trustee will, subject to applicable law, only have regard to the interests of the covered bondholders of all Series and will not have regard to the interests of any other Secured Creditors.

Table of Contents

The Bond Trustee may at any time, at its discretion and without further notice but subject to applicable law, take such proceedings against the Guarantor and/or any other Person as it may think fit to enforce the provisions of the Security Agreement or any other Transaction Document in accordance with its terms and may, at any time after the Security has become enforceable, take such proceedings or steps as it may think fit to enforce the Security, but it will not be bound to take any such proceedings or steps unless (i) it has been so directed by an Extraordinary Resolution of all the covered bondholders of all Series (with the covered bonds of all Series taken together as a single Series as aforesaid) or a request in writing by the holders of not less than 25 percent of the aggregate Principal Amount Outstanding of the covered bonds of all Series then outstanding (taken together and converted into Canadian Dollars at the relevant Covered Bond Swap Rate as aforesaid), and (ii) it has been indemnified and/or secured to its satisfaction against all liabilities to which it may thereafter render itself liable or which it may incur by so doing. In exercising any of its powers, trusts, authorities and discretions under this paragraph, the Bond Trustee will only have regard to the interests of the covered bondholders of all Series and will not have regard to the interests of any other Secured Creditors.

No covered bondholder will be entitled to proceed directly against the Bank or the Guarantor or to take any action with respect to the Trust Deed, any other Transaction Document, the covered bonds, or the Security unless the Bond Trustee having become bound so to proceed, fails to do so within 30 days and such failure is continuing. Notwithstanding any other provision of these Conditions, for so long as there are U.S. Registered Covered Bonds outstanding, in accordance with Section 316(b) of the Trust Indenture Act, the right of any holder to receive payment of principal and interest on the covered bonds on or after the due date for such principal or interest, or to institute suit for the enforcement of payment of that principal or interest, may not be impaired or affected without the consent of the holders of the covered bonds, provided that no such right of enforcement will exist (i) in respect of a postponement of an interest payment which has been consented to by the holders of the covered bonds in accordance with the Trust Deed or (ii) to the extent that the institution or prosecution of such suit or the entry of judgment therein would, under applicable law, result in the surrender, impairment, waiver or loss of the security granted pursuant to the Trust Deed or the relevant Security Agreements upon any property subject to such security.

10. Replacement of Covered Bonds

If any covered bond is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar (in the case of Registered Covered Bonds), or any other place approved by the Bond Trustee of which notice has been given to the covered bondholders in accordance with Condition 13 (*Notices*) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Bank may reasonably require. Mutilated or defaced covered bonds must be surrendered before replacements will be issued.

11. Principal Paying Agent, Paying Agents, Registrar, Transfer Agent and Exchange Agent

The Bank is entitled, with the prior written approval of the Bond Trustee, to vary or terminate the appointment of any Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any Agent acts, *provided that*:

- (a) there will at all times be a Principal Paying Agent and a Registrar;

Table of Contents

- (b) the Bank will, so long as any covered bond is outstanding, maintain a Paying Agent (which may be the Principal Paying Agent) having a specified office in a city in Europe approved by the Bond Trustee;
- (c) so long as any covered bond is listed on any stock exchange or admitted to listing or trading by any other relevant authority, there will at all times be a Transfer Agent (in the case of Registered Covered Bonds) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or, as the case may be, other relevant authority;
- (d) so long as any of the Registered Global Covered Bonds payable in a currency other than U.S. Dollars are held through DTC or its nominee, there will at all times be an Exchange Agent; and
- (e) the Bank will ensure that it maintains a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any other Directive implementing the conclusions of the ECOFIN Council Meeting of 26 to 27 November 2000 or any law implementing or complying with, or introduced in order to conform to any such Directive, provided that the Bank will not, under any circumstances, be obliged to maintain a Paying Agent with a specified office in such Member State unless at least one European Member State does not require a Paying Agent making payments through a specified office in that Member State to so withhold or deduct tax.

In addition, the Bank will forthwith appoint a Paying Agent having a specified office in the United States in the circumstances described in Condition 5.5 (*General provisions applicable to payments*). Notice of any such variation, termination, appointment or change will be given by the Bank to the covered bondholders as soon as reasonably practicable in accordance with Condition 13 (*Notices*).

In acting under the Agency Agreement, the Agents act solely as agents of the Bank and the Guarantor and, in certain circumstances specified therein, of the Bond Trustee and do not assume any obligation to, or relationship of agency or trust with, any covered bondholders. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

13. Notices

All notices regarding the Registered Covered Bonds will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing.

The Bond Trustee will be at liberty to sanction some other method of giving notice to the covered bondholders if, in its opinion, such other method is reasonable having regard to market practice then prevailing and to the requirements of the stock exchange on which the relevant covered bonds are then admitted to trading and *provided* that notice of such other method is given to the covered bondholders in such manner as the Bond Trustee will require.

Table of Contents

Notices to be given by any covered bondholder will be in writing and given by lodging the same, together (in the case of any covered bond in definitive form) with the relevant covered bond or covered bonds, with the Registrar (in the case of Registered Covered Bonds). While any of the covered bonds are represented by a Global Covered Bond, such notice may be given by any holder of a covered bond to the Principal Paying Agent or the Registrar through DTC in such manner as the Principal Paying Agent, the Registrar and DTC may approve for this purpose.

14. Meetings of covered bondholders, Modification, Waiver and Substitution

Covered bondholders and other Secured Creditors should note that the Bank, the Guarantor and the Principal Paying Agent may without their consent or the consent of the Bond Trustee agree to modify any provision of any prospectus supplement which is of a formal, minor or technical nature or is made to correct a proven or manifest error or to comply with any mandatory provisions of law.

The Trust Deed contains provisions for convening meetings of the covered bondholders of any Series to consider any matter affecting their interests, including the modification by Extraordinary Resolution of these Terms and Conditions or the provisions of the Trust Deed. Such a meeting may be convened by the Bank, the Guarantor or the Bond Trustee and will be convened by the Bank at the request in writing of covered bondholders holding not less than 10 percent of the aggregate Principal Amount Outstanding of the covered bonds of such Series for the time being outstanding. The quorum at any such meeting in respect of any covered bonds of any Series for passing an Extraordinary Resolution is one or more Persons holding or representing not less than a clear majority of the aggregate Principal Amount Outstanding of the covered bonds of such Series for the time being outstanding, or at any adjourned meeting one or more Persons being or representing covered bondholders of such Series whatever the nominal amount of the covered bonds of such Series so held or represented, except that at any meeting the business of which includes the modification of any Series Reserved Matter, the quorum will be one or more Persons holding or representing not less than two thirds of the aggregate Principal Amount Outstanding of the covered bonds of such Series for the time being outstanding, or at any adjourned such meeting one or more Persons holding or representing not less than one third of the aggregate Principal Amount Outstanding of the covered bonds of such Series for the time being outstanding. An Extraordinary Resolution passed at any meeting of the covered bondholders of a Series will, subject as provided below, be binding on all the covered bondholders of such Series, whether or not they are present at the meeting. Pursuant to the Trust Deed, the Bond Trustee may convene a single meeting of the covered bondholders of more than one Series if in the opinion of the Bond Trustee there is no conflict between the holders of such covered bonds, in which event the provisions of this paragraph will apply thereto *mutatis mutandis*.

Table of Contents

Notwithstanding the provisions of the immediately preceding paragraph, any Extraordinary Resolution to direct the Bond Trustee to accelerate the covered bonds pursuant to Condition 9 (*Events of Default, Acceleration and Enforcement*) or to direct the Bond Trustee to take any enforcement action pursuant to Condition 9 (*Events of Default, Acceleration and Enforcement*) (each a **Program Resolution**) will only be capable of being passed at a single meeting of the holders of the covered bonds of all Series then outstanding. Any such meeting to consider a Program Resolution may be convened by the Bank, the Guarantor or the Bond Trustee or by covered bondholders, in the case of a direction to accelerate the covered bonds pursuant to Conditions 9.1 (*Issuer Events of Default*) and 9.2 (*Guarantor Events of Default*) or to take enforcement action pursuant to Condition 9.3 (*Enforcement*), holding at least 25 percent of the aggregate Principal Amount Outstanding of the covered bonds of all Series then outstanding. The quorum at any such meeting for passing a Program Resolution is one or more Persons holding or representing at least a clear majority of the aggregate Principal Amount Outstanding of the covered bonds of all Series for the time being outstanding, or at any adjourned such meeting one or more Persons holding or representing covered bonds whatever the nominal amount of the covered bonds of all Series then outstanding. A Program Resolution passed at any meeting of the covered bondholders of all Series will be binding on all covered bondholders of all Series, whether or not they are present at the meeting.

In connection with any meeting of the covered bondholders of more than one Series where such covered bonds are not denominated in Canadian Dollars, the nominal amount of the covered bonds of any Series not denominated in Canadian Dollars will be converted into Canadian Dollars at the relevant Covered Bond Swap Rate.

The Bond Trustee, the Guarantor and the Bank may also agree, without the consent of the covered bondholders and without the consent of the other Secured Creditors (and for this purpose the Bond Trustee may disregard whether any such modification relates to a Series Reserved Matter), to:

- (a) any modification of the terms and conditions applying to covered bonds of one or more Series (including these Terms and Conditions) or any Transaction Document *provided* that in the sole opinion of the Bond Trustee such modification is not materially prejudicial to the interests of any of the covered bondholders of any Series, or the Covered Bond Swap Provider or Interest Rate Swap Provider, *provided* that the Covered Bond Swap Provider or Interest Rate Swap Provider is not a member of the BMO Financial Group; or
- (b) any modification of the terms and conditions applying to covered bonds of any one or more Series (including these Terms and Conditions) or any Transaction Document which is in the sole opinion of the Bond Trustee of a formal, minor or technical nature or is to correct a manifest error or an error which is, in the sole opinion of the Bond Trustee, proven, or is to comply with mandatory provisions of law.

Notwithstanding the above, the Bank, the Guarantor and the Principal Paying Agent may agree, without the consent of the Bond Trustee, the covered bondholders or any of the other Secured Creditors, to any modification of any of the provisions of any prospectus supplement which is of a formal, minor or technical nature or is made to correct a proven or manifest error or to comply with any mandatory provisions of law.

The Bond Trustee may also agree, without the consent of the covered bondholders of any Series, to the waiver or Authorization of any breach or proposed breach of any of the provisions of the covered bonds of any Series, or determine, without any such consent as aforesaid, that any Issuer Event of Default or Guarantor Event of Default or Potential Issuer Event of Default or Potential Guarantor Event of Default will not be treated as such, *provided* that, in any such case, it is not, in the sole opinion of the Bond Trustee, materially prejudicial to the interests of any of the covered bondholders of any Series. The Bond Trustee may also agree, without the consent of the covered bondholders of any Series or any other Secured Creditor, to the waiver or Authorization of any breach or proposed breach of any of the provisions of the Transaction Documents, *provided* that, in any such case, it is not, in the sole opinion of the Bond Trustee, materially prejudicial to the interests of any of the covered bondholders of any Series, or the Covered Bond Swap Provider or Interest Rate Swap Provider, *provided* that the Covered Bond Swap Provider or Interest Rate Swap Provider is not a member of the BMO Financial Group.

Table of Contents

Where the Bond Trustee is unable to determine whether any such modification, waiver or Authorization is materially prejudicial to the Covered Bond Swap Provider or Interest Rate Swap Provider, *provided* that the Covered Bond Swap Provider or Interest Rate Swap Provider is not a member of the BMO Financial Group, it will give written notice to the Covered Bond Swap Provider or Interest Rate Swap Provider, setting out the relevant details and requesting its consent thereto. The Covered Bond Swap Provider or Interest Rate Swap Provider, will, within 10 Canadian Business Days of receipt of such notice (the **Relevant Period**), notify in writing the Bond Trustee of:

- (a) its consent (such consent not to be unreasonably withheld or delayed) to such proposed modification, waiver or Authorization; or
- (b) subject to paragraph (a) immediately above, its refusal to give such consent and reasons for such refusal (such refusal not to be unreasonable in the circumstances).

Any failure by the Covered Bond Swap Provider or Interest Rate Swap Provider to notify the Bond Trustee as aforesaid within the Relevant Period will be deemed to be a consent by the relevant Swap Provider to such proposed modification, waiver or Authorization.

The Bond Trustee may (without further enquiry) rely upon the consent or refusal of the Covered Bond Swap Provider or Interest Rate Swap Provider, as provided above and will have no liability to the Covered Bond Swap Provider, Interest Rate Swap Provider or any other Secured Creditor for consenting or not consenting (as the case may be) to a modification, waiver or Authorization on the basis of any such consent or refusal in writing or any deemed consent as provided above.

Any such modification, waiver, Authorization or determination will be binding on all covered bondholders of all Series of covered bonds and the other Secured Creditors, any such modification will be notified by the Bank to the covered bondholders of all Series of covered bonds for the time being outstanding and the other Secured Creditors in accordance with the relevant Terms and Conditions as soon as practicable thereafter. Notwithstanding any other provision of these Conditions, for so long as there are U.S. Registered Covered Bonds outstanding, any such modification, waiver, Authorization or determination will be made in accordance with and subject to Section 316 of the Trust Indenture Act. The right of any holder of U.S. Registered Covered Bonds to receive payment of principal and interest will not be impaired unless made in accordance with Section 316 of the Trust Indenture Act.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, Authorization or determination), the Bond Trustee will have regard to the general interests of the covered bondholders of each Series as a class (but will not have regard to any interests arising from circumstances particular to individual covered bondholders (whatever their number)) and, in particular, but without limitation, will not have regard to the consequences of any such exercise for individual covered bondholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political subdivision thereof and the Bond Trustee will not be entitled to require, nor will any covered bondholder be entitled to claim, from the Bank, the Guarantor, the Bond Trustee or any other Person any indemnification or payment in respect of any Tax or stamp duty consequences of any such exercise upon individual covered bondholders, except to the extent already provided for in Condition 7 (*Taxation*) and/or in any undertaking or covenant given in addition to, or in substitution for, Condition 7 (*Taxation*) pursuant to the Trust Deed.

Table of Contents

Provided that the Bond Trustee has received a certificate signed by two authorized signatories of the Bank and a certificate from the Guarantor stating that immediately after giving effect to the matters set out below in this paragraph, no Issuer Event of Default or Potential Issuer Event of Default (in respect of the Bank) or Guarantor Event of Default or Potential Guarantor Event of Default (in respect of the Guarantor), respectively, has occurred and is continuing and certain other conditions as are specified in the Trust Deed are satisfied, but without the consent of the covered bondholders of any Series, or of any other Secured Creditor, another Subsidiary of the Bank or any direct or indirect holding company of the Bank may assume the obligations of the Bank as principal obligor under the Trust Deed and the other Transaction Documents in respect of all Series of covered bonds on the same basis. The Trust Deed provides that any such assumption will be notified to the holders of all Series of covered bonds (in accordance with the relevant Terms and Conditions of such covered bonds).

The Bank may, without the consent of the covered bondholders of any Series relating thereto, or any other Secured Creditor, consolidate with, merge or amalgamate into or transfer its assets substantially in their entirety to, any corporation organized under the laws of Canada, or any province or territory thereof, *provided* that:

- (i) a certificate of two authorized signatories of the Bank and a certificate of the Guarantor is delivered to the Bond Trustee to the effect that immediately after giving effect to such transaction no Issuer Event of Default or Potential Issuer Event of Default (in respect of the Bank) and no Guarantor Event of Default or Potential Guarantor Event of Default (in respect of the Guarantor), respectively, has occurred and is continuing;
- (ii) unless the Bank is the surviving entity, the Bank will procure that the surviving or transferee company assumes its obligations as Bank under the Trust Deed, each other relevant Transaction Document and all of the outstanding covered bonds of all Series, in place of the Bank;
- (iii) in the case of an assumption of the obligations of the Bank by a successor or transferee company, the Covered Bond Guarantee remains fully effective on the same basis in relation to the obligations of such successor or transferee company; and
- (iv) certain other conditions set out in the Trust Deed are met.

Upon the assumption of the obligations of the Bank by such surviving or transferee company, the predecessor Bank will (subject to the provisions of the Trust Deed) have no further liabilities under or in respect of the Trust Deed or the outstanding covered bonds of each Series appertaining thereto and the other Transaction Documents. Any such assumption will be subject to the relevant provisions of the Trust Deed. The Trust Deed provides that any such assumption will be notified to the holders of all Series of covered bonds in accordance with the relevant Terms and Conditions of such covered bonds and the other Secured Creditors.

Table of Contents

For the purposes hereof:

Potential Issuer Event of Default means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfillment of any similar condition, would constitute an Issuer Event of Default; and

Potential Guarantor Event of Default means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfillment of any similar condition, would constitute a Guarantor Event of Default.

15. Indemnification of the Bond Trustee. Contracting with the Bank and/or the Guarantor

If, in connection with the exercise of its powers, trusts, authorities or discretions, the Bond Trustee is of the opinion that the interests of the covered bondholders of any one or more Series would be materially prejudiced thereby, the Bond Trustee will not exercise such power, trust, authority or discretion without the approval of such covered bondholders by Extraordinary Resolution or by a direction in writing of such covered bondholders of at least 25 percent of the aggregate Principal Amount Outstanding of covered bonds of the relevant Series then outstanding.

The Trust Deed and the Security Agreement contain provisions for the indemnification of the Bond Trustee and for its relief from responsibility, including provisions relieving it from taking any action unless indemnified and/or secured to its satisfaction.

The Trust Deed and the Security Agreement also contain provisions pursuant to which the Bond Trustee is entitled, *inter alia*: (i) to enter into business transactions with the Bank, the Guarantor and/or any of the Bank's Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Bank, the Guarantor and/or any of the Bank's Subsidiaries; (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the covered bondholders or any other Secured Creditors; and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

Table of Contents

The Bond Trustee will not be responsible for any loss, expense or liability, which may be suffered as a result of any Loans or their Related Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by clearing organizations or their operators or by intermediaries such as banks, brokers or other similar Persons on behalf of the Bond Trustee. The Bond Trustee will be responsible for: (i) supervising the performance by the Bank, the Guarantor or any other party to the Transaction Documents of their respective obligations under the Transaction Documents, and the Bond Trustee will be entitled to assume, until it has received written notice to the contrary, that all such Persons are properly performing their duties; (ii) considering the basis on which approvals or consents are granted by the Bank, the Guarantor or any other party to the Transaction Documents under the Transaction Documents; (iii) monitoring the Portfolio, including, without limitation, whether the Portfolio is in compliance with the Asset Coverage Test or the Amortization Test; or (iv) monitoring whether Loans and their Related Security satisfy the Loan Representations and Warranties. The Bond Trustee will not be liable to any covered bondholder or other Secured Creditor for any failure to make or to cause to be made on its behalf the searches, investigations and enquiries which would normally be made by a prudent chargee in relation to the Security and has no responsibility in relation to the legality, validity, sufficiency and enforceability of the Security and the Transaction Documents.

16. Further Issues

The Bank will be at liberty from time to time (but subject to the Terms and Conditions) without the consent of the covered bondholders or any Secured Creditors to create and issue further covered bonds (whether in bearer or registered form) having terms and conditions the same as the covered bonds of any Series or the same in all respects and guaranteed by the Guarantor save for the amount and date of the first payment of interest thereon, Issue Date and/or Issue Price and so that the same will be consolidated and form a single Series with the outstanding covered bonds of such Series.

17. Rating Agency Condition

By subscribing for or purchasing the covered bond(s), each covered bondholder will be deemed to have acknowledged and agreed that a credit rating of a Series of covered bonds is an assessment of credit risk and does not address other matters that may be of relevance to covered bondholders, including, without limitation, in the case of satisfaction of the Rating Agency Condition, whether the related action or event is either (i) permitted by the terms of the relevant Transaction Document, or (ii) in the best interests of, or not prejudicial to, some or all of the covered bondholders.

In being entitled to have regard to the fact that the Rating Agency Condition has been satisfied with respect to a particular Rating Agency, each of the Issuer, the Guarantor, the Bond Trustee and the Secured Creditors (including the covered bondholders) is deemed to have acknowledged and agreed that the satisfaction of the Rating Agency Condition does not impose or extend any actual or contingent liability on the Rating Agencies to the Issuer, the Guarantor, the Bond Trustee, the Secured Creditors (including the covered bondholders) or any other Person or create any legal relations between the Rating Agencies and the Issuer, the Guarantor, the Bond Trustee, the Secured Creditors (including the covered bondholders) or any other Person whether by way of contract or otherwise.

By subscribing for or purchasing the covered bond(s), each covered bondholder will be deemed to have acknowledged and agreed that:

- (a) Confirmation of the satisfaction of the Rating Agency Condition, to the extent required, may or may not be given at the sole discretion of each Rating Agency;
- (b) depending on the timing of delivery of the request and any information needed to be provided as part of any such request, it may be the case that a Rating Agency cannot provide confirmation of the satisfaction of the Rating Agency Condition in the time available, or at all, and the Rating Agency will not be responsible for the consequences thereof;

Table of Contents

(c) a confirmation of satisfaction of the Rating Agency Condition, if given, will be given on the basis of the facts and circumstances prevailing at the relevant time, and in the context of cumulative changes to the transaction of which the covered bonds form a part; and

(d) a confirmation of satisfaction of the Rating Agency Condition represents only a restatement of the opinions given, and will not be construed as advice for the benefit of any covered bondholder or any other party.

If satisfaction of the Rating Agency Condition is a condition to any action or step under any Transaction Document or is otherwise required, or a written request for such a confirmation of satisfaction of the Rating Agency Condition is delivered to that Rating Agency by any of the Issuer, the Guarantor, and/or the Bond Trustee, as applicable (each, a **Requesting Party**), and either (i) one or more of the Rating Agencies indicates that it does not consider satisfaction of the Rating Agency Condition necessary in the circumstances or (ii) no such confirmation or other response is received by one or more of the Rating Agencies within 30 days (or in the case of Moody's or Fitch, 10 Business Days) of the date of actual receipt of such request by such Rating Agency (each, a **Non-Responsive Rating Agency**), the Requesting Party will be entitled to disregard the requirement for satisfaction of the Rating Agency Condition with respect to the Non-Responsive Rating Agency and proceed on the basis of the confirmations or other responses received by each other Rating Agency on the basis that satisfaction of the Rating Agency Condition with respect to the Non-Responsive Rating Agency is not required in the particular circumstances of the request. The failure by a Rating Agency to respond to a written request for a confirmation of satisfaction of the Rating Agency Condition will not be interpreted to mean that such Rating Agency has given any deemed confirmation or affirmation of rating or other response in respect of such action or step.

18. Governing Law

The Trust Deed, the Agency Agreement, the covered bonds, the Interest Rate Swap Agreement, the Covered Bond Swap Agreement, the Security Agreement, the Mortgage Sale Agreement, the Servicing Agreement, the Guarantor Agreement, the Intercompany Loan Agreement, the Cash Management Agreement, the Cover Pool Monitor Agreement, the Bank Account Agreement, the Standby Bank Account Agreement, the Guaranteed Deposit Account Contract and the Standby Guaranteed Deposit Account Contract will be governed by and construed in accordance with, the laws of the Province of Ontario and the federal laws of Canada applicable therein, unless otherwise indicated.

Table of Contents

SUMMARY OF THE PRINCIPAL DOCUMENTS

The principal document governing the relationship of the Bank and a purchaser of covered bonds is the Trust Deed and the Terms and Conditions attached to each covered bond. See *Terms and Conditions of the Covered Bonds*.

