IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY U.S. PERSON OR TO ANY PERSON OR ADDRESS IN THE U.S. EXCEPT TO QUALIFIED INSTITUTIONAL BUYERS (AS DEFINED BELOW).

IMPORTANT: You must read the following before continuing. The following applies to the Prospectus following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY THE SECURITIES OF THE ISSUER IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR THE SECURITIES LAWS OR "BLUE SKY" LAWS OF ANY STATE OR OTHER JURISDICTION OF THE U.S., AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE U.S. OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, "U.S. PERSONS" (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. CERTAIN OF THE SECURITIES WILL BE OFFERED AND SOLD IN THE UNITED STATES TO A LIMITED NUMBER OF "QUALIFIED INSTITUTIONAL BUYERS" (AS DEFINED IN RULE 144A OF THE SECURITIES ACT) IN RELIANCE ON RULE 144A OF THE SECURITIES ACT.

THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND, IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON OR TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NONE OF THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE **SEC**) NOR ANY STATE SECURITIES COMMISSION OR OTHER REGULATORY AUTHORITY IN THE UNITED STATES, HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE.

This Prospectus has been delivered to you on the basis that you are a person into whose possession this Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located. By accepting this e-mail and accessing the Prospectus, you shall be deemed to have confirmed and represented to us that (a) you understand and agree to the terms set out herein, (b) you consent to delivery of the Prospectus by electronic transmission, (c) you are either (i) not a U.S. person (within the meaning of Regulation S under the Securities Act) or acting for the account or benefit of a U.S. person and the e-mail address that you have given to us and to which this e-mail has been delivered is not located in the United States, its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands) or the District of Columbia or (ii) a qualified institutional buyer (as defined in Rule 144A under the Securities Act) and (d) if you are a person in the United Kingdom, then you are a person who (i) has professional experience in matters relating to investments and qualifying as an investment professional under Article 19 of the Financial Services and Markets Act (Financial Promotion) Order 2005 (the **Order**) or (ii) is a high net worth entity falling within Article 49(2)(a) to (d) of the Order.

Unless otherwise stated in the Final Terms Document or Pricing Supplement as applicable in respect of any Covered Bonds, all Covered Bonds issued or to be issued under the Program shall be capital markets products other than prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Specified Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

This Prospectus has been sent to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Bank of Montreal, BMO Covered Bond Guarantor Limited Partnership, the Arrangers (as defined below), the relevant Dealer(s) (as defined below) nor any person who controls any of them nor any director, officer, employee or agent of any of them nor any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from Bank of Montreal, BMO Covered Bond Guarantor Limited Partnership, the Arrangers or the relevant Dealer(s).



BANK OF MONTREAL

(*a Canadian chartered Bank*)

U.S.$30,000,000,000

Global Registered Covered Bond Program

unconditionally and irrevocably guaranteed as to payments of interest and principal by

BMO COVERED BOND GUARANTOR LIMITED PARTNERSHIP

(*a limited partnership established under the laws of the Province of Ontario*)

Under this U.S.$30 billion global registered covered bond program (the **Program**), Bank of Montreal (the **Bank** or the **Issuer**), as issuer subject to compliance with all relevant laws, regulations and directives, may from time to time issue Covered Bonds denominated in any currency agreed between the Bank and the relevant Dealers. This Prospectus replaces and supersedes any prospectus or supplement with an earlier date.

The payments of all amounts due in respect of the Covered Bonds have been (save as set out herein) unconditionally and irrevocably guaranteed by BMO Covered Bond Guarantor Limited Partnership (the **Guarantor**) pursuant to the Covered Bond Guarantee which is secured over the Portfolio and the Guarantor's other assets. Recourse against the Guarantor under the Covered Bond Guarantee is limited to the Portfolio and such assets and is subject to the applicable Priorities of Payments.

The Covered Bonds may be issued on a continuing basis to one or more of the relevant Dealer(s) as specified under *Subscription and Sale and Transfer and Selling Restrictions* herein and any additional relevant Dealer(s) appointed under the Program from time to time by the Bank, which appointment may be for a specific issue or on an ongoing basis. References in this Prospectus (the **Prospectus**) to the "relevant Dealer(s)" will, in the case of an issue of Covered Bonds which are to be subscribed for or purchased by one or more relevant Dealer(s), be to all relevant Dealer(s) agreeing to subscribe for or purchase such Covered Bonds.

The aggregate principal amount of Covered Bonds outstanding will not exceed U.S.$30 billion or the equivalent in other currencies. The Bank and the Guarantor may increase the Program Size in accordance with the terms of the Program Agreement and applicable regulatory requirements.

This Prospectus has been approved as a base prospectus by the Financial Conduct Authority (the **FCA**), as competent authority under Regulation (EU) 2017/1129 (as amended, the **Prospectus Regulation**). The FCA only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval by the FCA should not be considered as an endorsement of the Issuer or the Guarantor or the quality of the Covered Bonds that are the subject of this Prospectus. Investors should make their own assessment as to the suitability of investing in the Covered Bonds.

An application has been made to the FCA for Covered Bonds issued under the Program during the period of 12 months from the date of this Prospectus to be admitted to the official list of the FCA (the **Official List**) and to London Stock Exchange plc (the **London Stock Exchange**) for such Covered Bonds to be admitted to trading on the London Stock Exchange's Regulated Market (the **Market**). The Market is a regulated market for the purposes of MiFID II (as defined below). References in this Prospectus to Covered Bonds being listed (and all related references) will mean that such Covered Bonds have been admitted to trading on the Market and have been admitted to the Official List.

This Prospectus is valid for 12 months from its date in relation to Covered Bonds which are to be admitted to trading on a regulated market in the European Economic Area (the **EEA**) or in the United Kingdom (the **UK**) and/or offered to the public in the EEA or in the UK other than in circumstances where an exemption is available under Article 1(4) of the Prospectus Regulation. The obligation to supplement this Prospectus in the event of a significant new factor, material mistake or material inaccuracy does not apply when this Prospectus is no longer valid.

The price and amount of each Tranche of Covered Bonds to be issued under the Program will be determined by the Bank and each relevant Dealer at the time of issue in accordance with prevailing market conditions. Notice of the aggregate nominal amount of interest (if any) payable in respect of, the Issue Price of, and any other terms and conditions not contained herein which are applicable to each Tranche of Covered Bonds will be set out in a Final Terms Document for that Tranche, or the Pricing Supplement with respect to Covered Bonds to be listed on the London Stock Exchange, which will be delivered to the FCA and the London Stock Exchange on or before the date of issue of such Tranche of Covered Bonds.

The Bank and the Guarantor may agree with any Dealer and the Bond Trustee that Covered Bonds may be issued in a form not contemplated by the Terms and Conditions of the Covered Bonds described herein, in which event a supplementary Prospectus or stand-alone prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Covered Bonds.

The Bank may also issue unlisted Covered Bonds or Covered Bonds not admitted to trading on any regulated market (**Exempt Covered Bonds**). Exempt Covered Bonds do not form part of this Prospectus and will not be issued pursuant to this Prospectus and the FCA has neither approved nor reviewed information contained in this Prospectus in connection with the Exempt Covered Bonds. All Covered Bonds, including any Exempt Covered Bonds, will have the benefit of the Covered Bond Guarantee and share equally in the Security granted by the Guarantor in respect of the Charged Property.

See *Risk Factors* for a discussion of certain factors to be considered in connection with an investment in the Covered Bonds.

The Covered Bonds will constitute deposit liabilities of the Bank for purposes of the *Bank Act* (Canada), except in certain limited circumstances: see *Terms and Conditions of the Covered Bonds—Events of Default, Acceleration and Enforcement—Issuer Events of Default* and *Terms and Conditions of the Covered Bonds—Meetings of Covered Bondholders, Modification, Waiver and Substitution*. The Covered Bonds 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. 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: see *Terms and Conditions of the Covered Bonds—Events of Default, Acceleration and Enforcement—Issuer Events of Default* and *—Meetings of Covered Bondholders, Modification, Waiver and Substitution*.

The Covered Bonds and the Covered Bond Guarantee have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**) or the securities laws or "blue sky" laws of any state or other jurisdiction of the United States, and may not be offered or sold in the United States or to, or for the benefit of, U.S. persons unless (a) such securities are registered under the Securities Act or (b) such offer or sale is made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Covered Bonds are being offered only (i) in offshore transactions to non-U.S. persons in reliance upon Regulation S under the Securities Act (**Regulation S**) and (ii) to "qualified institutional buyers" (**QIBs**) in reliance upon Rule 144A (**Rule 144A**) under the Securities Act. See *Form of the Covered Bonds* for a description of the manner in which Covered Bonds will be issued. Registered Covered Bonds (as defined below) are subject to certain restrictions on transfer. See *Subscription and Sale and Transfer and Selling Restrictions*. Covered Bonds in bearer form may not be

offered, sold or delivered within the United States or its possessions or to, or for the account or benefit of, U.S. persons, except in certain transactions permitted by U.S. tax regulations.

The Covered Bonds issued under the Program are expected on issue to be assigned an "AAA" rating by Fitch Ratings Inc., an "Aaa" rating by Moody's Investors Service, Inc. and an "AAA" rating by DBRS Limited. 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 by the assigning rating organization. In general, European regulated investors are restricted from using a rating for regulatory purposes, unless such ratings are issued by a credit rating agency established in the European Union (**EU)** or the UK and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). Each of Fitch Ratings, Inc., Moody's Investors Service, Inc. and DBRS Limited is not established in the EU or the UK and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). The ratings have been endorsed by Fitch Ratings, Ltd., Moody's Investors Service Ltd. and DBRS Ratings Limited, respectively, in accordance with the CRA Regulation. Each of Fitch Ratings, Ltd., Moody's Investors Service Ltd. and DBRS Ratings Limited is established in the UK and registered under the CRA Regulation. As such each of Fitch Ratings, Ltd., Moody's Investors Service Ltd. and DBRS Ratings Limited is included in the list of credit rating agencies published by the European Securities and Markets Authority (**ESMA)** on its website in accordance with the CRA Regulation. The ESMA has indicated that ratings issued in Canada which have been endorsed by Fitch Ratings, Ltd., Moody's Investors Service Ltd. and DBRS Ratings Limited, respectively, may be used in the EU and the UK by the relevant market participants.

Amounts payable on Floating Rate Covered Bonds may be calculated by reference to one of LIBOR, EURIBOR, SOFR, SONIA or the applicable ISDA Rate as specified in the relevant Final Terms Document or Pricing Supplement. As at the date of this prospectus, the administrators of LIBOR and EURIBOR appear on the register and the administrator of SONIA and SOFR are not included in ESMA's register of administrators under Article 36 of the Regulation (EU) No. 2016/1011 (the **Benchmarks Regulation**). As far as the Issuer is aware, the Federal Reserve Bank of New York (as the administrator of SOFR) and Bank of England (as the administrator of SONIA) are exempt under Article 2 of the Benchmarks Regulation but have issued statements of compliance with the principles for financial benchmarks issued in 2013 by the International Organisation of Securities Commissions.

NONE OF THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION OR OTHER REGULATORY AUTHORITY IN THE UNITED STATES HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED THAT THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE.

AN INVESTMENT IN THE COVERED BONDS IS NOT SUBJECT TO RESTRICTION UNDER THE U.S. VOLCKER RULE AS AN INVESTMENT IN AN OWNERSHIP INTEREST IN A COVERED FUND.

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 **BMO Capital Markets**

Dealers

Barclays **BMO Capital Markets**

The date of this Prospectus is 31 July 2020.

GENERAL

This Prospectus has been approved by the FCA as a base Prospectus for the purposes of Regulation (EU) 2017/1129 (as amended, the **Prospectus Regulation**) and has been published in accordance with the prospectus rules made under the FSMA. This Prospectus is not a Prospectus for the purposes of Section 12(a)(2) or any other provision or order under the Securities Act.

The Bank and the Guarantor (the **Responsible Persons**) each accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of each of the Responsible Persons the information contained in this Prospectus is in accordance with the facts and this Prospectus contains no omissions likely to affect its import. Any information sourced from third parties contained in this Prospectus has been accurately reproduced (and is clearly sourced where it appears in the document) and, as far as each of the Bank and the Guarantor is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Copies of each Final Terms Document (in the case of Covered Bonds to be admitted to the Official List) or the pricing supplement (in the case of Exempt Covered Bonds) (the **Pricing Supplement**) will be available from the registered office of the Bank and from the specified office of each of the Paying Agents. Final Terms Documents relating to the Covered Bonds which are admitted to trading on the Market will also be available for inspection on the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/exchange/news/market-news/market-news-home.html.

This Prospectus is to be read in conjunction with any supplementary Prospectus hereto and all documents which are deemed to be incorporated herein by reference: see *Documents Incorporated by Reference*. This Prospectus will be read and construed on the basis that such documents are so incorporated and form part of this Prospectus.

Other than in relation to the documents which are deemed to be incorporated by reference (see *Documents Incorporated by Reference*), the information on the websites to which this Prospectus refers does not form part of this Prospectus and has not been scrutinised or approved by the FCA.

The information contained in this Prospectus was obtained from the Bank, the Guarantor and other sources, but no assurance can be given by the relevant Dealer(s) or the Bond Trustee as to the accuracy or completeness of this information. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the relevant Dealer(s) (except for BMO Capital Markets or any other affiliate or subsidiary of the Issuer referred to as a Dealer) or the Bond Trustee as to the accuracy or completeness of the information contained or incorporated by reference in this Prospectus or any other information provided by the Bank or the Guarantor in connection with the Program or any Covered Bonds. None of the relevant Dealer(s) (except for BMO Capital Markets or any other affiliate or subsidiary of the Issuer referred to as a Dealer) or the Bond Trustee accepts any liability in relation to the information contained or incorporated by reference in this Prospectus or any other information provided by the Bank or the Guarantor in connection with the Program or any Covered Bonds.

The only Persons authorised to use this Prospectus in connection with an offer of Covered Bonds are the relevant Dealer(s) named in the applicable Final Terms Document or the applicable Pricing Supplement.

No Person is or has been authorised by the Bank, the Guarantor, any of the relevant Dealer(s) or the Bond Trustee to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the Program or any Covered Bonds and,

if given or made, such information or representation must not be relied upon as having been authorised by the Bank, the Guarantor, any of the relevant Dealer(s) or the Bond Trustee.

Notwithstanding anything in this document to the contrary, except as reasonably necessary to comply with applicable securities laws, any Person may disclose to any and all Persons, without limitation of any kind, the U.S. federal income tax treatment and tax structure of the offering and all materials of any kind (including opinions or other tax analyses) that are provided to such Person relating to such tax treatment and tax structure. For this purpose, "tax structure" is limited to facts relevant to the U.S. federal income tax treatment of the offering.

Neither this Prospectus, including the documents which are deemed to be incorporated herein by reference, nor any other information supplied in connection with the Program or any Covered Bonds (a) is intended to provide the sole basis of any credit or other evaluation, or (b) should be considered as a recommendation by the Bank, the Guarantor, any of the relevant Dealer(s) or the Bond Trustee that any recipient of this Prospectus or any other information supplied in connection with the Program or any Covered Bonds should purchase any Covered Bonds. Each investor contemplating purchasing any Covered Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Bank and the Guarantor. Neither this Prospectus nor any other information supplied in connection with the Program or the issue of any Covered Bonds constitutes an offer or invitation by or on behalf of the Bank, the Guarantor, any of the relevant Dealer(s) or the Bond Trustee to any Person to subscribe for or to purchase any Covered Bonds.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Covered Bonds will in any circumstances imply that the information contained herein concerning the Bank and the Guarantor is correct at any time subsequent to the date hereof, or, with respect to documents which are deemed to be incorporated herein by reference, the date indicated on such documents, or that any other information supplied in connection with the Program is correct as of any time subsequent to the date indicated in the document containing the same. The relevant Dealer(s) and the Bond Trustee expressly do not undertake to review the financial condition or affairs of the Bank or the Guarantor during the life of the Program or to advise any investor in any Covered Bonds of any information coming to their attention.

As set forth in the applicable Final Terms Document or the applicable Pricing Supplement, the Covered Bonds are being offered and sold (a) in reliance on Rule 144A to QIBs and/or (b) in accordance with Regulation S to non-U.S. persons in offshore transactions. Prospective purchasers are hereby notified that the sellers of the Covered Bonds may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

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.

MiFID II product governance / target market – The Final Terms Document in respect of any Covered Bonds (or Pricing Supplement, in the case of Exempt Covered Bonds) may include a legend entitled "MiFID II Product Governance" which will outline the target market assessment in respect of the Covered Bonds and which channels for distribution of the Covered Bonds are appropriate. Any person subsequently offering, selling or recommending the Covered Bonds (a **distributor**) should take into consideration the target market assessment; however, a distributor subject to Directive 2014/65/EU (as amended, **MiFID II**)

is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the **MiFID Product Governance Rules**), any Dealer subscribing for any Covered Bonds is a manufacturer in respect of such Covered Bonds, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

PRIIPS / IMPORTANT – EEA AND UK RETAIL INVESTORS – If the Final Terms Document (or Pricing Supplement, as the case may be) in respect of any Covered Bonds includes a legend entitled "Prohibition of Sales to EEA and UK Retail Investors", the Covered Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (**EEA**) or in the United Kingdom (**UK**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive 2016/97/EU (as amended), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Regulation. Consequently no key information document required by Regulation (EU) No. 1286/2014 (as amended, the **PRIIPs Regulation**) for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Covered Bonds in any jurisdiction to any Person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of any Covered Bonds may be restricted by law in certain jurisdictions. The Bank, the Guarantor, the relevant Dealer(s) and the Bond Trustee do not represent that this Prospectus may be lawfully distributed, or that any Covered Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Bank, the Guarantor, the relevant Dealer(s) or the Bond Trustee which would permit a public offering of any Covered Bonds outside the EEA or the UK or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Covered Bonds may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws, rules and/or regulations. Persons into whose possession this Prospectus or any Covered Bonds may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of any Covered Bonds. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of any Covered Bonds in Canada, the United States, the European Economic Area (including the Netherlands, the Republic of Italy, Germany, the Republic of France, Denmark, Sweden and Spain), the United Kingdom, Australia, Switzerland, Japan, Hong Kong and Singapore; see *Subscription and Sale and Transfer and Selling Restrictions*.

This base Prospectus has been prepared on the basis that any offer of Covered Bonds in any member state of the EEA or the UK (each, a **Relevant State**) will be made pursuant to an exemption under the Prospectus Regulation from the requirement to publish a prospectus for offers of any Covered Bonds. Accordingly, any Person making or intending to make an offer in that Relevant State of any Covered Bonds which are the subject of an offering contemplated in this Prospectus as completed by a Final Terms Document or a Pricing Supplement in relation to the offer of those Covered Bonds may only do so in circumstances in which no obligation arises for the Bank or any Dealer to publish or supplement a prospectus pursuant the

Prospectus Regulation, in each case, in relation to such offer. Neither the Bank nor any Dealer have authorised, nor do they authorise, the making of any offer of any Covered Bonds in circumstances in which an obligation arises for the Bank or any Dealer to publish or supplement a prospectus for such offer.

In connection with the issue of any Tranche of Covered Bonds, the relevant Dealer(s) (if any) named as the stabilising manager(s) (or any Persons acting on behalf of any stabilising manager) in the applicable Final Terms Document or the applicable Pricing Supplement may over-allot Covered Bonds or effect transactions with a view to supporting the market price of the Covered Bonds at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Covered Bonds is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the Issue Date of the relevant Tranche of Covered Bonds and 60 days after the date of the allotment of the relevant Tranche of Covered Bonds. Any stabilisation action or over-allotment must be conducted by the relevant stabilising manager(s) (or Persons acting on behalf of any stabilising manager(s)) in accordance with all applicable laws and rules.

In making an investment decision, investors must rely on their own examination of the Bank and the Guarantor and the terms of the Covered Bonds being offered, including the merits and risks involved.

None of the relevant Dealer(s), the Bank, the Guarantor or the Bond Trustee makes any representation to any investor in the Covered Bonds regarding the legality of its investment under any applicable laws, rules and regulations. Any investor in any Covered Bonds should be able to bear the economic risk of an investment in the Covered Bonds for an indefinite period of time.

Please consider carefully the risk factors set out in the sections herein entitled Risk Factors.

The Covered Bonds may not be a suitable investment for all investors

Each of the risks highlighted herein could adversely affect the trading price of any Covered Bonds or the rights of investors under any Covered Bonds and, as a result, investors could lose some or all of their investment. The Bank believes that the factors described herein represent the main risks inherent in investing in Covered Bonds issued under the Program, but the Bank and/or the Guarantor may be unable to pay or deliver the amounts in connection with any Covered Bonds for other reasons and the Bank does not represent that the statements herein regarding the risks of holding any Covered Bonds are exhaustive.

Each potential investor in the Covered Bonds must determine the suitability of that 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 to assess 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 behaviour 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.

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.

U.S. INFORMATION

The Covered Bonds have not been approved or disapproved by the SEC, any state securities commission or other regulatory authority in the United States, nor have any of the foregoing authorities approved or disapproved this Prospectus or confirmed the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence.