Prospectus Supplement

The prospectus supplement for a Series of covered bonds will set forth the specific terms of the covered bonds, including the currency for all payments, the applicable interest rate, interest payment dates, the maturity date, call or put option features applicable, and optional redemption features. The prospectus supplement may also provide modifications of or additions to the Terms and Conditions. Also, the prospectus supplement will include statistical disclosure of the Portfolio and historical information about the Portfolio, stratified by year of origination of the Loans.

Information about the providers of the Interest Rate Swap Agreement and the related Covered Bond Swap Agreement and, if not the Bank, the GDA Account will be included in the prospectus supplement.

A review by the Bank of randomly selected Loans in the Portfolio will be described in the prospectus supplement, together with the findings of that review.

Trust Deed

The Trust Deed, made between the Bank, the Guarantor and the Bond Trustee is the principal agreement governing the covered bonds. The Trust Deed contains provisions relating to, *inter alia*:

the constitution of the covered bonds and the terms and conditions of the covered bonds (as more fully set out under *Terms and Conditions of the Covered Bonds* above);

the covenants of the Bank and the Guarantor under the Covered Bond Guarantee;

the terms of the Covered Bond Guarantee (as described below);

the enforcement procedures relating to the covered bonds and the Covered Bond Guarantee; and

the appointment, powers and responsibilities of the Bond Trustee and the circumstances in which the Bond Trustee may resign, or retire or be removed.

The Bond Trustee

Computershare Trust Company of Canada has been appointed the Bond Trustee under the Trust Deed. The Bank may maintain other banking relationships in the ordinary course of business with the Bond Trustee.

Table of Contents

Computershare Trust Company of Canada is a trust company incorporated under the laws of Canada, whose registered office is at 100 University Avenue, 11th Floor, Toronto, Ontario, Canada M5J 2Y1. Computershare Trust Company of Canada has acted as trustee on numerous covered bond programs since November 2007 and on asset-backed securities transactions involving pools of mortgage loans since 1990. While the structure of the transactions referred to in the preceding sentence may differ among such transactions, Computershare Trust Company of Canada is experienced in administering transactions of the kind contemplated by this prospectus.

Computershare Trust Company of Canada has provided the information in the prior paragraph. Other than the prior paragraph, Computershare Trust Company of Canada has not participated in the preparation of, and is not responsible for, any other information contained in this prospectus or the prospectus supplement.

As compensation for the performance of its obligations under the Trust Deed, the Bond Trustee will receive reasonable compensation as provided in the Trust Deed.

The Bond Trustee will be required to perform only those duties specifically required of it under the Transaction Documents, as described below. Upon receipt of the various certificates, statements, reports or other instruments required to be furnished to it, the Bond Trustee will be required to examine them to determine whether they are in the form required by the applicable Transaction Document; however, the Bond Trustee will not be responsible for the accuracy or content of any documents furnished to it.

The Bond Trustee will not be responsible for (a) the calculation of payments to holders of the covered bonds; (b) compliance by others with covenants under the Transaction Documents; (c) the substitution, purchase or removal of Portfolio assets; or (d) the maintenance of data regarding the Asset Coverage Test, Amortization Test, Pre-Maturity Test or the Valuation Calculation, among others.

The Trust Deed contains provisions for the indemnification of the Bond Trustee and its officers, directors, employees and agents for any loss, claims, damages, suits, liability or expense incurred without gross negligence, willful misconduct, dishonesty, reckless disregard or bad faith on its part, arising out of or in connection with the acceptance or administration of the Trust Deed.

The Bond Trustee may retire at any time on giving not less than three months' prior written notice to the Bank and the Guarantor. The Bond Trustee may be removed (i) by the covered bondholders in accordance with the terms of an Extraordinary Resolution, or (ii) by the Guarantor in the event that there is a breach by the Bond Trustee of certain representations and warranties or a failure by the Bond Trustee to perform certain covenants made by it under the Trust Deed. Other than in respect of a removal described in clause (ii) of the previous sentence, no retirement or removal of the Bond Trustee will be effective until a replacement bond trustee that meets the requirements provided for in the Trust Deed and in the CMHC Guide has been appointed. In the event that a replacement bond trustee has not been appointed within 60 days of notice of retirement from the Bond Trustee or the Extraordinary Resolution of the Covered Bondholders, as applicable, the Bond Trustee will be entitled to appoint a replacement bond trustee that meets the requirements provided for in the Trust Deed and in the CMHC Guide, which appointment must be approved by an Extraordinary Resolution of the covered bondholders prior to taking effect.

So long as there are U.S. Registered Covered Bonds outstanding, the Bond Trustee (or if there is more than one bond trustee at least one bond trustee) will be a trustee qualified to act under the US Trust Indenture Act of 1939, as amended (the **Trust Indenture Act**).

Trust Indenture Act

The Trust Deed includes certain provisions required by the Trust Indenture Act. These provisions include, but are not limited to:

 maintenance of a covered bondholder list by the Bond Trustee;

 provision of annual reports and other information by the Bank to the Bond Trustee;

Table of Contents

ability of covered bondholders to waive certain past defaults of the Bank;

duty of the Bond Trustee (following an Issuer Event of Default) to use the same degree of care in exercising its responsibilities as would be exercised by a prudent person conducting their own affairs;

duty of the Bond Trustee to notify all covered bondholders of any Issuer Event of Default of which it has actual knowledge; and

the right of each covered bondholder to receive payments of principal and interest on a covered bond on or after the respective due dates expressed in the covered bond, or to bring suit for enforcement of any such payment on or after such respective dates.

Further, in compliance with Section 315(d) of the Trust Indenture Act, the Trust Deed provides that nothing in the Trust Deed will, in any case in which the Bond Trustee has failed to show the degree of care and diligence required of it as Bond Trustee having regard to the provisions of the Trust Deed conferring on the Bond Trustee any powers, authorities or any discretion, exempt the Bond Trustee from or indemnify the Bond Trustee against any liability or breach of trust. The Trust Deed will be discharged with respect to the Covered Bond Guarantee and collateral securing such Covered Bond Guarantee upon the delivery to the Bond Trustee for cancellation of all the covered bonds or, with certain limitations, upon deposit with the Bond Trustee of funds sufficient for the payment in full of all covered bonds outstanding.

Trust Indenture Act Prevails

The Trust Deed contains a stipulation that, if any provision of the Trust Deed limits, qualifies or conflicts with another provision which is required to be included in the Trust Deed by, and is not subject to a contractual waiver under, the Trust Indenture Act, the required provision of the Trust Indenture Act will be deemed to be incorporated into the Trust Deed and prevail; provided that all provisions relating to the Trust Indenture Act will only apply to U.S. Registered Covered Bonds.

Covered Bond Guarantee

Under the terms of the Covered Bond Guarantee, if the Bank defaults in the payment on the due date of any monies due and payable under or pursuant to the Trust Deed or the covered bonds, or if any other Issuer Event of Default occurs (other than by reason of non-payment), and, in either case, if the Bond Trustee has served an Issuer Acceleration Notice, the Guarantor has agreed (subject as described below) to pay or procure to be paid (following service of a Notice to Pay) unconditionally and irrevocably to or to the order of the Bond Trustee (for the benefit of the covered bondholders) an amount equal to that portion of the Guaranteed Amounts which will become Due for Payment but would otherwise be unpaid, as of any Original Due for Payment Date or, if applicable, the Extended Due for Payment Date, by the Bank. Payment by the Guarantor of the Guaranteed Amounts pursuant to the Covered Bond Guarantee will be made on the later of (a) the day which is two Business Days following service of a Notice to Pay on the Guarantor and (b) the day on which the Guaranteed Amounts are otherwise Due for Payment (the **Guaranteed Amounts Due Date**). In addition, the Guarantor will, to the extent it has funds available to it, make payments in respect of the unpaid portion of the Final Redemption Amount on any Original Due for Payment Date up until the Extended Due for Payment Date. The Bond Trustee will be required to serve a Notice to Pay following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice.

Table of Contents

Under the Covered Bond Guarantee, the Guaranteed Amounts will become due and payable on any earlier date on which, following the occurrence of a Guarantor Event of Default, a Guarantor Acceleration Notice is served in accordance with Condition 9.2 (*Guarantor Events of Default*). Following service of a Guarantor Acceleration Notice, the covered bonds will (if an Issuer Acceleration Notice has not already been served) become immediately due and payable as against the Bank and the obligations of the Guarantor under the Covered Bond Guarantee will be accelerated.

All payments of Guaranteed Amounts by or on behalf of the Guarantor will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or other governmental charges of whatever nature, unless the withholding or deduction of such taxes, assessments or other governmental charges are required by law or regulation or administrative practice of Canada or any political subdivision thereof or any authority therein or thereof having the power to tax. If any such withholding or deduction is required, the Guarantor will pay the Guaranteed Amounts net of such withholding or deduction and will account to the appropriate tax authority for the amount required to be withheld or deducted. The Guarantor will not be obliged to pay any amount to the Bond Trustee or any holder of covered bonds in respect of the amount of such withholding or deduction. See further, *Taxation Canadian Taxation Payments by the Guarantor Under the Covered Bond Guarantee*.

Under the terms of the Covered Bond Guarantee, the Guarantor has agreed that its obligations under the Covered Bond Guarantee will be as guarantor and will be absolute and unconditional (subject to Notice to Pay being given), irrespective of, and unaffected by, any invalidity, irregularity or unenforceability of, or defect in, any provisions of the Trust Deed or the covered bonds or the absence of any action to enforce the same or the waiver, modification or consent by the Bond Trustee or any of the covered bondholders in respect of any provisions of the same or the obtaining of any judgment or decree against the Bank or any action to enforce the same or any other circumstances which might otherwise constitute a legal or equitable discharge or defense of a guarantor.

As consideration for providing the Covered Bond Guarantee, the Guarantor will be entitled to receive guarantee fees from the Bank in accordance with the Trust Deed. Any failure on the part of the Bank to pay all or any part of the guarantee fees will not affect the obligations of the Guarantor under the Covered Bond Guarantee.

Subject to the grace period specified in Condition 9.1(a) (*Issuer Events of Default*), failure by the Guarantor to pay the Guaranteed Amounts which are Due for Payment on the relevant Guaranteed Amounts Due Date will result in a Guarantor Event of Default.

The Trust Deed provides that any Excess Proceeds will be paid by the Bond Trustee on behalf of the covered bondholders of the relevant Series to the Guarantor for its own account, as soon as practicable, and will be held by the Guarantor in the GDA Account and the Excess Proceeds will thereafter form part of the Security and will be used by the Guarantor in the same manner as all other monies from time to time standing to the credit of the GDA Account.

Table of Contents

By subscribing for or purchasing covered bond(s), each covered bondholder will be deemed to have irrevocably directed the Bond Trustee to pay the Excess Proceeds to the Guarantor in the manner as described above.

Exchange Rate Indemnity

Pursuant to the terms of the Trust Deed, each of the Bank and, following the occurrence of a Covered Bond Guarantee Activation Date, the Guarantor, will jointly and severally indemnify the Bond Trustee and the covered bondholders and keep them indemnified against:

- (a) any liability incurred by any of them arising from the non payment by the Issuer or the Guarantor of any amount due to the Bond Trustee or the covered bondholders hereunder by reason of any variation in the rates of exchange between those used for the purposes of calculating the amount due under a judgment or order in respect thereof and those prevailing at the date of actual payment by the Issuer or the Guarantor; and
- (b) any deficiency arising or resulting from any variation in rates of exchange between (i) the date as of which the local currency equivalent of the amounts due or contingently due under the Trust Deed is calculated for the purposes of any bankruptcy, insolvency or liquidation of the Issuer or, as the case may be, the Guarantor; and (ii) the final date for ascertaining the amount of claims in such bankruptcy, insolvency or liquidation. The amount of such deficiency will be deemed not to be reduced by any variation in rates of exchange occurring between the said final date and the date of any distribution of assets in connection with any such bankruptcy, insolvency or liquidation.

Such indemnities will constitute obligations of the Bank and the Guarantor separate and independent from their other obligations under the other provisions under the Trust Deed and will apply irrespective of any indulgence granted by the Bond Trustee or the covered bondholders or the couponholders from time to time and will continue in full force and effect notwithstanding the judgment or filing of any proof or proofs in any bankruptcy, insolvency or liquidation of the Bank or, as the case may be, the Guarantor for a liquidated sum or sums in respect of amounts due under the Trust Deed. Any deficiency will be deemed to constitute a loss suffered by the covered bondholders and the couponholders and no proof or evidence of any actual loss will be required by the Bank or the Guarantor or its or their liquidator or liquidators.

The Trust Deed, including the provisions of the Covered Bond Guarantee, is governed by the laws of the Province of Ontario and federal laws of Canada applicable therein.

Intercompany Loan Agreement

The Intercompany Loan Agreement between the Bank, the Guarantor and the Bond Trustee as amended and/or restated and/or supplemented from time to time, is the governing agreement with respect to the Intercompany Loan.

Table of Contents

Under the Intercompany Loan Agreement, the Bank represents and warrants to, and covenants with, the Guarantor and the Bond Trustee that as of the date of the Intercompany Loan Agreement and for so long as it remains a party to the Intercompany Loan Agreement: (i) it possesses the necessary experience, qualifications, facilities and other resources to perform its responsibilities in relation to its duties and obligations thereunder and under the other Transaction Documents to which it is a party; (ii) it is and will continue to be in good standing with OSFI; (iii) it is and will continue to be in regulatory good standing and in material compliance with and under all laws applicable to its duties and obligations thereunder and under the other Transaction Documents to which it is a party; (iv) it is and will continue to be in material compliance with its internal policies and procedures (including risk management policies) relevant to its duties and obligations thereunder and under the other Transaction Documents to which it is a party; (v) it will comply with the provisions of, and perform its obligations under, the Intercompany Loan Agreement and the other Transaction Documents to which it is party; (vi) it will exercise reasonable skill and care in the performance of its obligations thereunder and under the other Transaction Documents to which it is a party; and (vii) it will comply with the CMHC Guide and all material legal and regulatory requirements applicable to the conduct of its business so that it can lawfully attend to the performance of its obligations thereunder and under the other Transaction Documents to which it is a party.

Under the terms of the Intercompany Loan Agreement, prior to the issuance of the first Series of covered bonds, the Bank will make available to the Guarantor an interest-bearing intercompany loan (the **Intercompany Loan**), comprised of a guarantee loan (the **Guarantee Loan**) and a revolving demand loan (the **Demand Loan**), in an initial combined aggregate amount equal to the Total Credit Commitment, subject to increases and decreases as described below. The initial advance on the Intercompany Loan will be an amount sufficient to acquire the Initial Portfolio. The Intercompany Loan is denominated in Canadian Dollars. The interest rate on the Intercompany Loan will be a Canadian dollar floating rate determined by the Bank from time to time, subject to a maximum of the floating rate received by the Guarantor pursuant to the Interest Rate Swap Agreement less a minimum spread and an amount for certain expenses of the Guarantor.

The Guarantee Loan will be in an amount equal to the balance of outstanding covered bonds at any relevant time plus that portion of the Portfolio required to collateralize the covered bonds to ensure that the Asset Coverage Test is met (see *Summary of the Principal Documents Guarantor Agreement Asset Coverage Test*). The Demand Loan is a revolving credit facility, the outstanding balance of which will be equal to the difference between the balance of the Intercompany Loan and the balance of the Guarantee Loan at any relevant time. The balance of the Guarantee Loan and Demand Loan will fluctuate with the issuances and redemptions of covered bonds and the requirements of the Asset Coverage Test.

At any time prior to a Demand Loan Repayment Event, the Guarantor may re-borrow any amount repaid by the Guarantor under the Intercompany Loan for a permitted purpose provided, among other things: (i) such drawing does not result in the Intercompany Loan exceeding the Total Credit Commitment; and (ii) no Issuer Event of Default or Guarantor Event of Default has occurred and is continuing. Unless otherwise agreed to by the Bank and subject to satisfaction of the Rating Agency Condition, no further advances will be made to the Guarantor under the Intercompany Loan following the occurrence of a Demand Loan Repayment Event.

To the extent the Portfolio increases or is required to be increased to meet the Asset Coverage Test, the Bank may increase the Total Credit Commitment to enable the Guarantor to acquire New Loans and their Related Security from the Seller.

Table of Contents

The Demand Loan or any portion thereof will be repayable no later than the first Canadian Business Day following 60 days after a demand therefor is served on the Guarantor, subject to a Demand Loan Repayment Event having occurred (see below in respect of the repayment of the Demand Loan in such circumstance) and the Asset Coverage Test being met on the date of repayment after giving effect to such repayment. At any time the Guarantor makes a repayment on the Demand Loan, in whole or in part, the Cash Manager will calculate the Asset Coverage Test, as of the date of repayment, to confirm the then outstanding balance on the Demand Loan and that the Asset Coverage Test will be met on the date of repayment after giving effect to such repayment.

If (i) the Bank is required to assign the Interest Rate Swap Agreement to a third party (due to a failure by the Bank to meet the ratings levels specified in the Interest Rate Swap Agreement or as otherwise required by the Interest Rate Swap); (ii) a Notice to Pay has been served on the Guarantor; (iii) the Intercompany Loan Agreement is terminated; or (iv) to the extent Fitch is a Rating Agency, if the Bank is assigned (x) a short-term issuer default rating by Fitch of less than F2, or (y) a long-term issuer default rating by Fitch of less than BBB+ (each of (i), (ii), (iii) and (iv), a **Demand Loan Repayment Event**), the Guarantor will, subject to the applicable Priorities of Payments, be required to repay any amount of the Demand Loan that exceeds the Demand Loan Contingent Amount on the first Guarantor Payment Date following 30 days, or if the Guarantor does not have sufficient funds on such date, following 60 days, in either case after the occurrence of such Demand Loan Repayment Event. Following such Demand Loan Repayment Event, the Guarantor will be required to repay the full amount of the then outstanding Demand Loan on the date on which the Asset Percentage is calculated (whether or not such calculation is a scheduled calculation or a calculation made at the request of the Bank); provided that the Asset Coverage Test will be met on the date of repayment after giving effect to such repayment. For the purposes of the foregoing, the **Demand Loan Contingent Amount** will be equal to the lesser of:

- (i) the aggregate amount of the Intercompany Loan then outstanding, minus the aggregate amount of the Guarantee Loan then outstanding (as determined by an Asset Coverage Test run on the relevant repayment date); and
- (ii) 1 percent of the amount of the Guarantee Loan then outstanding (as determined by an Asset Coverage Test calculated on the relevant repayment date),

provided, for greater certainty, that in calculating the amount of the Guarantee Loan and the Demand Loan for purposes of determining the Demand Loan Contingent Amount, no credit will be given to the Guarantor in the Asset Coverage Test for any Excess Proceeds received by the Guarantor from the Bond Trustee.

The Guarantor may repay the principal on the Intercompany Loan in accordance with the Priorities of Payments and the terms of the Intercompany Loan Agreement, using (i) funds being held for the account of the Guarantor by its service providers and/or funds in the Guarantor Accounts (other than any amount in the Pre-Maturity Liquidity Ledger); and/or, (ii) proceeds from the sale of Substitution Assets; and/or (iii) proceeds from the sale, pursuant to the Guarantor Agreement, of Portfolio assets to the Seller or to another person subject to a right of pre-emption on the part of the Seller; and/or (iv) by selling, transferring and assigning to the Seller all of the Guarantor's right, title and interest in and to Loans and their Related Security (a **Payment in Kind**). The Guarantor is restricted from paying the Demand Loan in the manner described in clause (iii) if the proceeds of such sale are less than the True Loan Balance of the Loans and their Related Security included in the Portfolio. Upon a Payment in Kind, the outstanding amount of the Demand Loan will be reduced by (x) in the case of Loans that are not Non-Performing Loans prior to a Covered Bond Guarantee Activation Date and in the case of Loans that are Non-Performing Loans at all times, the fair market value of such Loans sold to the Seller, and (y) in the case of Loans that are not Non-Performing Loans on or after a Covered Bond Guarantee Activation Date, the True Loan Balance of such Loans sold to the Seller. See *Cashflows*.

Table of Contents

The Guarantor will be entitled to set off amounts paid by the Guarantor under the Covered Bond Guarantee first against any amounts (other than interest and principal) owing by the Guarantor to the Bank in respect of the Intercompany Loan Agreement, then against interest due under the Intercompany Loan, and then against the outstanding principal balance owing on the Intercompany Loan.

The Guarantor will use advances under the Intercompany Loan (i) to purchase Loans and their Related Security pursuant to the terms of the Mortgage Sale Agreement; and/or (ii) to invest in Substitution Assets in an amount not exceeding the prescribed limit under the CMHC Guide; and/or (iii) subject to complying with the Asset Coverage Test, to make Capital Distributions to the Limited Partner; and/or (iv) to make deposits of the proceeds in the Guarantor Accounts (including, without limitation, to fund the Reserve Fund and the Pre-Maturity Liquidity Ledger (in each case up to an amount not exceeding the prescribed limit).

Mortgage Sale Agreement

The Seller

Loans and their Related Security will be sold to the Guarantor from time to time on a fully serviced basis pursuant to the terms of the Mortgage Sale Agreement between BMO (in its capacity as Seller), the Guarantor, the Custodian and the Bond Trustee.

Sale by the Seller of the Loans and Related Security

The Portfolio will be residential mortgages which are not insured by a Prohibited Insurer and which otherwise meet the Eligibility Criteria and with respect to which each of the Loan Representations and Warranties are correct as at the related Purchase Date. The Portfolio will consist of the Loans and their Related Security sold from time to time by the Seller to the Guarantor in accordance with the terms of the Mortgage Sale Agreement. The types of Loans forming the Portfolio will vary over time provided that the Loan Representations and Warranties are met on the relevant Purchase Date. Accordingly, the Portfolio may, at any time, include Loans originated by different originators, Loans with different characteristics from Loans that were included in the Portfolio or being offered to borrowers on previous Purchase Dates.

The Guarantor may from time to time acquire Loans and their Related Security from the Seller as described below:

- (a) the Guarantor will use the proceeds of an advance under the Intercompany Loan (which may be applied in whole or in part by the Guarantor) and/or Available Principal Receipts to acquire Loans and their Related Security from the Seller. As consideration for the sale of the Loans and their Related Security to the Guarantor, the Seller will receive a cash payment or deemed cash payment equal to the fair market value of those Loans sold by it as at the relevant Purchase Date; and

Table of Contents

- (b) the Guarantor may receive Capital Contributions in Kind in accordance with the Guarantor Agreement. As consideration for the sale by way of Capital Contributions of the Loans and their Related Security to the Guarantor, the Seller will receive an additional interest in the capital of the Guarantor equal to the fair market value of those Loans sold by it as at the relevant Purchase Date minus any cash considerations received by the Seller described in paragraph (a).

If Selected Loans are sold by or on behalf of the Guarantor as described below under *Guarantor Agreement Sale of Selected Loans following service of an Asset Coverage Test Breach Notice* and *Sale of Selected Loans following service of a Notice to Pay*, the obligations of the Seller insofar as they relate to those Selected Loans will cease to apply.

The Seller will also be required to repurchase Loans and their Related Security sold to the Guarantor in the circumstances described below under *Repurchase of Loans*.

See *Loan Representations and Warranties* below for Loan Representations and Warranties relating Loans and their Related Security and *Servicing Agreement Undertakings of the Servicer* below regarding undertakings of the Servicer in respect of the Loans comprised in the Portfolio.

Pursuant to the terms of the Mortgage Sale Agreement, the Seller will provide to the Custodian, on each Purchase Date, the Eligible Loan Details with respect to the Loans and Related Security to be sold to the Guarantor by the Seller on such Purchase Date. The Seller will also be required to provide updated Eligible Loan Details with respect to the Loans included in the Portfolio to the Custodian on a quarterly basis and forthwith upon the occurrence of a Registered Title Event. The **Eligible Loan Details** are as follows with respect to each Loan:

- (a) the rate of interest chargeable on the date of sale;
- (b) the Seller's loan number;
- (c) the mortgagor(s) full name;
- (d) the mortgaged property address (street number, city/town, province, postal code);
- (e) the principal balance amount;
- (f) the authorized loan amount (at origination or last renewal);
- (g) the interest adjustment date (at origination or last renewal);
- (h) the mortgage maturity date; and
- (i) the mortgage lender on title (if other than the Seller).

The Custodian is required to provide access to such Eligible Loan Details to CMHC in order to allow CMHC to ensure compliance by the Guarantor and the Seller with the CMHC Guide and the Transaction Documents.

Table of Contents

Eligibility Criteria

The sale of Loans and their Related Security to the Guarantor will be subject to various conditions (the **Eligibility Criteria**) being satisfied on the relevant Purchase Date. These are as follows:

- (a) there has been neither an Issuer Event of Default and service of an Issuer Acceleration Notice nor a Guarantor Event of Default and service of a Guarantor Acceleration Notice as at the relevant Purchase Date;
- (b) the Guarantor, acting on the advice of the Cash Manager, is not aware, and could not reasonably be expected to be aware, that the proposed purchase by the Guarantor of the Loans and their Related Security on the relevant Purchase Date would result in a downgrade or a withdrawal of the then current ratings by the Rating Agencies of the covered bonds;
- (c) no Loan that is proposed to be sold to the Guarantor on the relevant Purchase Date has an Outstanding Principal Balance of more than \$3,000,000.00 or, in the case of any Readiline Loans, all such Readiline Loans made to the same Borrower from time to time, whether or not sold to the Guarantor, will not have an Outstanding Principal Balance of more than \$3,000,000.00 in the aggregate;
- (d) if the Loans that are proposed to be sold constitute a New Loan Type, the Rating Agency Condition has been satisfied in accordance with the terms of the Mortgage Sale Agreement that such Loans may be sold to the Guarantor;
- (e) such Loan is not secured by a Mortgage that also secures one or more other loans or, in the case of a Readiline Loan, any Readiline LOC, that has the benefit of insurance from any Prohibited Insurer;
- (f) if the Loan is secured by a Mortgage that also secures one or more other loans, the Mortgage Terms, the terms of the related Mortgage or some other documentation applicable to such Loan and enforceable against the Borrower contains cross-default provisions such that a default under such Loan or any other such loan will constitute a default under the Loan and each other such loan or, in the case of a Loan or other loan that is repayable on demand, the Seller or the Guarantor (and any other mortgage lender on title) will have covenanted in writing to demand repayment of the Loan or any other such loan upon default under such Loan or other loan, as applicable;
- (g) at the time of transfer to the Guarantor, no payments of principal or interest thereunder are in arrears;
- (h) the first payment due in respect of such Loan has been paid by the relevant Borrower;
- (i) the related Mortgage constitutes a valid first mortgage lien over the related mortgaged property under which no claims have been made and subject to certain permitted security interests;

Table of Contents

- (j) at the time of transfer, the Guarantor will acquire the entire legal and beneficial ownership interest of the Seller in the applicable Loans and their Related Security, excluding registered title therein, free and clear of any encumbrances, other than (i) certain permitted security interests, and (ii) those which are reflected in a Security Sharing Agreement and the subject of a Release of Security delivered by the Seller, any mortgage lender on title, or any other party that has an interest in the Related Security to the Custodian in trust upon and subject to the provisions of the Mortgage Sale Agreement;
- (k) as at the Purchase Date, the Loan is not subject to any dispute proceeding, set-off, counterclaim or defense whatsoever;
- (l) the Mortgage Terms for the Loan do not expressly afford the Borrower a right of set-off;
- (m) prior to the making of each advance under such Loan, the Lending Criteria and all preconditions to the making of that Loan were satisfied in all material respects subject only to such exceptions as would be acceptable to reasonable and prudent institutional mortgage lenders in the Seller's market; and

(n) such Loan satisfies any other eligibility criteria as may be required pursuant to the CMHC Guide from time to time.

The CMHC Guide currently defines an **Eligible Loan** as a loan (i) which is made on the security of residential property that is located in Canada and consists of not more than four residential units, (ii) which, together with the amount outstanding of any mortgage or hypothecary loan having an equal or prior claim against the property, does not exceed 80% of the value of the related property at the time of the loan, and (iii) which must, at a minimum, meet the following requirements or qualifications:

- (a) a loan will not qualify as an Eligible Loan if, at the time of transfer to the Guarantor, one or more payments of principal or interest payable thereunder are in arrears;
- (b) a loan will not qualify as an Eligible Loan until one or more payments of principal or interest (or blended payment(s) of principal and interest) have been made in accordance with the terms of the Loan;
- (c) a loan will not qualify as an Eligible Loan for so long as the mortgage or hypothecary instrument charging the mortgaged property securing such loan does not represent a first priority perfected security interest (subject to encumbrances or claims customarily permitted by a prudent lender);
- (d) a loan will not qualify as an Eligible Loan (i) unless, at the time of transfer to the Guarantor, the loan, the mortgage or hypothecary instrument securing the loan and (in the case of a loan extended or advanced upon the security of a mortgage or hypothecary instrument also securing Retained Loans) all Retained Loans are beneficially owned (or owned) by the Seller (disregarding, for such purposes, nominee title holders) and (ii) for so long as the loan, all sums derived from the loan (whether on account of principal, interest or otherwise and whether received from the borrower or a guarantor thereof) and the mortgage or hypothecary instrument charging the Property securing the loan are not clear of any ownership interests, security interests, encumbrances or other claims other than (A) encumbrances or claims customarily permitted by a prudent lender or that will cease to apply to such loan, sums and mortgage or hypothecary instrument upon the purchase by or contribution to the Guarantor of the loan, (B) those of the Guarantor, (C) those in favor of holders of covered bondholders (or the Bond Trustee on behalf of such holders) or in favor of other Secured Creditors (in each case to secure the payment of amounts owing to them by the Guarantor) and (D) those which may be reflected in a Security Sharing Agreement and are the subject of a Release of Security delivered by each Lender to the Custodian in trust upon and subject to the provisions of the Security Sharing Agreement or are otherwise provided for (in compliance with the requirements of the CMHC Guide) under the Transaction Documents;

Table of Contents

- (e) a loan will not qualify as an Eligible Loan if one or more other loans advanced under the same mortgage or hypothecary instrument have been insured by a Prohibited Insurer;
 - (f) a loan extended or advanced upon the security of a mortgage or hypothecary instrument also securing (or capable of securing) Retained Loans will not qualify as an Eligible Loan unless it and all Related Retained Loans have the benefit of cross-default provisions (whether contained in the terms and conditions of the loan and Related Retained Loans, the mortgage or hypothecary instrument securing the loan and Related Retained Loans or other documentation applicable to the loan and Related Retained Loans, and enforceable against the borrower) such that a default under the loan or a Related Retained Loan will constitute a default under the loan and all Related Retained Loans or, in the case of a loan or Related Retained Loan not having the benefit of cross-default provisions but repayable on demand, the Guarantor or the Seller (and each mortgage lender as may be on title) have covenanted in writing to demand repayment of the loan and all Related Retained Loans upon a default under the loan or the Related Retained Loan, as the case may be;
 - (g) a loan will not qualify as an Eligible Loan if, at the time of transfer to the guarantor entity, it is the subject of any dispute proceeding, set-off, counterclaim or defense whatsoever;
 - (h) a loan will not qualify as an Eligible Loan if its terms and conditions or the provisions of the mortgage or hypothecary instrument securing the loan or other documentation applicable to the loan and enforceable by the borrower expressly afford the borrower a right of set-off;
 - (i) a loan extended, advanced or renewed on or after July 1, 2014 (which for greater certainty will not include further advances under an existing non-amortizing loan unless amended) will not qualify as an Eligible Loan unless an express waiver of set-off rights on the part of the borrower is included in the terms and conditions of the loan and all Related Retained Loans, the mortgage or hypothecary instrument securing the loan and all Related Retained Loans or other documentation applicable to the loan and all Related Retained Loans, and enforceable against the borrower; and
 - (j) a loan will not qualify as an Eligible Loan unless it was originated or otherwise complies with the Seller approved underwriting policies (in effect or otherwise applicable at the time the loan was originated).
- On the relevant Purchase Date, the Loan Representations and Warranties (described below in *Loan Representations and Warranties*) will be given by the Seller in respect of the Loans and their Related Security sold by the Seller to the Guarantor.

Table of Contents

If the Seller or as applicable, an Originator, accepts an application from, or makes an offer (which is accepted) to, a borrower for a Product Switch which constitutes an unconditional obligation on the part of the Seller to make such Product Switch, then the Seller will be obligated to repurchase the relevant Loan and the Related Security to which the Product Switch relates.

ReadiLine Accounts

Provided that they satisfy the Loan Representations and Warranties and the other requirements set forth in the Transaction Documents and provided that the Bank has entered into a Security Sharing Agreement and executed a Release of Security, the Bank expects that the Portfolio will from time to time include ReadiLine Loans. Under the terms of a related ReadiLine Agreement, a borrower may convert a portion of its outstanding balance into a ReadiLine Loan, with the remaining credit balance being a ReadiLine LOC. The ReadiLine Agreement provides that the indebtedness extended by the Seller to a borrower under a ReadiLine Loan will be secured by the same Mortgage on the related Property. The terms of the Mortgage Sale Agreement as they relate to ReadiLine Loans constitute the Security Sharing Agreement as between the Seller, the Guarantor, the Bond Trustee, the Servicer and the Custodian and, accordingly, the Seller is not obligated to enter into a separate Security Sharing Agreement in order to sell ReadiLine Loans to the Guarantor. The Seller will be required to deliver a Release of Security to the Custodian, to be held in trust and subject to restrictions on its use as described below under *Security Sharing Agreements and Releases of Security*.

ReadiLine LOCs will not initially be eligible for sale to the Guarantor as a Loan pursuant to the Mortgage Sale Agreement, *provided* that if ReadiLine LOCs are subsequently approved as a New Loan Type by the Rating Agencies, then ReadiLine LOCs may be eligible to be sold as Loans to the Guarantor under the Mortgage Sale Agreement provided that they satisfy the Loan Representations and Warranties and other requirements of the Transaction Documents.

Prior to a default by a borrower under any ReadiLine Account, the Transaction Documents will require the Seller, the Servicer and any related ReadiLine LOC Creditor to apply payments to a ReadiLine Account in accordance with the related ReadiLine Agreement. Following a default by a borrower under any ReadiLine Account, the Transaction Documents will require all monies received from such borrower and all amounts realized from the enforcement of security held for all of such borrower's ReadiLine Accounts to be applied, after the payment of related costs, first to pay all indebtedness owing under any the ReadiLine Loans owned by the Guarantor, second to pay all indebtedness owing under any the ReadiLine Loans owned by the Seller, third to pay indebtedness owing under any ReadiLine LOC, and fourth to pay any excess amount not otherwise applied to the foregoing in accordance with the terms of the related ReadiLine Agreement and as may be required by applicable law.

The Seller may from time to time sell interests in ReadiLine LOCs to a third party purchaser, together with the benefit of a corresponding interest in the related Mortgage, provided that such purchaser will have no interest in the related Mortgage unless it enters into a Security Sharing Agreement, executes a Release of Security and agrees to be bound by the provisions of the Mortgage Sale Agreement relating to ReadiLine Accounts.

The Seller will act as the servicer of each related ReadiLine Account that is the subject of a Security Sharing Agreement and will allocate monies received under all of the related ReadiLine Accounts with the same borrower, and otherwise realized from the enforcement of the security held for all such related ReadiLine Accounts to the indebtedness owing under such ReadiLine Accounts in accordance with the same priority arrangement as is set out in the Mortgage Sale Agreement, including the allocation of such monies to indebtedness owing under each ReadiLine Loan owned by the Guarantor in priority to all ReadiLine Loans owned by the Borrower and all ReadiLine LOCs with the same borrower.

Table of Contents

Concurrently with the sale of the First Readiline Loan relating to a particular borrower to the Guarantor, the Seller will transfer and convey all of its right, title and interest in the Related Security (including its interest in the related Readiline Mortgage and other Related Security (or, in the case of a Readiline Loan located in the Province of Québec, an interest in the related Readiline Mortgage and other Related Security to the extent of the First Readiline Loan that is sold to the Guarantor)) to the Guarantor. The Guarantor will hold the Related Security in respect of each Readiline Loan sold to the Guarantor as follows: (i) an undivided interest in such Readiline Mortgage and other Related Security for its own sole and absolute account and benefit, to the extent of all outstanding indebtedness owing under all Readiline Loans owned by it in respect of the same borrower from time to time, which undivided interest will have full priority over all other rights, claims and interests (other than costs of the Guarantor for mortgage enforcement); and (ii) subject to the Guarantor's priority described in item (i) above and below (but in the case of the Seller, together with the right to *pari passu* and *pro rata* distributions in respect of certain Additional Readiline Loans with the same borrower owned by the Seller and not yet sold to the Guarantor), an undivided interest in such Readiline Mortgage and other Related Security, as agent, nominee and bare trustee for the Seller and any Readiline LOC Creditor, as their interests may appear, to the extent of all outstanding indebtedness owing under any Additional Readiline Loans and Readiline LOCs with the same borrower owned by the Seller or Readiline LOC Creditor from time to time, *provided that*, for Readiline Loans in the Province of Québec, the Seller will transfer and convey and the Guarantor will solely hold an interest in the Readiline Mortgage and other Related Security in respect of each Readiline Loan sold to the extent of all outstanding indebtedness owing under all Readiline Loans with the same borrower owned by the Guarantor from time to time, which interest will have full priority over all other rights, claims and interests (other than costs of the Guarantor for mortgage enforcement). As well, for Readiline Loans in the Province of Québec, the Seller and each of the Readiline LOC Creditors will be entitled to an undivided interest in the Readiline Mortgage and other Related Security to the extent of any outstanding indebtedness owing under any related Readiline Accounts. All Additional Readiline Loans made by the Seller to a borrower are required to be sold to the Guarantor within a time period specified in the Mortgage Sale Agreement. Any failure by the Seller to convey the Additional Readiline Loans with respect to a particular borrower to the Guarantor in accordance with the Mortgage Sale Agreement (including satisfying all applicable Eligibility Criteria and Loan Representation and Warranties) will entitle the Guarantor to serve a Loan Repurchase Notice on the Seller requiring the Seller to repurchase all related Readiline Loans owned by the Guarantor which have been made to the same borrower, together with the Guarantor's interest in all Related Security. Prior to the sale of such Additional Readiline Loans to the Guarantor, the Seller's right to receive distributions on an Additional Readiline Loan owned by it, following default, will at all times be junior, subject and subordinated to the Guarantor's right to receive distributions with respect to any Readiline Loans made to the same borrower and which are owned by the Guarantor, and the right of any Readiline LOC Creditor to receive distributions on a Readiline LOC will at all times be junior, subject and subordinated to the Seller's right to receive distributions with respect to any Readiline Loans made to the same borrower and which are owned by the Seller.

The Transaction Documents will provide that the Guarantor or the Servicer on its behalf (prior to the occurrence of a Guarantor Event of Default and the service of a Guarantor Acceleration Notice on the Guarantor), or the Bond Trustee (following the occurrence of a Guarantor Event of Default and the service of a Guarantor Acceleration Notice on the Guarantor), will (i) have the sole right to take all enforcement actions and make all servicing decisions with respect to the Related Security (including under the related Readiline Mortgage and other Related Security) and (ii) allocate any monies received by it and otherwise realized from the enforcement of the security for all of the related Readiline Accounts with the same borrower in accordance with the priority arrangement described above, including the allocation of such monies to all indebtedness owing under each related Readiline Loan in priority to all Readiline LOCs.

Security Sharing Agreements and Releases of Security

As noted above, any Readiline LOC Creditor that acquires an interest in the Readiline Mortgage and other Related Security relating to Readiline Loan owned by the Guarantor will be required to execute and deliver a Release of Security to the Custodian in trust, and to enter into a Security Sharing Agreement, which agreement must conform with the requirements of the CMHC Guide and the provisions of the Mortgage Sale Agreement. Any such Security Sharing Agreement will include terms governing the rights, duties and entitlements of such Readiline LOC Creditor with respect to the Readiline LOCs acquired by such Readiline LOC Creditor and its interests in the related Readiline Mortgages and other Related Security that are substantially similar to those set forth in the Mortgage Sale Agreement, including the requirement that the Servicer service the related Readiline LOCs for so long as such Readiline LOCs are subject to the Security Sharing Agreement.

A Release of Security, once exercised, relinquishes any and all interest or right that the party delivering such Release of Security may have in the related Readiline Mortgages and other Related Security. A Release of Security delivered by the Seller or any Readiline LOC Creditor will be held by the Custodian in trust and cannot be exercised with respect to any particular Readiline Mortgage and the other Related Security unless a Security Sharing Agreement Breach has occurred with respect to the related Readiline LOC or Readiline Mortgage and other Related Security and a party to the Security Sharing Agreement other than the party who has made such breach requests that the Custodian exercise such Release of Security. As a condition precedent to such delivery, the Custodian will be required to obtain a legal opinion from legal counsel that is independent from the parties to the Security Sharing Agreement confirming that a Security Sharing Agreement Breach has occurred and the conditions to the exercise of such Release of Security have been met. Upon the exercise of a Release of Security, all interest or right of the breaching party in the related Readiline Mortgages and other Related Security will be relinquished as of the date of such delivery.

Table of Contents

A **Security Sharing Agreement Breach** includes any of the following events:

- (a) a failure to comply with the provisions of the Security Sharing Agreement with respect to the allocation of distributions under the related Readiline Account, the servicing of the related Readiline Account and certain other restrictions on the dealings by such party with the Readiline LOC, which failure has not been cured within 60 days (or after an Issuer Event of Default, 10 Canadian Business Days) after the breaching party has received notice of the breach;
- (b) a disposition of a Readiline LOC to a purchaser that has not also acquired all related Readiline Loans then owned by the Guarantor unless such purchaser has assumed the obligations of the Seller or Readiline LOC Creditor under the Security Sharing Agreement and delivered a Release of Security to the Custodian in trust; and
- (c) a challenge by the Seller or Readiline LOC Creditor of the validity, legality or enforceability of certain provisions of the Security Sharing Agreement.

Transfer of Title to the Loans to the Guarantor

Loans sold, transferred and assigned by the Seller to the Guarantor pursuant to the Mortgage Sale Agreement will have legal title to the related Mortgages remain registered in the name of the Seller or the applicable Originator and notice of the sale, transfer and assignment will not be given to the borrowers or, in respect of the Related Security, any relevant guarantor of any borrower. Such notice and, where appropriate, the registration or recording in the appropriate land registry or land titles offices of the transfer by the Seller to the Guarantor of legal title to the Mortgages will be deferred and will only take place in the circumstances described below.

On each Purchase Date, the Seller will:

- (a) hold registered title to the related Loans and Related Security as agent, bare trustee and nominee in trust for and on behalf of the Guarantor (and also, in the case of any Readiline Loan, for and on behalf of the Seller and any Readiline LOC Creditor having an interest therein as described in *Readiline Accounts*); and
- (b) deliver such agreements and take all actions with respect to the Loans and Related Security as the Guarantor may direct in accordance with the Mortgage Sale Agreement and the Servicing Agreement.

Subject to the following paragraph, notice of the sale, assignment and transfer of the Loans and their Related Security and a direction to make all future repayments of the Loans to the Standby Account Bank for the account of the Guarantor will be sent by the Seller or the applicable Originator, or, as necessary, by the Guarantor (or the Servicer on behalf of the Guarantor) on behalf of the Seller or the applicable Originator (under applicable powers of attorney granted to the Guarantor) and where required, registration of the transfer of legal title to the related Mortgages will be made in the appropriate land registry or land titles offices, as soon as practicable and in any event on or before the 60th day following the earliest to occur of any of the following (each, a **Registered Title Event**):

- (a) a Servicer Event of Default that has not been remedied within 30 days or such shorter period permitted by the Servicing Agreement;
- (b) an Issuer Event of Default (other than an actual or impending Insolvency Event with respect to the Bank) that has not been remedied within 30 days or such shorter period permitted by Condition 9.1 (*Issuer Events of Default*);
- (c) an actual or impending Insolvency Event with respect to the Seller (without regard to the parenthetical language in clause (a) of the definition of Insolvency Proceeding);

- (d) the acceptance by an applicable Purchaser of any offer by the Guarantor to sell Loans and their Related Security (only in respect of the Loans being sold and their Related Security) to any such Purchaser who is not the Seller or the relevant Originator, unless otherwise agreed by such Purchaser and the Guarantor, with the consent of the Bond Trustee, which consent will not be unreasonably withheld;

Table of Contents

- (e) the Seller, the Originators and/or the Guarantor being required: (i) by law; (ii) by an order of a court of competent jurisdiction; or (iii) by a regulatory authority which has jurisdiction over the Seller, the Originators or the Guarantor, to effect such notice and registration; and

- (f) the date on which the Bank incurs a downgrade in the ratings of its unsecured, unsubordinated and unguaranteed debt obligations below A3 by Moody's or A (low) by DBRS, or in its long-term issuer default rating below BBB+ by Fitch.

Notwithstanding the occurrence of any event or circumstance described in clauses (a) through (f) immediately above, none of the steps described in the preceding paragraph are required to be taken if satisfactory assurances are provided to the Guarantor and the Bond Trustee by OSFI or such other supervisory authority having jurisdiction over the Seller permitting registered title to the Mortgages to remain with the Seller (or the applicable Originator) until such time as (i) the Loans and their Related Security are to be sold or otherwise disposed of by the Guarantor or the Bond Trustee in the performance of their respective obligations under the Transaction Documents, or (ii) the Guarantor or the Bond Trustee is required to take actions to enforce or otherwise deal with the Loans and their Related Security.

Except where lodged with the relevant registry in relation to any registration or recording which may be pending, the Loan, the Related Security and the loan files relating to the Loans in the Portfolio will be held by, or to the order of, the Seller or the Servicer, as the case may be, or by solicitors, service providers or licensed conveyancers acting for the Seller and/or the Originators in connection with the creation of the Loans and their Related Security. The Seller or the Servicer, as the case may be, will undertake that all the loan files relating to the Loans in the Portfolio which are at any time in their possession or under their control or held to their order will be held to the order of the Bond Trustee or as the Bond Trustee may direct. The right, interest and title of the Guarantor to the Loans and their Related Security will be secured by irrevocable powers of attorney granted by the Seller and the relevant Originator, as of the Purchase Date such Loans are transferred, in favor of the Guarantor (or the Managing GP) and the Bond Trustee in respect of registered title to the Loans and their Related Security.

The Seller will undertake in the Mortgage Sale Agreement to pay the cost associated with the transfer of registered title or recorded title to the Loans.

The Seller will be required to provide updated powers of attorney from time to time under the Mortgage Sale Agreement, together with related opinions of counsel, in order to ensure the continued effectiveness of such powers of attorney.