The Covered Bonds in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to, or for the account or benefit of, U.S. persons, except in certain transactions permitted by U.S. tax regulations. Terms used in this section have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

In making an investment decision, investors must rely on their own examination of the Bank and the Guarantor and the terms of the Covered Bonds being offered, including the merits and risks involved.

The Prospectus may be distributed on a confidential basis in the United States to a limited number of QIBs for informational use solely in connection with the consideration of the purchase of the Covered Bonds being offered hereby. Its use for any other purpose in the United States is not authorised. The Prospectus may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally distributed.

Registered Covered Bonds may be offered or sold within the United States or to U.S. persons only to QIBs in transactions exempt from registration under the Securities Act.

Each purchaser or holder of Registered Covered Bonds, or any Covered Bond issued in registered form in exchange or substitution therefor, will be required to make, or will be deemed by its acceptance or purchase of any such Covered Bond to have made, certain representations and agreements intended to restrict the resale or other transfer of such Covered Bonds as set out in *Subscription and Sale and Transfer and Selling Restrictions* herein. Unless otherwise stated, terms used in this paragraph have the meanings given to them in *Form of the Covered Bonds*.

AVAILABLE 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 file 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 the investors at the SEC's Public Reference Room located at 100 F Street, N.E., Washington, D.C. 20549. The investors 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 http://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, 11 Wall Street, New York, New York 10005.

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 Investor Reports filed by the Bank from time to time, is also available on the Bank's website specified in the applicable Final Terms Document or Pricing Supplement and through the CMHC's covered bond registry at (http://www.cmhc-schl.gc.ca/en/hoficlincl/cacobo/cacobo_004.cfm). Information on or accessible through the Bank's website or the CMHC website does not form part of this Prospectus for the purposes of the Prospectus Regulation except where such information or other documents are specifically incorporated by reference or attached to this Prospectus. Neither CMHC's covered bond registry nor the CMHC Guide forms part of this Prospectus.

To permit compliance with Rule 144A in connection with any resales or other transfers of Covered Bonds, the Bank and Guarantor have undertaken in the Trust Deed to furnish, upon the request of a holder of such Covered Bonds or any beneficial interest therein, to such holder or to a prospective purchaser designated by such holder, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, the Bank and Guarantor are neither subject to reporting under Section 13 or 15(d) of the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder. The Bank and Guarantor are foreign private issuers under the Exchange Act.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Bank is a chartered bank under the *Bank Act* (Canada) (the **Bank Act**) and the Guarantor is a limited partnership established under the laws of the Province of Ontario. Substantially all of the Bank's directors and executive officers, and all or a substantial portion of the Bank's assets, the Guarantor's assets and the assets of such persons, are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the Bank or the Guarantor, as applicable, or such persons, or to enforce judgments against them obtained in the United States predicated upon civil liabilities of the Bank or the Guarantor, as applicable, or such directors under laws other than those of Canada and England and Wales, including any judgment predicated upon U.S. federal securities laws.

FORWARD-LOOKING STATEMENTS

Public communications made by the Bank and/or the Guarantor often include oral or written forward-looking statements. Statements of this type are included in this Prospectus and the documents incorporated by reference, and may be included in other filings with Canadian securities regulators or the SEC, or in other communications. All such statements by the Bank (but not the Guarantor) are made pursuant to the "safe harbor" provisions of, and are intended to be forward-looking statements under, the United States *Private Securities Litigation Reform Act of 1995* and any applicable Canadian securities legislation. The forward-looking statements in this Prospectus and in the documents incorporated by reference may include,

but are not limited to, statements with respect to the Bank's objectives and priorities for fiscal 2020 and beyond, the Bank's strategies or future actions, targets of the Bank, expectations for the Bank's financial condition or share price, the regulatory environment in which the Bank operates and the results of or outlook for operations or for the Canadian, U.S. and international economies, the Bank's response to the COVID-19 pandemic and its expected impact on the Bank's business, operations, earnings, results and financial conditions, including its capital and liquidity ratios and credit ratings, as well as its impact on the Bank's customers, competitors and trading exposure, including the potential of losses from higher credit, counterparty or mark-to-market losses, and include statements of the Bank's management. Forward-looking statements are typically identified by words such as "will", "would", "should", "believe", "expect". "anticipate", "project", "intend", "estimate", "plan", "goal", "target", "may" and "could".

By their nature, forward-looking statements require the Bank and/or the Guarantor to make assumptions and are subject to inherent risks and uncertainties, both general and specific in nature. There is significant risk that predictions, forecasts, conclusions or projections will not prove to be accurate, that the Bank's and/or the Guarantor's assumptions may not be correct and that actual results may differ materially from such predictions, forecasts, conclusions and projections. The Bank cautions readers of this document not to place undue reliance on the Bank's or the Guarantor's forward-looking statements as a number of factors—many of which are beyond the Bank's or Guarantor's control and the effects of which can be difficult to predict—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 uncertainty created by the COVID-19 pandemic has heightened this risk, given the increased challenge in making assumptions, predictions, forecasts, conclusions and projections.

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 the Bank operates; the severity, duration and spread of the COVID-19 pandemic, its impact on local, national or international economies and its heightening of certain risks that may affect the Bank's future results, and its possible impact on the Bank's business and operations and outbreaks of disease or illness that affect local, national or international economies, the Canadian housing market and consumer leverage; weak, volatile or illiquid capital and/or credit markets; interest rate and currency value fluctuations; changes in monetary, fiscal or economic policy and tax legislation and interpretation; the level of competition in the geographic and business areas in which the Bank operates; changes in laws or in supervisory expectations or requirements, including capital, interest rate and liquidity requirements and guidance and the effect of such changes on funding costs; judicial or regulatory proceedings; the accuracy and completeness of the information the Bank obtains with respect to its customers and counterparties; failure of third parties to comply with their obligations to the Bank; the Bank's ability to execute its strategic plans and to complete and integrate acquisitions, including obtaining regulatory approvals; critical accounting estimates and the effect of changes to accounting standards, rules and interpretations on these estimates; operational and infrastructure risks, including with respect to reliance on third parties; changes to the Bank's credit ratings; political conditions, including changes relating to or affecting economic or trade matters; global capital markets activities; the possible effects on the Bank's business of war or terrorist activities; outbreaks of disease or illness that affect local, national or international economies; natural disasters and disruptions to public infrastructure, such as transportation, communications, power or water supply; technological changes; information and cybersecurity, including the threat of hacking, identity theft and corporate espionage, as well as the possibility of denial of service resulting from efforts targeted at causing system failure and service disruption; and the Bank's ability to anticipate and effectively manage risks arising from all of the foregoing factors.

The Bank and the Guarantor caution that the foregoing list is not exhaustive of all possible factors. Other factors and risks could adversely affect the Bank's results. For more information, please see the discussion in the "Risks That May Affect Future Results" section on page 68 of management's discussion and analysis

of the Bank for the year ended 31 October 2019 (the **2019 MD&A**) incorporated herein by reference, the sections related to credit and counterparty, market, insurance, liquidity and funding, operational, model, legal and regulatory, business, strategic, environmental and social, and reputation risk in the "Enterprise-Wide Risk Management" section on page 68 of the 2019 MD&A incorporated herein by reference, and the Risk Management section on page 35 of the Bank's second quarter 2020 report to shareholders published on 27 May 2020 (the **Second Quarter 2020 Report**) incorporated herein by reference, all of which outline certain key factors and risks that may affect the Bank's future results. Investors and others should carefully consider these factors and risks, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Neither the Bank nor the Guarantor undertakes to update any forward-looking statements, whether written or oral, that may be made from time to time by the Bank or the Guarantor, or on their respective behalves, except as required by law. The forward-looking information contained or incorporated by reference into this Prospectus is presented for the purpose of assisting potential investors in understanding the Bank's and the Guarantor's financial position as at and for the periods ended on the dates presented, as well as the Bank's strategic priorities and objectives, and may not be appropriate for other purposes.

Material economic assumptions underlying the forward-looking statements contained in this document or incorporated by reference in this document are set out in the 2019 MD&A incorporated herein by reference under the heading "Economic Developments and Outlook", as updated by the "Economic Review and Outlook" section set forth in the Second Quarter 2020 MD&A incorporated herein by reference. Assumptions about the performance of the Canadian and U.S. economies, as well as overall market conditions and their combined effect on the Bank's business, are material factors it considers when determining its strategic priorities, objectives and expectations for its business. In determining the Bank's expectations for economic growth, both broadly and in the financial services sector, the Bank primarily considers historical economic data provided by governments, historical relationships between economic and financial variables, and the risks to the domestic and the global economy. See the section entitled *Economic Review and Outlook* of the Bank's Second Quarter 2020 Report, incorporated herein by reference.

PRESENTATION OF INFORMATION

In this Prospectus, all references to "billions" are references to one thousand millions. Due to rounding, the numbers presented throughout this Prospectus may not add up precisely, and percentages may not precisely reflect absolute figures.

All references in this document to **U.S. dollars** and **U.S.$** are to the currency of the United States of America, to **Sterling** and **£** are to the currency of the United Kingdom, to **euro** and **€** are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the *Treaty on the Functioning of the European Union*, as amended, and to **$**, **Canadian Dollars**, **Canadian $**, **CAD** and **Cdn$** are to the currency of Canada.

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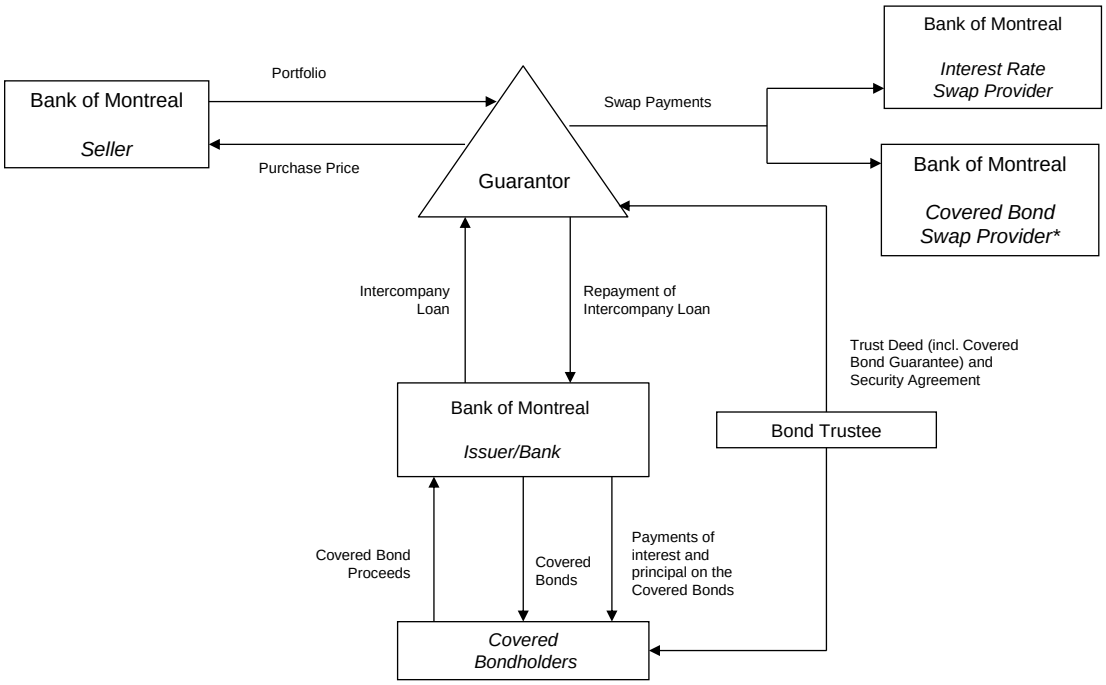
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STRUCTURE OVERVIEW

This overview must be read as an introduction to this Prospectus and any decision to invest in any Covered Bonds should be based on a consideration of this Prospectus as a whole, including the documents incorporated herein by reference.

The following overview is taken from, and is qualified in its entirety by, the remainder of this Prospectus and, in relation to the terms and conditions of any particular Tranche of Covered Bonds, the Final Terms Document or the Pricing Supplement relevant thereto. Covered Bonds may also be issued in such other form and on such other terms as the Bank may from time to time agree with the relevant Dealer(s), in which case a supplemental Prospectus or stand-alone Prospectus will be made available which will describe the effect of the agreement reached in relation to such Covered Bonds. Words and expressions defined elsewhere in this Prospectus will have the same meanings in this overview. A glossary of certain defined terms is contained at the end of this Prospectus.

Structure Diagram



*Cashflows under the Covered Bond Swap Agreement will be exchanged only after the Covered Bond Swap Effective Date.

Structure Overview

- **Bank of Montreal**

  BMO Financial Group is a highly diversified financial services provider based in North America. The Bank offers a broad range of products and services directly and through Canadian and non-Canadian subsidiaries, offices, and branches. The Bank has approximately 1,500 bank branches in Canada and the United States and operates internationally in major financial markets and trading areas through its offices in a number of jurisdictions around the world. BMO Financial Corp. **(BFC**) is based in Chicago and wholly-owned by Bank of Montreal. BFC operates primarily through its subsidiary BMO Harris Bank N.A. , which provides banking, financing, investing, and cash management services in select markets in the United States. 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., the Bank's wholly-owned registered securities dealer in the United States.

- **BMO Covered Bond Guarantor Limited Partnership**

  The Guarantor is a limited partnership established under the laws of the Province of Ontario whose principal business is to provide a guarantee of the obligations of the Bank pursuant to covered bonds issued by the Bank, from time to time, pursuant to the Program and certain ancillary activities with respect thereto.

- **The Global Registered Covered Bond Program**

  The Bank intends to issue, offer and sell Covered Bonds under the Program outside of the United States or in accordance with Rule 144A pursuant to this Prospectus. These Covered Bonds will be issued under a third amended and restated trust deed governed by Ontario law (as may be further amended, restated, amended and restated, supplemented or otherwise modified from time to time, the **Trust Deed**). The Bond Trustee acts as the trustee under the Trust Deed. All Series of Covered Bonds under the Program will have the benefit of the covered bond guarantee (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 also issue Covered Bonds by means other than this Prospectus under the Trust Deed from time to time.

  On 11 April 2014, the Bank was accepted as a registered issuer under Part I.1 of the *National Housing Act* (Canada) (the **NHA**) and the CMHC Guide in accordance with their terms and, on 11 April 2014, the Program was registered as a registered program under Part I.1 of the NHA and the CMHC Guide. All future Covered Bonds issued by the Bank under the Program will be covered bonds issued under its registered covered bond program pursuant to Part I.1 of the NHA and the CMHC Guide.

  The Legislative Framework sets out certain statutory protections for holders of covered bonds under Canadian federal and provincial bankruptcy, insolvency and fraudulent conveyance laws. 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.

- **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 CMHC.

- **Asset Coverage Test**

  An Asset Coverage Test is conducted on the Portfolio on the last day of each calendar month (the **Calculation Date**). The Asset Coverage Test determines whether the assets and cashflow of the Guarantor satisfy the required overcollateralisation which is intended to ensure that the Guarantor meets its obligations under the Covered Bond Guarantee following the occurrence of a Covered Bond Guarantee Activation Event. If the Asset Coverage Test is not met on two consecutive Calculation Dates, an Asset Coverage Test Breach Notice will be served to 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 ever 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 *Overview of the Principal Documents—Guarantor Agreement—Asset Coverage Test*.

- **OC Valuation**

  The CMHC Guide requires that the Guarantor confirm that the cover pool's Level of Overcollateralisation exceeds 103 per cent. The Level of Overcollateralisation (expressed as a percentage) shall be calculated at the same time as the Asset Coverage Test and the Issuer must provide immediate notice to CMHC if the Level of Overcollateralisation falls below the Guide OC Minimum. See *Overview of the Principal Documents—Guarantor Agreement—OC Valuation*.

- **Amortisation Test**

  The Amortisation Test is conducted on the Portfolio on each Calculation Date following an Issuer Event of Default that is continuing. The Amortisation Test has been structured to determine whether the assets of the Guarantor, including the Loans and their Related Security in the Portfolio, have fallen 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 Amortisation Test will constitute a Guarantor Event of Default and will entitle the Bond Trustee to serve a Guarantor Acceleration Notice on the Guarantor. See *Overview of the Principal Documents—Guarantor Agreement—Amortisation Test*.

- **Valuation Calculation**

  The Guarantor is required to perform on a monthly basis 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 *Overview of the Principal Documents—Guarantor Agreement—Valuation Calculation*.

- **The Guarantee**

  Pursuant to the Covered Bond Guarantee, the Guarantor has irrevocably and unconditionally guaranteed the due and punctual payment of the Guaranteed Amounts on the Covered Bonds of each Series issued by the Bank in accordance with the Trust Deed.

- **Program Structure Overview**

  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 additional Loans and their Related Security for the Portfolio and for other purposes as described in *Overview of the Principal Documents—Mortgage Sale Agreement*. The Guarantor and the Bank have 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 cashflows 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. Investors should carefully consider all of the information set forth in this Prospectus and any applicable Final Terms Document or Pricing 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 the Bank's 2019 MD&A and the Bank's report filed on Form 6-K on 27 May 2020 (Film No 20915084), which are incorporated in this Prospectus by reference (and in any of the Bank's annual or quarterly reports for a subsequent financial period that are so incorporated).

- **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., 100 King Street West, 21st Floor, 1 First Canadian Place, Toronto, Ontario, Canada, M5X 1A1. The telephone number is (416) 867-6656.

RISK FACTORS

The Bank and the Guarantor believe that the following factors may affect their ability to fulfil their respective obligations under the Covered Bonds.

This section describes the principal risk factors associated with an investment in the Covered Bonds. Any investment in the Covered Bonds is subject to a number of risks. Prior to investing in the Covered Bonds, prospective investors should carefully consider risk factors associated with any investment in the Covered Bonds, the business of the Bank and the industry in which it operates together with all other information contained in this Prospectus, including, in particular the risk factors described below, before making any investment decision. Words and expressions defined in the "Terms and Conditions of the Covered Bonds" section or elsewhere in this Prospectus have the same meanings in this section. Prospective investors should note that the following is not an exhaustive list or explanation of all risks which investors may face when making an investment in the Covered Bonds. The Bank has described only those risks relating to its ability to fulfil its obligations under the Covered Bonds that it considers to be material. Additional risks and uncertainties relating to the Bank that are not currently known to the Bank, or that it currently deems immaterial, may individually or cumulatively also have a material adverse effect on the business, financial condition, results of operations and/or prospects of the Bank and, if any such risks should occur, the price of the Covered Bonds may decline and investors could lose all or part of their investment. Investors should consider carefully whether an investment in the Covered Bonds is suitable for them in light of the information in this Prospectus and their particular circumstances.

1. RISKS RELATING TO THE BANK

Banking and financial services involve a number of risks. Prospective investors should carefully consider the following categories of risks to which the Bank's businesses are exposed. There are numerous factors, many beyond the Bank's control, which could cause the Bank's results to differ significantly from those anticipated. These risks include the following:

1. Credit and counterparty risk is the potential for loss due to the failure of a borrower, endorser, guarantor or counterparty to repay a loan or honour another predetermined financial obligation. Credit and counterparty risk underlies every lending activity that the Bank enters into, and also arises in the holding of investment securities, transactions related to trading and other capital markets products and activities related to securitization. Credit risk is the most significant measurable risk that the Bank faces. Proper management of credit risk is essential to the Bank's success, since the failure to effectively manage credit risk could have an immediate and significant impact on the Bank's earnings, financial condition and reputation.

2. Market risk is the potential for adverse changes in the value of the Bank's assets and liabilities resulting from changes in market variables such as interest rates, foreign exchange rates, equity and commodity prices and their implied volatilities, and credit spreads, and includes the risk of credit migration and default in the Bank's trading book. Market risk arises from the Bank's trading and underwriting activities, as well as its structural banking activities. The magnitude and importance of these activities to the Bank, along with the potential volatility of market variables, call for diligent governance and a robust market risk management framework that ensures effective identification, measurement, reporting and control of market risk exposures.

3. Insurance risk is the potential for loss as a result of actual experience differing from that assumed when an insurance product was designed and priced. It generally entails the inherent unpredictability that can arise from assuming long-term policy liabilities or from the uncertainty of future events. Insurance provides protection against the financial consequences of insured risks by

transferring those risks to the insurer (under specific terms and conditions) in exchange for premiums. Insurance risk is inherent in all of the Bank's insurance products, including annuities and life, accident and sickness, and creditor insurance, as well as in the Bank's reinsurance business.

4. Liquidity and funding risk is the potential for loss if the Bank is unable to meet financial commitments in a timely manner at reasonable prices as they become due. Financial commitments include liabilities to depositors and suppliers, and lending, investment and pledging commitments. Any failure by the Bank in effectively managing this risk could have a material adverse effect on its operations and/or result in difficulty in meeting its obligations under the Covered Bonds.