Seller Corporate Representations and Warranties

Under the Mortgage Sale Agreement, the Seller makes the following representations and warranties (in addition to the Loan Representations and Warranties described below) in favor of the Guarantor on each Purchase Date: (i) it is a Canadian chartered bank under the Bank Act and has, in all material respects, full power and authority to own its properties and conduct its business as presently owned or conducted, and to execute, deliver and perform its obligations under the Mortgage Sale Agreement; (ii) it is qualified under all applicable law, and has obtained all necessary licenses and approvals and is in good standing thereunder, in each jurisdiction in which failure to so qualify or to obtain such licenses and approvals would render any Mortgage unenforceable by the Seller, any other purchaser, the Guarantor or the Bond Trustee, as applicable, or would have a material adverse effect on the Guarantor's rights thereunder, (iii) the execution and delivery of the Mortgage Sale Agreement and each of the documents, agreements

Table of Contents

or instruments to be executed and delivered thereunder by the Seller, and the performance by the Seller of its obligations thereunder, have been duly authorized by the Seller by all necessary corporate action on the part of the Seller and are enforceable against the Seller in accordance with their terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws, now or hereafter in effect, affecting the enforcement of creditors' rights in general and except as such enforceability may be limited by general principles of equity (whether considered in a suit at law or in equity); (iv) the execution and delivery by the Seller of the Mortgage Sale Agreement and each of the documents, agreements or instruments to be executed and delivered thereunder, the performance of the transactions contemplated thereunder, and the fulfillment of the terms thereof applicable to the Seller, will not (a) conflict with or violate the constituting documents or by-laws of the Seller, any resolution of the board of directors (or any committee thereof) or, to the knowledge of the Seller, the shareholders of the Seller or any law applicable to the Seller or (b) conflict with, or result in any breach of any of the terms and provisions of, or constitute (with or without notice or lapse of time or both) a default under, any indenture, contract, agreement, mortgage, deed of trust or other instrument to which the Seller is a party or by which it or its properties are bound, in any such case in a manner that would have a material adverse effect on the Guarantor's rights thereunder or would materially and adversely affect the validity or enforceability of the Mortgage Sale Agreement; (v) there are no proceedings or investigations, to the best knowledge of the Seller, pending or threatened against the Seller before any governmental authority: (a) asserting the invalidity of the Mortgage Sale Agreement, (b) seeking to prevent the consummation of any of the transactions contemplated by the Mortgage Sale Agreement, (c) seeking any determination or ruling that, in the reasonable judgment of the Seller, would materially and adversely affect the performance by the Seller of its obligations under the Mortgage Sale Agreement, or (d) seeking any determination or ruling that would materially and adversely affect the validity or enforceability of the Mortgage Sale Agreement; (vi) all authorizations, consents, orders or approvals of or registrations or declarations with any governmental authority required to be obtained, effected or given by the Seller in connection with the execution and delivery by the Seller of the Mortgage Sale Agreement and the performance of the transactions contemplated by the Mortgage Sale Agreement have been duly obtained, effected or given and are in full force and effect, other than any such authorizations, consents, orders or approvals of or registrations or declarations the absence of which would not materially and adversely affect the validity or enforceability of the Mortgage Sale Agreement or any Mortgage; (vi) it is not a non-resident of Canada for purposes of the ITA; (vii) none of the transactions contemplated thereunder require compliance with any applicable bulk sales legislation; and (viii) it has duly and timely paid all amounts that it is liable to pay under the ITA, including all installments on account of such amounts for the current year, that are due and payable by it whether or not assessed by the appropriate governmental authority and, in respect of amounts that it is liable to pay under the ITA in or in respect of the current year that are not yet due and payable, will pay such amounts when due, other than such amounts that are subject to a continued dispute or reassessment and for which the Seller has established sufficient reserves.

Loan Representations and Warranties

Neither the Guarantor nor the Bond Trustee has made or has caused to be made on its behalf any enquiries, searches or investigations in respect of the Loans and their Related Security to be sold to the Guarantor. Instead, each is relying entirely on the Loan Representations and Warranties by the Seller contained in the Mortgage Sale Agreement. The parties to the Mortgage Sale Agreement may, with the prior written consent of the Bond Trustee (which consent will only be given if the Rating Agency Condition has been satisfied in respect of the proposed amendments), amend or waive the Loan Representations and Warranties in the Mortgage Sale Agreement. The loan representations and warranties set out in the Mortgage Sale Agreement (the **Loan Representations and Warranties**) as of the date of this prospectus are as follows and are given on the relevant Purchase Date to the Guarantor, the Custodian and the Bond Trustee in respect of the Loans and Related Security to be sold to the Guarantor only on that date:

Table of Contents

the Loan meets the Eligibility Criteria;

the Loan is a Fixed Rate Loan or a variable rate loan;

the borrower thereunder is a resident of Canada and is not, to the knowledge of the Seller, the subject of any insolvency proceeding;

the Seller or the relevant Originator is permitted to assign its rights under the Loan (including all Related Security) in whole or in part without notice to or the consent of the borrower or any other Person and neither the Loan nor the Related Security contains any restriction on the sale, assignment or transfer of the Loan and the Related Security or an interest therein, and the Loan expressly permit its assignment without the consent of the Borrower;

the Loan is fully advanced as of the date of transfer and is not subject to any contingent performance requirements of the Seller or the relevant Originator unless such requirements are guaranteed or insured by third parties acceptable to a Reasonable Prudent Mortgage Lender.

the Loan is payable in Canada only and is denominated in Canadian Dollars;

the Loan (other than Loans that are home equity lines of credit) has a remaining amortization period of less than 40 years as of the relevant Purchase Date;

the Loan contains standard terms and conditions generally contained in conventional residential first mortgages originated by the Seller or the relevant Originator and contains a restriction on the borrower's ability to set-off any payments owing thereunder against any amounts payable by the Seller or, as applicable, the relevant Originator to such borrower;

the Property subject to the related Mortgage is a freehold or condominium interest in real or immovable property located in Canada which is zoned residential, or is zoned agricultural or rural and residential use is permitted by such zoning, and on which, at the time the Loan was underwritten or purchased by the Seller or the applicable Originator, a family dwelling has been constructed;

the related Mortgage has been duly registered or recorded in the name of the Seller or, as applicable, the applicable Originator, in the appropriate land titles or land registry office or similar place of public registration for the province or territory in which the Property is located;

Table of Contents

the Loan is accompanied by a solicitor's or notary's report on title from a solicitor or notary qualified to practice law in the province or territory in which the Property is located to the effect that, at the time of origination of such Loan, the borrower had good title to, and the related Mortgage created a first charge, mortgage or hypothec against, such Property, subject only to Adverse Claims which, in the reasonable opinion of the Seller, do not in the aggregate materially impair the marketability of the title to such property or, if no such report on title was obtained, the Loan is accompanied by a policy of title insurance to the same effect from a provider acceptable to a Reasonable Prudent Mortgage Lender;

the Loan has been duly authorized, executed and delivered by the Seller or the applicable Originator and the borrower, which Loan, together with all Related Security, is in full force and effect and constitutes the legal, valid and binding obligation of the borrower enforceable in accordance with its terms, subject to applicable bankruptcy, reorganization, insolvency, moratorium or similar laws affecting creditors' rights generally and to equitable principles of general application (regardless of whether endorsements is sought in a proceeding at law or in equity);

the Loan or applicable law permits realization by the Seller or the applicable Originator and their respective assigns against the Property securing such Loan in accordance with the terms of such Loan, subject to applicable law, including, without limitation, the notice requirements and other limitations contained in the *Bankruptcy and Insolvency Act* (Canada) and statutory limitations on the rights of mortgagees to exercise their remedies, and the Loan constitutes the borrower's obligation to pay to the Seller or the applicable Originator and their respective assigns, in accordance with the scheduled payments set forth therein, the amounts owing thereunder;

the Loan was, when underwritten or purchased by the Seller or the applicable Originator, and is, on the date of transfer to the Guarantor, in compliance, in all material respects, with all requirements of applicable law that would affect the validity or enforceability thereof, including consumer protection legislation, privacy and interest rate disclosure legislation;

the Seller has ensured, in accordance with its customary servicing procedures, or, as applicable, has procured the relevant Originator to ensure in accordance with its customary servicing procedures, that policies of insurance satisfying the requirements set forth in the Credit and Collection Policy are in force and the Seller, or as applicable, the relevant Originator, is named as first mortgagee or hypothecary creditor, as the case may be, under such policies with the benefit of a standard mortgage clause or endorsement;

the Loan has not been satisfied or rescinded, no rights of the mortgagee thereunder have been postponed or subordinated, no Property has been discharged, reconveyed or released from the charge created by the related Mortgage in whole or in part, and no provision of the Loan has been waived, altered or modified in any respect, except in each case, (x) as permitted pursuant to Credit and Collection Policy, and (y) pursuant to a document, instrument or writing included in the related Customer File;

Table of Contents

the Loan has not been originated in, and is not subject to the laws of, any jurisdiction under which the sale, transfer and assignment of such Loan by the applicable Originator to the Seller, if applicable, and by the Seller to the Guarantor, is unlawful, void or voidable; and

if such Loan is a Readiline Loan, as of the relevant Purchase Date (i) no other Readiline Loans have been advanced to the related Borrower that are not owned by the Guarantor, and (ii) if such Loan is a First Readiline Loan, the Seller is the owner of any Readiline LOCs advanced to the same Borrower that are secured by the same Readiline Mortgage and other Related Security.

If New Loan Types are proposed to be sold to the Guarantor, then the Loan Representations and Warranties and Eligibility Criteria in the Mortgage Sale Agreement may be modified as required, with the prior consent of the Bond Trustee (which consent will only be given if the Rating Agency Condition has been satisfied with respect thereto), to accommodate these New Loan Types. The prior consent of the covered bondholders to the requisite amendments will not be required to be obtained.

Repurchase of Loans

If the Seller receives a Loan Repurchase Notice from the Guarantor identifying a Loan or its Related Security in the Portfolio which (i) did not, as at the relevant Purchase Date, materially comply with the Loan Representations and Warranties set out in the Mortgage Sale Agreement or, (ii) is subject to a Product Switch or a request by a borrower for an advance under the relevant Loan in respect of amounts previously paid by the borrower thereunder, in accordance with the terms of the Loan, then the Seller will be required to repurchase (a) any such Loan and its Related Security and (b) any other Loan secured or intended to be secured by that Related Security or any part of it. For such purposes, all Readiline Loans made to the same borrower which are owned by the Guarantor will be considered to be a single Loan. The repurchase price payable upon the repurchase of any Loans and their Related Security will be an amount equal to (i) in the case of a purchase due to a product switch or a breach of a representation and warranty, the aggregate fair market value of all such Loans, or (ii) in the case of an optional purchase by the Seller, the aggregate fair market value of such Loans unless, in either case, following such purchase, the Asset Coverage Test would no longer be met, in which case the amount payable will be the aggregate Repurchase Amount of all such Loans in order to ensure no such breach occurs. The repurchase proceeds received by the Guarantor will be applied (other than Accrued Interest and Arrears of Interest and other than in cases where the repurchase is made in connection with the repayment of an advance) in accordance with the Pre-Acceleration Principal Priorities of Payments (see *Cashflows* below).

Table of Contents

General ability to repurchase

Prior to the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice or a Guarantor Event of Default and service of a Guarantor Acceleration Notice, the Seller may from time to time offer to repurchase a Loan (including a Defaulted Loan) and its Related Security from the Guarantor for a purchase price of not less than the fair market value of such Loan but in no case less than the outstanding principal balance plus accrued and unpaid interest. For such purposes, all Readiline Loans made to the same borrower which are owned by the Guarantor will be considered to be a single Loan. The Guarantor may accept such offer at its sole discretion, provided such repurchase will be subject to the Asset Coverage Test being met on the date of such repurchase, after giving effect thereto. If an Issuer Event of Default has occurred but no liquidator has been appointed to the Seller, the Seller's right to request the repurchase of Loans and their Related Security will be conditional upon the delivery by the Seller of a solvency certificate to the Guarantor and the Bond Trustee. Amounts paid by the Seller pursuant to such option will be deposited into the GDA Account.

Defaulted Loans

The Cash Manager will identify any Defaulted Loans in the Portfolio and upon identification serve a Non-Performing Loans Notice on the Bank and the Servicer. Non-Performing Loans will be given no credit in the Asset Coverage Test or the Amortization Test, as applicable.

Maturing Loans

Without prejudice to the Seller's general ability to repurchase, the Seller (or an Affiliate of the Seller designated by the Seller) will have the option exercisable at any time prior to the date which is 90 days prior to the date of maturity of a Loan to repurchase such Loan on the maturity date thereof at the purchase price of not less than the aggregate Outstanding Principal Balance of the relevant Loan and all Arrears of Interest and Accrued Interest relating thereto in accordance with the Mortgage Sale Agreement as at the date of repurchase. For such purposes, all Readiline Loans made to the same borrower that are included in the Portfolio will be considered to be a single Loan and must be repurchased together, each for an amount equal to not less than their respective Repurchase Amounts, and where the Guarantor owns more than one Readiline Loan made to the same borrower, and if the respective Readiline Loans have different maturity dates, the maturity date for all such Readiline Loans will be deemed to be the earliest mortgage maturity date of any one of such Readiline Loans.

If the Seller does not deliver to the Guarantor on or before the required date a written notice specifying the Loans in respect of which it will not exercise such option, the Seller will be deemed to have irrevocably exercised its option to repurchase and will repurchase each such Loan on the Calculation Date next following the applicable maturity date of such Loan; provided, that the Seller will not be required to repurchase any Loan which (i) is or becomes a Defaulted Loan on its maturity date, or (ii) is repaid in full on its maturity date from funding provided to the borrower under such Loan by a person other than the Seller. Amounts paid by the Seller pursuant to such option will be deposited into the GDA Account.

Right of Pre-emption

Under the terms of the Mortgage Sale Agreement, the Seller has a right of pre-emption in respect of any sale, in whole or in part, of Selected Loans; provided, however, that such right will not be available at any time during which the Seller is in default of any of its obligations under the Transaction Documents.

Table of Contents

In connection with any sale of Loans and their Related Security, except where such Loans and their Related Security are being sold to the Seller pursuant to an offer by the Seller, the Guarantor will serve on the Seller a Selected Loan Offer Notice offering to sell those Selected Loans for an offer price equal to the greater of (i) the fair market value of such Loans, and if the sale is following a breach of the Pre-Maturity Test or the service of a Notice to Pay, the Adjusted Required Redemption Amount of the relevant Series of covered bonds, otherwise (ii) the True Loan Balance of such Loans, in each case subject to the offer being accepted by the Seller within 10 Business Days. If an Issuer Event of Default has occurred but no liquidator has been appointed to the Seller, the Seller's right to accept the offer (and therefore its right of pre-emption) will be conditional upon the delivery by the Seller of a solvency certificate to the Guarantor and the Bond Trustee. If the Seller rejects the Guarantor's offer or fails to accept it in accordance with the foregoing, the Guarantor will offer to sell the Selected Loans to other Purchasers (as described under *Guarantor Agreement - Sale of Selected Loans at any time an Asset Coverage Test Breach Notice is outstanding or a Notice to Pay has been served on the Guarantor*).

At any time when there is no Asset Coverage Test Breach Notice outstanding, the Pre-Maturity Test has not been breached and no Notice to Pay or Guarantor Acceleration Notice has been served on the Guarantor, it will be a condition to the Guarantor's right to sell Loans and their Related Security that the Asset Coverage Test and the Pre-Maturity Test will be met on the date of such sale after giving effect to the sale and taking into account amounts that will be paid or provided for on the next following Guarantor Payment Date in accordance with the Priorities of Payments.

If the Seller validly accepts the Guarantor's offer to sell the Selected Loans, the Guarantor will, within three Canadian Business Days of such acceptance, serve a Selected Loan Repurchase Notice on the Seller. The Seller will sign and return a duplicate copy of the Selected Loan Repurchase Notice and will repurchase from the Guarantor free from the Security created by and pursuant to the Security Agreement the relevant Selected Loans (and any other Loan secured or intended to be secured by that Related Security or any part of it) referred to in the relevant Selected Loan Repurchase Notice. Completion of the purchase of the Selected Loans by the Seller will take place on the Guarantor Payment Date next occurring after receipt of the Selected Loan Repurchase Notice and the purchase price for that Loan or such date as the Guarantor may direct in the Selected Loan Repurchase Notice (provided that, where a Notice to Pay has been served, such date is not later than the earlier to occur of the date which is (a) 10 Canadian Business Days after receipt by the Guarantor of the returned Selected Loan Repurchase Notice and (b) the Final Maturity Date of the Earliest Maturing Covered Bonds).

If a Loan is subject to a Product Switch, then the Seller will repurchase the Loan or Loans under the relevant Mortgage Account and the Related Security from the Guarantor. In either case, the sale price will be equal to the aggregate Outstanding Principal Balance of such Loans and all Arrears of Interest and Accrued Interest relating thereto as at the date of purchase.

A Loan will be deemed to be subject to a **Product Switch** if there is a variation in the financial terms and conditions applicable to the relevant borrower's Loan other than:

any variation agreed with a borrower to control or manage arrears on the Loan;

any variation imposed by statute;

any change in the repayment method of the Loan; or

Table of Contents

any change to a borrower under the Loan or the addition of a new borrower under a Loan.
For the purposes hereof:

Adjusted Required Redemption Amount means the Canadian Dollar Equivalent of the Required Redemption Amount, plus or minus the Canadian Dollar Equivalent of any swap termination amounts payable under the Covered Bond Swap Agreement to or by the Guarantor in respect of the relevant Series of covered bonds less (where applicable) amounts held by the Cash Manager for and on behalf of the Guarantor and amounts standing to the credit of the Guarantor Accounts and the Canadian Dollar Equivalent of the principal balance of any Substitution Assets (excluding all amounts to be applied on the next following Guarantor Payment Date to repay higher ranking amounts in the Guarantee Priorities of Payments and those amounts that are required to repay any Series of covered bonds which mature prior to or on the same date as the relevant Series of covered bonds) plus or minus any swap termination amounts payable to or by the Guarantor under the Interest Rate Swap Agreement, in respect of the relevant Series of covered bonds determined on a *pro rata* basis minus amounts standing to the credit of the Pre-Maturity Liquidity Ledger.

Required Redemption Amount means, in respect of a Series of covered bonds, the amount calculated as follows:

$$\begin{array}{l} \text{the Principal Amount Outstanding of the relevant Series of} \\ \text{covered bonds} \\ \text{New Sellers} \end{array} \quad \times \quad (1 + \text{Negative Carry Factor}) \times (\text{days to maturity of the relevant} \\ \text{Series of covered bonds}/365)$$

In the future, it is expected that New Sellers (which are members of the BMO Group) may accede to the Program and sell loans and their related security to the Guarantor. Any such New Seller will be required to enter into a New Mortgage Sale Agreement, which will be in substantially the same form and contain substantially the same provisions as the Mortgage Sale Agreement between the Seller, the Guarantor and the Bond Trustee. The sale of New Seller Loans and their Related Security by New Sellers to the Guarantor will be subject to certain conditions, including the following:

each New Seller enters into a New Mortgage Sale Agreement with the Guarantor and the Bond Trustee, in each case so that it has, in relation to those New Seller Loans and their Related Security to be sold by the relevant New Seller, substantially the same rights and obligations as the Seller had in relation to those Loans and their Related Security comprised in the Initial Portfolio under the Mortgage Sale Agreement between the Seller, the Guarantor and the Bond Trustee;

each New Seller accedes to such Transaction Documents and enters into such other documents as may be required by the Bond Trustee, the Guarantor and/or the Cash Manager (in each case acting reasonably) to give effect to the addition of a New Seller to the transactions contemplated under the Program;

Table of Contents

any New Seller Loans and their Related Security sold by a New Seller to the Guarantor comply with the Loan Representations and Warranties set out in the New Mortgage Sale Agreement;

either the Servicer services the New Seller Loans and their Related Security sold by a New Seller on the terms set out in the Servicing Agreement (with such subsequent amendments as may be agreed by the parties thereto) or the New Seller (or its nominee) enters into a servicing agreement with the Guarantor and the Bond Trustee which sets out the servicing obligations of the New Seller (or its nominee) in relation to the New Seller Loans and their Related Security and which is on terms substantially similar to the terms set out in the Servicing Agreement (provided that the fees payable to the Servicer or the New Seller (or its nominee) acting as servicer of such New Seller Loans and their Related Security would be determined on or around the date of the accession of the New Seller to the Program);

the Bond Trustee is satisfied that any accession of a New Seller to the Program will not prejudice the Asset Coverage Test; and

the Bond Trustee is satisfied that any modifications to the Transaction Documents in order to accommodate the accession of a New Seller to the Program will not be materially prejudicial to the interests of any of the covered bondholders and the a Rating Agency Condition has been satisfied in relation thereto.

If the above conditions are met, the consent of covered bondholders will not be required in relation to the accession of a New Seller to the Program.

The Mortgage Sale Agreement is governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein.

Servicing Agreement

Pursuant to the terms of the Servicing Agreement between the Seller, the Guarantor, the Servicer and the Bond Trustee, the Servicer has agreed to service on behalf of the Guarantor the Loans and their Related Security comprised in the Portfolio.

The Servicer will be required to administer the Loans and their Related Security comprised in the Portfolio in accordance with the Servicing Agreement:

- (a) as if the Loans and their Related Security sold by the Seller to the Guarantor had not been sold to the Guarantor but remained with the Seller; and
- (b) in accordance with the Seller's administration, arrears and enforcement policies and procedures forming part of the Seller's policy from time to time as they apply to those Loans.

The Servicer's actions in servicing the Loans in accordance with its procedures will be binding on the Guarantor, the Seller and the other Secured Creditors.

Table of Contents

The Servicer will have the power to exercise the rights, powers and discretions and to perform the duties of the Guarantor and the Seller (according to their respective estates and interests) in relation to the Loans and their Related Security that it is servicing pursuant to the terms of the Servicing Agreement, and to do anything which it reasonably considers necessary, convenient or incidental to the administration of the Loans and their Related Security.

With respect to ReadLine Loans, the Servicing Agreement will require the Servicer to service all ReadLine Loans and ReadLine LOCs made to a particular borrower that are secured by the Related Security for such ReadLine Account, whether or not owned by the Guarantor. The Transaction Documents will further require all ReadLine Loans and ReadLine LOCs to be serviced by the servicer in a manner consistent with the respective rights, interests and priorities of the Guarantor, the Seller and any ReadLine LOC Creditor as described in *Mortgage Sale Agreement ReadLine Accounts*, but in all cases giving effect to the priority of the ReadLine Loans owned by the Guarantor.

Right of delegation by the Servicer

Subject to certain conditions, the Servicer may from time to time sub-contract or delegate the performance of its duties under the Servicing Agreement, provided that it will nevertheless remain responsible for the performance of those duties to the Guarantor and the Bond Trustee and, in particular, will remain liable at all times for servicing the Loans and their Related Security and for the acts or omissions of any delegate or sub-contractor. Any such sub-contracting or delegation will be at the expense of the Servicer, may be varied or terminated at any time by the Servicer and will be subject to the prior consent of the Guarantor and the Bond Trustee and subject to satisfaction of the Rating Agency Condition.