5. Operational risk is the potential for loss resulting from inadequate or failed internal processes or systems, human interactions or external events, but excludes business risk, credit risk, liquidity and funding risk, market risk and strategic and reputation risk. Operational risk is inherent in all of the Bank's business and banking activities and can lead to significant impacts on the Bank's business and financial results, including financial loss, restatements and damage to the Bank's reputation. Like other financial services organizations that operate in multiple jurisdictions, the Bank is exposed to a variety of operational risks arising from the potential for failures of the Bank's internal processes, employees and systems, as well as from external threats. Potential losses may result from process and control failures, theft and fraud, unauthorized transactions by employees, regulatory non-compliance, business disruption, information security breaches, cyber security threats and exposure to risks related to outsourcing and damage to physical assets. Given the large volume of transactions the Bank processes on a daily basis, and the complexity and speed of the Bank's business, there is a possibility that certain operational or human errors may be repeated or compounded before they are discovered and rectified. Operational risk is not only inherent in the Bank's business and banking activities, it is also inherent in the processes and controls it uses to manage the Bank's risks. There is the possibility that errors will occur, as well as the possibility of a failure in the Bank's internal processes or systems, which could lead to financial loss and reputational harm. Shortcomings or failures of the Bank's internal processes, employees or systems, or of services and products provided by third parties, including any of the Bank's financial, accounting or other data processing systems, could lead to financial loss or restatements and damage the Bank's reputation. The nature of the Bank's business also exposes it to the risk of theft and fraud when it enters into credit transactions with customers or counterparties. In extending credit, the Bank relies on the accuracy and completeness of any information provided by, and any other representations made by, customers and counterparties. While the Bank conducts appropriate due diligence on such customer information and, where practicable and economically feasible, engages valuation experts, and other experts or sources of information to assist with assessing the value of collateral and other customer risks, the Bank's financial results may be adversely impacted if the information provided by customers or counterparties is materially misleading and this is not discovered during the due diligence process.

6. Legal and regulatory risk is the potential for loss or harm resulting from a failure to comply with laws or satisfy contractual obligations or regulatory requirements. This includes the risks of failure to: comply with the law (in letter or in spirit) or maintain standards of care; implement legislative or regulatory requirements; enforce or comply with contractual terms; assert non-contractual rights; effectively manage disputes; or act in a manner so as to maintain the Bank's reputation. The Bank's success relies in part on its ability to prudently manage its exposure to legal and regulatory risk. The financial services industry is highly regulated, and the Bank anticipates intense ongoing scrutiny from its supervisors in the oversight process and strict enforcement of regulatory requirements as governments and regulators around the world continue with reforms intended to

strengthen the stability of the financial system. Banks globally continue to be subject to fines and penalties for a number of regulatory and conduct issues.

7. Business risk arises from the specific business activities of an enterprise and the effects these could have on its earnings. Business risk encompasses the potential causes of earnings volatility that are distinct from credit, market or operational risk factors. The management of business risk identifies and addresses factors related to the risk that volumes will decrease or margins will shrink without the enterprise having the ability to compensate for these developments by cutting costs. The Bank faces many risks that are similar to those faced by non-financial firms, principally that the Bank's profitability, and hence value, may be eroded by changes in the business environment or by failures of strategy or execution. Sources of these risks include, but are not limited to, changing client expectations, heightened competition, technology driver changes, adverse business developments and relatively ineffective responses to industry changes. For example, client retention can be influenced by a number of factors, including service levels, prices for products and services, delivery platforms, ease of access to products and services, the quality of the customer experience, the Bank's reputation and the actions of the Bank's competitors. Any failure to effectively manage business risk could have a material adverse effect on the Bank's financial condition and results of operations.

8. Strategic risk is the potential for loss due to changes in the external business environment and/or failure to properly respond to these changes as a result of inaction, ineffective strategies or poor implementation of strategies. Strategic risk arises from external risks inherent in the business environment within which the Bank operates, as well as from the potential for loss if the Bank is unable to address those external risks effectively. While external strategic risks – including economic, geopolitical, regulatory, technological, social and competitive risks – cannot be controlled, the likelihood and magnitude of their impact can be limited through an effective strategic risk management framework and certain of these risks, including economic, geo-political and regulatory risks, can be assessed through stress testing.

9. Environmental and social risk is the potential for loss or damage resulting from environmental or social concerns related to the Bank or its customers. Environmental and social risk is often associated with credit, operational and reputation risk. Environmental and social risk covers a broad spectrum of issues, such as climate change, biodiversity, ecosystem health, pollution, waste and the unsustainable use of water and other resources, as well as risk to the livelihoods, health, human rights and cultural heritage of communities.

10. Reputation risk is the potential for loss or harm to the Bank's brand, and can arise even if other risks are managed effectively. Significant damage to the Bank's brand could reduce demand for its products and services which could have a material adverse effect on it results of operations.

Credit and counterparty, market, insurance, liquidity and funding, operational, legal and regulatory, business, strategic, environmental and social, and reputation risks, as well as other risks that may affect the Bank's future results, are discussed more extensively in: (1) the section entitled *Enterprise-Wide Risk Management* on pages 68 to 106 of the Bank's 2019 MD&A (excluding any cross-references therein) and (2) the section entitled *Risk Management* on pages 35 to 45 of the Bank's Second Quarter 2020 MD&A, both of which are incorporated by reference into this Prospectus.

The Bank is subject to a number of industry and non-company factors

General Economic Conditions

The Bank's earnings are affected by the general economic conditions prevailing in Canada, the United States and other jurisdictions in which the Bank conducts business. In 2019, growth in real gross domestic product in both Canada and the United States slowed. In addition, parts of the yield curves in both countries were inverted at various times during 2019 and the U.S. Federal Reserve lowered the target range of the federal funds rate three times. These events, as well as rising global trade protectionism (see "*—Escalating Trade Disputes*", below) and the COVID-19 pandemic (see "*—The COVID-19 pandemic has impacted the Bank's business, and the ultimate impact on the Bank's business and financial results will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities in response to the pandemic*", below), point to the risk that growth in the two countries will slow further in 2020. Management continually reviews the economic environment in which the Bank operates, looking for any indication of significant changes in key economic variables. In the event of a significant change in economic conditions, management assesses its portfolio and business strategies and develops contingency plans to address any adverse developments. However, despite this, there could still be a material adverse effect on the Bank's business operations, performance and/or financial position.

Cyber Security, Information Security and Privacy Risk

The pervasive use of the internet and the reliance on advanced digital technologies by the Bank, its suppliers and customers expose it to a heightened risk of service interruptions, digital fraud and breaches of privacy. The evolving cyber threat landscape and increasing sophistication of attackers using artificial intelligence have been significant concerns across all industries, including banking. Information security is integral to the Bank's business activities, brand and reputation. Given the Bank's pervasive use of the internet and reliance on advanced digital technologies, the Bank faces common banking information security risks, including the threat of hacking, identity theft and corporate espionage, as well as the possibility of denial of service resulting from efforts targeted at causing system failure and service disruption. The materialization of such risk whether by service disruption, reputational damage or otherwise arising therefrom could have a material adverse effect on the Bank's business operations, performance and/or financial position.

Escalating Trade Disputes

The risk of global trade instability risk stems from political, economic and trade policy uncertainty. Rising protectionism and anti-globalization sentiment in the United States and other countries may lead to slower global growth. In particular, a protracted and wide-ranging trade dispute between the United States and China could adversely affect business investment, and could be especially problematic for commodity-producing countries, such as Canada. Trade disputes also arose between Canada and China over the course of 2019, with China banning the importation of Canadian canola and temporarily banning certain meat products. Although it is difficult to predict and mitigate the potential economic and financial consequences of trade-related events on the Canadian and U.S. economies, any escalation of trade instability and related political uncertainty could have a negative impact on global growth which in turn could have a material adverse effect on the Bank's business, financial condition and results of operations.

The Bank's credit exposure by geographic region is provided in Tables 7, 8 and 11 to 13 on pages 122 to 127 of the 2019 MD&A and Note 4 on page 151 of the 2019 Financial Statements. Further information on the Bank's direct and indirect European exposures is provided in the *European Exposures* section on page

83 of the 2019 MD&A and on pages 45 of the Second Quarter 2020 MD&A incorporated herein by reference.

Technology Disruption, Competition and Resiliency

The financial services industry continues to undergo rapid change, as technology enables new non-traditional entrants to compete in certain segments of banking, including retail payments, consumer and commercial lending, foreign exchange and investment advisory services. New entrants may leverage new technologies, advanced data and analytical tools and in some cases, less stringent regulatory requirements and oversight, allowing them to provide services to their customers more quickly and at a lower cost. Failure to keep pace with these new technologies and the competition may potentially impact the Bank's overall revenues and earnings over time if customers choose the services of these new market entrants. While the Bank closely monitors technology disruptors and regulatory changes that may impact the competitive landscape, including potential new regulations related to open banking, the Bank is also making further investments in technology and innovation in order to keep pace with evolving customer expectations. Given the extent to which the Bank's operations rely on technology and technology vendors, it is important to maintain a technology platform that provides a high level of operational reliability and resilience. If the Bank fails to respond to the competitive environment in its target markets by offering attractive and profitable product and service solutions, it may affect the Bank's competitiveness, its market shares, its growth potential, its customer base and, consequently, could have a material adverse effect on its business, financial condition and results of operations.

Geopolitical Risk

Geopolitical risk remains elevated as a result of strained relations among many countries, including between the United States and China and the United States and Iran. Heightened geopolitical risk can give rise to shifts in global capital flows, which may lead to market disruptions and a decrease in economic growth and trade. However, the Bank's core customers and its international strategy depend on trade and economic growth. Should negative developments occur, this could have a material adverse effect on the Bank's business, financial condition and results of operations.

Low or Negative Interest Rates

In the second half of 2019, the U.S. Federal Reserve lowered its target range for the U.S. federal funds rate three times. In the current recession, the Bank of Canada and the U.S. Federal Reserve will likely continue to reduce rates and, depending on the depth and length of the recession, may consider using negative rates to stimulate their respective economies. Low or negative interest rates could expose the Bank to a number of financial, operational and technology risks. The most significant financial impact would result from compression of the Bank's net interest margin and likely lower net interest income. In terms of operational and technology risks in a negative interest rate environment, the Bank may need to adapt its operations to fully accommodate the assessment of negative rates on its loans and deposits. In the event of low or negative interest rates, the Bank would look to other sources of income in order to offset the likely decrease in net interest income, though there can be no assurances that it would be successful in offsetting such rates.

Canadian Housing Market and Consumer Leverage

A severe correction in the Canadian housing market could lead to rising delinquencies in the Canadian residential mortgage market by prolonging the current economic downturn that was caused by the precautionary measures to contain the COVID-19 outbreak. However, with the economy expected to resume growing in the summer of 2020, the risk of a severe correction is considered moderate in most regions, as affordability is reasonable and interest rates are expected to remain very low for some time. In

addition, oil prices are expected to increase, supporting the housing markets in the oil-producing provinces, notably Alberta. The risk of a correction is somewhat larger in the higher-priced Greater Vancouver and Toronto areas, which account for about one-quarter of Canada's population. The risk of a severe housing correction would increase if a second wave of infections led to a more severe economic recession and a larger number of permanent job losses. This would create greater stress in the Canadian mortgage market, which may affect the value of the Portfolio and may affect the ability of the Guarantor to render payments under the Covered Bond Guarantee.

Oil and Gas Industry Outlook

Oil and gas prices decreased over the course of 2019, reflecting increased supply and moderating economic conditions. Should these factors deteriorate further, leading to oil and gas prices moving to a new lower range, this will pose a challenge for exploration and production companies. In addition, exploration companies that are able to generate positive cash flows in this low-price environment may further reduce servicing costs and instead focus on strengthening their balance sheet and/or increasing returns to shareholders, which would impact the oil and gas services sector. The Bank remains focused on taking risks within its approved risk appetite, while seeking appropriate returns on those risks. While the Bank maintains an internal limit that caps its exposure to this sector there can be no assurances that the Bank is able to successfully manage this risk. Any prolonged deterioration in the oil and gas sector could have a material adverse effect on the Bank's results of operation and financial condition.

Fiscal and Monetary Policies and Other Economic Conditions in the Countries in which the Bank Conducts Business

The Bank's earnings are affected by the fiscal and monetary policies and other economic conditions prevailing in Canada, the United States and other jurisdictions in which the Bank conducts business. These policies and conditions may have the effect of reducing competition, profitability and certainty in some specific businesses and markets, which may affect the Bank's customers and counterparties, potentially contributing to a greater risk of default. Changes in fiscal and monetary policies are difficult to anticipate. Fluctuations in interest rates can have an impact on the Bank's earnings, the value of the Bank's investments, the credit quality of lending to the Bank's customers and counterparty exposure, and the capital markets that the Bank accesses. Changes in the value of the Canadian dollar relative to the U.S. dollar have affected and could in the future affect the results of the Bank's clients with significant foreign earnings or input costs in either Canadian dollars or U.S. dollars. The Bank's investments in foreign operations are primarily denominated in U.S. dollars, and the foreign exchange impact of U.S. dollar-denominated risk weighted assets and capital deductions may result in variability in the Bank's capital ratios. The Bank may take steps to manage the impact of foreign exchange rate movements on its capital ratios, and did so during 2019. The value of the Canadian dollar relative to the U.S. dollar will also affect the contribution of the Bank's U.S. operations' contribution to its Canadian dollar profitability. Hedging positions may be taken to manage interest rate exposures and partially offset the effects of Canadian dollar/U.S. dollar exchange rate fluctuations on the Bank's financial results. The Bank's foreign exchange and interest rate risk exposures are discussed in the *Foreign Exchange* section on page 23, the *Enterprise-Wide Capital Management* section on page 59 and the *Market Risk* section on page 86 of the 2019 MD&A, and in the *Foreign Exchange* section on page 8, the *Capital Management* section on page 15 and the *Trading and Underwriting Market Risk* section on page 37 of the Second Quarter 2020 MD&A.

Environmental Risks

The Bank faces risks arising from environmental events, such as drought, floods, wildfires, earthquakes, and hurricanes and other storms. These events could potentially disrupt the Bank's operations, impact its customers and counterparties, and result in lower earnings and higher losses. Factors contributing to

heightened environmental risks include the impacts of climate change and the continued intensification of development in areas of greater environmental sensitivity. The Bank also faces risks in relation to borrowers that experience losses or increases in their operating costs as a result of climate-related policies, such as carbon emissions pricing, or that experience lower revenue as new and emerging technologies displace or disrupt demand for certain commodities, products and services. Legal, regulatory, business or reputation risks could arise from the Bank's actual or perceived actions, or inaction, in relation to climate change and other environmental and social risk issues, or its disclosures on these matters. Legal, regulatory or reputation risks related to environmental matters could also impact the Bank's customers, suppliers or other stakeholders, giving rise to business or reputation risks for the Bank. Although the Bank monitors environmental, legal and regulatory developments on an ongoing basis as part of its overall assessment of operational, business and reputation risks there can be no assurances that such monitoring will be successful in anticipating and managing the related risks.

Regulatory Requirements

The financial services industry is highly regulated, and the Bank has experienced changes and increasing complexity in regulatory requirements as governments and regulators around the world continue to pursue major reforms intended to strengthen the stability of the financial system and protect key markets and participants. As a result, there is the potential for higher capital requirements and additional regulatory compliance costs, which could lower the Bank's returns and affect its growth. These reforms could also affect the cost and availability of funding and the extent of market-making activities. Regulatory reforms may also impact fees and other revenues for certain of the Bank's operating groups. In addition, differences in laws and regulations enacted by various national regulatory authorities may provide advantages to the Bank's international competitors that could affect its ability to compete and lead to in loss of market share. The Bank monitors such developments, and other potential changes, so that the Bank is well-positioned to respond to and implement any necessary changes. Failure to comply with applicable legal and regulatory requirements could result in legal proceedings, financial losses, regulatory sanctions, enforcement actions, an inability to execute the Bank's business strategies, a decline in investor and customer confidence and damage to the Bank's reputation. If any of the risks set out above were realized, this could have a significant adverse effect on the Bank's business operations, its performance and/or its financial position. The Bank's regulatory requirements risk is further discussed in the *Legal and Regulatory Risk* and the *Enterprise-Wide Capital Management* sections on pages 59 and 103, respectively, of the 2019 MD&A and in the *Capital Management* and *Other Regulatory Developments* sections on pages 15 and 34, respectively, of the Second Quarter 2020 MD&A incorporated herein by reference.

Tax Legislation and Interpretations

Changes in tax rates, tax law and policy and its interpretation by taxing authorities can have an impact on the Bank's earnings. Tax laws, as well as the interpretation of tax laws and policy by taxing authorities, may change as a result of efforts by the G20 and the Organisation for Economic Co-operation and Development to broaden the tax base globally and increase tax related reporting. In addition, a reduction in income tax rates could lower the value of the Bank's deferred tax assets. Changes in taxation regulations which increase the level of the tax payable by the Bank will affect the Bank's financial results and, consequently, could have a material adverse effect on its business, financial condition and results of operations. Income taxes and deferred tax assets are discussed in the *Critical Accounting Estimates* section on page 107 of the 2019 MD&A and the *Other Regulatory Developments* section on page 34 of the Second Quarter 2020 MD&A.

Acquisitions

The Bank conducts thorough due diligence before completing business or portfolio acquisitions. However, it is possible that the Bank could make an acquisition that subsequently does not perform in line with its

financial or strategic objectives or expectations. The Bank's ability to successfully complete an acquisition may be subject to regulatory and shareholder approvals and the Bank may not be able to determine when, if or on what terms the necessary approvals will be granted. Changes in the competitive and economic environment, as well as other factors, may result in reductions in revenue, while higher than anticipated integration costs and failure to realize expected cost savings after an acquisition could also adversely affect the Bank's earnings. Integration costs may increase as a result of regulatory costs related to an acquisition, other unanticipated costs that were not identified in the due diligence process or demands on management time that are more significant than anticipated, as well as unexpected delays in implementing certain plans that in turn lead to delays in achieving full integration. Successful post-acquisition performance depends on retaining the clients and key employees of acquired companies and on integrating key systems and processes without disruption, and there can be no assurance that the Bank will always succeed in doing so.

Brexit

Negotiations regarding the exit of the UK from the European Union (EU) ("**Brexit**") are ongoing, with continued uncertainty about whether the UK will be able to negotiate a smooth transition out of the EU and what the structure of the EU-UK relationship will be at the end of the transition period. BMO has operations and clients across the EU, including in the UK. A no-trade deal Brexit could, accordingly, have a material adverse effect on the Bank's results of operations and financial condition. See "*—The results of the United Kingdom's referendum on withdrawal from the European Union may have a negative effect on global financial markets and economic conditions, which may in turn affect the Bank's business*."

Critical Accounting Estimates and Accounting Standards

The Bank prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board. Changes that the International Accounting Standards Board makes from time to time to these standards can be difficult to anticipate and may materially affect how the Bank records and reports its financial results. Significant accounting policies and future changes in accounting policies are discussed on page 111 of the 2019 MD&A, in Note 1 on page 142 of the 2019 Financial Statements, on pages 34 of the Second Quarter 2020 MD&A, and in Note 1 in the Bank's Second Quarter 2020 Report.

The application of IFRS requires management to make significant judgments and estimates that affect the carrying amounts of certain assets and liabilities, certain amounts reported in net income and other related disclosures. In making these judgments and estimates, the Bank relies on the best information available at the time. However, it is possible that circumstances may change, that new information may become available or that the Bank's models may prove to be imprecise.

The Bank's financial results could be affected for the period during which any such new information or change in circumstances became apparent, and the extent of the impact could be significant. More information is included in the discussion of *Critical Accounting Estimates* on page 107 of the 2019 MD&A and on page 31 of the Second Quarter 2020 MD&A.

The COVID-19 pandemic has impacted the Bank's business, and the ultimate impact on the Bank's business and financial results will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities in response to the pandemic

The COVID-19 pandemic has negatively impacted the global economy and economic outlook, including with respect to the jurisdictions in which the Bank operates, disrupted global supply chains, lowered equity market valuations, lowered interest rates, created significant volatility and disruption in financial markets,

and increased unemployment levels. In addition, governments and regulatory bodies have implemented a number of measures, including temporary closures of many businesses and the institution of social distancing and sheltering in place requirements in many of the jurisdictions in which the Bank operates. Governments, monetary authorities and regulators have also taken actions to support the economy and financial system, including taking fiscal and monetary measures to increase liquidity and support incomes, and regulatory actions in respect of financial institutions.

If the COVID-19 pandemic is prolonged, the negative impact on the global economy could deepen from what is now expected. It could continue to disrupt global supply chains, lower equity market valuations and interest rates, create significant volatility and disrupt financial markets, and further increase unemployment levels and business bankruptcy levels. The demand for the Bank's products and services may be significantly impacted, as could be the Bank's net interest income, due to the lower interest rates. Given the impact from the pandemic, the Bank would expect to recognize elevated credit losses in its loan portfolios, including in those industries directly impacted by the pandemic, including, but not limited to, oil and gas, hospitality, retail services and transportation. In addition, the provision of various services to the Bank's customers results in the Bank carrying residual market risk exposures including, but not limited to, changes in price levels, interest rates, foreign exchange rates, credit spreads, volatility, counterparty credit quality, the correlation between various markets and assets and other risks, as outlined in the Enterprise-Wide Risk Management section on pages 68 to 106 of the Bank's 2019 Annual Report, as updated by quarterly reports. In addition, in certain businesses, including in the Bank's equity linked notes related businesses where the Bank sells investment products that have returns tied to equity securities, the Bank has exposure to the dividend policies of the companies that issue those underlying equity securities.

As a result of changing economic and market conditions, the Bank may be required to recognize impairments in future periods on the securities or other assets it holds. The Bank's business operations may also be disrupted if its key suppliers of goods and services are adversely impacted or significant portions of its workforce are unable to work effectively, including because of illness, quarantines, government actions, or other restrictions in connection with the COVID-19 pandemic. The COVID-19 pandemic may also impact the Bank's ability to access capital markets, its liquidity and capital position, or may result in downgrades in its credit ratings. The COVID-19 pandemic has resulted in an increase, and may result in further increases, in certain of the risks outlined in the Enterprise-Wide Risk Management section on pages 68 to 106 of the Bank's 2019 Annual Report, as updated by quarterly reports, including the Bank's credit and counterparty, market, insurance, liquidity and funding, operational, including anti-money laundering, technology and cyber-related, legal and regulatory, business, strategic, environmental and social, and reputation risk. The Bank may also face increased risk of litigation and governmental and regulatory scrutiny as a result of the effects of the COVID-19 pandemic on market and economic conditions and actions governmental authorities take in response to those conditions.

The extent to which the COVID-19 pandemic impacts the Bank's business, results of operations, reputation and financial condition, as well as its regulatory capital and liquidity ratios, and credit ratings, as well as its impact on the Bank's customers, competitors and trading exposure, including the potential of losses from higher credit, counterparty or mark-to-market losses, will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic. The COVID-19 pandemic may also impact the Bank's ability to achieve, or the timing to achieve, certain previously announced targets, goals and objectives.

To the extent that the COVID-19 pandemic, or any future epidemics or pandemics, causes material adverse impacts to the Bank's business and operations, the global economy, and/or financial markets, there may be an impact on any trading market for, or trading value of, the Covered Bonds.

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, Swap Provider, GDA Provider, Intercompany Loan Provider, 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. This does not affect the responsibility of the Bank as a Responsible Person.

2. RISKS RELATING TO THE COVERED BONDS

The Covered Bonds will constitute unsecured and uninsured deposit obligations of the Bank

The Covered Bonds will constitute deposit liabilities of the Bank for purposes of the Bank Act, however the Covered Bonds will not be insured under the *Canada Deposit Insurance Corporation Act* (**CDIC Act**), and will constitute legal, valid and binding direct, unconditional, unsubordinated and unsecured obligations of the Bank and rank *pari passu* with all deposit liabilities of the Bank without any preference among themselves and at least *pari passu* with all other unsubordinated and unsecured obligations of the Bank, present and future, except as prescribed by law. 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 relevant Dealer(s), 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.

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 Final Terms Document or Pricing 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 Final Terms Document or

Pricing 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 Guarantor Acceleration 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*) of the *Terms and Conditions of the Covered Bonds*.

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 Final Terms Document or Pricing 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). The Bank may also issue Covered Bonds which are neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a Prospectus is required to be published under the Prospectus Regulation (**Exempt Covered Bonds**). All Covered Bonds issued under the Program from time to time will rank *pari passu* with each other in all respects. Following the occurrence of an Issuer Event of Default and service by the Bond Trustee of an Issuer Acceleration Notice, all outstanding Covered Bonds issued under the Program 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).

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 each other Series of the Covered Bonds issued under the Program on a *pro rata* and *pari passu* basis.

Credit ratings assigned to the Covered Bonds may not reflect all risks

The credit ratings 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 Final Terms Document or Pricing Supplement, the applicable Extended Due for Payment Date. With respect to DBRS, the ratings assigned to the Covered Bonds address the risk that the Bank 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 Bank 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 at any time lower or withdraw its credit rating if, in the sole judgement 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.

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 realisable 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 unfavourable, 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 Terms and Conditions, the Bank will, save in certain limited circumstances provided in the Terms and 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 Terms and 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.

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 Required Amount 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 realisable 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.

The Bond Trustee will not be required to release the Loans and their Related Security from the Security pursuant to any sale and purchase agreement with respect to the sale of Selected Loans unless (i) the Bond Trustee has provided its prior written consent to the terms of such sale in accordance with the Guarantor Agreement, and (ii) the Guarantor has provided 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. See *Overview of the Principal Documents—Security Agreement—Release of Security*.

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 Amortisation Test may not mitigate this risk. A breach of the Amortisation Test will occur if the aggregate principal amount of the Covered Bonds issued and outstanding under the Program is greater than the aggregate value of the Portfolio's assets. Upon the occurrence of a breach of the Amortisation Test, a Guarantor Event of Default will also occur which will (subject to the Terms and 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.

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

Unless and until definitive 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 the Paying Agent, which will make payments to the relevant Clearing System. Thereafter, payments will be made by the relevant Clearing System to participants in these systems and then by such participants to indirect participants. After payment to the Common Depositary neither the Bank, 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 the relevant Clearing System or to owners of book-entry interests.

Since the Covered Bonds are not represented in physical form, it may make it difficult for the investors 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 the Bank's solicitations or consents or requests for waivers or other actions from holders of the Covered Bonds that the Bank 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 the relevant Clearing System or, if applicable, from a participant. The Bank cannot assure the investors that procedures implemented for the granting of such proxies will be sufficient to enable the investors 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, including some insurance companies and other institutions, 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 Final Terms Document or Pricing Supplement provides to the contrary, it is expected that the Covered Bonds will be issued in registered form as Global Covered Bonds through the relevant Clearing System 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.

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

The Issue Price of Covered Bonds specified in the applicable Final Terms Document or Pricing 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.

Exchange rate risks relating to currency conversions and/or exchange controls imposed by government or monetary authorities may affect investors' expected returns on the Covered Bonds

The Bank will pay principal and interest on the Covered Bonds and the Guarantor will make any payments under the Covered Bond Guarantee in the relevant Specified Currency. 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 the relevant Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the relevant Specified Currency 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 relevant Specified Currency 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.

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.

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, may bear interest at a lower rate against comparable securities by reason of such conversion

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 favourable 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 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 other Covered Bonds.

Subsequent changes in market interest rates may adversely affect the value of Fixed Rate Covered Bonds

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.

3. RISKS RELATING TO THE PORTFOLIO

When realising 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 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.

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 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, OC Valuation, Amortisation Test, Valuation Calculation and Pre-Maturity Test may not ensure that adequate funds will be available to satisfy the Guarantor's obligations in full

While the Asset Coverage Test, the OC Valuation, the Amortisation Test and the Pre-Maturity 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, modelling has been undertaken on the basis of certain assumptions in certain stress scenarios. No assurance can be given that the assumptions utilised in such modelling 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 modelling utilised 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 Properties subject to the Related Security for Loans in the Portfolio do not undergo periodic valuations and prior to 1 July 2014 were not required to be indexed to account for subsequent market developments. Valuations are obtained when a Loan is originated, but generally not subsequent to origination.

Since 1 July 2014, the Guarantor has employed an indexation methodology that meets the requirements provided for in the CMHC Guide to determine indexed valuations for Properties relating to the Loans in the Portfolio (which methodology may be changed from time to time and will, at any time, be disclosed in the then current Investor Report and each future Investor Report for periods from and after 1 July 2014) (the **Indexation Methodology**) for purposes of the Asset Coverage Test, the OC Valuation, the Amortisation Test and the Valuation Calculation as set forth in the Guarantor Agreement, and for all other purposes as required by the CMHC Guide. Any update or other change to the Indexation Methodology must comply with the requirements of the CMHC Guide and will (i) require notice to CMHC and satisfaction of any other conditions specified by CMHC in relation thereto, (ii) if such update or other

change constitutes a material amendment thereto, require satisfaction of the Rating Agency Condition, and (iii) if such update or other change is materially prejudicial to the Covered Bondholders, require the consent of the Bond Trustee.

Currently, the Indexation Methodology employed by the Guarantor is based on (i) with respect to Properties located within the cities of Vancouver, Victoria, Calgary, Edmonton, Winnipeg, Ottawa-Gatineau, Hamilton, Toronto, Montreal, Québec City and Halifax, data provided by Teranet through its House Price IndexTM (the **House Price Index**), and (ii) for Properties located in all other areas of Canada, a property value that is adjusted using the Teranet – National Bank Composite 11 House Price IndexTM (the **Composite 11 House Price Index**) which is calculated as a weighted average of the data for the 11 cities included in the House Price Index.

The data derived by the House Price Index is based on a repeat sales method, which measures the change in price of certain residential properties within the related area based on at least two sales of each such property over time. Such price change data is then used to formulate the House Price Index for the related area. Details of the House Price Index and the Composite 11 House Price Index may be found at www.housepriceindex.ca.

The Indexation Methodology employed by the Guarantor indexes the Properties relating to the Loans in the Portfolio to reflect the latest valuation of such Properties.

Certain risks are associated with the use of composite indices and statistics including the House Price Index and the Composite 11 House Price Index, such as (i) the data provided with respect to larger geographical areas could mask localised price fluctuations, and (ii) data on the growth rate for each type of dwelling is not available because the data provided combines all dwelling types and, therefore, the data provided may not reflect price fluctuations for the different types of dwellings. Accordingly, no assurance can be given that the valuation of the Properties in the Portfolio using the Indexation Methodology will result in an accurate determination of the actual realisable value of a particular Property or of the Portfolio as a whole.

The Bank can give no assurance as to the accuracy of the information provided by the House Price Index or the Composite 11 House Price Index. However, where information has been provided by the House Price Index or the Composite 11 House Price Index the Bank will confirm that this information has been accurately reproduced and that, as far as the Bank is aware and is able to ascertain from information published by the House Price Index or the Composite 11 House Price Index, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The Bond Trustee will not be responsible for monitoring compliance with, or the monitoring of, the Asset Coverage Test, the OC Valuation, the Amortisation Test, the Valuation Calculation or the Pre-Maturity Test or any other test, or supervising the performance by any other party of its obligations under any Transaction Document. See *Overview 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.

Default by Borrowers in paying amounts due on their Loans may adversely affect the value of the Portfolio

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 local, regional, 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, natural disasters and widespread health crises or the fear of such health crises (such as a coronavirus, measles, SARS, Ebola, H1N1, Zika, avian influenza, swine flu or other epidemic diseases). 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 (including any illness arising in connection with an epidemic, pandemic or health crises), 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, the ability of a Borrower to sell a property given as security for a Loan at a price sufficient to repay the amounts outstanding under that Loan will depend upon a number of factors, including general market conditions, the availability of purchasers for that property, the value of that property and property values in general at the time. Non-Performing Eligible Loans in the Portfolio will be given no weighting for the purposes of the Asset Coverage Test and the Amortisation Test. Default by Borrowers and the inability to sell mortgaged properties at a sufficient price may adversely affect collections and the value of the Portfolio and may affect the ability of the Guarantor to render payments under the Covered Bond Guarantee.

The application of Canadian federal bankruptcy and insolvency laws and related provincial laws to a Borrower could affect the ability to collect the Loans and enforce the Related Security if such laws result in any related Loan being charged off as uncollectible either in whole or in part, and as such may affect the value of the Portfolio and may affect the ability of the Guarantor to render payments under the Covered Bond Guarantee.

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 lead to rising delinquencies in the residential mortgage market by prolonging the current economic downturn that was caused by the precautionary measures taken to contain the COVID-19 outbreak. However, with the Canadian economy expected to resume growing in the summer, the risk of a severe correction is considered moderate in most regions of Canada, as affordability is reasonable and interest rates are expected to remain very low for some time. In addition, oil prices are expected to increase, supporting the housing markets in the oil-producing provinces, notably Alberta. The risk of a correction is somewhat larger in the higher-priced Greater Vancouver and Toronto areas, which account for about one-quarter of Canada's population. The risk of a severe housing correction would increase if a second wave of COVID-19 infections leads to a more severe economic recession and a larger number of permanent job losses. This would create greater stress in the mortgage market, which could adversely affect collections and the value of the Portfolio and may affect the ability of the Guarantor to render payments under the Covered Bond Guarantee. Additionally, this may adversely affect the price and marketability of the Covered Bonds.

Prior to the completion of a transfer of payments collected from the Loans and their Related Security to the Guarantor, funds 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 of the ratings of the Servicer by one or more Rating Agencies below any of 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 of the ratings of the Cash Manager by one or more Rating Agencies below any of the Cash Management Deposit Ratings, and (ii) following a downgrade of the ratings of the Cash Manager by one or more Rating Agencies below any of the Cash Management Deposit Ratings, directly into the GDA Account. In the event of a downgrade of the ratings of the Servicer by one or more Rating Agencies below any of the Servicer Deposit Threshold Ratings, the Servicer will transfer such funds (i) to the Cash Manager prior to a downgrade of the ratings of the Cash Manager by one or more Rating Agencies below any of the Cash Management Deposit Ratings, and (ii) following a downgrade of the ratings of the Cash Manager by one or more Rating Agencies below any of 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.

Until completion of the transfer of such payments collected on the Loans and their Related Security to the Cash Manager or the GDA Account and prior to the circumstances as set out above, funds collected by the Servicer on the account of the Guarantor are commingled with the funds of the 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 Loan 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, the Loan-to-Value ratio, insurance policies, high loan-to-value fees, status of applicants and credit history. In connection with the sale of any Loans and their Related Security to the Guarantor, the Seller will warrant only that, prior to making each advance under such Loans, the Lending Criteria and all other preconditions to the making of the Loans were satisfied. 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 realisable 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 realisable value of the Portfolio or any part thereof or the ability of the Guarantor to make payments under the Covered Bond Guarantee.

Levels of arrears in the Portfolio set forth in the relevant Investor Report 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 of a cut-off date prior to the time of the relevant issue of a Series of Covered Bonds, will be incorporated by reference into the Prospectus from time to time. The information presented in the Investor Report will be prepared using the current balance as of the relevant cut-off date, which includes all principal and accrued interest for the Loans as of 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. If the actual information about the Loans differ from the information as of the relevant cut-off date, the actual performance of the Portfolio and consequently the ability of the Issuer or the Guarantor to render payments on the Covered Bonds may be different from expectations, which could adversely affect the price and marketability of the Covered Bonds. The selected information will not include any Loans assigned to the Portfolio since the relevant cut-off date.

New Loan Types may be included in the Portfolio without the consent of Covered Bondholders

As at the date of this Prospectus, the Portfolio consists 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 Eligibility Criteria, the Loan Representations and Warranties, and certain related provisions of the Mortgage Sale Agreement, 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 NHA and the CMHC Guide and the security sharing and other related requirements of the CMHC Guide and be approved by CMHC, 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 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:

- 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;

- 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

- 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 points above were to occur, then the realisable 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 realise 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 Seller will be required 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 and/or the Amortisation Test. There is no further recourse to the Seller for a breach of a Loan Representation and Warranty. The inability of the Seller to repurchase the relevant Loans and their Related Security in the case of a material breach in the representations and warranties provided by the Seller which has not been remedied by the Seller within the applicable time may adversely affect the value of the Portfolio and the ability of the Guarantor to render payments under the Covered Bond Guarantee.

None of the Arrangers, the Cover Pool Monitor, any Dealer, the 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 the Portfolio assets and remedies of the Guarantor will be limited to the Loan Representations and Warranties given by the Seller in the Mortgage Sale Agreement

None of the Arrangers, the Cover Pool Monitor, any Dealer, the 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 the 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. 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

Representations 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 realise 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 realise upon its mortgage security, such as foreclosure and judicial sale, are subject to most of the delays and expenses of other lawsuits, particularly if defences 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 BIA 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. This may adversely affect collections and consequently affect the ability of the Issuer or the Guarantor to render payments on the Covered Bonds.

Where a borrower or any beneficial owner of a Property is or subsequently becomes a non-resident of Canada under the *Income Tax Act* (Canada) (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 realisation 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. Any requirement to withhold applicable taxes or the non-enforceability of any due-on-sale or debt-acceleration clauses may adversely affect collections from the affected Loans and consequently affect the ability of the Issuer or the Guarantor to render payments on the Covered Bonds.

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 favour 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 favour 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 favour of the government for amounts due under fiscal laws. If the mortgage securing a Loan is subject to a prior lien, this may limit recovery upon a foreclosure which may adversely affect collections from the affected

Loans and consequently affect the ability of the Issuer or the Guarantor to render payments on the Covered Bonds.

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). 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. Any of these risks may adversely affect the market value of the Loans in the Portfolio and the ability of the Guarantor to render payments under the Covered Bond Guarantee.

All real property securing the Loans in the Portfolio is located in Canada and deterioration in the market for real estate in Canada could negatively affect the value of the Covered Bonds

All 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 instalment payment for certain products and borrowers may refuse to pay excess amounts

When the Bank's prime rate increases, the amount of interest payable by a borrower under a variable rate loan increases. The borrower's instalment 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 capitalised 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 per cent. 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 instalment, or (if the borrower has the right to do so under the Loan) convert the Loan to a Fixed Rate Loan. Accordingly, an increase in a borrower's monthly instalment or principal balance may affect the borrower's timely payment of scheduled payments of principal and interest on the related Loan and, accordingly, the actual rates of delinquencies, foreclosures and losses with respect to such Loan. Further, economic and market conditions may impair borrowers' ability to make timely payment of scheduled payments of principal and interest on the Loans or to refinance or sell their residential properties, which may contribute to higher delinquency and default rates, and may in turn adversely affect collections and the value of the Portfolio and consequently affect the ability of the Guarantor to render payments under the Covered Bond Guarantee. See *—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*.

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 amortisation period of the loans is generally much longer (e.g., 25 years). See

The 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 realise 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 prevailing interest rates, the Guarantor may not realise sufficient proceeds to pay the Covered Bonds in full.

4. RISKS RELATING TO THE REGULATION OF THE COVERED BONDS

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 Legislative Framework and the CMHC Guide

No assurance can be given that additional regulations or guidance from CMHC, OSFI, the CDIC or any other regulatory authority will not arise with regard to the mortgage market in Canada generally, the Seller's particular involvement 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 Seller and its 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 realisable 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. Further detail is included in the section headed "*Description of the Canadian Registered Covered Bond Programs Regime*" below.

Suspension of the Bank's ability to issue Covered Bonds under Part I.1 of the NHA and the CMHC Guide could negatively impact the Covered Bonds

Part I.1 of the NHA 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, non-compliance by the Bank with Part I.1 of the NHA or the CMHC Guide will not constitute an Issuer Event of Default.

Changes or uncertainty in respect of LIBOR and/or EURIBOR may affect the value, liquidity or payment of interest under the Covered Bonds

Various interest rates and other indices which are deemed to be "benchmarks" (including the London Interbank Offered Rate (**LIBOR**) and the Euro Interbank Offered Rate (**EURIBOR**) are the subject of recent national, international and other regulatory guidance and reform, including the EU Benchmark Regulation (Regulation (EU) 2016/1011) (the **Benchmarks Regulation**). These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Covered Bonds referencing such a benchmark.

Under the Benchmarks Regulation, which applied from 1 January 2018 in general, subject to certain transitional provisions, certain requirements apply with respect to the provision of a wide range of benchmarks (including LIBOR and EURIBOR), the contribution of input data to a benchmark and the use of a benchmark within the EU and the UK. In particular, the Benchmarks Regulation, among other things, (i) requires benchmark administrators to be authorised or registered (or, if non-EU and non-UK based, to be subject to an equivalent regime or otherwise recognised or endorsed) and to comply with extensive requirements in relation to the administration of "benchmarks" and (ii) prevents certain uses by EU or UK supervised entities of "benchmarks" of administrators that are not authorised or registered (or, if non-EU and non-UK based, deemed equivalent or recognised or endorsed).

Investors should be aware that the sustainability of LIBOR has been questioned as a result of the absence of relevant active underlying markets and possible disincentives (including possibly as a result of benchmark reforms) for market participants to continue contributing to such benchmarks. The FCA has indicated through a series of announcements that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021.

Alternative risk free rates have been identified in a number of other markets. For example, in the United States of America, the Alternative Reference Rates Committee (**ARRC**) recommended Secured Overnight Financing Rate (**SOFR**) as the replacement rate for USD-LIBOR and has a paced transition plan for developing SOFR markets. The potential elimination of the LIBOR benchmark or any other benchmark, or changes in the manner of administration of any benchmark, could require or result in an adjustment to the

interest provisions of the Conditions (as further described in Condition 14 (*Meetings of Covered Bondholders, Modification, Waiver and Substitution*)), or result in other consequences, in respect of any Covered Bonds linked to such benchmark (including but not limited to Covered Bonds whose interest rates are linked to LIBOR) or any other such benchmark which is subject to reform.