Undertakings of the Servicer

Pursuant to the terms of the Servicing Agreement, the Servicer will undertake in relation to those Loans and their Related Security that it is servicing, *inter alia*, to:

keep records and books of account on behalf of the Guarantor in relation to the Loans and their Related Security comprised in the Portfolio;

keep the Customer Files in its possession or under its control in safe custody and maintain records necessary to enforce each Mortgage and to provide the Guarantor and the Bond Trustee with access to the Customer Files and other records relating to the administration of the Loans and their Related Security in its possession;

keep and maintain records in respect of the Portfolio for the purposes of identifying amounts paid by each borrower, any amount due from a borrower and the Outstanding Principal Balance of each Loan and such other records as would be kept by a Reasonable Prudent Mortgage Lender;

take such steps as are necessary to maintain the perfection and priority of the security interests created pursuant to the Loans and their Related Security;

notify each Rating Agency of any changes made to its credit and collection policy;

Table of Contents

assist the Cash Manager in the preparation of a monthly asset coverage report in accordance with the Cash Management Agreement;

take all reasonable steps to recover all sums due to the Guarantor, including instituting proceedings and enforcing any relevant Loan or its Related Security using the discretion of a Reasonable Prudent Mortgage Lender in applying the enforcement procedures forming part of the Seller's policy;

hold as trust property for and on behalf of the Guarantor, free of any Adverse Claim and the proceeds of any claims made in respect thereof; and

enforce any Loan which is in default in accordance with the Seller's or, as applicable, an Originator's enforcement procedures or, to the extent that such enforcement procedures are not applicable having regard to the nature of the default in question, with the procedures that would be undertaken by a Reasonable Prudent Mortgage Lender on behalf of the Guarantor.

Remuneration

Pursuant to the Mortgage Sale Agreement, the Seller will sell Loans and their Related Security to the Guarantor on a fully serviced basis, and will not receive a fee for such services. If the Servicer is not the Seller, or an affiliate of the Seller, the Guarantor will pay to the Servicer a servicing fee (inclusive of applicable taxes) for its services agreed upon by the Guarantor and the Servicer. Such fee will be calculated in relation to each Calculation Period and will be payable to the Servicer in arrears on each Guarantor Payment Date in accordance with the applicable Priorities of Payments.

Table of Contents

Representations and Warranties of the Servicer

Under the Servicing Agreement, the Servicer represents and warrants to the Guarantor and the Bond Trustee that (i) it possesses the necessary experience, qualifications, facilities and other resources to perform its responsibilities in relation to its duties and obligations thereunder; (ii) it is and will continue to be in good standing with OSFI; (iii) it is and will continue to be in regulatory good standing and in material compliance with and under all laws applicable to its duties and obligations thereunder and under the other Transaction Documents to which it is a party; (iv) the unsecured, unsubordinated and unguaranteed debt obligations (or in the case of Fitch, the issuer default ratings) of the Servicer are rated by each of the Rating Agencies at ratings that are at or above the Servicer Replacement Threshold Ratings; (v) it is and will continue to be in material compliance with its internal policies and procedures (including risk management policies) relevant to its duties and obligations thereunder; (vi) it will comply with the provisions of, and perform its obligations under, the Servicing Agreement and the other Transaction Documents to which it is party; (vii) it will exercise reasonable skill and care in the performance of its obligations thereunder and under the other Transaction Documents to which it is a party; and (viii) it will comply with the CMHC Guide and all material legal and regulatory requirements applicable to the conduct of its business so that it can lawfully attend to the performance of its obligations thereunder and under the other Transaction Documents to which it is a party.

Removal or resignation of the Servicer

The Guarantor and the Bond Trustee may (unless otherwise specified below), upon written notice to the Servicer, terminate the Servicer's rights and obligations if any of the following events (each a **Servicer Termination Event** and, each of the first three events set out below, a **Servicer Event of Default**) occurs:

- (a) the Servicer's unsecured, unguaranteed and unsubordinated debt obligations are assigned a rating from the Rating Agencies below the Servicer Replacement Threshold Ratings;
- (b) the Servicer defaults in the payment of any amount due to the Guarantor under the Servicing Agreement and fails to remedy that default for a period of three Canadian Business Days after the earlier of the Servicer becoming aware of the default and receipt by the Servicer of written notice from the Bond Trustee or the Guarantor requiring the same be remedied;
- (c) the Servicer fails to comply with any of its other covenants and obligations under the Servicing Agreement which failure in the reasonable opinion of the Bond Trustee is materially prejudicial to the interests of the holders of the covered bonds and does not remedy such failure within the earlier of 20 Canadian Business Days after becoming aware of the failure and receipt by the Servicer of written notice from the Bond Trustee or the Guarantor requiring the same to be remedied;
- (d) an Insolvency Event occurs in relation to the Servicer;
- (e) there is a breach by the Servicer of certain representations and warranties or a failure by the Servicer to perform certain covenants made by it under the Servicing Agreement; or

Table of Contents

- (f) an Issuer Event of Default (i) occurs and is continuing, or (ii) previously occurred and is continuing, at any time that the Guarantor is not Independently Controlled and Governed.

In the case of the occurrence of the first Servicer Termination Event described at any time that the Guarantor is not Independently Controlled and Governed, the Guarantor will by notice in writing to the Servicer terminate its appointment as Servicer with effect from a date (not earlier than the date of the notice) specified in the notice.

Any resolution to terminate the Servicer's appointment under the Servicing Agreement will be notified to the Rating Agencies. Any such termination will become effective upon the appointment of a successor Servicer in place of the Servicer.

Subject to the fulfillment of a number of conditions, the Servicer may voluntarily resign by giving not less than 12 months' written notice to the Bond Trustee, the Guarantor and each Rating Agency provided that a Servicer or sub-Servicer duly licensed to act as such under applicable provincial mortgage broker legislation and with a management team with experience of administering mortgages in Canada of the type then comprised in the Portfolio has been appointed and enters into a servicing agreement with the Guarantor substantially on the same terms as the Servicing Agreement and subject to (i) the consent of the Bond Trustee having been received in respect of such appointment, and (ii) satisfaction of the Rating Agency Condition with respect thereto. The resignation of the Servicer is conditional on the resignation having no adverse effect on the then current ratings of the covered bonds unless the covered bondholders agree otherwise by Extraordinary Resolution.

If the appointment of the Servicer is terminated, the Servicer must promptly deliver the Customer Files relating to the Loans comprised in the Portfolio in its possession to, or at the direction of, the Guarantor. The Servicing Agreement will terminate at such time as the Guarantor has no further interest in any of the Loans or their Related Security serviced under the Servicing Agreement that have been comprised in the Portfolio.

The Bond Trustee is not obliged to act as Servicer in any circumstances.

The Servicing Agreement is governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein.

Cover Pool Monitor Agreement

Under the terms of the Cover Pool Monitor Agreement entered into on the Program Date between the Cover Pool Monitor, the Guarantor, the Bank, the Cash Manager and the Bond Trustee, the Cover Pool Monitor has agreed, subject to due receipt of the information to be provided by the Cash Manager to the Cover Pool Monitor, to carry out arithmetic testing of, and report on the arithmetic accuracy of the calculations performed by the Cash Manager once each year and more frequently in certain circumstances as required by the terms of the Cover Pool Monitor Agreement with a view to (i) confirming that the Asset Coverage Test or the Amortization Test, as applicable, is met on each applicable Calculation Date, and (ii) confirming the accuracy of the Valuation Calculation.

Table of Contents

If the arithmetic testing conducted by the Cover Pool Monitor reveals any errors in the calculations performed by the Cash Manager, the Cover Pool Monitor will be required to conduct such arithmetic tests and report on such arithmetic accuracy for (a) the last Calculation Period of each calendar quarter of the preceding year, (b) each Calculation Period of the current year until such arithmetic testing demonstrates no arithmetical inaccuracy for three consecutive Calculation Periods, and (c) thereafter, the last Calculation Period of each remaining calendar quarter of the current year.

In addition to the arithmetic testing described above, the Cover Pool Monitor will also perform certain specified procedures in relation to the Portfolio and verify compliance by the Bank, the Guarantor and the Program with certain aspects of the Legislative Framework and the CMHC Guide.

The Cover Pool Monitor is entitled, in the absence of manifest error, to assume that all information provided to it by the Cash Manager for the purpose of performing its duties under the Cover Pool Monitor Agreement is true and correct and not misleading and is not required to report as such or otherwise take steps to verify the accuracy of any such information. Each report of the Cover Pool Monitor delivered in accordance with the terms of the Cover Pool Monitor Agreement will be delivered to the Cash Manager, the Guarantor, the Bank, the Bond Trustee and CMHC.

The Guarantor will pay to the Cover Pool Monitor a fee per report (exclusive of applicable taxes), equal to the amount set out in the Cover Pool Monitor Agreement from time to time, for the reports to be performed by the Cover Pool Monitor.

The Guarantor may, at any time, but subject to the prior written consent of the Bond Trustee, terminate the appointment of the Cover Pool Monitor by giving at least 60 days prior written notice to the Cover Pool Monitor (unless the Cover Pool Monitor defaults in the performance or observance of certain of its covenants or breaches certain of its representations and warranties made, respectively, under the Cover Pool Monitor Agreement, in which case such consent will not be required), provided that such termination may not be effected unless and until a replacement Cover Pool Monitor has been appointed by the Guarantor (such replacement to be approved by the Bond Trustee (such approval to be given if the replacement is an accountancy firm of national standing in Canada)) which agrees to perform the duties of the Cover Pool Monitor set out in the Cover Pool Monitor Agreement (or substantially similar duties).

The Cover Pool Monitor may, at any time, resign by giving at least 60 days prior written notice to the Guarantor (or the Cash Manager on its behalf) and the Bond Trustee. The Cover Pool Monitor may resign immediately by giving written notice if any action taken by a recipient of a report delivered by the Cover Pool Monitor causes a professional conflict of interest for the Cover Pool Monitor under the rules of the professional and/or regulatory bodies regulating the activities of the Cover Pool Monitor. The Cover Pool Monitor will inform the recipients of a Cover Pool Monitor Report as soon as reasonably practicable of any action of which the Cover Pool Monitor is aware that may cause a professional conflict of interest for the Cover Pool Monitor which could result in its resignation.

If the Guarantor has not, using all commercially reasonable efforts, appointed a replacement Cover Pool Monitor (such replacement to be approved by the Bond Trustee) within 60 days of the giving of notice of resignation or termination or by the date which is 30 days prior to the date when tests are to be carried out in accordance with the terms of the Cover Pool Monitor Agreement, then the Guarantor will use all commercially reasonable efforts to appoint an accountancy firm of national standing in Canada which meets the requirements of a cover pool monitor in the CMHC Guide to carry out the duties of the Cover Pool Monitor set out in the Cover Pool Monitor Agreement on a one-off basis, provided that such appointment is approved by the Bond Trustee, acting reasonably.

The Bond Trustee will not be obliged to act as Cover Pool Monitor in any circumstances.

Table of Contents

Guarantor Agreement

The general and limited partners of the Guarantor operate the business of the Guarantor in accordance with the terms of the Guarantor Agreement between the Managing GP, as managing general partner, the Liquidation GP, as liquidation general partner, the Bank, as Limited Partner and the Bond Trustee, together with such other persons as may become partners of the Guarantor. Any Partner must be a resident of Canada for purposes of the ITA.

General Partner and Limited Partners of the Guarantor

The Managing GP is the managing general partner and the Liquidation GP is the liquidation general partner and the Bank is the sole limited partner of the Guarantor. The Partners have the duties and obligations, rights, powers and privileges specified in the *Limited Partnership Act* (Ontario) and pursuant to the terms of the Guarantor Agreement.

No new limited partner may be otherwise appointed, and no new general partner may be added or general partner replaced without the consent of the Partners and, while there are covered bonds outstanding, the Bond Trustee, and satisfaction of the Rating Agency Condition.

Under the Guarantor Agreement, the Limited Partner represents and warrants to the other Partners that (i) it is a validly created chartered bank under the laws of Canada and is validly subsisting under such laws, (ii) it has taken all necessary action to authorize the execution, delivery and performance of the Guarantor Agreement, (iii) it has the capacity and corporate authority to enter into and perform its obligations under the Guarantor Agreement and such obligations do not conflict with nor do they result in a breach of any of its constating documents or by-laws or any agreement by which it is bound, (iv) no authorization, consent or approval of, or filing with or notice to, any person is required in connection with the execution, delivery or performance of the Guarantor Agreement by the Limited Partner, other than those which have been obtained, (v) it is not a non-resident of Canada for purposes of the ITA and will retain such status during the term of the partnership governed by the Guarantor Agreement, (vi) it will not transfer any interest it holds in the Guarantor to a non-resident of Canada for purposes of the ITA; (vii) it will at all times comply with the CMHC Guide; and (viii) it will at all times comply with, and perform its obligations under, the provisions of the Guarantor Agreement and each other Transaction Document to which it is a party in any capacity.

Capital Contributions

Each of the Managing GP and the Liquidation GP hold 99 percent and 1 percent respectively of the 0.05 percent general partner interest. The Limited Partner holds the substantial economic interest in the Guarantor (approximately 99.95 percent). The Limited Partner may from time to time make additional Capital Contributions. Such Capital Contributions may be Cash Capital Contributions or Capital Contributions in Kind. In the case of the latter, the Limited Partner will have an additional interest in the capital of the Guarantor equal to the fair market value of those Loans sold by it as at the Purchase Date recorded in the Capital Account Ledger.

Table of Contents

New Limited Partners

In the future, any person that wishes to become a new Limited Partner will, subject to the following paragraph, require the consent of the Limited Partner and, while there are covered bonds outstanding, the Bond Trustee and be required to accede to the Mortgage Sale Agreement and any other Transaction Documents to which the Limited Partner is a party and deliver such other agreements and provide such other assurances as may be required by the Guarantor and/or the Bond Trustee (acting reasonably). Subject to compliance with the foregoing, the consent of the covered bondholders will not be required to the accession of a new Limited Partner to the Guarantor. The admission of a new Limited Partner will also be subject to satisfaction of the Rating Agency Condition.

The Limited Partner may assign all or some portion of its interest in the Guarantor to any Subsidiary by giving written notice of such assignment to the Guarantor and the Bond Trustee, and the assignee of such interest acceding to the Guarantor Agreement. Any such assignment will not relieve the Limited Partner of its obligations under the Guarantor Agreement or require the consent of the general partners, Bond Trustee, the holders of the covered bonds or, if applicable, any other Limited Partner.

Capital Distributions

Provided the Asset Coverage Test will be met after giving effect to any Capital Distribution, the Managing GP, may from time to time, in its discretion, make Capital Distributions to the Partners in accordance with the Guarantor Agreement, and provided that such Capital Distributions are permitted under, the applicable Priorities of Payments and the Security Agreement. Pursuant to the terms of the Guarantor Agreement distributions to the Liquidation GP will be limited to an amount which may be less than the Liquidation GP's *pro rata* interest in the Guarantor.

Asset Coverage Test

Under the terms of the Guarantor Agreement, the Guarantor is required to ensure that, as of each Calculation Date, the ACT Asset Value (as defined below) is in an amount at least equal to the ACT Liability Value (as defined below) as calculated as of the relevant Calculation Date.

If as of any Calculation Date the ACT Asset Value (as defined below) is less than the ACT Liability Value (as defined below) as of the relevant Calculation Date, then the Managing GP (or the Cash Manager on its behalf) will notify the Guarantor, CMHC, the Partners and the Bond Trustee thereof. In such circumstances, the Partners (other than the Liquidation GP) will use all reasonable efforts to ensure that the Guarantor satisfies the Asset Coverage Test prior to the next Calculation Date. If the ACT Asset Value is less than the ACT Liability Value as of the next following Calculation Date, the Asset Coverage Test will be breached and the Bond Trustee will serve an Asset Coverage Test Breach Notice on the Guarantor, the Partners and CMHC in accordance with the Trust Deed. Under the Trust Deed, the Bond Trustee will revoke an Asset Coverage Test Breach Notice if, as of any Calculation Date falling on or prior to the Guarantor Payment Date immediately following the Calculation Date after the service of an Asset Coverage Test Breach Notice, the Asset Coverage Test is subsequently satisfied and neither a Notice to Pay nor a Guarantor Acceleration Notice has been served. In such circumstances, the Limited Partner will use all reasonable efforts to, in its sole discretion, (i) make advances under the Intercompany Loan, (ii) sell New Loans and their Related Security to the Guarantor, or (iii) make a Capital Contribution in cash or in kind, in any case on or before the next Calculation Date in amounts sufficient to ensure that the Guarantor is in compliance with the Asset Coverage Test prior to the next following Calculation Date.

Table of Contents

Following service of an Asset Coverage Test Breach Notice (which has not been revoked):

- (a) the Guarantor may be required to sell Selected Loans (as described further under *Sale of Selected Loans following service of an Asset Coverage Test Breach Notice* below);
- (b) prior to the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice or, if earlier, the occurrence of a Guarantor Event of Default and service of a Guarantor Acceleration Notice, the Pre-Acceleration Revenue Priorities of Payments and the Pre-Acceleration Principal Priorities of Payments will be modified as more particularly described in *Allocation and distribution of Available Revenue Receipts and Available Principal Receipts when an Asset Coverage Test Breach Notice is outstanding but no Covered Bond Guarantee Activation Date has occurred* below; and

- (c) the Bank will not be permitted to make any further issuances of covered bonds.

If an Asset Coverage Test Breach Notice has been served and not revoked on or before the Guarantor Payment Date immediately following the Calculation Date after service of such Asset Coverage Test Breach Notice, then an Issuer Event of Default will occur and the Bond Trustee will be entitled (and, in certain circumstances may be required) to serve an Issuer Acceleration Notice. Following service of an Issuer Acceleration Notice, the Bond Trustee will be required to serve a Notice to Pay on the Guarantor.

For the purposes hereof:

$$\text{Asset Coverage Test} = \text{ACT Asset Value} - \text{ACT Liability Value}$$

$$\text{ACT Asset Value} = A + B + C + D + E - F$$

where:

- A = the lower of:
 - (1) the LTV Adjusted Loan Balance net of Adjustments; and
 - (2) Asset Percentage Adjusted Loan Balance net of Adjustments
- B = Principal Receipts up to the related Calculation Date not otherwise applied on such Calculation Date
- C = the aggregate cash capital contributions made by Partners or advances under the Intercompany Loan Agreement or proceeds from any sale of Eligible Loans or other cash exclusive of Revenue Receipts up to the related Calculation Date

Table of Contents

- D = the outstanding principal amount of any Substitution Assets
- E = the amount credited to the Reserve Fund and/or amounts credited to the Pre-Maturity Liquidity Ledger, as applicable
- F = the product of:
- (1) the weighted average remaining maturity of all outstanding covered bonds (in years and, where less than a year, deemed to be a year);
 - (2) the principal amount outstanding of all covered bonds; and
 - (3) the Negative Carry Factor

LTV Adjusted Loan Balance = lower of:

- (1) sum of the outstanding loan balance of Performing Eligible Loans; and
- (2) sum of 80% x Market Value of residential properties securing Performing Eligible Loans

Asset Percentage Adjusted Loan Balance = the Asset Percentage x the lower of:

- (1) the outstanding loan balance of Performing Eligible Loans; and
- (2) the Market Value of residential properties securing Performing Eligible Loans

Performing Eligible Loans = Eligible Loans that are less than three months in arrears

Adjustments = the sum of:

- (1) the LTV Adjusted Loan Balance or Asset Percentage Adjusted Loan Balance (as the case may be) of any Performing Eligible Loan in breach of the Loan Representations and Warranties or otherwise subject to the Seller's repurchase obligation (but yet to be repurchased) under the Mortgage Sale Agreement; and
- (2) financial losses (yet to be recompensed) resulting from any breach by the Seller of any other material warranty in the Mortgage Sale Agreement or from any breach by the Servicer of a material term of the Servicing Agreement

Asset Percentage = As determined below

Negative Carry Factor =

- (1) if the weighted average margin of the interest rate payable on the outstanding covered bonds relative to the interest rate receivable on the Portfolio is less than or equal to 0.1% per annum, then 0.5%; and

Table of Contents

- (2) if the weighted average margin of the interest rate payable on the outstanding covered bonds relative to the interest rate receivable on the Portfolio is greater than 0.1% per annum, then the sum of (x) 0.5% and (y) the weighted average margin of the interest rate payable on the outstanding covered bonds less 0.1 %,

unless the interest rate risk represented by the weighted average margin of the interest rate payable on the outstanding covered bonds relative to the interest rate receivable on the Portfolio is addressed or mitigated by the Interest Rate Swap, whereupon the Negative Carry Factor will be nil

ACT Liability Value = the nominal amount of covered bond liabilities in Canadian Dollars (with currency transaction undertaken using or at foreign exchange rates reflected in the related Covered Bond Swap)

The **Asset Percentage** will be determined as follows:

On or prior to the Guarantor Payment Date immediately following the Calculation Date falling in February, May, August and November of each year, and on such other date as the Limited Partner may request following the date on which the Limited Partner is required to assign the Interest Rate Swap Agreement to a third party (each such date a **Cash Flow Model Calculation Date**), the Managing GP (or the Cash Manager on its behalf) will determine the percentage figure selected by it as the Asset Percentage based on such methodologies as the Rating Agencies may prescribe from time to time (to ensure sufficient credit enhancement for the Covered Bond Guarantee will be maintained) for the Portfolio based on the value of the Loans and their Related Security in the Portfolio as at the Calculation Date immediately preceding the Cash Flow Model Calculation Date as a whole or on the basis of a sample of Randomly Selected Loans in the Portfolio, such calculations to be made on the same basis throughout unless the Rating Agency Condition has been satisfied in respect thereof.

The Asset Percentage will from time to time be adjusted in accordance with the various methodologies of the Rating Agencies to ensure that sufficient credit enhancement for the Covered Bond Guarantee will be maintained.

The Managing GP (or the Cash Manager on its behalf) will, or will use all reasonable efforts to cause the one or more Rating Agencies to, determine the Asset Percentage at least two days prior to the Guarantor Payment Date following the Cash Flow Model Calculation Date and the Asset Percentage so determined will be the lowest percentage so determined by any of the Rating Agencies in the manner set forth above and will apply to any calculations in respect of the Calculation Period ending on such Cash Flow Model Calculation Date and each Calculation Period thereafter to but excluding the last day of the following Calculation Period ending on a Cash Flow Model Calculation Date. To the extent a Rating Agency does not respond to a request for a newly-determined Asset Percentage, the Asset Percentage last determined by such Rating Agency will continue to be the applicable percentage with respect to such Rating Agency.

The Asset Percentage will at all times be less than or equal to _____ %, as determined in accordance with the Guarantor Agreement and the Trust Deed, provided that the Asset Percentage will not be less than _____ % unless otherwise agreed by the Bank (and following an Issuer Event of Default, the Guarantor for the purposes of making certain determinations in respect of the Intercompany Loan). Any increase in the maximum Asset Percentage will be deemed to be a material amendment to the Trust Deed and will require satisfaction of the Rating Agency Condition.

Table of Contents

Amortization Test

The Guarantor must ensure that as of each Calculation Date following an Issuer Event of Default that is continuing, the Amortization Asset Value will be in an amount at least equal to the Amortization Liability Value as calculated as of the relevant Calculation Date.