Investors should be aware that the euro risk-free rate working group for the euro area has published a set of guiding principles and high level recommendations for fallback provisions in, amongst others things, new euro denominated cash products (including bonds) referencing EURIBOR. The guiding principles indicate, among other things, that continuing to reference EURIBOR in relevant contracts (without robust fallback provisions) may increase the risk to the euro area financial system.

These reforms and other pressures may cause one or more interest rate benchmarks (including LIBOR and EURIBOR) to disappear entirely, to perform differently than in the past (as a result of a change in methodology or otherwise), create disincentives for market participants to continue to administer or participate in certain benchmarks or have other consequences which cannot be predicted. Such factors may have (without limitation) the following effects on certain benchmarks: (i) discouraging market participants from continuing to administer or contribute to a benchmark; (ii) triggering changes in the rules or methodologies used in the benchmark and/or (iii) leading to the disappearance of the benchmark. Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on the Covered Bonds.

Based on the foregoing, prospective investors should in particular be aware that:

(a) any of the reforms or pressures described above or any other changes to a relevant interest rate benchmark (including LIBOR and EURIBOR) could affect the level of the published rate, including to cause it to be lower and/or more volatile than it would otherwise be;

(b) if LIBOR or EURIBOR or any other relevant benchmark is discontinued or is otherwise unavailable and an amendment as described in paragraph (c) below has not been made at the relevant time, then the rate of interest on the Covered Bonds will be determined for a period by the fall-back provisions provided for under Condition 4.2 (*Interest on Floating Rate Covered Bonds*), although such provisions, being dependent in part upon the provision by reference banks of offered quotations for leading banks in the London interbank market (in the case of LIBOR) or in the Euro-zone interbank market (in the case of EURIBOR), may not operate as intended (depending on market circumstances and the availability of rates information at the relevant time) and may in certain circumstances result in the effective application of a fixed rate based on the rate which applied in the previous period when LIBOR or EURIBOR (as applicable) was available;

(c) while an amendment may be made under Condition 14 (*Meetings of Covered Bondholders, Modification, Waiver and Substitution*) to change the base rate on the Floating Rate Covered Bonds from LIBOR or EURIBOR or any other relevant benchmark to an Alternative Base Rate under certain circumstances broadly related to a dysfunction or discontinuation of such benchmark and subject to certain conditions being satisfied there can be no assurance that any such amendment will be made or, if made, that it (i) will fully or effectively mitigate all or any relevant interest rate risks or result in an equivalent methodology for determining the interest rates on the Floating Rate Covered Bonds which could result in a material adverse effect on the value of and return on such Covered Bonds or (ii) will be made prior to any date on which any of the risks described in this risk factor may arise;

(d) if LIBOR, EURIBOR or any other relevant benchmark is discontinued, and whether or not an amendment is made under Condition 14 (*Meetings of Covered Bondholders, Modification, Waiver and Substitution*) to change the base rate with respect to the Floating Rate Covered Bonds as described in paragraph (c) above, there can be no assurance that the applicable fall-back provisions under the Swap Agreements would operate so as to ensure that the benchmark used to determine payments under the Swap Agreements would be the same as that used to determine interest payments under the Intercompany Loan or under the Covered Bonds, or that the Swap Agreements would operate to allow the transactions under the Swap Agreements to effectively mitigate interest rate and currency risks in respect of the Guarantor's obligations under the Intercompany Loan (subject to the Intercompany Loan Agreement's requirement that the applicable rate of interest thereunder will not exceed the amount received by the Guarantor pursuant to the Interest Rate Swap, less certain specified amounts) or the Covered Bond Guarantee; and

(e) it is possible that an amendment under Condition 14 (*Meetings of Covered Bondholders, Modification, Waiver and Substitution*) to change the base rate of a Series of the Floating Rate Covered Bonds will be treated as a deemed exchange of old Covered Bonds for new Covered Bonds, which may be taxable to U.S. holders.

In addition, it should be noted that broadly divergent interest rate calculation methodologies may develop and apply as between the Loans, the Covered Bonds and/or the Swap Agreements due to applicable fall-back provisions or other matters and the effects of this are uncertain but could include a reduction in the amounts available to the Bank or the Guarantor to meet their payment obligations in respect of the Covered Bonds.

More generally, any of the above matters (including an amendment to change the base rate as described in paragraph (c) above) or any other significant change to the setting or existence of LIBOR, EURIBOR or any other relevant benchmark rate could affect the ability of the Bank or the Guarantor to meet their obligations under the Covered Bonds and/or could have a material adverse effect on the value or liquidity of, and the amount payable under, the Covered Bonds. Changes in the manner of administration of LIBOR, EURIBOR or any other relevant interest rate benchmark could result in adjustment to the Conditions, early redemption, discretionary valuation by the Calculation Agent, delisting or other consequences in relation to the Covered Bonds No assurance can be provided that relevant changes will not occur with respect to LIBOR, EURIBOR or any other relevant benchmark rate and/or that such benchmarks will continue to exist. Investors should consider these matters when making their investment decision with respect to the Covered Bonds.

5. RISKS RELATING TO COUNTERPARTIES

Borrower and Counterparty Risk Exposure

The ability of the Bank to make payments in connection with any debt or derivative securities issued or entered into by the Bank is subject to general credit risks, including credit risks of borrowers. Credit risk is one of the most significant and pervasive risks in banking. The failure to effectively manage credit risk across the Bank's products, services and activities can have a direct, immediate and material effect on the Bank's earnings and reputation. Third parties that owe the Bank money, securities or other assets may not pay or perform under their obligations. These parties include borrowers under loans granted, trading counterparties, counterparties under derivative contracts, agents and financial intermediaries. These parties may default on their obligations to the Bank due to bankruptcy, lack of liquidity, downturns in the economy or real estate values, operational failure or other reasons, adversely affecting the Bank's financial position and prospects and, ultimately, the Bank's ability to render payments on the Covered Bonds.

In relation to counterparties that are EU or UK institutions, on 2 July 2014, Directive 2014/59/EU providing for the establishment of an EU-wide framework for the recovery and resolution of EU credit institutions and investment firms (the **BRRD**) came into force. The BRRD is designed to provide authorities with a credible set of tools to intervene sufficiently early and quickly in an unsound or failing EU or UK institution so as to ensure the continuity of the institution's critical financial and economic functions, while minimising the effect of the institution's failure on the economy and financial system. The BRRD was applicable in Member States from 1 January 2015 with the exception of the bail-in tool (referred to below) which was applicable from 1 January 2016.

The BRRD contains four resolution tools and powers which may be used alone or in combination where the relevant resolution authority considers that: (a) an institution is failing or likely to fail; (b) there is no reasonable prospect that any alternative private sector measures would prevent the failure of such institution within a reasonable timeframe; and (c) a resolution action is in the public interest. Such resolution tools and powers are: (i) sale of business; (ii) bridge institution; (iii) asset separation; and (iv) bail-in. The bail-in tool gives the resolution authority the ability to write-down or convert certain unsecured debt instruments into shares (or other instruments of ownership) of the relevant EU or UK institution, to reduce the outstanding amount due under such debt instruments (including reducing such amounts to zero) or to cancel, modify or vary the terms of such debt instruments (including varying the maturity of such instruments) and other contractual arrangements. The BRRD also provides for a Member State as a last resort, after having assessed and exploited the above resolution tools to the maximum extent possible while maintaining financial stability, to be able to provide extraordinary public financial support through additional financial stabilisation tools. These consist of the public equity support and temporary public ownership tools. Any such extraordinary financial support must be provided in accordance with the EU or UK state aid framework.

An institution will be considered as failing or likely to fail when: (i) it is, or is likely in the near future to be, in breach of its requirements for continuing authorisation; (ii) its assets are, or are likely in the near future to be, less than its liabilities; (iii) it is, or is likely in the near future to be, unable to pay its debts as they fall due; or (iv) it requires extraordinary public financial support (except in limited circumstances).

In the normal course of business, the Bank deals with EU and UK institutions to whom the BRRD and its bail-in power applies. The powers set out in the BRRD will impact how such EU and UK institutions and investment firms are managed as well as, in certain circumstances, the rights of their creditors, including the Bank. For instance, the Bank and its debtholders may be affected by disruptions due to an EU or UK institution not being able to fulfil their obligations as issuing and paying agent, European registrar, calculation agent or similar roles. Any such disruption may affect the ability of the Bank or another relevant entity to satisfy its obligations under the Transaction Documents and there can be no assurance that Covered Bondholders will not be adversely affected as a result.

The performance of any such third parties may be affected by economic, social, political and other factors, such as changes in the national or international economic climate, regional economic conditions, changes in laws, political developments and government policies, natural disasters, illness (including illnesses from epidemics or pandemics) and widespread health crises or the fear of such crises (such as a coronavirus, measles, SARS, Ebola, H1N1, Zika, avian influenza, swine flu, or other epidemic diseases), which may result in a material delay or default in the performance of certain services in relation to the Covered Bonds by such third parties.

Reliance on Swap Providers

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. 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 has entered into the Covered Bond Swap Agreement with the Covered Bond Swap Provider.

If the Guarantor fails to make timely payments of amounts due under any Swap Agreement (except where such failure is caused by the funds available to the Guarantor being insufficient to make the required payment in full), then it will have defaulted under that Swap Agreement and such Swap Agreement may be terminated. Further, a Swap Provider is only obliged to make payments to the Guarantor as long as and to the extent that the Guarantor complies with its payment obligations. The Guarantor will not be in breach of its payment obligations where the Guarantor fails to pay a required payment in full, provided such non-payment is caused by the funds of the Guarantor being insufficient to make such payment in full under the relevant Swap Agreement. If a Swap Agreement terminates or the Swap Provider is not obliged to make payments or if it defaults in its obligations to make payments of amounts (including in the relevant currency, if applicable) to the Guarantor on the payment date under the relevant Swap Agreement, the Guarantor will be exposed to changes in the relevant currency exchange rates to Canadian dollars and to any changes in the relevant rates of interest. Unless a replacement Swap Agreement is entered into, the Guarantor may have insufficient funds to meet its obligations under the Covered Bond Guarantee.

If a Swap Agreement terminates, the Guarantor may be obliged to make a termination payment in an amount related to the mark to market value of such Swap Agreement to the relevant Swap Provider. There can be no assurance that the Guarantor will have sufficient funds available to make such termination payment under the relevant Swap Agreement, nor can there be any assurance that the Guarantor will be able to find a replacement swap counterparty which (i) agrees to enter into a replacement swap agreement on substantially the same terms as the terminated swap agreement, and (ii) has sufficiently high ratings to prevent a downgrade of the then current ratings of the Covered Bonds by any one of the Rating Agencies.

The obligation to pay a termination payment may reduce the funds available to the Guarantor, which may adversely affect the ability of the Guarantor to meet its obligations under the Covered Bond Guarantee. Additionally, the failure of the Guarantor to receive a termination payment from the relevant Swap Provider may reduce the funds available to the Guarantor, which may adversely affect the ability of the Guarantor to meet its obligations under the Covered Bond Guarantee.

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 the Canadian Deposit Offering Rate for Canadian Dollar deposits (**CDOR**) having the relevant maturity 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 Swap Agreement may affect the Guarantor's ability to make payments under the Covered Bond Guarantee with respect to the Covered Bonds. The Covered Bond Swap Provider will however 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, although no assurance can be given that such collateral would be sufficient to fully recover on the Covered Bond Swap Provider's obligations under the Covered Bond Swap Agreement, including any termination payments.

The Guarantor and the Covered Bondholders place significant reliance on the Bank in connection with the multiple roles of the Bank under the Transaction Documents 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. Prior to the occurrence of a Managing GP Default Event, subject to the occurrence of certain events, the Bank has the ability to control the Guarantor through its control 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 Seller of assets to the Portfolio, (a) 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 their Related Security, which data is also provided to third parties in their respective functions under the Program, and (b) is obligated in certain circumstances to repurchase Loans and their Related Security from the Guarantor. See *Overview of the Principal Documents—Mortgage Sale Agreement—Repurchase of Loans*.

The Bank, as Cash Manager, has, (a) prior to the earlier of (i) its credit rating falling below any of the threshold ratings of (x) P-2 (cr) (in respect of Moody's), (y) F2 (in respect of Fitch), and (z) BBB (low) (in respect of DBRS), as applicable, of the counterparty risk assessment, in the case of Moody's, the issuer default rating in the case of Fitch and the unsecured, unsubordinated and unguaranteed long term debt obligations in the case of DBRS, in each case, of the Cash Manager by the Rating Agencies (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, and (b) the obligation to identify Non-Performing Loans for purposes of performing the Asset Coverage Test, the Amortisation Test and the Valuation Calculation from time to time. 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 their Related Security, continue to service and administer the Loans and their Related Security until revocation of the relevant authority by the Guarantor.

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 replacement Cash Manager that meets the Cash Manager Required Ratings. See *Overview of the Principal Documents—Cash Management Agreement*.

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 agreements 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) which could in turn affect the ability of the Bank and/or the Guarantor to make payments on the Covered Bonds. 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 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 effect on the realisable 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 (other than ratings requirements which, if not satisfied, will require the replacement of the Bank unless the Guarantor is Independently Controlled and Governed) 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.

Further, the Bank will act in its own interests under the Program which may be adverse to the investors' interests as holders of the Covered Bonds. See—*Risks Relating To The Bank—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*.

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 Terms and 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.

6. RISKS RELATING TO STRUCTURAL AND DOCUMENTATION CHANGES

Modifications, waivers and substitution under the Covered Bonds may, in certain circumstances, be made without consent of the Covered Bondholders

The Terms and 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. An individual Covered Bondholder may not be in a position to affect the outcome of the resolutions adopted by the meetings of Covered Bondholders.

The Terms and Conditions of the Covered Bonds also provide that the Bond Trustee may, without the consent of Covered Bondholders, (a) agree to any modification, waiver or authorisation of any breach, or proposed breach, of any of the provisions of the Covered Bonds, (b) determine that any Issuer Event of Default or Guarantor Event of Default will not be treated as such, (c) agree to the substitution of another company as principal debtor under any Covered Bonds in place of the Bank or the Guarantor, or (d) agree to 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. Any such changes made by the Bond Trustee without the consent of the Covered Bondholders may result in a lower than expected return on the Covered Bonds and may negatively affect the market value of the Covered Bonds.

Covered Bondholders will be deemed to have consented to certain modifications to the Transaction Documents unless at least 10 per cent. of the aggregate Principal Amount Outstanding of the relevant Series of Covered Bonds have notified their objection to the Bond Trustee in writing.

In addition to the right of the Bond Trustee to make certain modifications to the Transaction Documents without the consent of the holders of the Covered Bonds described under "*Modifications, waivers and substitution under the Covered Bonds may, in certain circumstances, be made without consent of the Covered Bondholders*", the Bond Trustee shall, without any consent or sanction of any of the holders of the Covered Bonds or any of the other Secured Creditors, concur with the Bank in making any modification (other than a Series Reserved Matter) to the Trust Deed, the Conditions or any other Transaction Document

to which it is a party or in relation to which it holds security for the purpose of changing the Reference Rate to an Alternative Base Rate as further described in Condition 14 (*Meetings of Covered Bondholders, Modification, Waiver and Substitution*) for the relevant Series of Covered Bonds (and such other amendments as are necessary or advisable in the reasonable judgment of the Bank to facilitate such change) to the extent there has been or there is reasonably expected to be a material disruption or cessation to LIBOR, EURIBOR or any other relevant benchmark, provided that such amendments will not constitute a Series Reserved Matter and, in each case subject to the satisfaction of certain requirements, including receipt by the Bond Trustee of a Base Rate Modification Certificate, certifying, among other things, that the modification is required for its stated purpose.

The Bank must provide at least 30 days' notice to the holders of the relevant Covered Bonds of the proposed modification in accordance with Condition 14 (*Meetings of Covered Bondholders, Modification, Waiver and Substitution*) and by publication on Bloomberg on the "Company News" screen relating to the Covered Bonds. If, within 30 days from the giving of such notice, holders of the Covered Bonds representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the relevant Series of Covered Bonds have notified the Bank or the Issuing and Paying Agent in writing (or otherwise in accordance with the then current practice of any applicable Clearing System through which such Covered Bonds may be held) that such holders of the Covered Bonds do not consent to the modification, then such modification will not be made unless an Extraordinary Resolution of the Covered Bondholders of the relevant Series is passed in favour of the Base Rate Modification in accordance with Condition 14 (*Meetings of Covered Bondholders, Modification, Waiver and Substitution*). However, in the absence of such a notification, all Covered Bondholders will be deemed to have consented to such modification and the Bond Trustee shall, subject to the requirements of Condition 14 (*Meetings of Covered Bondholders, Modification, Waiver and Substitution*), without seeking further consent or sanction of any of the holders of the Covered Bonds and irrespective of whether such modification is or may be materially prejudicial to the interest of the holders of the Covered Bonds as a class, concur with the Bank in making the proposed modification.

Therefore, it is possible that a modification to the Reference Rate (and as otherwise described above) could be made without the vote of any holders of the relevant Series of Covered Bonds or even if holders of such Series of Covered Bonds holding less than 10 per cent. of the aggregate Principal Amount Outstanding of the relevant Series of Covered Bonds objected to it. In addition, holders of the Covered Bonds should be aware that, unless they have made arrangements to promptly receive notices sent to Covered Bondholders from any custodians or other intermediaries through which they hold their Covered Bonds and give the same their prompt attention, meetings may be convened or resolutions (including Extraordinary Resolutions) may be proposed, considered and passed or rejected, or deemed to be passed or rejected, without their involvement. This is the case even if, were such holders to have been promptly informed by such custodians or other intermediaries as aforesaid, they would have voted in a manner contrary to that of the holders of the Covered Bonds which passed or rejected the relevant proposal or resolution.

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 Bond Trustee's powers may affect the interests of the holders of the Covered Bonds

In the exercise of its powers, trusts, authorities and discretions, the Bond Trustee will only have regard to the interests of the holders of the Covered Bonds. In the exercise of its powers, trusts, authorities and discretions, the Bond Trustee may not act on behalf of the Bank. 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 holders of the Covered Bonds 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 by Extraordinary Resolution of such holders of the relevant Series of Covered Bonds then outstanding or by a direction in writing of such holders of the Covered Bonds representing at least 25 per cent. of the Principal Amount Outstanding of Covered Bonds of the relevant Series then outstanding.

The Bond Trustee is not obligated to serve an Issuer Acceleration Notice on the Bank upon an Issuer Event of Default or a Notice to Pay on the Guarantor, or to seek enforcement of the provisions of the Trust Deed on the Covered Bonds, except if so directed by the holders of the Covered Bonds. Accordingly, the powers of the Bond Trustee may adversely affect the investors' interests in the Covered Bonds.

7. MACROECONOMIC AND MARKET RISKS

The Covered Bonds may have no established trading market when issued and there is no assurance that an active and liquid secondary market will develop or, if developed, continues 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 realise 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

No assurance is given that there is 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 or, if developed, continue. The Covered Bonds have not been, and will not be, registered under the Securities Act or the securities laws or "blue sky" laws of any state or other jurisdiction of the United States and are subject to certain restrictions on resale and other transfers therefor as set forth under *Subscription and Sale and Transfer and Selling Restrictions*. Any secondary market that develops 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 realise a desired yield.

The results of the United Kingdom's referendum on withdrawal from the European Union may have a negative effect on global financial markets and economic conditions, which may in turn affect the Bank's business.

The relationship between the United Kingdom and the European Union may affect the business of the Bank,

the ability of the Bank to satisfy its obligations under the Covered Bonds and/or the market value and/or liquidity of the Covered Bonds in the secondary market. On 23 June 2016, the UK held a referendum to decide on its membership in the European Union. The resulting vote was to leave the EU and the UK government invoked Article 50 of the Lisbon Treaty relating to the withdrawal on 29 March 2017. This commenced the formal two-year process (although this has subsequently been extended three times) of negotiations regarding the terms of the withdrawal and the framework of the future relationship between the UK and the European Union (the **Article 50 withdrawal agreement**).

Under the terms of the ratified Article 50 withdrawal agreement, a transition period commenced which will last until 31 December 2020. During this period, most European Union rules and regulations will continue to apply to the UK and negotiations in relation to a free trade agreement will be ongoing. Under the Article 50 withdrawal agreement, the transition period could have, prior to 1 July 2020, been extended once by up to two years, but on 12 June 2020, the UK formally confirmed that it would not seek an extension and this position was formally accepted by the EU. While this does not entirely remove the prospect that the transition period will be further extended (for example, it could be achieved under a new treaty which deals solely with an extension), the likelihood of a further extension is significantly reduced and the risk is increased that by 31 December 2020 no trade agreement on the future relationship between the UK and the European Union is reached at all or a significantly narrower agreement is reached than that envisaged by the political declaration by the European Commission and the UK Government.

The European Union and the UK Government have continued preparations for a "hard" Brexit (or "no-trade deal" Brexit) to minimise the risks for firms and businesses associated with an exit without agreement as to the EU-UK future trade relationship at the end of the transition period. This has included the UK Government publishing further draft secondary legislation under powers provided in EUWA to ensure that there are functioning statutes at the end of the transition period. Due to the ongoing political uncertainty as regards the structure of the future relationship, it is not possible to determine the precise impact this may have on the business of the Bank or any other party to the Transaction Documents. However, these uncertainties have had and may continue to have an adverse effect on global financial markets, including additional market volatility, and may adversely affect global economic conditions more generally. Such effects could in turn adversely affect the Bank's business, financial condition and results of operations.

The market continues to develop in relation to SONIA as a reference rate for Floating Rate Covered Bonds

Where the relevant Final Terms Document for a Series of Floating Rate Covered Bonds identifies that the Rate of Interest for such Covered Bonds will be determined by reference to the Sterling Overnight Index Average (**SONIA)**, the Rate of Interest will be determined on the basis of Compounded Daily SONIA (as defined in the Conditions). Compounded Daily SONIA differs from Sterling LIBOR in a number of material respects, including (without limitation) that Compounded Daily SONIA is a backwards-looking, compounded, risk-free overnight rate, whereas Sterling LIBOR is expressed on the basis of a forward-looking term and includes a credit risk-element based on inter-bank lending. As such, investors should be aware that Sterling LIBOR and Compounded Daily SONIA may behave materially differently as interest reference rates for Floating Rate Covered Bonds. The use of Compounded Daily SONIA as a reference rate for Eurobonds is nascent, and is subject to change and development, both in terms of the substance of the calculation and in the development and adoption of market infrastructure for the issuance and trading of bonds referencing Compounded Daily SONIA.

Accordingly, prospective investors in any Covered Bonds referencing Compounded Daily SONIA should be aware that the market continues to develop in relation to SONIA as a reference rate in the capital markets and its adoption as an alternative to Sterling LIBOR. For example, in the context of backwards-looking SONIA rates, market participants and relevant working groups are currently assessing the differences

between compounded rates and weighted average rates, and such groups are also exploring forward-looking 'term' SONIA reference rates (which seek to measure the market's forward expectation of an average SONIA rate over a designated term). The adoption of SONIA may also see component inputs into swap rates or other composite rates transferring from Sterling LIBOR or another reference rate to SONIA.

The market or a significant part thereof may adopt an application of SONIA that differs significantly from that set out in the Conditions and used in relation to Floating Rate Covered Bonds that reference a SONIA rate as described in this Prospectus. Furthermore, the Issuer may in the future issue Covered Bonds referencing SONIA that differ materially in terms of interest determination when compared with any previous SONIA-referenced Covered Bonds issued by it under the Program. Equally in such circumstances, it may be difficult for the Guarantor to find a required replacement Swap Provider in the future to properly hedge its then interest rate exposure on such a Floating Rate Covered Bond should a Swap Provider need to be replaced and such Floating Rate Covered Bond at that time uses an application of SONIA that then differs from products then prepared to be hedged by such Swap Providers. The development of Compounded Daily SONIA as an interest reference rate for the Eurobond markets, as well as continued development of SONIA-based rates for such market and the market infrastructure for adopting such rates, could result in reduced liquidity or increased volatility or could otherwise affect the market price of any SONIA-referenced Covered Bonds issued under the Program from time to time.

Furthermore, the Rate of Interest on Covered Bonds which reference Compounded Daily SONIA is only capable of being determined at the end of the relevant observation period and immediately or shortly prior to the relevant Interest Payment Date. It may be difficult for investors in Covered Bonds which reference a SONIA rate to reliably estimate the amount of interest which will be payable on such Covered Bonds, and some investors may be unable or unwilling to trade such Covered Bonds without changes to their information technology systems, both of which factors could adversely affect the liquidity of such Covered Bonds. Further, in contrast to LIBOR-based Covered Bonds, if the Floating Rate Covered Bonds referencing Compounded Daily SONIA become due and payable under Condition 9 (*Events of Default, Acceleration and Enforcement*), the Rate of Interest payable shall be determined on the date the Covered Bonds became due and payable and shall not be reset thereafter.

In addition, the manner of adoption or application of SONIA reference rates in the Eurobond markets may differ materially compared with the application and adoption of SONIA in other markets, such as the derivatives and loan markets. Investors should carefully consider how any mismatch between the adoption of SONIA reference rates across these markets may impact any hedging or other financial arrangements which they may put in place in connection with any acquisition, holding or disposal of Covered Bonds referencing Compounded Daily SONIA.

Investors should carefully consider these matters when making their investment decision with respect to any such Floating Rate Covered Bonds.

SOFR May be More Volatile Than Other Benchmark or Market Rates

Since the initial publication of SOFR, daily changes in SOFR have, on occasion, been more volatile than daily changes in other benchmark or market rates, such as USD LIBOR. Although changes in Compounded SOFR generally are not expected to be as volatile as changes in daily levels of SOFR, the return on and value of the Covered Bonds may fluctuate more than floating rate securities that are linked to less volatile rates. In addition, the volatility of SOFR has reflected the underlying volatility of the overnight U.S. Treasury repo market. The Federal Reserve Bank of New York has at times conducted operations in the overnight U.S. Treasury repo market in order to help maintain the federal funds rate within a target range. There can be no assurance that the Federal Reserve Bank of New York will continue to conduct such operations in the future, and the duration and extent of any such operations is inherently uncertain. The

effect of any such operations, or of the cessation of such operations to the extent they are commenced, is uncertain and could be materially adverse to investors in the Covered Bonds.

Any Failure of SOFR to Gain Market Acceptance Could Adversely Affect the Covered Bonds

According to the ARRC, SOFR was developed for use in certain U.S. dollar derivatives and other financial contracts as an alternative to USD LIBOR in part because it is considered a good representation of general funding conditions in the overnight U.S. Treasury repurchase agreement market. However, as a rate based on transactions secured by U.S. Treasury securities, it does not measure bank-specific credit risk and, as a result, is less likely to correlate with the unsecured short-term funding costs of banks. This may mean that market participants would not consider SOFR a suitable replacement or successor for all of the purposes for which USD LIBOR historically has been used (including, without limitation, as a representation of the unsecured short-term funding costs of banks), which may, in turn, lessen market acceptance of SOFR. Any failure of SOFR to gain market acceptance could adversely affect the return on and value of any SOFR-referenced Covered Bonds and the price at which investors can sell such Covered Bonds in the secondary market.

In addition, if SOFR does not prove to be widely used as a benchmark in securities that are similar or comparable to the Covered Bonds, the trading price of SOFR-referenced Covered Bonds may be lower than those of securities that are linked to rates that are more widely used. Similarly, market terms for floating-rate debt securities linked to SOFR, such as the spread over the base rate reflected in interest rate provisions or the manner of compounding the base rate, may evolve over time, and trading prices of SOFR-referenced Covered Bonds may be lower than those of later-issued SOFR-based debt securities as a result. Investors in SOFR-referenced Covered Bonds may not be able to sell such Covered Bonds at all or may not be able to sell such Covered Bonds at prices that will provide them with a yield comparable to similar investments that have a developed secondary market, and may consequently suffer from increased pricing volatility and market risk.

The Interest Rate on SOFR-Referenced Covered Bonds is Based on a Compounded SOFR Rate and the SOFR Index, which may not be widely adopted and may adversely affect the market value of SOFR-Referenced Covered Bonds

For each Interest Period, the interest rate on SOFR-referenced Covered Bonds is based on Compounded SOFR, which is calculated using the SOFR Index published by the Federal Reserve Bank of New York according to the specific formula described under "*Terms and Conditions of the Covered Bonds—Interest on Floating Rate Covered Bonds—Rate of Interest—Screen Rate Determination for Floating Rate Covered Bonds—SOFR*", not the SOFR rate published on or in respect of a particular date during such Interest Period or an arithmetic average of SOFR rates during such period. For this and other reasons, the interest rate on SOFR-referenced Covered Bonds during any Interest Period will not necessarily be the same as the interest rate on other SOFR-linked investments that use an alternative basis to determine the applicable interest rate. Further, if the SOFR rate in respect of a particular date during an Interest Period is negative, its contribution to the SOFR Index will be less than one, resulting in a reduction to the Compounded SOFR used to calculate the interest payable on SOFR-referenced Covered Bonds on the Interest Payment Date for such Interest Period.

Very limited market precedent exists for securities that use SOFR as the referenced interest rate and the method for calculating an interest rate based upon SOFR in those precedents varies. In addition, the Federal Reserve Bank of New York only began publishing the SOFR Index on 2 March 2020. Accordingly, the use of the SOFR Index or the specific formula for the Compounded SOFR rate to be used in the Covered Bonds may not be widely adopted by other market participants, if at all. If the market adopts a different calculation method, that would likely adversely affect the market value of SOFR-referenced Covered Bonds.

Compounded SOFR with Respect to a Particular Interest Period Will Only be Capable of Being Determined Near the End of the Relevant Interest Period

The level of Compounded SOFR applicable to a particular Interest Period and, therefore, the amount of interest payable with respect to such Interest Period will be determined on the Interest Determination Date for such Interest Period. Because each Interest Determination Date is near the end of such Interest Period, investors will not know the amount of interest payable with respect to a particular Interest Period until shortly prior to the related Interest Payment Date and it may be difficult for investors to reliably estimate the amount of interest that will be payable on each such Interest Payment Date. In addition, some investors may be unwilling or unable to trade SOFR-referenced Covered Bonds without changes to their information technology systems, both of which could adversely affect the liquidity and trading price of such Covered Bonds.

The SOFR Index May be Modified or Discontinued, which Could Adversely Affect the Value of SOFR-Referenced Covered Bonds

The SOFR Index is published by the Federal Reserve Bank of New York based on data received by it from sources other than the Bank, and the Bank has no control over its method of calculation, publication schedule, rate revision practices or availability of the SOFR Index at any time. There can be no guarantee, particularly given its relatively recent introduction, that the SOFR Index will not be discontinued or fundamentally altered in a manner that is materially adverse to the interests of investors in SOFR-referenced Covered Bonds. If the manner in which the SOFR Index is calculated, including the manner in which SOFR is calculated, is changed, that change may result in a reduction in the amount of interest payable on SOFR-referenced Covered Bonds and the trading prices of such Covered Bonds. In addition, the Federal Reserve Bank of New York may withdraw, modify or amend the published SOFR Index or SOFR data in its sole discretion and without notice. The interest rate for any Interest Period will not be adjusted for any modifications or amendments to the SOFR Index or SOFR data that the Federal Reserve Bank of New York may publish after the interest rate for that Interest Period has been determined.

8. LEGAL AND REGULATORY RISKS

The principal and material legal and regulatory risks in relation to the Bank and its businesses are set out in the "*Enterprise-Wide Risk Management—Legal and Regulatory Risk*" section of the Bank's 2019 MD&A and the "*Risk Management—Top and Emerging Risks that May Affect Future Results*" section in the Bank's Second Quarter 2020 MD&A, which are incorporated in this Prospectus by reference.

Bankruptcy or Insolvency of the Seller, the Guarantor or counterparties may adversely affect the ability of the Bank or the Guarantor to make payments on the Covered Bonds

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 (**CDIC**), appointed as receiver pursuant to the CDIC Act, or any liquidator or other stakeholder of the Seller, could attempt to re-characterise 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 Stand-By 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.

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), 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 large, payments of interest on and principal of the Covered Bonds may be reduced or delayed.

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 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 the 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 realisation 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.

The Bank's ability to realise on the security on the Loans and their Related Security may be affected by regulatory guidelines

Guideline B-20—Residential Mortgage Underwriting Practices and Procedures (**Guideline B-20**), published by OSFI in June 2012, updated in November 2014 and further updated on 1 January 2018, 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, assessment of borrowers' capacity to service their debt obligations, collateral management and appraisal processes and credit and counterparty risk management practices and procedures by the Seller. The Bank is currently compliant with Guideline B-20.

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 realises upon the security it has on the Loans and their 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 prohibit the receipt of interest above certain thresholds and any provisions for the payment of interest or a redemption amount above these thresholds may not be enforceable

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 per cent.). 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 per cent. This may prohibit the payment of interest on or the redemption of the Covered Bonds and may adversely affect the return on such Covered Bonds.

Changes of law, including applicable banking, bankruptcy and income tax laws and NHA regulations and policies may affect the Covered Bonds, the Covered Bond Guarantee, the Bank and/or the Guarantor

The structure of the issuance of 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. Any change to these laws, including the NHA and the regulations and policies thereunder with respect to CMHC guidelines (including the CMHC Guide), 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, may 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.

Regulatory treatment of Covered Bonds (including Basel III)

In Europe, the United States and elsewhere, there is significant focus on fostering greater financial stability through increased regulation of financial institutions, and their corresponding capital and liquidity positions. This has resulted in a number of regulatory initiatives which are currently at various stages of implementation and which may have an impact on the regulatory position for certain investors in covered bond exposures and/or on the incentives for certain investors to hold covered bonds, and may thereby affect the liquidity of such securities. Investors in the Covered Bonds are responsible for analysing their own regulatory position and none of the Issuer, the Guarantor, the Lead Managers or the Arrangers makes any representation to any prospective investor or purchaser of the Covered Bonds regarding the treatment of their investment on the closing date, each Issue Date or at any time in the future.

The Basel Committee on Banking Supervision (the **BCBS**) has approved a series of significant changes to the Basel regulatory capital and liquidity framework (such changes being referred to by the BCBS as **Basel III**). Basel III provides for a substantial strengthening of existing prudential rules, including new requirements intended to reinforce capital standards (with heightened requirements for global systemically important banks) and to establish a leverage ratio "backstop" for financial institutions and certain minimum liquidity standards (referred to as the **Liquidity Coverage Ratio** and the **Net Stable Funding Ratio**). BCBS member countries agreed to implement the initial phase of the Basel III reforms from 1 January 2013 and the second phase from 1 January 2022, subject to transitional and phase-in arrangements for certain requirements. As implementation of Basel III requires national legislation, the final rules and the timetable for its implementation in each jurisdiction, as well as the treatment of covered bonds, may be subject to some level of national variation. It should be noted that changes to regulatory capital requirements have been made for insurance and reinsurance undertakings through participating jurisdiction initiatives, such as the Solvency II framework in Europe.

Prospective investors should therefore make themselves aware of the requirements described above (and any corresponding implementing rules of their regulator), where applicable to them, in addition to any other applicable regulatory requirements with respect to their investment in the Covered Bonds. No predictions can be made as to the precise effects of such matters on any investor or otherwise.

It should also be noted that at the end of 2019, the European Parliament and the Council of the European Union finalised the legislative package on covered bond reforms made up of a new covered bond directive (Directive (EU) 2019/2162) and a new regulation (Regulation (EU) 2019/2160), which came into force on 7 January 2020 with a deadline for application of 8 July 2022 (both texts have relevance for the EEA and are to be implemented in due course in the countries in the EEA, and, for these purposes, the EEA includes the UK). The new covered bond directive replaces current article 52(4) of the UCITS Directive, establishes

a revised common base-line for issue of covered bonds for EU regulatory purposes (subject to various options that Member States may choose to exercise when implementing the new directive through national laws). The new regulation will be directly applicable in the EU (and, for these purposes, the EU or an EU Member State includes the UK) from 8 July 2022 and it amends article 129 of the Capital Requirements Regulation (**CRR**) (and certain related provisions) and further strengthens the criteria for covered bonds that benefit from preferential capital treatment under the CRR regime. Given that the aspects of the new regime will require transposition through national laws, the final position is not yet known. Therefore, there can be no assurances or predictions made as to the precise effect of the new regime on the Covered Bonds.

Eligibility with Eurosystem, the Bank of England and the Federal Reserve

The Covered Bonds may be recognisable as eligible collateral for the monetary policy of the European Central Bank's liquidity scheme (**Eurosystem**) and intra-day credit operations by Eurosystem either at issuance or at any or all times during their life if the Issuer and the specific issuer criteria are met at the time an application for eligibility is made. Although covered bonds generally fall within a recognisable asset class for Eurosystem eligible collateral, in any particular case, such recognition will depend upon satisfaction of the Eurosystem eligibility criteria at the relevant time. Investors should make their own assessment as to whether or not the Covered Bonds meet such Eurosystem eligibility criteria.

As at the date of this Prospectus, the Covered Bonds are not recognised as eligible collateral (or recognised to fall into any specific category of eligible collateral) for purposes of monetary policy and intra-day credit operations by the Bank of England or the Federal Reserve either upon issue or at any or all times while any Covered Bonds are outstanding, and there is no guarantee that any of the Covered Bonds will be so recognised at a future date.

Eurosystem eligibility and/or eligibility with the Bank of England or the Federal Reserve may affect the marketability of the Covered Bonds. Failure of the Covered Bonds to be recognized as Eurosystem eligible collateral or as eligible collateral by the Bank of England or the Federal Reserve may adversely affect the secondary market for or the market value of such Covered Bonds. Any potential investor in Covered Bonds should make its own determinations and seek its own advice with respect to whether or not the Covered Bonds constitute Eurosystem eligible collateral and/or eligible collateral in respect of the Bank of England's and the Federal Reserve's monetary and liquidity policies.

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 and the Guarantor is an Ontario limited partnership. Substantially all of the Bank's directors and executive officers, and all or a substantial portion of the Bank's assets, the Guarantor's assets and the assets of such persons are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon such persons, or to realise 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 the investors 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. Based on the foregoing, it may not be possible for U.S. investors to enforce against the Bank any judgments obtained in U.S. courts in civil and commercial matters, including judgments under the U.S. federal securities laws.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published or are published simultaneously with this Prospectus and as of the date of this Prospectus have been filed with the Financial Conduct Authority (the **FCA**) shall be deemed to be incorporated in, and to form part of, this Prospectus:

(1) the Bank's annual information form dated 3 December 2019 (the **2019 AIF**);

(2) the audited consolidated financial statements of the Bank, which comprise the consolidated balance sheets as at 31 October 2019 and 31 October 2018, the consolidated statements of income, comprehensive income, changes in equity and cashflows for each of the years in the three-year period ended 31 October 2019 (the **2019 Financial Statements**), together with the independent auditors' report thereon and the auditors' report on internal control over financial reporting as of 31 October 2019 under Standards of the Public Company Accounting Oversight Board (United States);

(3) management's discussion and analysis of the Bank for the year ended 31 October 2019 (the **2019 MD&A**);

(4) the report on Form 40-F filed with the United States Securities and Exchange Commission (the **SEC**) pursuant to the Securities Exchange Act 1934 (the **Exchange Act**), in respect of the Bank's fiscal year ended 31 October 2019;

(5) the reports on Form 6-K filed by the Bank with the SEC on 25 February 2020 (Film No. 20650395) and on 27 May 2020 (Film No. 20915084) (which includes the second quarter 2020 report to shareholders published on 27 May 2020, which is unaudited (the **Second Quarter 2020 Report**) pursuant to the Exchange Act;

(6) management's discussions and analysis for the three-month and six-month periods ended 30 April 2020 (the "**Second Quarter 2020 MD&A**");

(7) the Investor Report prepared by the Cash Manager with the Calculation Date 30 June 2020;

(8) the section entitled "Terms and Conditions of the Covered Bonds" set out in the Bank's prospectus in connection with the Program dated 22 April 2014 at pages 93 through 135, comprising the terms and conditions at the time of issuance applicable to the Covered Bonds issued pursuant to such prospectus, the remainder of such prospectus is either not relevant for prospective investors or is covered elsewhere in this Prospectus and is not incorporated by reference;

(9) the section entitled "Terms and Conditions of the Covered Bonds" set out in the Bank's prospectus in connection with the Program dated 26 June 2015 at pages 95 through 137, comprising the terms and conditions at the time of issuance applicable to the Covered Bonds issued pursuant to such prospectus, the remainder of such prospectus is either not relevant for prospective investors or is covered elsewhere in this Prospectus and is not incorporated by reference;

(10) the section entitled "Terms and Conditions of the Covered Bonds" set out in the Bank's prospectus in connection with the Program dated 16 August 2016 at pages 98 through 140, comprising the terms and conditions at the time of issuance applicable to the Covered Bonds issued pursuant to such prospectus, the remainder of such prospectus is either not relevant for prospective investors or is covered elsewhere in this Prospectus and is not incorporated by reference;

(11) the section entitled "Terms and Conditions of the Covered Bonds" set out in the Bank's prospectus in connection with the Program dated 17 October 2017 at pages 110 through 155, comprising the terms and conditions at the time of issuance applicable to the Covered Bonds issued pursuant to such prospectus, the remainder of such prospectus is either not relevant for prospective investors or is covered elsewhere in this Prospectus and is not incorporated by reference;

(12) the section entitled "Terms and Conditions of the Covered Bonds" set out in the Bank's prospectus in connection with the Program dated 23 October 2018 at pages 116 through 166, comprising the terms and conditions at the time of issuance applicable to the Covered Bonds issued pursuant to such prospectus, the remainder of such prospectus is either not relevant for prospective investors or is covered elsewhere in this Prospectus and is not incorporated by reference; and

(13) the section entitled "Terms and Conditions of the Covered Bonds" set out in the Bank's prospectus in connection with the Program dated 16 July 2019 at pages 116 through 166, comprising the terms and conditions at the time of issuance applicable to the Covered Bonds issued pursuant to such prospectus, the remainder of such prospectus is either not relevant for prospective investors or is covered elsewhere in this Prospectus and is not incorporated by reference,

provided that any statement contained in a document all or the relative portion of which is incorporated by reference shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein or in any supplement hereto, including any document incorporated therein by reference, modifies or supersedes such earlier statement (whether expressly, by implication or otherwise).

Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

When only certain parts of certain documents are incorporated by reference, the non-incorporated parts of those documents are either not relevant for investors or are addressed elsewhere in the Prospectus.

Copies of this Prospectus and any supplementary prospectus and the documents incorporated by reference in this Prospectus and any supplementary prospectus can be obtained on written request and without charge from (i) the website of the Regulatory News Service operated by the London Stock Exchange at http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html under "Bank of Montreal" and the headline "Publication or Prospectus" and (ii) the specified office in London, England of The Bank of New York Mellon, London Branch, the Issuing and Paying Agent, and (iii) can be obtained without charge at the Corporate Secretary's Office of the Bank, 100 King Street West, 1 First Canadian Place, 21st Floor, Toronto, Ontario, Canada, M5X 1A1.

The financial information of the Bank incorporated by reference or otherwise contained in this Prospectus has been prepared in accordance with IFRS, as issued by the IASB.

The Bank and the Guarantor will, in the event of any significant new factor, material mistake or inaccuracy relating to the information included in this Prospectus, including the documents which are deemed to be incorporated herein by reference, which is capable of affecting the assessment of any Covered Bonds, prepare a supplement to this Prospectus or publish a new Prospectus in accordance with the Prospectus Regulation for use in connection with any subsequent issue of Covered Bonds. The Bank will undertake to the relevant Dealer(s) in the Dealership Agreement that it will comply with Section 87G of the FSMA.

OVERVIEW OF THE PROGRAM

This section is an overview and does not describe every aspect of the Covered Bonds. This section provides an overview of the material terms of the Covered Bonds that are common to all Series of Covered Bonds and which are more fully described elsewhere in this Prospectus. References to "Conditions" in this overview refer to the Terms and Conditions of the Covered Bonds described in this Prospectus. This overview 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 overview, the meaning of only some of the more important terms is described. This overview is also subject to and qualified by reference to the description of the particular terms of the Series or Tranche described in the applicable Final Terms Document (or, in the case of Exempt Covered Bonds, the applicable Pricing Supplement).

Issuer	Bank of Montreal (the **Bank**), with Legal Entity Identifier (**LEI**) Number NQQ6HPCNCCU6TUTQYE16. For a more detailed description of the Bank, see *Bank of Montreal*.
Guarantor	BMO Covered Bond Guarantor Limited Partnership. For a more detailed description of the Guarantor, see *The Guarantor*.
Arrangers.....	Bank of Montreal, London Branch and Barclays Capital Inc.
Dealers.....	Bank of Montreal, London Branch, BMO Capital Markets Corp., Barclays Bank PLC, Barclays Capital Inc. and any other dealer appointed from time to time by the Bank in respect of the Program or in relation to a particular Series or Tranche of Covered Bonds.
Seller.....	The Bank, any New Seller or other Limited Partner, who may from time to time accede to and sell 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.
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	The Bank of New York Mellon, London Branch acting through its offices located at One Canada Square, 48th Floor, London E14 4AL, United Kingdom.

U.S. Registrar, Issuing and Paying Agent, Transfer Agent and Exchange Agent	The Bank of New York Mellon, acting through its offices located at 101 Barclay Street 4E, New York, NY 10286, USA.
European Registrar and Transfer Agent……...	The Bank of New York Mellon (Luxembourg) S.A, acting through its offices located at Vertigo Building – Polaris, 2-4 rue Eugene Ruppert, L-2453 Luxembourg, R.C. Luxembourg No. B 67.654.
Bond Trustee	Computershare Trust Company of Canada, acting through its offices located at 100 University Avenue, 11th Floor, Toronto, Ontario, Canada M5J 2Y1. For a more detailed description of the Trust Deed, see *Overview of the Principal Documents—Trust Deed*. For a more detailed description of the Security Agreement, see *Overview of the Principal Documents—Security Agreement*.
Cover Pool Monitor	KPMG LLP, acting through its offices at Bay Adelaide Centre, 333 Bay Street, Suite 4600, Toronto, Ontario, Canada M5H 2S5. For a more detailed description of the Cover Pool Monitor Agreement, see *Overview of the Principal Documents—Cover Pool Monitor Agreement*.
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.
Stand-By Account Bank	Royal Bank of Canada, acting through its offices at Royal Bank Plaza, South Tower, 200 Bay Street, Toronto, Ontario, Canada M5J 2J5. For a more detailed description of the Bank Account Agreement, see *Overview of the Principal Documents—Bank Account Agreement*.
Stand-By GDA Provider	Royal Bank of Canada, acting through its offices at Royal Bank Plaza, South Tower, 200 Bay Street, Toronto, Ontario, Canada M5J 2J5.
Intercompany Loan Provider	The Bank, acting through its main branch in Toronto.

Program Size	U.S.$30 billion (or its equivalent in other currencies) aggregate principal amount of Covered Bonds issued and outstanding at any time as described herein. The Bank and the Guarantor may increase the Program Size in accordance with the terms of the Dealership Agreement and applicable regulatory requirements.
Legislative Framework.....	The legislative framework established by Part I.1 of the NHA, including the CMHC Guide.
Issuance of Series	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. 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 NHA.
Currency and Denomination.....	Subject to any applicable legal or regulatory restrictions, such currency or currencies as may be agreed from time to time by the Bank and the relevant Dealer(s) (as set out in the applicable Final Terms Document or Pricing Supplement, as the case may be). Covered Bonds will be issued in denominations of not less than €100,000 (or, if in another currency, not less than the equivalent of €100,000).
Maturities	Such maturities as may be agreed between the Bank and the relevant Dealer(s) or Covered Bondholders, as the case may be, and as indicated in the applicable Final Terms Document or Pricing 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.
Form of the Covered Bonds	The Covered Bonds will be issued in bearer or registered form as described in *Form of the Covered Bonds*. Registered Covered Bonds will not be exchanged for Bearer Covered Bonds and vice versa.
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	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 relevant Dealer(s) and on redemption and will be calculated on the basis of such day count basis as may be agreed between the Bank and the relevant Dealer(s) as set out in the applicable Final Terms Document or Pricing Supplement, *provided* that if an Extended Due for Payment Date is specified in the applicable Final Terms Document or Pricing Supplement, interest following the Original Due for Payment Date 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 4.1 (*Interest on Fixed Rate Covered Bonds*) (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 as described in *Terms and Conditions of the 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 relevant Dealer(s), as set out in the applicable Final Terms Document or Pricing Supplement.
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 Final Terms Document or Pricing 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 Pre-Maturity Test will 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 below the Pre-Maturity Required Ratings.
Rating Agency Condition	Any issuance of Covered Bonds will be conditional upon satisfaction of the Rating Agency Condition.
Listing	Application has been made for Covered Bonds issued under the Program (excluding any Exempt Covered Bonds) to be listed on the London Stock Exchange.

Exempt Covered Bonds may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Bank and the relevant Dealer(s) in relation to the Series. Exempt Covered Bonds which are neither listed nor admitted to trading on any market may also be issued.

The applicable Final Terms Document will state that the relevant Covered Bonds (other than Exempt Covered Bonds) are to be admitted to the official list of the FCA and to London Stock Exchange plc for such Covered Bonds to be admitted to trading on the London Stock Exchange's Regulated Market.

The applicable Pricing Supplement (in the case of Exempt Covered Bonds) will state whether or not the relevant Exempt Covered Bonds are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.

Redemption ..... The applicable Final Terms Document or the Pricing 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 and 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 Covered Bondholders, 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 relevant Dealer(s) (as set out in the applicable Final Terms Document or Pricing Supplement).

Early redemption will be permitted for taxation reasons and illegality as described in Condition 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 Final Terms Document or Pricing Supplement.

Extendable obligations under the Covered Bond Guarantee ..... The applicable Final Terms Document or Pricing Supplement may 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 the Final Maturity Date (subject to applicable grace periods) may be deferred until the Extended Due for Payment Date.

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 funds 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 moneys 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*) and 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 made by the Bank or the Guarantor in respect of Covered Bonds or 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 is required by law. In the event that any such withholding or deduction is required of the Bank by or on behalf of Canada or any province, territory or political division thereof or any authority or agency therein or thereof having the power to tax or, in the case of Covered Bonds issued by a branch of the Issuer located outside of Canada, by the country in which such branch is located or any political subdivision thereof or any authority or agency therein or thereof having the power to tax, the Bank will (in accordance with Condition 7 (*Taxation*)) pay such additional amounts as will result in the Covered Bondholders receiving such amounts as they would have received in respect of the Covered Bonds had no such withholding or deduction been required. Under the Covered Bond Guarantee, the Guarantor will not be liable to pay any additional amounts as a consequence of any applicable withholding or deduction for, or on account of, taxes required by law from a payment by the Guarantor under the Covered Bond Guarantee, including such additional amounts which may become payable by the Bank under Condition 7 (*Taxation*).

	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, cashflow, 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 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 capitalisation rules contained in subsection 18(4) of the ITA), such interest may be subject to Canadian non-resident withholding tax. A **specified shareholder** of the Bank is a person who owns, or is deemed to own, alone or together with persons with whom that person does not deal at arm's length, shares entitled to 25 per cent. or more of the votes that could be cast at an annual shareholders' meeting or shares having a fair market value of 25 per cent. or more of the fair market value of all the issued and outstanding shares of the Bank. Special rules, which are not discussed in this summary, may apply to a non-Canadian Holder that is an insurer that carries on an insurance business in Canada and elsewhere. Additional opinions from Canadian tax counsel may be required. See the discussion under the caption *Certain Tax Legislation Affecting the Covered Bonds—Canadian Taxation*.
ERISA	In general, Covered Bonds 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 *ERISA and Certain Other U.S. Employee Benefit Plan 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. If an Issuer Acceleration Notice is served in respect of any Series of Covered Bonds, all outstanding Covered Bonds issued under the Program will accelerate against the Bank but will be subject to, and have the benefit of, the Guaranteed Amounts under the Covered Bond Guarantee.
Status of the Covered Bonds	The Covered Bonds will constitute deposit liabilities of the Bank for purposes of the Bank Act; however, the Covered

	Bonds will not be insured under the CDIC Act, and will constitute legal, valid and binding direct, unconditional, unsubordinated and unsecured obligations of the Bank and rank *pari passu* with all deposit liabilities of the Bank without any preference among themselves and at least *pari passu* with all other unsubordinated and unsecured obligations of the Bank, present and future (except as prescribed by law).
Governing Law and Jurisdiction.....	The Covered Bonds and the Transaction Documents will be governed by, and construed in accordance with, the laws of the Province of Ontario and the federal laws of Canada applicable therein. 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 Final Terms Document or Pricing 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* which (but only in the case of Exempt Covered Bonds) may be supplemented, modified or replaced in the relevant Pricing Supplement.
Clearing System	The Covered Bonds will be eligible to clear through any of the Clearing Systems as indicated in the applicable Final Terms or Pricing Supplement. It is anticipated that Regulation S Covered Bonds and Rule 144A Covered Bonds (denominated in a currency other than U.S. dollars) will clear through Euroclear and/or Clearstream, Luxembourg and that U.S. dollar denominated Rule 144A Covered Bonds (other than U.S. dollar denominated Rule 144A Covered Bonds held by the Common Safekeeper) will clear through DTC (together with Clearstream, Luxembourg and Euroclear, the **Clearing Systems**). Covered Bonds may be cleared through a Clearing System or, particularly in the case of Definitive Covered Bonds, may not be cleared through any Clearing System. Covered Bonds may also be cleared through a clearing system other than the Clearing Systems, as may be agreed between the Bank, the Bond Trustee and the Issuing and Paying Agent in relation to each issue. The applicable Final Terms or Pricing Supplement relating to each Tranche of the Covered Bonds will state whether or not the Covered Bonds are to be cleared and, if so, through which clearing system.
Selling Restrictions.....	There will be specific restrictions on offers, sales and deliveries of Covered Bonds and on the distribution of

offering material in the United States, Canada, Japan, the European Economic Area (including the United Kingdom, the Netherlands, the Republic of Italy, Germany, the Republic of France, Denmark, Sweden and Spain), Australia, Switzerland, Hong Kong and Singapore, 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 Final Terms Document or Pricing Supplement. See *Subscription and Sale and Transfer and Selling Restrictions* herein.

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 Event 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 all of its present and future acquired assets, including the Portfolio, in favour of the Bond Trustee (for itself and on behalf of the other Secured Creditors) pursuant to the terms of the Security Agreement.

Intercompany Loan ..... Under the terms of the Intercompany Loan Agreement, the Bank will make available to the Guarantor an interest-bearing Intercompany Loan, comprising 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 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 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 Loans and their Related Security from the Seller.

The balance of the Guarantee Loan and the Demand Loan will be disclosed in each Investor Report. For a more detailed description of the Intercompany Loan, see *Overview of the Principal Documents—Intercompany Loan Agreement*.

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 overcollateralisation for the Covered Bonds in excess of the amount of then outstanding Covered Bonds (see *Overview 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, repay or re-borrow any amount repaid by the Guarantor under the Intercompany Loan for a permitted purpose provided that, 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.

For a more detailed description of the Demand Loan, see *Overview of the Principal Documents—Intercompany Loan Agreement*.

The Proceeds of the Intercompany Loan..... The Guarantor used the initial advance under 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 has used, and may use, additional Advances:

(a) to purchase additional 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 under the CMHC Guide; and/or

(c) subject to complying with the Asset Coverage Test and the CMHC Guide, to make Capital Distributions to the Limited Partner; and/or

(d) 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 Contributions ..... The Limited Partner may from time to time make Capital Contributions to the Guarantor including Capital Contributions of Loans and their Related Security. The Managing GP and the Liquidation GP respectively hold 99 per cent. and 1 per cent. of the 0.05 per cent. general partner interest in the Guarantor. The Limited Partner holds the substantial economic interest in the Guarantor (99.95 per cent.).

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.

For a more detailed description of the Interest Rate Swap Agreement, see *Overview of the Principal Documents—Interest Rate 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 has entered 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.

For a more detailed description of the Covered Bond Swap Agreement, see *Overview of the Principal Documents—Covered Bond Swap Agreement*.

BANK OF MONTREAL

Name and Incorporation

Charter and Head Office

The Bank started business in Montréal 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* (Canada) (the **Bank Act**), and is named in Schedule I of the Bank Act. The Bank Act is the charter of the Bank and governs its operations.

The Bank's head office is 129 rue Saint Jacques, Montréal, Québec, Canada H2Y 1L6. Its executive offices are 100 King Street West, 1 First Canadian Place, Toronto, Ontario, Canada M5X 1A1.

Principal Activities and Markets

BMO Financial Group is a highly diversified financial services provider based in North America. The Bank offers a broad range of products and services directly and through Canadian and non-Canadian subsidiaries, offices, and branches. As at 31 October 2019, the Bank had more than 12 million customers and more than 45,000 full-time equivalent employees. The Bank has approximately 1,500 bank branches in Canada and the United States and operates internationally in major financial markets and trading areas through its offices in a number of jurisdictions around the world. BMO Financial Corp. (**BFC**) is based in Chicago and wholly-owned by the Bank. BFC operates primarily through its subsidiary BMO Harris Bank N.A. (**BHB**), which provides banking, financing, investing, and cash management services in select markets in the United States. 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., the Bank's wholly-owned registered securities dealer in the United States.

The Bank conducts business through three operating groups: Personal and Commercial Banking (**P&C**), made up of Canadian P&C and U.S. P&C; BMO Wealth Management; and BMO Capital Markets. Canadian P&C operates across Canada, providing customers with a wide range of products and services, including banking, lending, treasury management and everyday financial and investment advice to the Bank's personal and commercial clients. Operating predominately in the U.S. Midwest under the BMO Harris brand, U.S. P&C offers personal and commercial clients banking, lending, and treasury management products and services. BMO Wealth Management offers client-focused investment, wealth management and financial services and solutions from mainstream to ultra-high net worth and institutional, with a broad offering of wealth management products and services, including insurance. BMO Wealth Management is a global business with an active presence in markets across Canada, the United States, Europe, the Middle East and Africa (**EMEA**) and Asia. BMO Capital Markets is a North American based financial services provider offering a complete range of products and services to corporate, institutional and government clients. These include equity and debt underwriting, institutional sales and trading, corporate lending and project financing, mergers and acquisitions advisory services, securitization, treasury management, risk management and equity and fixed income research. Corporate Services consists of Corporate Units and Technology and Operations (**T&O**). Corporate Units provide enterprise-wide expertise, governance and support in a variety of areas, including strategic planning, risk management, finance, legal and regulatory compliance, human resources, communications, marketing, real estate, procurement, data and analytics, and innovation. T&O develops, monitors, manages and maintains governance of information technology, and also provides cyber security and operations services. For additional information regarding the Bank's businesses, see pages 15, 20, and 32 to 51 of the 2019 MD&A and Note 25 to the 2019 Financial Statements and pages 19 to 29 of the Second Quarter 2020 Report, which are incorporated by reference herein.

General Bank Matters

Competition

Canada's financial services industry is highly competitive. It includes 37 domestic banks and 50 foreign bank subsidiaries, branches, and lending branches, as well as a multitude of trust companies, credit unions, online and full-service brokerages, investment dealers, life and property and casualty insurance companies, mutual fund dealers, and large monoline financial institutions, among others. The Bank competes with most of these companies in some form in its different businesses. However, the Bank's range of services compares to those of the other five major Canadian banks, and they are the Bank's direct competitors in almost all its businesses and markets in Canada. The Bank was the fourth largest chartered bank in Canada as measured by assets, equity, and market capitalisation as at 31 October 2019. In North America, the Bank is the eighth largest bank by assets, tenth largest by equity and by market capitalization as at 31 October 2019. The Bank is the second largest Canadian bank as measured by retail branches in Canada and the United States.

The financial services industry continues to operate in a highly competitive and rapidly changing environment. Non-traditional entrants and competitors have continued to gain momentum in certain segments of banking, in some cases with reduced regulatory requirements and oversight, and are deepening their connections with banks, in order to enhance their products and build customer relationships. New entrants may leverage new technologies, advanced data and analytical tools, lower costs to serve and/or faster processes to challenge traditional banks, including new business models in retail payments, consumer and commercial lending, foreign exchange and low-cost investment advisory services. Failure to keep pace with these new technologies and competition may potentially impact the Bank's overall revenues and earnings if customers choose the services of these new market entrants. Traditional competitors therefore continue to invest in innovative technologies that allow them to focus on differentiating the customer experience by leveraging new technologies, products and services to meet their clients' evolving needs and goals, and technology will continue to play a leading role in delivering exceptional experiences for all of the Bank's customers, while enhancing the efficiency of its operations. This includes improving its mobile and internet banking capabilities, building new branch formats, and refining its decisioning, analytic and modelling data and tools and, where appropriate, bringing new and enhanced customer solutions to market. The Bank further mitigates this risk by providing its customers with access to banking services across different channels, focusing on improving customer loyalty and trust, enhancing its advanced data and analytical tools, and leveraging current and future partnerships in order to deliver an exceptional customer experience with reduced costs and simplified processes. However, matching the pace of innovation exhibited by new and differently-situated competitors may require the Bank and policy-makers to adapt at a faster pace. The competitive environment and changing client preferences will also continue to exert pressure on fees for products and services.

The six major banks play a prominent role in the Canadian banking system, each maintaining an extensive and evolving branch network, augmented by automated banking machines, as well as telephone, internet, and mobile banking systems. The industry is considered mature with moderate growth, supported by an overall focus on productivity, investments in infrastructure and technology integration. Although the major banks offer similar products and services, they compete on offerings, pricing, service models and technology, as well as entering into partnerships and alliances, with a goal of gaining a strategic advantage and serving customers better. Increased competition is also evident in the drive for scale and operating efficiencies.

The Bank's Canadian P&C banking business is one of the top five in Canada in all core product areas, providing a full range of lending, deposit and treasury management products and services to eight million customers. Canadian P&C continues to focus on strengthening customer loyalty in order to generate growth

in a competitive environment, as well as increasing digital capabilities to augment the customer experience. Personal Banking provides customers with a wide range of products and services, including chequing and savings accounts, credit cards, mortgages and everyday financial and investment advice. The Bank's employees are focused on providing exceptional service to all of its customers every time they interact with the Bank.

Canadian P&C's award winning[1] commercial bank possesses a strong competitive position in commercial lending, with a number two market share for business loans of up to $25 million. Commercial Banking provides small business and commercial banking customers with a broad suite of commercial products and services, including business deposit accounts, commercial credit cards, business loans and commercial mortgages, cash management solutions, foreign exchange and specialised banking programs. The Bank's commercial bankers partner with the Bank's customers to help them grow and manage their business.