If on any Calculation Date following an Issuer Event of Default that is continuing, the Amortization Asset Value is less than the Amortization Liability Value as calculated as of the relevant Calculation Date, then the Amortization Test will be deemed to be breached and a Guarantor Event of Default will occur. The Guarantor or the Cash Manager, as the case may be, will immediately notify the Partners, CMHC and, while covered bonds are outstanding, the Bond Trustee of any breach of the Amortization Test.

$$\text{Amortization Test} = \text{Amortization Asset Value} - \text{Amortization Liability Value}$$

$$\text{Amortization Asset Value} = A + B + C - D$$

where:

A = the lower of:

- (1) the True Loan Balance; and
- (2) 80% x Market Value of residential properties securing Performing Eligible Loans

B = the amount of any cash standing to the GDA Account (exclusive of any Revenue Receipts up to the Calculation Date not otherwise applied)

C = the outstanding principal amount of any Substitution Assets

D = the product of:

- (1) the weighted average remaining maturity of all outstanding covered bonds (in years and, where less than a year, deemed to be a year);
- (2) the principal amount outstanding of all covered bonds; and
- (3) the Negative Carry Factor

True Loan Balance = *sum of:*

- (1) the outstanding loan balance of Performing Eligible Loans; and
- (2) all Arrears of Interest and Accrued Interest with respect to Performing Eligible Loans

Table of Contents

Performing Eligible Loans = Eligible Loans that are less than three months in arrears

Negative Carry Factor =

- (1) if the weighted average margin of the interest rate payable on the outstanding covered bonds relative to the interest rate receivable on the Portfolio is less than or equal to 0.1% per annum, then 0.5%; and
- (2) if the weighted average margin of the interest rate payable on the outstanding covered bonds relative to the interest rate receivable on the Portfolio is greater than 0.1% per annum, then the sum of (x) 0.5% and (y) the weighted average margin of the interest rate payable on the outstanding covered bonds less 0.1%,

unless the interest rate risk represented by the weighted average margin of the interest rate payable on the outstanding covered bonds relative to the interest rate receivable on the Portfolio is addressed or mitigated by the Interest Rate Swap, and the Effective Date thereunder has occurred, whereupon the Negative Carry Factor will be nil

Amortization Liability Value = the nominal amount of covered bond liabilities in Canadian Dollars (with currency translations undertaken using or at foregoing exchange rates reflected in the related Covered Bond Swap or, to the extent the foreign exchange risk of a non- Cdn\$ denominated covered bond liability is not or no longer the subject of (or otherwise addressed or mitigated by) a Covered Bond Swap (by reason of termination or otherwise) end of day spot foreign exchange rates)

Valuation Calculation

The **Valuation Calculation** is equal to the VC Asset Value (as defined below) minus the Canadian Dollar Equivalent of the Trading Value of the aggregate Principal Amount Outstanding of the covered bonds as calculated on the relevant Calculation Date. For greater certainty, references in this Schedule to immediately preceding Calculation Date and previous Calculation Date are to the Calculation Period ending on the Calculation Date.

For the purposes of the Valuation Calculation, the **VC Asset Value** means the amount calculated as at each Calculation Date as follows:

$$A+B+C+D+E+F$$

where,

A = the aggregate **LTV Adjusted Loan Present Value** of each Loan that is not a Non-Performing Loan, which will be the lower of (1) the Present Value of the relevant Loan on such Calculation Date, and (2) 80% multiplied by the Latest Valuation relating to that Loan

Table of Contents

minus

the aggregate sum of the following deemed reductions to the aggregate LTV Adjusted Loan Present Value of the Loans in the Portfolio if any of the following occurred during the previous Calculation Period:

(1) a Loan or its Related Security was, in the immediately preceding Calculation Period, in breach of the Loan Representations and Warranties contained in the Mortgage Sale Agreement or subject to any other obligation of the Seller to repurchase the relevant Loan and its Related Security, and in each case the Seller has not repurchased the Loan or Loans of the relevant borrower and its or their Related Security to the extent required by the terms of the Mortgage Sale Agreement. In this event, the aggregate LTV Adjusted Loan Present Value of the Loans in the Portfolio on such Calculation Date will be deemed to be reduced by an amount equal to the LTV Adjusted Loan Present Value of the relevant Loan or Loans on such Calculation Date of the relevant borrower; and/or

(2) the Seller, in any preceding Calculation Period, was in breach of any other material warranty under the Mortgage Sale Agreement and/or the Servicer was, in any preceding Calculation Period, in breach of a material term of the Servicing Agreement. In this event, the aggregate LTV Adjusted Loan Present Value of the Loans in the Portfolio on such Calculation Date will be deemed to be reduced by an amount equal to the resulting financial loss incurred by the Guarantor in the immediately preceding Calculation Period (such financial loss to be calculated by the Cash Manager without double counting and to be reduced by any amount paid (in cash or in kind) to the Guarantor by the Seller to indemnify the Guarantor for such financial loss);

B = the aggregate amount of any Principal Receipts on the Loans and their Related Security up to such Calculation Date (as recorded in the Principal Ledger) which have not been applied as at such Calculation Date to acquire further Loans and their Related Security or otherwise applied in accordance with the Priorities of Payments of the Guarantor Agreement and/or the other Transaction Documents;

C = the aggregate amount of (i) any Cash Capital Contributions made by the Partners (as recorded in the Capital Account Ledger for each Partner of the Guarantor), (ii) proceeds advanced under the Intercompany Loan Agreement or (iii) proceeds from any sale of Selected Loans which, in each case, have not been applied as at such Calculation Date to acquire further Loans and their Related Security or otherwise applied in accordance with the Priorities of Payments and/or the other Transaction Documents;

D = the Trading Value of any Substitution Assets;

E = the balance, if any, of the Reserve Fund and the amounts credited to the Pre-Maturity Liquidity Ledger, as applicable; and

F = the Trading Value of the Swap Collateral, if applicable.

Table of Contents

Sales of Selected Loans following a breach of the Pre-Maturity Test

The Pre-Maturity Test will be breached if the ratings of the Bank's unsecured, unsubordinated and unguaranteed debt obligations, or its issuer default ratings, as applicable, fall below the Pre-Maturity Required Ratings and a Hard Bullet Covered Bond is due for repayment within a specified period of time thereafter. See *Credit Structure Pre-Maturity Liquidity*. If the Pre-Maturity Test is breached, the Guarantor will offer to sell Selected Loans pursuant to the terms of the Guarantor Agreement (see *Method of sale of Portfolio assets* below), subject to:

- (a) any right of pre-emption of the Seller pursuant to the terms of the Mortgage Sale Agreement;
- (b) a Capital Contribution in Kind made by one or more of the Partners (as recorded in the Capital Account Ledger for such Partners) of certain Substitution Assets in accordance with the Guarantor Agreement with an aggregate principal amount up to the Pre-Maturity Liquidity Required Amount (which will be a credit to the Pre-Maturity Liquidity Ledger); or
- (c) Cash Capital Contributions made by one or more of the Partners (as recorded in the Capital Account Ledger for each applicable Partner) or proceeds advanced under the Intercompany Loan Agreement which have not been applied to acquire further Portfolio assets or otherwise applied in accordance with the Guarantor Agreement and/or the other Transaction Documents with an aggregate principal amount up to the Pre-Maturity Liquidity Required Amount (which will be a credit to the Pre-Maturity Liquidity Ledger).

If the Bank fails to repay any Series of Hard Bullet Covered Bonds on the Final Maturity Date thereof, then following the occurrence of an Issuer Event of Default and service of a Notice to Pay on the Guarantor, funds standing to the credit of the Pre-Maturity Liquidity Ledger will be applied to repay the relevant Series of Hard Bullet Covered Bonds. Otherwise, the proceeds will be applied as set out in *Credit Structure Pre-Maturity Liquidity* below.

Sales of Selected Loans after a Demand Loan Repayment Event has occurred or the Bank has otherwise demanded that the Demand Loan be repaid

If, prior to the service of an Asset Coverage Test Breach Notice or a Notice to Pay, a Demand Loan Repayment Event has occurred or the Bank has demanded that the Demand Loan be repaid, the Guarantor may be required to sell Selected Loans in accordance with the Guarantor Agreement (see *Method of sale of Portfolio assets* below), subject to the rights of pre-emption enjoyed by the Seller to purchase the Portfolio assets pursuant to the terms of the Mortgage Sale Agreement. Any such sale will be subject to the condition that the Asset Coverage Test is satisfied after the receipt of the proceeds of such sale and repayment, after giving effect to such repayment.

Sale of Selected Loans at any time an Asset Coverage Test Breach Notice is outstanding or a Notice to Pay has been served on the Guarantor

At any time an Asset Coverage Test Breach Notice is outstanding or a Notice to Pay has been served on the Guarantor, but prior to service of a Guarantor Acceleration Notice on the Guarantor, the Guarantor will be obliged to sell Selected Loans in accordance with the Guarantor Agreement (see *Method of sale of Portfolio assets* below), subject to the rights of pre-emption enjoyed by the Seller to buy the Portfolio assets pursuant to the terms of the Mortgage Sale Agreement and subject to additional advances on the Intercompany Loan and any Cash Capital Contribution made by the Limited Partner. The proceeds from any such sale or refinancing will be credited to the GDA Account and applied as set out in the Priorities of Payments (see *Cashflows* below).

Table of Contents

Method of sale of Portfolio assets

If the Guarantor is required to sell Selected Loans to Purchasers following a breach of the Pre-Maturity Test, the occurrence of a Demand Loan Repayment Event, the Demand Loan being demanded by the Bank, the service of an Asset Coverage Test Breach Notice (if not revoked) or a Notice to Pay on the Guarantor, the Guarantor will be required to ensure that before offering Selected Loans for sale:

- (a) the Loans being sold are Randomly Selected Loans; and
- (b) the Selected Loans have an aggregate True Loan Balance in an amount (the Required True Loan Balance Amount, which is as close as possible to the amount calculated as follows:
 - (i) following a Demand Loan Repayment Event or the Demand Loan being demanded by the Bank but prior to service of an Asset Coverage Test Breach Notice, such amount that would ensure that, if the Selected Loans were sold at their True Loan Balance, the Demand Loan as calculated on the date of the demand could be repaid, subject to satisfaction of the Asset Coverage Test; or
 - (ii) following the service of an Asset Coverage Test Breach Notice (but prior to service of a Notice to Pay on the Guarantor), such amount that would ensure that, if the Selected Loans were sold at their True Loan Balance, the Asset Coverage Test would be satisfied as at the next Calculation Date taking into account the payment obligations of the Guarantor on the Guarantor Payment Date following that Calculation Date (assuming for this purpose that the Asset Coverage Test Breach Notice is not revoked on the next Calculation Date); or
 - (iii) following a breach of the Pre-Maturity Test or service of a Notice to Pay on the Guarantor:

$N \times A/B$

where: N is an amount equal to

- (x) in respect of Selected Loans being sold following a breach of the Pre-Maturity Test, the Pre-Maturity Liquidity Required Amount less amounts standing to the credit of the Pre-Maturity Liquidity Ledger; or
- (y) in respect of Selected Loans being sold following service of a Notice to Pay, the Canadian Dollar Equivalent of the Required Redemption Amount of the Earliest Maturing Covered Bonds less amounts standing to the credit of the Guarantor Accounts and the principal amount of any Substitution Assets (excluding all amounts to be applied on the next following Guarantor Payment Date to repay higher ranking amounts in the Guarantee Priorities of Payments and those amounts that are required to repay any Series of covered bonds which mature prior to or on the same date as the relevant Series of covered bonds);

Table of Contents

A is an amount equal to the True Loan Balance of all the Loans in the Portfolio; and B is an amount equal to the Canadian Dollar Equivalent of the Required Redemption Amount in respect of each Series of covered bonds then outstanding less the Canadian Dollar Equivalent of the Required Redemption Amount in respect of each Series of covered bonds then outstanding which has been provided for in cash.

The Guarantor will offer the Selected Loans for sale to Purchasers for the best price reasonably available but in any event:

- (a) following (i) a Demand Loan Repayment Event, the Demand Loan being demanded by the Bank or (ii) the service of an Asset Coverage Test Breach Notice (but prior to the service of a Notice to Pay on the Guarantor), in each case, for an amount not less than the True Loan Balance of the Loans; and
- (b) following a breach of the Pre-Maturity Test or service of a Notice to Pay on the Guarantor, for an amount not less than the Adjusted Required Redemption Amount.

Following the service of a Notice to Pay on the Guarantor, if the Selected Loans have not been sold (in whole or in part) in an amount equal to the Adjusted Required Redemption Amount by the date which is six months prior to, as applicable, if the covered bonds are not subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the Final Maturity Date or, if the covered bonds are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the Extended Due for Payment Date in respect of the Earliest Maturing Covered Bonds (after taking into account all payments, provisions and credits to be made in priority thereto), or the Final Maturity Date of the relevant Series of Hard Bullet Covered Bonds in respect of a sale in connection with the Pre-Maturity Test, then the Guarantor will offer the Selected Loans for sale for the best price reasonably available notwithstanding that such amount may be less than the Adjusted Required Redemption Amount.

The Guarantor will through a tender process appoint a portfolio manager of recognized standing on a basis intended to incentivize the portfolio manager to achieve the best price for the sale of the Portfolio assets (if such terms are commercially available in the market) and to advise it in relation to the sale of the Portfolio assets to Purchasers (except where the Seller is buying the Portfolio assets in accordance with its right of pre-emption in the Mortgage Sale Agreement). The terms of the agreement giving effect to the appointment in accordance with such tender will be approved by the Bond Trustee.

In respect of any sale or refinancing (as applicable) of Selected Loans at any time an Asset Coverage Test Breach Notice is outstanding, there has been a breach of the Pre-Maturity Test, or a Notice to Pay has been served on the Guarantor, the Guarantor will instruct the portfolio manager to use all reasonable efforts to procure that Selected Loans are sold or refinanced (as applicable) as quickly as reasonably practicable (in accordance with the recommendations of the portfolio manager) taking into account the market conditions at that time and the scheduled repayment dates of the covered bonds and the terms of the Guarantor Agreement.

Table of Contents

The terms of any sale and purchase agreement with respect to the sale of Selected Loans (which will give effect to the recommendations of the portfolio manager) will be subject to the prior written approval of the Bond Trustee. The Bond Trustee will not be required to release the Loans and their Related Security from the Security unless the conditions relating to the release of the Security (as described under Security Agreement Release of Security , below) are satisfied.

Any such sale will not include any Loan Representations and Warranties from the Guarantor in respect of the Portfolio assets.

Following the service of a Notice to Pay on the Guarantor, if Purchasers accept the offer or offers from the Guarantor so that some or all of the Selected Loans will be sold prior to the next following Final Maturity Date or, if the covered bonds are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the next following Extended Due for Payment Date in respect of the Earliest Maturing Covered Bonds, then the Guarantor will, subject to the foregoing paragraph, enter into a sale and purchase agreement with the relevant Purchasers which will require among other things a cash payment from the relevant Purchasers.

Covenants of the General Partner and Limited Partner of the Guarantor

Each of the Partners covenants that, subject to the terms of the Transaction Documents, it will not sell, transfer, convey, create or permit to arise any security interest on, declare a trust over, create any beneficial interest in or otherwise dispose of its interest in the Guarantor without the prior written consent of the Managing GP and, while the covered bonds are outstanding, the Bond Trustee.

The Guarantor covenants that it will not, save with the prior written consent of the Limited Partner (and, for so long as any covered bonds are outstanding, the consent of the Bond Trustee) or as envisaged by the Transaction Documents:

- (a) have an interest in a bank account;
- (b) have any employees, premises or subsidiaries;
- (c) acquire any material assets;
- (d) sell, exchange, deal with or grant any option, present or future right to acquire any of the assets or undertakings of the Guarantor or any interest therein or thereto;
- (e) enter into any contracts, agreements or other undertakings;
- (f) incur any indebtedness or give any guarantee or indemnity in respect of any such indebtedness;
- (g) create or permit to subsist any security interest over the whole or any part of the assets or undertakings, present or future of the Guarantor;

Table of Contents

- (h) change the name or business of the Guarantor or do any act in contravention of, or make any amendment to, the Guarantor Agreement;
- (i) do any act which makes it impossible to carry on the ordinary business of the Guarantor, including winding up the Guarantor;
- (j) compromise, compound or release any debt due to it;
- (k) commence, defend, consent to a judgment, settle or compromise any litigation or other claims relating to it or any of its assets;
- (l) permit a person to become a general or limited partner (except in accordance with the terms of the Guarantor Agreement); or
- (m) consolidate or merge with another person.

Limit on investing in Substitution Assets

At any time that no Asset Coverage Test Breach Notice is outstanding and prior to a Notice to Pay having been served on the Guarantor, the Guarantor will be permitted to hold Substitution Assets provided that the aggregate value of the Substitution Assets does not at any time exceed an amount equal to 10 percent of the aggregate value of (i) the aggregate loan balance of the Loans in the Portfolio, (ii) the face value of the Substitution Assets in the Portfolio, and (iii) all cash held by the Guarantor (subject to the Prescribed Cash Limitation) and provided that investments in Substitution Assets are made in accordance with the terms of the Cash Management Agreement and subject to the applicable Priorities of Payments.

At any time an Asset Coverage Test Breach Notice is outstanding or a Covered Bond Guarantee Activation Date has occurred, the Substitution Assets held by or on behalf of the Guarantor must be sold as quickly as reasonably practicable with proceeds credited to the GDA Account, subject at all times to the Prescribed Cash Limitation.

The Guarantor may not hold cash in excess of (such limitation, the **Prescribed Cash Limitation**) (i) the amount necessary to meet its payment obligations for the immediately succeeding six months pursuant to the terms of the Transaction Documents, or (ii) such greater amount as CMHC may at its discretion permit in accordance with the Legislative Framework and the CMHC Guide, in each case excluding amounts received between Guarantor Payment Dates; provided that to the extent that cash receipts of the Guarantor cause it to hold cash in excess of the amount in clause (i), the Guarantor will not be in breach of this covenant if it uses such excess amount to (x) purchase Loans and their Related Security for the Portfolio pursuant to the terms of the Mortgage Sale Agreement; and/or (y) to invest in Substitution Assets in an amount not exceeding the prescribed limit under the CMHC Guide; and/or (z) subject to complying with the Asset Coverage Test, to make Capital Distributions to the Limited Partner, in each case, within 31 days of receipt.

Table of Contents

For greater certainty, amounts standing to the credit of the Pre-Maturity Liquidity Ledger and the Reserve Fund (other than, in each case, those amounts that constitute Substitution Assets) constitute cash and are subject to the Prescribed Cash Limitation. In the event that the Guarantor is required to fund the Pre-Maturity Liquidity Ledger and/or the Reserve Fund in accordance with the Transaction Documents and such funding would cause the Guarantor to hold cash in excess of the Prescribed Cash Limitation, any cash held by the Guarantor in excess of such cash standing to the credit of the Pre-Maturity Liquidity Ledger and the Reserve Fund will be used by the Guarantor in accordance with clauses (x), (y) and (z) in the immediately preceding paragraph above to ensure that the Guarantor is not in breach of the Prescribed Cash Limitation. In the event that (i) the Guarantor is in breach of the Prescribed Cash Limitation and it does not hold any cash other than the amounts it is required to hold in order to fund the Pre-Maturity Liquidity Ledger and the Reserve Fund, in accordance with the Transaction Documents, or (ii) a Notice to Pay has been served on the Guarantor, the Guarantor will request that CMHC, in accordance with the discretion granted to it under the Legislative Framework and the CMHC Guide, permit the Guarantor to hold, such amount of cash in excess of the Prescribed Cash Limitation as may be required to allow it to comply with the Transaction Documents in the circumstances.

Other Provisions

The allocation and distribution of Revenue Receipts, Principal Receipts and all other amounts received by the Guarantor is described under *Cashflows* below.

For so long as any covered bonds are outstanding, each of the Partners has agreed that it will not terminate or purport to terminate the Guarantor or institute any winding-up, administration, insolvency or other similar proceedings against the Guarantor. Furthermore, each of the Partners has agreed, among other things, except as otherwise specifically provided in the Transaction Documents not to demand or receive payment of any amounts payable to such Partners by the Guarantor (or the Cash Manager on its behalf) or the Bond Trustee unless all amounts then due and payable by the Guarantor to all other creditors ranking higher in the relevant Priorities of Payments have been paid in full.

Each of the Partners will be responsible for the payment of its own tax liabilities and will be required to indemnify the other from any liabilities which they incur as a result of the relevant partner's non-payment.

Following the appointment of a liquidator to any partner, any decisions of the Guarantor that are reserved to the Partners or a unanimous decision of the Partners in the Guarantor Agreement will be made by the Partner(s) not in liquidation only.

Cash Management Agreement

The Cash Manager (initially, BMO) will provide certain cash management services to the Guarantor pursuant to the terms of the Cash Management Agreement between the Guarantor, BMO in its capacity as the Cash Manager, GDA Provider, Seller, Servicer and the Bond Trustee.

The Cash Manager's services include but are not limited to:

- (a) maintaining the Ledgers on behalf of the Guarantor;
- (b) distributing the Revenue Receipts and the Principal Receipts in accordance with the Priorities of Payments described under *Cashflows* below;
- (c) determining whether the Asset Coverage Test is satisfied as of each Calculation Date in accordance with the Guarantor Agreement, as more fully described under *Description of the Covered Bonds Credit Structure Asset Coverage Test* below;

Table of Contents

- (d) determining whether the Amortization Test is satisfied as of each Calculation Date following the service of a Notice to Pay in accordance with the Guarantor Agreement, as more fully described under *Description of the Covered Bonds Credit Structure Amortization Test* below;
- (e) preparation of Monthly Reports for the covered bondholders, the Rating Agencies and the Bond Trustee; and
- (f) on each Canadian Business Day, determining whether the Pre-Maturity Test for each Series of Hard Bullet Covered Bonds, if any, is satisfied as more fully described under *Description of the Covered Bonds Credit Structure Pre-Maturity Liquidity* below.

Under the Cash Management Agreement, the Cash Manager represents and warrants to the Guarantor and the Bond Trustee that (i) it possesses the necessary experience, qualifications, facilities and other resources to perform its responsibilities under the Cash Management Agreement and the other Transaction Documents to which it is a party and it will devote all due skill, care and diligence to the performance of its obligations and the exercise of its discretions thereunder, (ii) it is rated at or above the Cash Manager Required Ratings by each of the Rating Agencies, (iii) it is and will continue to be in good standing with OSFI, (iv) it is and will continue to be in material compliance with its internal policies and procedures relevant to the services to be provided by it pursuant to the Cash Management Agreement and the other Transaction Documents to which it is party, (v) it is and will continue to be in good standing with OSFI, and (vi) it is and will continue to be in material compliance with all laws, regulations and rules applicable to it in relation to the services provided by it pursuant to the Cash Management Agreement and the other Transaction Documents to which it is a party.

In the event of a downgrade in the ratings of the unsecured, unsubordinated and unguaranteed debt obligations (or, in the case of Fitch, the issuer default rating) of the Cash Manager by the Rating Agencies below P-1 (in respect of Moody's), F1 or A (in respect of Fitch) or A (low) or R-1 (middle) (in respect of DBRS) as applicable, the Cash Manager will be required to direct the Servicer to deposit all Revenue Receipts and Principal Receipts received by the Servicer directly into the GDA Account.

In the event of a downgrade in the ratings of the unsecured, unsubordinated and unguaranteed debt obligations (or, in the case of Fitch, the issuer default rating) of the Cash Manager by the Rating Agencies below P-1 or F2 (in respect of Moody's and Fitch, respectively) or BBB or R-1 (low) (in respect of DBRS) as applicable, the Cash Manager will, in certain circumstances, be required to assign the Cash Management Agreement to a third party service provider acceptable to the Bond Trustee and with respect to which the Rating Agency Condition has been satisfied. In addition to the foregoing, the Guarantor and the Bond Trustee will, in certain circumstances, each have the right to terminate the appointment of the Cash Manager in which event the Guarantor will appoint a substitute (the identity of which will be subject to the Bond Trustee's written approval). Any substitute cash manager will have substantially the same rights and obligations as the Cash Manager (although the fee payable to the substitute cash manager may be higher).

Table of Contents

The Cash Management Agreement is governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein.

Interest Rate Swap Agreement

To provide a hedge against possible variances in the rates of interest payable on the Portfolio assets and related amounts in the Portfolio (which may, for instance, include variable rates of interest or fixed rates of interest) and the interest amounts payable on the Intercompany Loan and (following the Covered Bond Swap Effective Date) the Covered Bond Swap Agreement the Guarantor will enter into the Interest Rate Swap Agreement with the Interest Rate Swap Provider (initially BMO).

The monthly amount payable by the Guarantor under the Interest Rate Swap Agreement will be equal to the amount of interest received by the Guarantor from borrowers, and interest or investment income earned on the Substitution Assets and the cash held by the Guarantor, in exchange for an amount sufficient to pay the interest payable on the Intercompany Loan plus a certain amount for expenses which are payable following payments to the Interest Rate Swap Provider under the Pre-Acceleration Revenue Priorities of Payments.

The Interest Rate Swap Agreement will terminate (unless terminated earlier by an Interest Rate Swap Early Termination Event) on the earlier of:

- (a) the Final Maturity Date for the final Tranche or Series of covered bonds then outstanding (provided that the Bank has not given prior written notice to the Interest Rate Swap Provider and the Guarantor that it intends to issue additional covered bonds following such date) or, if the Guarantor notifies the Interest Rate Swap Provider, prior to the Final Maturity Date for such final Tranche or Series of covered bonds then outstanding, of the inability of the Guarantor to pay in full Guaranteed Amounts corresponding to the Final Redemption Amount in respect of such final Tranche or Series of covered bonds then outstanding, the final date on which an amount representing the Final Redemption Amount for such final Tranche or Series of covered bonds then outstanding is paid (but in any event not later than the Extended Due for Payment Date for such Tranche or Series of covered bonds);
- (b) the date designated therefor by the Bond Trustee and notified to the Interest Rate Swap Provider and the Guarantor for purposes of realizing the Security in accordance with the Security Agreement and distributing the proceeds therefrom in accordance with the Post-Enforcement Priorities of Payments following the enforcement of the Security pursuant to Condition 9.3 (*Enforcement*);
- (c) the date on which the notional amount under the Interest Rate Swap Agreement reduces to zero (as a result of the reduction for the amount of any Early Redemption Amount paid pursuant to Condition 9.2 (*Guarantor Events of Default*) in respect of the final Tranche or Series of covered bonds then outstanding or any Final Redemption Amount paid pursuant to Condition 6.1 (*Final redemption*) in respect of the final Tranche or Series of covered bonds then outstanding following the Final Maturity Date for such Tranche or Series of covered bonds, provided in each case that the Bank has not given prior written notice to the Interest Rate Swap Provider that it intends to issue additional covered bonds following such date); and

Table of Contents

- (d) the date of redemption pursuant to Conditions 6.2 (*Redemption for taxation reasons*) or 6.5 (*Redemption due to illegality or invalidity*) in respect of any final Tranche or Series of covered bonds then outstanding (provided that the Bank has not given prior written notice to the Interest Rate Swap Provider that it intends to issue additional covered bonds following such date).

The Interest Rate Swap Agreement may also be terminated in certain other circumstances (each referred to as an **Interest Rate Swap Early Termination Event**), including:

at the option of any party to the Interest Rate Swap Agreement, if there is a failure by the other party to pay any amounts due under the Interest Rate Swap Agreement, however, no such failure to pay by the Guarantor will entitle the Interest Rate Swap Provider to terminate the Interest Rate Swap Agreement, if such failure is due to the assets available at such time to the Guarantor being insufficient to make the required payment in full;

at the option of the Guarantor, if the Interest Rate Swap Provider is the Issuer and an Issuer Event of Default has occurred which has resulted in the Covered Bonds becoming due and payable under their respective terms;

at the option of the Guarantor, in the event that (i) the short-term unsecured, unsubordinated and unguaranteed debt obligations or, respectively, the long-term unsecured, unsubordinated and unguaranteed debt obligations of the Interest Rate Swap Provider or any credit support provider, as applicable, cease to be rated at least P-1 or A2, respectively, by Moody's, or, if the short-term unsecured, unsubordinated and unguaranteed debt obligations of any such person do not have a rating assigned by Moody's, the long-term unsecured, unsubordinated and unguaranteed debt obligations of such person cease to be rated at least A1 by Moody's, (ii) the short-term issuer default rating and the long-term issuer default rating of the Interest Rate Swap Provider or any credit support provider, as applicable, cease to be rated at least F1 and A, respectively, by Fitch, or (iii) the short-term unsecured, unsubordinated and unguaranteed debt obligations or, respectively, the long-term unsecured, unsubordinated and unguaranteed debt obligations of the Interest Rate Swap Provider or any credit support provider, as applicable, cease to be rated at least R-1(middle) or A (high), respectively, by DBRS, (each such event, an **Initial Downgrade Trigger Event**) and the Interest Rate Swap Provider does not provide credit support to the Guarantor within 10 Business Days of the occurrence of such Initial Downgrade Trigger Event pursuant to the terms of the applicable credit support annex, or arrange for its obligations under the Interest Rate Swap Agreement to be guaranteed by, or transferred to, an entity with rating(s) required by the relevant Rating Agencies;

Table of Contents

at the option of the Guarantor, in the event that (i) the short-term unsecured, unsubordinated and unguaranteed debt obligations or, respectively, the long-term unsecured, unsubordinated and unguaranteed debt obligations of the Interest Rate Swap Provider or any credit support provider, as applicable, cease to be rated at least P-2 or A3, respectively, by Moody's, (ii) the short-term issuer default rating and the long-term issuer default rating of the Interest Rate Swap Provider or any credit support provider, as applicable, cease to be at least F3 and BBB-, respectively, by Fitch, or (iii) the short-term unsecured, unsubordinated and unguaranteed debt obligations or, respectively, the long-term unsecured, unsubordinated and unguaranteed debt obligations of the Interest Rate Swap Provider or any credit support provider, as applicable, cease to be rated at least R-2 (high) or BBB (high), respectively, by DBRS, (each such event, a **Subsequent Downgrade Trigger Event**, and together with the Initial Downgrade Trigger Events, the **Downgrade Trigger Events**) and the Interest Rate Swap Provider does not arrange for its obligations under the Interest Rate Swap Agreement to be guaranteed by, or transferred to, an entity with rating(s) required by the relevant Rating Agencies, and does not provide additional credit support to the Guarantor within 10 Business Days of the occurrence of such Subsequent Downgrade Trigger Event pursuant to the terms of the applicable credit support annex; and

upon the occurrence of the insolvency of the Interest Rate Swap Provider, or any credit support provider and certain insolvency-related events in respect of the Guarantor, or the merger of the Interest Rate Swap Provider without an assumption of the obligations under the Interest Rate Swap Agreement,

provided, however, that if, at any time, the Guarantor (a) is Independently Controlled and Governed, the Guarantor has the discretion, but is not required to, (i) waive any requirement of the Interest Rate Swap Provider to provide credit support, obtain an eligible guarantee or replace itself upon the occurrence of a Downgrade Trigger Event, and (ii) refrain from forthwith terminating the Interest Rate Swap Agreement or finding a replacement Interest Rate Swap Provider, in each case, upon the occurrence of an event of default or additional termination event caused solely by the Interest Rate Swap Provider, and (b) is not Independently Controlled and Governed, the Guarantor will not have the rights set out under clause (a)(i) and (a)(ii) of this paragraph.

Upon the termination of the Interest Rate Swap Agreement pursuant to an Interest Rate Swap Early Termination Event, the Guarantor or the Interest Rate Swap Provider may be liable to make a termination payment to the other in accordance with the provisions of the Interest Rate Swap Agreement.

Swap Collateral Excluded Amounts, if applicable, will be paid to the Interest Rate Swap Provider directly and not via the Priorities of Payments.

As noted herein, the notional amount of an Interest Rate Swap Agreement will be adjusted to correspond to any sale of Portfolio assets following each of a Demand Loan Repayment Event, the Demand Loan being demanded by the Bank, breach of the Pre-Maturity Test, service of an Asset Coverage Test Breach Notice and service of a Notice to Pay and swap termination payments may be due and payable in accordance with the terms of the Interest Rate Swap Agreement as a consequence thereof.

If withholding taxes are imposed on payments made by the Interest Rate Swap Provider under the Interest Rate Swap Agreement, the Interest Rate Swap Provider will always be obliged to gross up these payments. If withholding taxes are imposed on payments made by the Guarantor to the Interest Rate Swap Provider under the Interest Rate Swap Agreement, the Guarantor will not be obliged to gross up those payments.

Table of Contents

All of the interest and obligations of the Interest Rate Swap Provider under the Interest Rate Swap Agreement may be transferred by it to a replacement swap counterparty upon the Interest Rate Swap Provider providing five Business Days prior written notice to Guarantor and the Bond Trustee, provided that (i) such replacement swap counterparty has the rating(s) required by the relevant Rating Agencies (or the obligations of such replacement swap counterparty under the Interest Rate Swap Agreement are guaranteed by an entity having the rating(s) required by the relevant Rating Agencies), (ii) as of the date of such transfer, such replacement swap counterparty will not be required to withhold or deduct any taxes under the Interest Rate Swap Agreement as a result of such transfer, (iii) no termination event or event of default will occur under the Interest Rate Swap Agreement as a result of such transfer, (iv) no additional amount will be payable by the Guarantor under the Interest Rate Swap Agreement as a result of such transfer, (v) the Rating Agency Condition will have been satisfied, and (vi) such replacement swap counterparty enters into documentation substantially identical to the Interest Rate Swap Agreement. The Bond Trustee's consent to such transfer is required, provided that such consent will be given if such replacement swap counterparty has the rating(s) required by the relevant Rating Agencies and the Rating Agency Condition has been satisfied.

The Interest Rate Swap Agreement will be in the form of an ISDA Master Agreement, including a schedule and confirmation thereto and credit support annex. Under the Interest Rate Swap Agreement, the Guarantor makes the following representations with respect to itself and/or the Interest Rate Swap Agreement, as applicable: (i) that it is duly organized and validly existing, (ii) that it has the power and authority to enter into the Interest Rate Swap Agreement, (iii) that it is not in violation or conflict with any applicable law, its constitutional documents, any court order or judgment or any contractual restriction, (iv) it has obtained all necessary consents, (v) its obligations under the Interest Rate Swap Agreement are valid and binding, (vi) no event of default, potential event of default or termination event has occurred and is continuing under the Interest Rate Swap Agreement, (vii) there is no pending or, to its knowledge, any threatened litigation which is likely to affect its ability to perform under the Interest Rate Swap Agreement, (viii) all information furnished in writing is true, accurate and complete in every material respect, (ix) all payments will be made without any withholding and deduction, (x) that it is a Canadian partnership under the ITA and a limited partnership organized under the laws of the Province of Ontario, (xi) that it is entering into the agreement as principal and not as agent, and (xii) that it is not relying on the other party for any investment advice, that is capable of assessing the merits of and understanding the risks of entering into the relevant transaction and that the Interest Rate Swap Provider is not acting as fiduciary to it.

Under the Interest Rate Swap Agreement, the Guarantor's obligations will be limited in recourse to the Portfolio.

The Interest Rate Swap Agreement will be governed by, and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

Covered Bond Swap Agreement

To provide a hedge against currency and/or other risks, in respect of amounts received by the Guarantor under the Interest Rate Swap Agreement and amounts payable in respect of its obligations under the Covered Bond Guarantee, the Guarantor will enter into the Covered Bond Swap Agreement with the Covered Bond Swap Provider (initially BMO), and may enter into a new ISDA Master Agreement, schedule and confirmation(s) and credit support annex, if applicable, for each Tranche and/or Series of covered bonds issued at the time such covered bonds are issued. The Covered Bond Swap Provider and the Guarantor will agree to swap Canadian dollar floating rate amounts received by the Guarantor under the Interest Rate Swap Agreement (described above) into the exchange rate specified in the Covered Bond Swap Agreement relating to the relevant Tranche or Series of covered bonds to hedge certain currency and/or other risks in respect of amounts received by the Guarantor under the Interest Rate Swap Agreement and amounts payable or that may become payable in respect of its obligations under the Covered Bond Guarantee. No cash flows will be exchanged under the Covered Bond Swap Agreement unless and until the Covered Bond Swap Effective Date has occurred.

Table of Contents

If prior to (i) the Final Maturity Date in respect of the relevant Series or Tranche of covered bonds, or (ii) any Interest Payment Date or the Extended Due for Payment Date following a deferral of the Due for Payment Date to the Extended Due for Payment Date by the Guarantor pursuant to Condition 6.1 (*Final redemption*) (if an Extended Due for Payment Date is specified as applicable in the prospectus supplement for a Series of covered bonds and the payment of the Final Redemption Amount or any part of it by the Guarantor under the Covered Bond Guarantee is deferred pursuant to Condition 6.1 (*Final redemption*)), the Guarantor notifies the Covered Bond Swap Provider (pursuant to the terms of the Covered Bond Swap Agreement) of the amount to be paid by such Covered Bond Swap Provider on such Final Maturity Date or Interest Payment Date thereafter (such amount being equal to the Final Redemption Amount or the relevant portion thereof payable by the Guarantor on such Final Maturity Date or Interest Payment Date under the Covered Bond Guarantee in respect of the relevant Series or Tranche of covered bonds), then the Covered Bond Swap Provider will pay the Guarantor such amount and the Guarantor will pay the Covered Bond Swap Provider the Canadian Dollar Equivalent of such amount. Further, if on any day an Early Redemption Amount is payable pursuant to Condition 9.2 (*Guarantor Events of Default*), the Covered Bond Swap Provider will pay the Guarantor such amount (or the relevant portion thereof) and the Guarantor will pay the Covered Bond Swap Provider the Canadian Dollar Equivalent thereof, following which the notional amount of the Covered Bond Swap Agreement will reduce accordingly.

The Covered Bond Swap Agreement will (unless terminated earlier by a Covered Bond Swap Early Termination Event) terminate in respect of any relevant Tranche or Series of covered bonds, on the earlier of:

- (a) the Final Maturity Date for, or if earlier, the date of redemption in whole of, such Series of covered bonds or, if the Guarantor notifies the Covered Bond Swap Provider, prior to the Final Maturity Date for such Tranche or Series of covered bonds, of the inability of the Guarantor to pay in full Guaranteed Amounts corresponding to the Final Redemption Amount in respect of such Tranche or Series of covered bonds, the final Interest Payment Date on which an amount representing the Final Redemption Amount for such Tranche or Series of covered bonds is paid (but in any event not later than the Extended Due for Payment Date for such Tranche or Series of covered bonds); and
- (b) the date designated therefor by the Bond Trustee and notified to the Covered Bond Swap Provider and the Guarantor for purposes of realizing the Security in accordance with the Security Agreement and distributing the proceeds therefrom in accordance with the Post-Enforcement Priorities of Payments following the enforcement of the Security pursuant to Condition 9.3 (*Enforcement*).

Table of Contents

The Covered Bond Swap Agreement may also be terminated in certain other circumstances (each referred to as a **Covered Bond Swap Early Termination Event**), including:

at the option of any party to the Covered Bond Swap Agreement, if there is a failure by the other party to pay any amounts due under the Covered Bond Swap Agreement, however, no such failure to pay by the Guarantor will entitle the Covered Bond Swap Provider to terminate the Covered Bond Swap Agreement, if such failure is due to the assets available at such time to the Guarantor being insufficient to make the required payment in full);

at the option of the Guarantor, if the Covered Bond Swap Provider is the Bank and an Issuer Event of Default has occurred which has resulted in the covered bonds becoming due and payable under their respective terms;

an Initial Downgrade Trigger Event has occurred and the Covered Bond Swap Provider does not provide credit support to the Guarantor within 10 Business Days of the occurrence of such Initial Downgrade Trigger Event pursuant to the terms of the applicable credit support annex, or arrange for its obligations under the Covered Bond Swap Agreement to be guaranteed by, or transferred to, an entity with rating(s) required by the relevant Rating Agencies;

at the option of the Guarantor, a Subsequent Downgrade Trigger Event has occurred and the Covered Bond Swap Provider does not arrange for its obligations under the Covered Bond Swap Agreement to be guaranteed by, or transferred to, an entity with rating(s) required by the relevant Rating Agencies, and does not provide additional credit support to the Guarantor within 10 Business Days of the occurrence of such Subsequent Downgrade Trigger Event pursuant to the terms of the applicable credit support annex; and

upon the occurrence of the insolvency of the Covered Bond Swap Provider or any credit support provider, and certain insolvency-related events in respect of the Guarantor or the merger of the Covered Bond Swap Provider without an assumption of the obligations under the Covered Bond Swap Agreement.

Provided, however, that if, at any time, the Guarantor (a) is Independently Controlled and Governed, the Guarantor has the discretion, but is not required to, (i) waive any requirement of the Covered Bond Swap Provider to provide credit support, obtain an eligible guarantee or replace itself upon the occurrence of a Downgrade Trigger Event, and (ii) refrain from forthwith terminating the Covered Bond Swap Agreement or finding a replacement Covered Bond Swap Provider, in each case, upon the occurrence of an event of default or additional termination event caused solely by the Covered Bond Swap Provider, and (b) is not Independently Controlled and Governed, the Guarantor will not have the rights set out under clause (a)(i) and (a)(ii) of this paragraph.

Upon the termination of the Covered Bond Swap Agreement pursuant to a Covered Bond Swap Early Termination Event, the Guarantor or the Covered Bond Swap Provider may be liable to make a termination payment to the other in accordance with the provisions of the Covered Bond Swap Agreement.

Table of Contents

Any termination payment made by the Covered Bond Swap Provider to the Guarantor in respect of the Covered Bond Swap Agreement will first be used to the extent necessary (prior to the occurrence of a Guarantor Event of Default and service of a Guarantor Acceleration Notice) to pay a replacement Covered Bond Swap Provider to enter into a replacement Covered Bond Swap with the Guarantor, unless a replacement Covered Bond Swap Agreement has already been entered into on behalf of the Guarantor. Any premium received by the Guarantor from a replacement Covered Bond Swap Provider entering into a Covered Bond Swap Agreement will first be used to make any termination payment due and payable by the Guarantor with respect to the Covered Bond Swap Agreement, unless such termination payment has already been made on behalf of the Guarantor.

Swap Collateral Excluded Amounts, if applicable, will be paid to the Covered Bond Swap Provider directly and not via the Priorities of Payments.

All of the interest and obligations of the Covered Bond Swap Provider under the Covered Bond Swap Agreement may be transferred by it to a replacement swap counterparty upon the Covered Bond Swap Provider providing five Business Days prior written notice to Guarantor and the Bond Trustee, provided that (i) such replacement swap counterparty has the rating(s) required by the relevant Rating Agencies (or the obligations of such replacement swap counterparty under the Covered Bond Swap Agreement are guaranteed by an entity having the rating(s) required by the relevant Rating Agencies), (ii) as of the date of such transfer, such replacement swap counterparty will not be required to withhold or deduct any taxes under the Covered Bond Swap Agreement as a result of such transfer, (iii) no termination event or event of default will occur under the Covered Bond Swap Agreement as a result of such transfer, (iv) no additional amount will be payable by the Guarantor under the Covered Bond Swap Agreement as a result of such transfer, (v) the Rating Agency Condition will have been satisfied, and (vi) such replacement swap counterparty enters into documentation substantially identical to the Covered Bond Swap Agreement.

If withholding taxes are imposed on payments made by the Covered Bond Swap Provider to the Guarantor under the Covered Bond Swap Agreement, the Covered Bond Swap Provider will always be obliged to gross up those payments. If withholding taxes are imposed on payments made by the Guarantor to the Covered Bond Swap Provider under the Covered Bond Swap Agreement, the Guarantor will not be obliged to gross up those payments.

The Covered Bond Swap Agreement will be in the form of an ISDA Master Agreement, including a schedule and confirmation and credit support annex, if applicable, in relation to each particular Tranche or Series of Covered Bonds, as the case may be. Under the Covered Bond Swap Agreement, the Guarantor makes the following representations with respect to itself and/or the Covered Bond Swap Agreement, as applicable: (i) that it is duly organized and validly existing, (ii) that it has the power and authority to enter into the Covered Bond Swap Agreement, (iii) that it is not in violation or conflict with any applicable law, its constitutional documents, any court order or judgment or any contractual restriction, (iv) it has obtained all necessary consents, (v) its obligations under the Covered Bond Swap Agreement are valid and binding, (vi) no event of default, potential event of default or termination event has occurred and is continuing under the Covered Bond Swap Agreement, (vii) there is no pending or, to its knowledge, any threatened litigation which is likely to affect its ability to perform under the Covered Bond Swap Agreement, (viii) all information furnished in writing is true, accurate and complete in every material respect, (ix) all payments will be made without any withholding and deduction, (x) that it is a Canadian partnership under the ITA and a limited partnership organized under the laws of the Province of Ontario, (xi) that it is entering into the agreement as principal and not as agent, and (xii) that it is not relying on the other party for any investment advice, that is capable of assessing the merits of and understanding the risks of entering into the relevant transaction and that the Covered Bond Swap Provider is not acting as fiduciary to it.

Table of Contents

Under the Covered Bond Swap Agreement, the Guarantor's obligations will be limited in recourse to the Portfolio.

The Covered Bond Swap Agreement will be governed by, and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

Bank Account Agreement

Pursuant to the terms of the Bank Account Agreement between the Guarantor, the Account Bank (initially BMO), the GDA Provider, the Cash Manager and the Bond Trustee, the Guarantor will maintain with the Account Bank the accounts described below, which will be operated in accordance with the Cash Management Agreement, the Guarantor Agreement and the Security Agreement:

- (a) the GDA Account into which amounts may be deposited by the Guarantor (including, following the occurrence of an Issuer Event of Default which is not cured within the applicable grace period, all amounts received from borrowers in respect of Loans in the Portfolio). On each Guarantor Payment Date as applicable, amounts required to meet the Guarantor's various creditors and amounts to be distributed to the Partners under the Guarantor Agreement will be transferred to the Transaction Account (to the extent maintained); and
- (b) the Transaction Account (to the extent maintained) into which, amounts may be deposited by the Guarantor prior to their transfer to the GDA Account. Monies standing to the credit of the Transaction Account will be transferred on each Guarantor Payment Date and applied by the Cash Manager in accordance with the Priorities of Payments described below under *Cashflows*.

Under the Bank Account Agreement, the Account Bank represents and warrants to the Cash Manager, the Guarantor and the Bond Trustee on the Program Date and on each date on which an amount is credited to the Guarantor Accounts and on each Guarantor Payment Date that: (i) it is a bank listed in Schedule I to the Bank Act and duly qualified to do business in every jurisdiction where the nature of its business requires it to be so qualified, (ii) the execution, delivery and performance by it of the Bank Account Agreement (x) are within its corporate powers, (y) have been duly authorized by all necessary corporate action, and (z) do not contravene or result in a default under or conflict with (A) its charter or by-laws, (B) any law, rule or regulation applicable to it, or (C) any order, writ, judgment, award, injunction, decree or contractual obligation binding on or affecting it or its property, (iii) it is not a non-resident of Canada for purposes of the ITA, (iv) it possesses the necessary experience, qualifications, facilities and other resources to perform its responsibilities under the Bank Account Agreement, (v) it is rated at or above the Account Bank Required Ratings by each of the Rating Agencies, (vi) it is and will continue to be in good standing with OSFI, (vii) it is and will continue to be in material compliance with its internal policies and procedures (including risk management policies) relevant to the services to be provided by it pursuant to the Bank Account Agreement and the other Transaction Documents to which it is party, (ix) it will exercise reasonable skill and care in the performance of its obligations hereunder and the other Transaction Documents to which it is a party, and (x) it will comply with the CMHC Guide and all Transaction Documents to which it is a party and all material legal and regulatory requirements applicable to the conduct of its business so that it can lawfully attend to the performance of its obligations under the Bank Account Agreement and the other Transaction Documents to which it is a party.

Table of Contents

If the unsecured, unsubordinated and unguaranteed debt obligations of the Account Bank cease to be rated by the Rating Agencies at or above the Account Bank Required Ratings (as defined below), or if certain other events occur and the Account Bank is terminated, then the GDA Account and the Transaction Account (to the extent maintained) will be required to be closed and all amounts standing to the credit thereof transferred to accounts held with the Standby Account Bank.

Account Bank Required Ratings means the threshold ratings P-1 (in respect of Moody's), A and F1 (in respect of Fitch), or A(low) or R-1(middle) (in respect of DBRS), as applicable, of the unsecured, unsubordinated and unguaranteed debt obligations (or, in the case of Fitch, the issuer default rating) of the Account Bank by the Rating Agencies.

In addition to the requirement that the Guarantor Accounts be moved to the Standby Account Bank if the Account Bank breaches the Account Bank Required Ratings as described above, the Guarantor may (in the case of (i) through (iii) below) or will (in the case of (iv) through (vii) below) terminate the Bank Account Agreement and move the Guarantor Accounts to the Standby Account Bank if: (i) a deduction or withholding for or on account of any taxes is imposed or is likely to be imposed in respect of the interest payable on any Guarantor Account, (ii) there is a breach by the Account Bank of certain representations and warranties or a failure by the Account Bank to perform certain covenants made by it under the Bank Account Agreement, (iii) the Account Bank fails to comply with any of its other covenants and obligations under the Bank Account Agreement, which failure in the reasonable opinion of the Bond Trustee is materially prejudicial to the interests of the covered bondholders and such failure is not remedied within 30 days of the earlier of the Account Bank becoming aware of the failure and receipt by the Account Bank of notice from the Bond Trustee requiring the same to be remedied, (iv) the Account Bank ceases or threatens to cease carrying on the business of the Account Bank, (v) an order is made for the winding up of the Account Bank, (vi) an Insolvency Event occurs with respect to the Account Bank, or (vii) if the Account Bank is the Issuer or an Affiliate thereof, an Issuer Event of Default has occurred and is continuing.

Standby Bank Account Agreement

Pursuant to the terms of a standby bank account agreement (the **Standby Bank Account Agreement**) between the Guarantor, the Standby Account Bank, the Standby GDA Provider, the Cash Manager, the Bank and the Bond Trustee (as amended and/or restated and/or supplemented from time to time), the Standby Account Bank will open and maintain a standby GDA account (the **Standby GDA Account**) and standby transaction account (the **Standby Transaction Account**) in the name of the Guarantor following delivery by the Guarantor (or the Cash Manager on its behalf) of a standby account bank notice (the **Standby Account Bank Notice**) to the Standby Account Bank.

Pursuant to the terms of the Cash Management Agreement, the Cash Manager will deliver a Standby Account Bank Notice to the Standby Account Bank if the funds held in the GDA Account and the Transaction Account (to the extent maintained) are required to be transferred to the Standby Account Bank pursuant to the terms of the Bank Account Agreement or the Bank Account Agreement is terminated for any reason.

Table of Contents

The Standby Bank Account Agreement provides that the Standby GDA Account and the Standby Transaction Account, when opened, will be subject to the security interest in favor of the Bond Trustee (for itself and on behalf of the other Secured Creditors) granted under the Security Agreement and that payments of amounts owing to the Standby Account Bank in respect of fees or otherwise will be subject to the relevant Priorities of Payments set out in the Guarantor Agreement and the Security Agreement.

Under the Standby Bank Account Agreement, the Standby Account Bank represents and warrants to the Guarantor and the Bond Trustee on the Program Date and on each date on which an amount is credited to any Guarantor Account that is held with the Standby Account Bank and on each Guarantor Payment Date that: (i) it is a bank listed in Schedule I to the Bank Act and duly qualified to do business in every jurisdiction where the nature of its business requires it to be so qualified, (ii) the execution, delivery and performance by it of the Standby Bank Account Agreement (x) are within its corporate powers, (y) have been duly authorized by all necessary corporate action, and (z) do not contravene or result in a default under or conflict with (A) its charter or by-laws, (B) any law, rule or regulation applicable to it, or (C) any order, writ, judgment, award, injunction, decree or contractual obligation binding on or affecting it or its property, (iii) it is not a non-resident of Canada for purposes of the ITA, (iv) it possesses the necessary experience, qualifications, facilities and other resources to perform its responsibilities under the Standby Bank Account Agreement, (v) it is rated at or above the Account Bank Required Ratings by each of the Rating Agencies, (vi) it is and will continue to be in good standing with OSFI, (vii) it is and will continue to be in material compliance with its internal policies and procedures (including risk management policies) relevant to the services to be provided by it pursuant to the Standby Bank Account Agreement and the other Transaction Documents to which it is party, (viii) it will exercise reasonable skill and care in the performance of its obligations hereunder and the other Transaction Documents to which it is a party, (ix) it will comply with the CMHC Guide and all Transaction Documents to which it is a party and all material legal and regulatory requirements applicable to the conduct of its business so that it can lawfully attend to the performance of its obligations under the Standby Bank Account Agreement and the other Transaction Documents to which it is a party.

The Standby Bank Account Agreement further provides that if the ratings of the unsecured, unsubordinated and unguaranteed debt obligations, or issuer default rating, as applicable, of the Standby Account Bank by the Rating Agencies fall below the Standby Account Bank Threshold Ratings, then the Standby GDA Account and the Standby Transaction Account (to the extent maintained) will be required to be closed and all amounts standing to the credit thereof transferred to accounts held with a satisfactorily rated bank.

Standby Account Bank Threshold Ratings means the threshold ratings P-1 (in respect of Moody's), A and F1 (in respect of Fitch), or A (low) or R-1 (middle) (in respect of DBRS), as applicable, of the unsecured, unsubordinated and unguaranteed debt obligations (or, in the case of Fitch, the issuer default rating) of the Standby Account Bank by the Rating Agencies.

Table of Contents

In addition to the requirement that the Guarantor Accounts be moved from the Standby Account Bank to a satisfactorily rated bank if the Standby Account Bank breaches the Standby Account Bank Threshold Ratings as described above, the Guarantor may (in the case of (i) through (iii) below) or will (in the case of (iv) through (vi) below) terminate the Standby Bank Account Agreement and move the Guarantor Accounts from the Standby Account Bank to a satisfactorily rated bank if: (i) a deduction or withholding for or on account of any taxes is imposed or is likely to be imposed in respect of the interest payable on any Guarantor Account, (ii) there is a breach by the Standby Account Bank of certain representations and warranties or a failure by the Standby Account Bank to perform certain covenants made by it under the Standby Bank Account Agreement, (iii) the Standby Account Bank materially breaches any of its other covenants and obligations under the Standby Bank Account Agreement or the Standby Guaranteed Deposit Account Contract, (iv) the Standby Account Bank ceases or threatens to cease carrying on the business of the Standby Account Bank, (v) an order is made for the winding up of the Standby Account Bank, or (vi) an Insolvency Event occurs with respect to the Standby Account Bank.

References herein to the GDA Account or the Transaction Account include, unless otherwise stated, references to the Standby GDA Account or the Standby Transaction Account when the Standby GDA Account and the Standby Transaction Account become operative.

Guaranteed Deposit Account Contract

The Guarantor has entered into a guaranteed deposit account contract (or **GDA**) with the GDA Provider (initially BMO), the Cash Manager and the Bond Trustee pursuant to which the GDA Provider has agreed to pay interest on the monies standing to the credit thereof at specified rates determined in accordance with the GDA. Under the Guaranteed Deposit Account Contract, the GDA Provider makes the same representations and warranties to the Cash Manager, the Guarantor and the Bond Trustee on the Program Date and on each date on which an amount is credited to the GDA Account and on each Guarantor Payment Date as are made by the Account Bank and which are described under **Bank Account Agreement** above.

The Guaranteed Deposit Account Contract is governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein.

Standby Guaranteed Deposit Account Contract

The Guarantor has entered into a stand-by guaranteed deposit account contract with Royal Bank of Canada (the **Standby GDA Provider**) on the Program Date (as amended and/or supplemented and/or restated from time to time, the **Standby Guaranteed Deposit Account Contract**), pursuant to which the Standby GDA Provider has agreed to pay interest on the Standby GDA Account at specified rates determined in accordance with the Standby Guaranteed Deposit Account Contract. Under the Standby Guaranteed Deposit Account Contract, the Standby GDA Provider makes the same representations and warranties to the Guarantor and the Bond Trustee on the Program Date and on each date on which an amount is credited to the Standby GDA Account and on each Guarantor Payment Date as are made by the Standby Account Bank and which are described under **Standby Bank Account Agreement** above.

The Standby Guaranteed Deposit Account Contract is governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein.

Table of Contents

Security Agreement

Pursuant to the terms of the Security Agreement entered into on the Program Date by the Guarantor, the Bond Trustee and other Secured Creditors, the secured obligations of the Guarantor and all other obligations of the Guarantor under or pursuant to the Transaction Documents to which it is a party owed to the Bond Trustee and the other Secured Creditors are secured by a first ranking security interest (the **Security**) over all present and after acquired undertaking, property and assets of the Guarantor, including without limitation the Portfolio, certain contractual rights and any Excess Proceeds, subject to the right of the Guarantor to sell such Portfolio pursuant to and in accordance with the Transaction Documents.

Representations and Warranties of the Guarantor

Under the Security Agreement, the Guarantor represents and warrants to the Secured Creditors that:

- (a) The Security Agreement creates a valid first priority security interest in the present and future personal property and undertaking of the Guarantor and all proceeds thereof (the **Collateral**).
- (b) It is the legal and beneficial owner of all Collateral.
- (c) The Collateral, including the Portfolio, is free and clear of all liens other than those created in favor of the Bond Trustee and customary permitted liens and the Security in the Collateral has been perfected.
- (d) The Bond Trustee has obtained control pursuant to the applicable personal property security legislation of the Portfolio that consists of investment property, the Bond Trustee is a protected purchaser within the meaning of such legislation, and no other person has control or the right to obtain control of such investment property.
- (e) No authorization, consent or approval from, or notices to, any governmental authority or other person is required for the due execution and delivery by it of the Security Agreement or the performance or enforcement of its obligations thereunder, other than those that have been obtained or made.
- (f) The address of the Guarantor's chief executive office is that given at the end of the Security Agreement.
- (g) No encumbrance exists over or in respect of any of its assets except for encumbrances created by the Security Agreement and certain permitted security interests.
- (h) It is validly formed and existing as a limited partnership under the *Limited Partnership Act* (Ontario) pursuant to a declaration of limited partnership filed under the *Limited Partnership Act* (Ontario).
- (i) Since the date of registration of its limited partnership declaration there has been no material adverse change in its financial position or prospects.

Table of Contents

- (j) It is not the subject of any governmental or official investigation or inquiry and to its knowledge, none is progressing or pending or has been threatened in writing against it, which may have a material adverse effect on any of it, any relevant Transaction Document (other than the Guarantor Agreement), and/or the issue and offering of Covered Bonds under the Program.
- (k) No litigation, arbitration or administrative proceedings of or before any court, tribunal or governmental body has been commenced or, so far as it is aware are pending or threatened against it or any of its assets or revenues which may have a material adverse effect on it, any relevant Transaction Document and/or the issuance and offering of Covered Bonds under the Program.
- (l) The Managing GP has at all times carried on and conducted the affairs and business of the Guarantor in the name of the Guarantor as a separate entity and in accordance with the Guarantor Agreement and all laws and regulations applicable to it and will continue to do so throughout the continuation of the Guarantor.
- (m) The Managing GP has at all times kept or procured the keeping of proper books of account and records for the Guarantor separate from any person or entity.
- (n) The Managing GP for and on behalf of the Guarantor has duly executed the relevant Transaction Documents.
- (o) Its entry into and the execution (and, where appropriate, delivery) of the relevant Transaction Documents and the performance by it of its obligations under the relevant Transaction Documents do not and will not conflict with or constitute a breach or infringement of:
 - (i) its declaration of limited partnership under the *Limited Partnership Act* (Ontario);
 - (ii) any law applicable to it; or
 - (iii) any agreement, indenture, contract, mortgage, deed or other instrument to which it is a party or which is binding on it or any of its assets.
- (p) The obligations expressed to be assumed by it under the relevant Transaction Documents are legal and valid obligations, binding on it and enforceable against it in accordance with their terms.
- (q) The Transaction Documents to which it is a party have been entered into in good faith for its own benefit and on arm's length commercial terms.
- (r) It is not in breach of or default under any agreement, indenture, contract, mortgage, deed or other instrument to which it is a party or which is binding on it or any of its assets which would be reasonably likely to have a material adverse effect on the ability of the Guarantor to perform its obligations under the Transaction Documents, or have a material adverse effect on the Collateral.

Table of Contents

- (s) It is not necessary that any relevant Transaction Document in relation to it be filed, recorded or enrolled with any court or other authority in any jurisdiction in which the assets of the Guarantor are located.
- (t) It does not require the consent of any other party except for such consents as have been obtained by it prior to the date hereof or the consent, licence, approval or authorisation of any governmental authority in connection with the entering into or performance of the relevant Transaction Documents.
- (u) The Security Agreement and the other Transaction Documents have been properly authorized by all necessary action on the part of the Guarantor and its partners in accordance with the term of the Guarantor Agreement and constitutes a legal, valid and binding obligation of the Guarantor enforceable in accordance with its terms except as may be limited by applicable bankruptcy, insolvency, moratorium, and other similar laws affecting creditors' rights generally and except that orders for specific performance, injunctions and other equitable remedies are discretionary remedies which may be granted only in the discretion of the court; the making and performance of the Security Agreement will not result in the breach of, constitute a default under, contravene any provision of, or result in the creation of, any lien upon the Collateral other than a permitted security interest.
- (v) There are no futures accounts currently in existence. In the event that any futures accounts were to come into existence, it will take all necessary actions in connection therewith.
- (w) Consumer goods held by the Guarantor are not material in value.
- (x) The Guarantor and/or the Bond Trustee have control over all investment property.

Release of Security

In the event of any sale of Loans (including Selected Loans) and their Related Security by the Guarantor pursuant to and in accordance with the Transaction Documents, the Bond Trustee will (subject to the written request of the Guarantor), release those Loans from the Security created by and pursuant to the Security Agreement on the date of such sale but only if (i) the Bond Trustee provides its prior written consent to the terms of such sale in accordance with the Guarantor Agreement, and (ii) the Guarantor provides a certificate to the Bond Trustee that such sale of Loans and their Related Security has been made in accordance with the terms of the Transaction Documents.

In the event of the repurchase of a Loan and its Related Security by the Seller pursuant to and in accordance with the Transaction Documents, the Bond Trustee will release that Loan from the Security created by and pursuant to the Security Agreement on or prior to the date of the repurchase.

Enforcement

If a Guarantor Event of Default occurs and a Guarantor Acceleration Notice is served on the Issuer and the Guarantor, the Bond Trustee will be entitled to appoint a Receiver, and/or enforce the Security constituted by the Security Agreement (including selling the Portfolio), and/or take such steps as it will deem necessary, subject in each case to being indemnified and/or secured to its satisfaction. All proceeds (other than any Third Party Amount or Swap Collateral Excluded Amounts) received by the Bond Trustee from the enforcement of the Security will be applied in accordance with the Post-Enforcement Priorities of Payments described under *Cashflows*.

Table of Contents

The Security Agreement is governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein (other than certain other provisions relating to real property located outside of the Province of Ontario which will be governed by the law of the jurisdiction in which such property is located).

Corporate Services Agreement

Pursuant to the terms of a corporate services agreement (such corporate services agreement as amended and/or restated and/or supplemented from time to time, the **Corporate Services Agreement**) between the Corporate Services Provider, the Liquidation GP, the Bank and the Guarantor, the Corporate Services Provider will provide corporate services to the Liquidation GP.

Agency Agreement

Under the terms of the Agency Agreement between the Agents, the Issuer, the Guarantor and the Bond Trustee, the Agents have been appointed by the Issuer and the Guarantor to carry out various issuing and paying agency, exchange agency, transfer agency, calculation agency and registrar duties in respect of the covered bonds. Such duties include, but are not limited to, dealing with any applicable stock exchanges and Clearing System on behalf of the Issuer and the Guarantor in connection with an issuance of covered bonds and making payments of interest and principal in respect of the covered bonds upon receipt of such amounts from the Issuer or the Guarantor, as applicable.

Upon the occurrence of an Issuer Event of Default, Potential Issuer Event of Default, a Guarantor Event of Default or Potential Guarantor Event of Default, as applicable, the Bond Trustee may, by notice in writing to the Issuer, the Guarantor and the Agents, require the Agents to thereafter act as agents of the Bond Trustee.

Any Agent or Calculation Agent may resign its appointment under the Agency Agreement and/or in relation to any Series of covered bonds upon 60 days notice to the Bank, the Guarantor and the Bond Trustee, provided that any such resignation by the Principal Paying Agent, the Registrar or any Calculation Agent will not be effective unless a successor has been appointed.

The Issuer or the Guarantor may, with the prior written consent of the Bond Trustee, revoke its appointment of any Agent or Calculation Agent under the Agency Agreement and/or in relation to any Series of covered bonds upon 45 days notice to such Agent or Calculation Agent, provided that in certain circumstances, such revocation will not be effective unless a successor has been appointed. Notwithstanding the foregoing, the Guarantor may revoke the appointment of any Agent or Calculation Agent in the event that there is a breach by such Agent or Calculation Agent of certain representations and warranties or a failure by such Agent or Calculation Agent to perform certain covenants made by it under the Agency Agreement.

Table of Contents

The appointment of any Agent or Calculation Agent under the Agency Agreement and in relation to each relevant Series of covered bonds will terminate if any of the following events or circumstances will occur or arise, namely: such Agent or Calculation Agent becomes incapable of acting; such Agent or Calculation Agent is adjudged bankrupt or insolvent; such Agent or Calculation Agent files a voluntary petition in bankruptcy or makes an assignment for the benefit of its creditors or consents to the appointment of a receiver, administrator or other similar official of all or any substantial part of its property or admits in writing its inability to pay or meet its debts as they mature or suspends payment thereof; a resolution is passed or an order is made for the winding-up or dissolution of such Agent or Calculation Agent; a receiver, administrator or other similar official of such Agent or Calculation Agent or of all or any substantial part of its property is appointed; an order of any court is entered approving any petition filed by or against such Agent or Calculation Agent under the provisions of any applicable bankruptcy or insolvency law; or any public officer takes charge or control of such Agent or Calculation Agent or of its property or affairs for the purpose of rehabilitation, conservation or liquidation.

Modification of Transaction Documents

The provisions of the Transaction Documents generally require that all amendments thereto be in writing and executed by the parties thereto. In addition, any material amendment to a Transaction Document will be subject to satisfaction of the Rating Agency Condition. Pursuant to the terms of the Security Agreement and the Trust Deed, the Bond Trustee is permitted to consent to and/or execute amendments without consulting the other Secured Creditors if the amendment is of a minor or technical nature or the Bond Trustee is otherwise satisfied that the amendment is not reasonably expected to be materially prejudicial to the interests of the covered bondholders.

In addition to the general amendment provisions, the Managing GP has the authority to make amendments to the Guarantor Agreement without the consent of any other party in order to cure any ambiguity or correct or supplement any provision thereof, provided that such amendments do not adversely affect the interests of the other Partners, or, while covered bonds are outstanding, the Bond Trustee (on behalf of the Secured Creditors). If the interests of any such party would be adversely affected by a proposed amendment to the Guarantor Agreement, such amendment may only be made by the Managing GP with the consent of such adversely affected Partner and/or the Bond Trustee, as applicable.

For greater certainty, all amendments to the Transaction Documents must comply with the CMHC Guide.

Table of Contents

Modification of Ratings Triggers and Consequences

Any amendment to (a) a Ratings Trigger provided for in any Transaction Document that lowers the threshold ratings specified therein, or (b) the consequences of breaching any such Ratings Trigger provided for in any Transaction Document that makes such consequences less onerous, will, with respect to each affected Rating Agency only, be deemed to be a material amendment and will be subject to satisfaction of the Rating Agency Condition with respect to each affected Rating Agency.

Notwithstanding the foregoing, if at any time the Bank determines that any one of DBRS, Fitch or Moody's will not be a Rating Agency in respect of the Program, then, so long as (a) the Program is in compliance with the terms of the CMHC Guide with respect to ratings of the covered bonds, and (b) each outstanding Series of covered bonds is rated by at least two Rating Agencies, the Ratings Triggers for such rating agency will not be applicable to the Program without any further action or formality, including for greater certainty satisfaction of the Rating Agency Condition or consent or approval of the Bond Trustee or the holders of the covered bonds. Any amendments to the Transaction Documents to reflect the foregoing will be deemed not to be a material amendment and may be made by the parties thereto without the requirement for satisfaction of the Rating Agency Condition with respect to any Rating Agency or consent or approval of the Bond Trustee or the holders of the covered bonds.

Table of Contents

CASHFLOWS

As described above under *Description of the Covered Bonds Credit Structure*, until the occurrence of a Covered Bond Guarantee Activation Date, the covered bonds will be obligations of the Bank only. The Bank is liable to make payments when due on the covered bonds, whether or not it has received any corresponding payment from the Guarantor under the Intercompany Loan.

This section summarizes the Priorities of Payments of the Guarantor, as to the allocation and distribution of amounts standing to the credit of the Guarantor on the Ledgers and their order of priority:

- (a) when no Asset Coverage Test Breach Notice is outstanding and no Covered Bond Guarantee Activation Date has occurred;
- (b) when an Asset Coverage Test Breach Notice is outstanding but no Covered Bond Guarantee Activation Date has occurred;
- (c) following service of a Notice to Pay on the Guarantor; and
- (d) following service of a Guarantor Acceleration Notice and enforcement of the Security.

If the Transaction Account is closed in accordance with the terms of the Bank Account Agreement or no Transaction Account is maintained, any payment to be made to or from the Transaction Account will, as applicable, be made to or from the GDA Account, or no payment will be made at all if such payment is expressed to be from the GDA Account to the Transaction Account.

Allocation and distribution of Available Revenue Receipts when no Asset Coverage Test Breach Notice is outstanding and no Covered Bond Guarantee Activation Date has occurred.

At any time when no Asset Coverage Test Breach Notice is outstanding and no Covered Bond Guarantee Activation Date has occurred, Available Revenue Receipts will be allocated and distributed as described below.

The Guarantor or the Cash Manager on its behalf will, as of each Calculation Date, calculate:

- (i) the amount of Available Revenue Receipts available for distribution on the immediately following Guarantor Payment Date;
- (ii) the Reserve Fund Required Amount (if applicable);
- (iii) where the Pre-Maturity Test has been breached in respect of a Series of Hard Bullet Covered Bonds, on each Calculation Date falling in the twelve months prior to the Final Maturity Date of the relevant Series of Hard Bullet Covered Bonds, whether or not the amount standing to the credit of the Pre-Maturity Liquidity Ledger including the principal amount of any Substitution Assets standing to the credit of the Pre-Maturity Liquidity Ledger at such date is less than the Pre-Maturity Liquidity Required Amount.

Table of Contents

On each Guarantor Payment Date, the Guarantor (or the Cash Manager on its beha