In Canada, BMO Wealth Management competes with domestic banks, insurance companies, trust companies, global private banks, investment counselling firms, and mutual fund companies. BMO Wealth Management's Canadian businesses have strong brand recognition and market position. BMO Private Wealth offers a comprehensive range of client-focused investment, wealth advisory and financial services and solutions through BMO Nesbitt Burns Inc.'s direct brokerage and the award winning BMO Private Bank[2]. BMO InvestorLine provides a range of digital investment services that compete effectively with online brokerages and digital advice providers. In the United States, BMO Wealth Management competes primarily in U.S. personal wealth and asset management, with the Bank's strategic presence in the Chicago and Milwaukee area and in select high-growth wealth markets across the country. In EMEA and Asia, BMO Wealth Management competes primarily in asset management through BMO Global Asset Management. BMO Mutual Funds and BMO Exchange Traded Funds offer clients innovative investment solutions across a range of channels.

BMO Capital Markets operates in a highly competitive environment and its businesses face a diverse range of competitors. With approximately 2,800 professionals in 33 locations around the world, including 19 offices in North America, BMO Capital Markets works proactively with clients to provide innovative ideas and tailored financial solutions. Its success is based on a highly integrated, client-focused North American capital markets business with a well-diversified platform and business mix – by sector, geography, product and currency. This includes a strong, scalable and relevant U.S. business and strong risk management and regulatory compliance practices.

Competition in the United States is more complex than in Canada, given the market's size and activity, as well as personal and commercial banking competitors at the community, regional, and national level, plus other financial service providers. The U.S. P&C business operates in a rapidly changing environment and is primarily based in eight states (Illinois, Wisconsin, Missouri, Indiana, Minnesota, Kansas, Arizona and Florida). In addition, the Bank's commercial business provides targeted nationwide coverage for key specialty sectors and has offices in select regional markets. The environment for growing the Bank's personal and commercial banking environment remains highly competitive, and the declining interest rate environment will result in added pressure on both margins and customer acquisition. Personal and commercial deposits are expected to grow modestly as interest rates trend lower. The Bank continues to monitor the competitive landscape in order to effectively price its products and services and invest in building a seamless human-digital interface in banking, enabling its customers to bank whenever and however they want. Peer-leading performance in the Bank's commercial lending business has allowed it to build a strong presence in its diversified and specialized sectors and establish a position of strength in its core footprint and chosen markets. In the Bank's personal lending business, it is focused on improving

[1] In 2019, the Bank was named the Best Commercial Bank in Canada by World Finance Magazine for the fifth consecutive year.
[2] BMO Private Banking was named Best Private Bank in Canada by World Finance for the ninth consecutive year.

efficiency in order to create a better experience for its customers and bankers. The personal and commercial businesses are well equipped and remain committed to pursuing a customer-focused growth strategy with an emphasis on high-growth sectors, increasing the Bank's share in new markets and deepening the Bank's relationships with existing customers.

Consolidation has been underway in the financial services industry in Canada and the United States in recent years. This affects trust companies, mutual fund managers, life insurers, and credit unions. Canadian federal government policy discourages large banks from merging. It is uncertain whether this will change in the near future but further consolidation and increased competition in the financial services industry overall is likely.

Supervision and Regulation in Canada

The Bank's activities in Canada are governed by the *Bank Act* (Canada).

Under the Bank Act, a bank can operate its regular banking business as well as some additional activities, such as dealing with real property and various financial technology and information services. A bank is restricted when it undertakes certain activities, including fiduciary activities, dealing in securities, insurance activities, and personal property leasing. For example, other than for authorised types of insurance, a bank may not offer insurance products through its branch system or bank website.

The Bank Act grants a bank broad power to invest in the securities of other corporations and entities, but limits substantial investments. Under the Bank Act, a bank generally has a substantial investment in a body corporate when (1) the bank and entities controlled by the bank beneficially own more than 10 per cent. of the voting shares of the body corporate or (2) the bank and entities controlled by the bank beneficially own shares representing more than 25 per cent. of the total shareholders' equity of the body corporate. A bank can have a substantial investment in entities that meet the substantial investment requirements as set out in Part IX of the Bank Act. In certain cases, the Minister of Finance or the Superintendent of Financial Institutions (Canada) (the **Superintendent**) must approve before making an investment.

The Superintendent is responsible to the Minister of Finance for administering the Bank Act. The Superintendent provides guidelines for disclosing a bank's financial information. The Superintendent must also examine each bank annually to ensure compliance with the Bank Act and that each bank is in sound financial condition. The Superintendent's examination report is submitted to the Minister of Finance.

The Bank's Canadian trust, loan and insurance subsidiaries are federally regulated financial institutions governed by the Trust and Loan Companies Act (Canada) and the Insurance Companies Act (Canada), respectively, and under provincial laws in respect of their activities in the provinces. The Bank and its Canadian trust, loan and insurance subsidiaries are also subject to regulation by the Financial Consumer Agency of Canada ("FCAC"). The FCAC enforces consumer-related provisions of the federal statutes which govern these financial institutions. Certain activities of the Bank and its subsidiaries acting as securities brokers, dealers, underwriters, advisors and investment fund managers are regulated in Canada under provincial securities legislation and, in some cases, by a self-regulatory organization (the Investment Industry Regulatory Organization of Canada or the Mutual Fund Dealers Association of Canada).

Under Canadian bank resolution powers, the CDIC may, in circumstances where the Bank has ceased, or is about to cease, to be viable, assume temporary control or ownership of the Bank and may be granted broad powers by one or more orders of the Governor in Council (Canada), including the power to sell or dispose of all or a part of the assets of the Bank, and the power to carry out or cause the Bank to carry out a transaction or a series of transactions the purpose of which is to restructure the business of the Bank. As part of the Canadian bank resolution powers, certain provisions of, and regulations under the Bank Act, the

CDIC Act and certain other Canadian federal statutes pertaining to banks (collectively, the bail-in regime) provide for a bank recapitalization regime for banks designated by the Superintendent as domestic systemically important banks. Effective 23 September 2018, under the bail-in regime, subject to an order of the Governor in Council (Canada) having been issued, CDIC may, having assumed temporary control or ownership of the Bank, amongst other actions, carry out a conversion, by converting or causing the Bank to convert, in whole or in part – by means of a transaction or series of transactions and in one or more steps – the shares and liabilities of the Bank that are subject to the bail-in regime into common shares of the Bank or any of its affiliates. Certain debt obligations of the Bank, such as certain structured notes, covered bonds (as defined in section 21.5 of the National Housing Act (Canada)), including the Covered Bonds issued by the Bank under this Program, and certain derivatives would not be subject to a bail-in conversion.

Additional information about supervision and regulation in Canada is under the headings "Regulatory Capital Requirements" and "Capital Regulatory Developments" in the Enterprise-Wide Capital Management section on pages 59 to 65, "Regulatory Requirements" in the Risks That May Affect Future Results section on page 68, "Regulatory Developments" in the Liquidity and Funding Risk section on page 91, and "Legal and Regulatory Risk" on pages 103 to 104 of the 2019 MD&A, as well as under the heading "Capital Management" on pages 15 to 18 of the Second Quarter 2020 MD&A.

Supervision and Regulation in the United States

In the United States, the operations of the Bank and its subsidiaries are supervised, regulated, and examined by regulatory and government agencies at the federal and state level. As a foreign bank, the Bank is subject to various U.S. laws and regulations, including the United States International Banking Act of 1978, the United States Bank Holding Company Act of 1956, and related regulations. The Board of Governors of the Federal Reserve System, including the Federal Reserve Banks (the **Federal Reserve**), and state banking regulators oversee the Bank's branch and office operations in the United States. The U.S. Securities and Exchange Commission (the **SEC**), the Financial Industry Regulatory Authority, and state securities regulators regulate broker-dealer subsidiaries. The SEC and state securities regulators regulate registered investment advisor subsidiaries.

The Bank and its subsidiaries own two Federal Deposit Insurance Corporation (**FDIC**) insured depository institutions in the United States, BMO Harris Bank N.A. and BMO Harris Central N.A. BMO Harris Bank N.A. provides banking, financing, investing, and cash management services in select markets in the U.S. Midwest. BMO Harris Central N.A. provides limited cash management services. They are subject to examination by the Office of the Comptroller of the Currency (**OCC**). The Federal Reserve generally needs to approve acquiring (a) more than 5 per cent. of voting shares, (b) control, or (c) all (or substantially all) of the assets of a bank holding company, bank, or savings association.

The Bank is also subject to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the **Dodd-Frank Act**). Dodd-Frank Act reforms include heightened consumer protection, revised regulation of over-the-counter derivatives markets, restrictions on proprietary trading and the ownership and sponsorship of private investment funds by banks and their affiliates (referred to as the **Volcker Rule**), imposition of heightened prudential standards, and broader application of leverage and risk-based capital requirements.

The Federal Reserve Board's rule for strengthening supervision and regulation of foreign banking organizations (the **FBO Rule**) implements the Dodd-Frank Act's enhanced prudential standards for the United States operations of non-United States banks, such as the Bank. The FBO Rule established new requirements relating to an intermediate holding company structure, risk-based capital and leverage requirements, capital stress testing requirements, United States risk management and risk governance, liquidity risk management and liquidity stress testing frameworks. The Bank has certified its compliance with this rule. In May 2018, the U.S. Congress passed the Economic Growth, Regulatory Relief, and

Consumer Protection Act (**EGRRCP**), which made reforms to the Dodd-Frank Act, including raising the threshold for heightened prudential standards from US$50 billion to US$250 billion in total consolidated assets. The Federal Reserve in October 2019 issued final rules that modify capital and liquidity requirements, single counterparty credit limits, and enhance prudential standards for bank holding companies and foreign banking organizations. EGRRCP rulemaking will likely continue for at least the next year and may impact our U.S. operations, including with respect to any changes to the FBO Rule.

The OCC has issued guidelines that establish heightened standards for large national banks with average total consolidated assets of US$50 billion or more, including BHB. The guidelines set out minimum standards for the design and implementation of a bank's risk governance framework and minimum standards for oversight of that framework by a bank's board of directors. The framework must ensure the bank's risk profile is easily distinguished and separate from that of its parent for risk management purposes. A bank's board of directors is responsible for informed oversight of, and providing credible challenge to, management's risk management recommendations and decisions. The Bank complies with these guidelines.

Additional information about supervision and regulation in the United States is found under the headings "Regulatory Capital Requirements" and "Capital Regulatory Developments" in the Enterprise-Wide Capital Management section on pages 59 to 65, "Regulatory Requirements" in the Risks That May Affect Future Results section on page 68, and "Legal and Regulatory Risk" on pages 103 to 104 of the 2019 MD&A.

International Supervision and Regulation

Outside Canada and the United States, each of the Bank's branches, agencies and subsidiaries must comply with the regulatory requirements of the country or jurisdiction where it conducts business. These include the Basel Committee on Banking Supervision capital, liquidity and prudential rules (**Basel III**), or local variations on Basel III, which are intended to strengthen the banking sector's capital and liquidity frameworks. Since the first quarter of 2013, regulatory capital requirements for the Bank have been determined on a Basel III basis.

Additional information about international supervision and regulation is found under the headings "Regulatory Capital Requirements", "Regulatory Capital Ratios", "Regulatory Capital Elements" and Capital Regulatory Developments" in the Enterprise-Wide Capital Management section on pages 59 to 65, "Regulatory Requirements" in the Risks That May Affect Future Results section on page 68, and "Legal and Regulatory Risks" on pages 103 to 104 of the 2019 MD&A.

Organisational Structure

As at 31 October 2019, the Bank, either directly or indirectly through its subsidiaries, controls the following significant operating subsidiaries:

Significant subsidiaries[3]	Head or principal office	Book value of shares owned by the Bank as at 31 October 2019 (Canadian $ in millions)
Bank of Montreal Capital Markets (Holdings) Limited and subsidiaries, including:	London, England	364
BMO Capital Markets Limited	London, England	
Pyrford International Limited	London, England	

[3] **Each subsidiary is incorporated or organized under the law of the state or country in which the principal office is situated, except for (a) BMO Financial Corp., BMO Asset Management Corp., BMO Capital Markets Corp., BMO Harris**

Bank of Montreal (China) Co. Ltd.	Beijing, China	449
Bank of Montreal Europe plc[4]	Dublin, Ireland	1,042
Bank of Montreal Holding Inc. and subsidiaries, including:	Toronto, Canada	31,175
Bank of Montreal Mortgage Corporation	Calgary, Canada	
BMO Mortgage Corp.	Vancouver, Canada	
BMO Investments Limited	Hamilton, Bermuda	
BMO Reinsurance Limited	St. Michaels, Barbados	
BMO Nesbitt Burns Holdings Corporation	Toronto, Canada	
BMO Nesbitt Burns Inc.	Toronto, Canada	
BMO Investments Inc.	Toronto, Canada	
BMO InvestorLine Inc.	Toronto, Canada	
BMO Financial Corp. and subsidiaries, including:	Chicago, United States	21,893
BMO Asset Management Corp. and subsidiaries	Chicago, United States	
BMO Capital Markets Corp.	New York, United States	
BMO Family Office, LLC[5]	Palo Alto, United States	
BMO Harris Bank National Association and subsidiaries, including:	Chicago, United States	
BMO Harris Investment Company LLC.	Las Vegas, United States	
BMO Harris Financial Advisors, Inc.	Chicago, United States	
BMO Harris Financing, Inc. and subsidiaries	Chicago, United States	
BMO Global Asset Management (Europe) Limited and subsidiaries, including:	London, England	677
BMO Asset Management (Holdings) plc and subsidiaries	London, England	
BMO Life Insurance Company and subsidiaries, including:	Toronto, Canada	1,285
BMO Life Holdings (Canada), ULC	Halifax, Canada	
BMO Life Assurance Company	Toronto, Canada	
BMO Trust Company	Toronto, Canada	774
BMO Trustee Asia Limited	Hong Kong, China	2
LGM (Bermuda) Limited and subsidiaries, including:	Hamilton, Bermuda	154
BMO Global Asset Management (Asia) Limited	Hong Kong, China	
LGM Investments Limited	London, England	

Issuer Ratings

The following table sets out ratings the Bank has received for its outstanding securities from the rating agencies, which are current to the date of this Prospectus.

	DBRS Limited	**Standard & Poor's Rating Services**	**Moody's Investors Service, Inc.**	**Fitch Ratings Inc.**
	Rating	**Rating**	**Rating**	**Rating**
Short-term instruments	R-1 (high)	A-1	P-1	F1+

Financial Advisors, Inc., BMO Harris Financing, Inc., and BMO Family Office, LLC, which are incorporated under the laws of the State of Delaware, United States, and (b) BMO Asset Management (Holdings) plc, which is incorporated under the laws of Scotland.

[4] **Effective 2 September 2019, Bank of Montreal Ireland Public Limited Company changed its name to Bank of Montreal Europe plc.**

[5] **Effective 1 January 2019, CTC MyCFO, LLC changed its name to BMO Family Office, LLC.**

Senior debt[1]	AA (low)	A-	A2	AA-
Long Term Deposits & Legacy Senior Debt[2]	AA	A+	Aa2	AA
Subordinated debt	A (high)	A-	Baa1	A
Subordinated debt – NVCC[3]	A (low)	BBB+	Baa1(hyb)	A
Preferred shares	Pfd-2 (high)	BBB	Baa3	N/A
Preferred Shares – NVCC[3]	Pfd-2	BBB-	Baa3(hyb)	N/A
Trend/Outlook	Stable	Stable	Stable	Negative

Notes:

[1] Subject to conversion under the bank recapitalization "bail-in" regime.

[2] Long Term Deposits / Legacy Senior Debt Includes: (a) Senior debt issued prior to 23 September 2018; and (b) Senior debt issued on or after 23 September 2018 which is excluded from the bank recapitalization "bail-in" regime.

[3] Non-viability contingent capital or NVCC.

See Appendix II of the 2019 AIF incorporated by reference into this Prospectus for an explanation of the credit ratings referred to above. Further information may be obtained from the applicable rating agency.

The credit ratings that external rating agencies assign to some of the Bank's securities are important in the raising of both capital and funding to support its business operations. Maintaining strong credit ratings allows the Bank to access the capital markets at competitive pricing levels. Should the Bank's credit ratings experience a downgrade, its cost of funds will likely increase and the Bank's access to funding and capital through capital markets could be reduced. A material downgrade of the Bank's ratings could have other consequences, including those set out in Note 8 of the 2019 Financial Statements on page 162 of the Annual Report to Shareholders and under the heading "Credit Rating" on page 42 of the Bank's Second Quarter 2020 Report to Shareholders.

Credit ratings are not recommendations to purchase, hold or sell securities and do not address the market price or suitability of a specific security for a particular investor. Credit ratings may not reflect the potential impact of all risks on the value of securities. In addition, real or anticipated changes in the rating assigned to a security will generally affect the market value of that security. The Bank cannot know for certain that a rating will remain in effect for any given period of time or that a rating agency will not revise or withdraw it entirely in the future.

The Bank paid fees to credit agencies to obtain its credit ratings. The Bank may also pay fees for other services from credit agencies in the ordinary course of business.

Each of Fitch Ratings, Inc., Moody's Investors Service, Inc., DBRS Limited and Standard & Poor's Ratings Services is not established in the European Union or the United Kingdom and has not applied for registration under the CRA Regulation. The ratings have been endorsed by Fitch Ratings Ltd., Moody's Investors Service Ltd. and DBRS Ratings Limited, respectively, in accordance with the CRA Regulation. Each of Fitch Ratings Ltd., Moody's Investors Service Ltd. and DBRS Ratings Limited is established in either the European Union or the United Kingdom and registered under the CRA Regulation. As such, each of Fitch Ratings Ltd., Moody's Investors Service Ltd. and DBRS Ratings Limited is included in the list of credit rating agencies published by the European Securities and Markets Authority (the **ESMA**) on its website in accordance with the CRA Regulation. The ESMA has indicated that ratings issued in Canada which have been endorsed by Fitch Ratings Ltd., Moody's Investors Service Ltd. and DBRS Ratings Limited, respectively, may be used in the EU and the UK by the relevant market participants.

Financial Summary

Other than the ratio of earnings to fixed charges, the information in the tables below has been extracted from the Bank's unaudited consolidated financial statements as at and for the six month period ended 30 April 2020 and the Bank's audited consolidated financial statements as at and for the year ended 31 October 2019 with comparative consolidated financial statements as at and for the year ended 31 October 2018, prepared in accordance with IFRS as issued by the IASB, which are incorporated herein by reference together with the accompanying notes and auditors' report.

Condensed Consolidated Balance Sheet

	As at *30 April 2020**	As at *31 October 2019*	As at *31 October 2018*
	(in millions of Canadian dollars)		
Assets			
Cash & Cash Equivalents	71,593	48,803	42,142
Interest Bearing Deposits with Banks	7,687	7,987	8,305
Securities	213,908	189,438	180,935
Securities Borrowed or Purchased under Resale Agreements	119,058	104,004	85,051
Loans (net of allowance for credit losses)	468,943	426,094	383,991
Other Assets	105,878	75,869	72,869**
Total Assets	987,067	852,195	773,293**
Liabilities			
Deposits	653,710	568,143	520,928**
Other Liabilities	270,779	225,981	199,862**
Subordinated Debt	7,344	6,995	6,782
Total Liabilities	931,833	801,119	727,572
Equity			
Common shares	13,000	12,971	12,929
Preferred shares	5,348	5,348	4,340
Contributed surplus	301	303	300
Retained earnings	29,426	28,725	25,850**
Accumulated other comprehensive income	7,159	3,729	2,302
Non-controlling interest in	0	0	0

subsidiaries			
Total Equity	55,234	51,076	45,721**
Total Liabilities and Equity	987,067	852,195	773,293**

***** Unaudited. Effective 1 November 2019, the Bank adopted IFRS 16, *Leases*, which provides guidance whereby lessees are required to recognize a liability for the present value of future lease payments and record a corresponding asset on the balance sheet for most leases. On transition, the Bank recognized the cumulative effect of adoption of IFRS 16 in opening retained earnings with no changes to prior periods. Refer to Note 1 in the Bank's Second Quarter 2020 Report for further details on adoption of IFRS 16.

**Certain comparative figures have been reclassified to conform with the current period's presentation.

Condensed Consolidated Statement of Income

	Six months ended *30 April 2020**	Year ended *31 October 2019****	Year ended *31 October 2018*
	(in millions of Canadian dollars, except earnings per share amounts)		
Net Interest Income	6,906	12,888	11,438**
Non-Interest Revenue	5,105	12,595	11,467**
Total Revenue	12,011	25,483	22,905**
Provision for Credit Losses	1,467	872	662
Insurance Claims, Commissions and Changes in Policy Benefit Liabilities	519	2,709	1,352
Non-Interest Expense	7,185	14,630	13,477**
Provision for Income Taxes	559	1,514	1,961**
Net Income	2,281	5,758	5,453**
Attributable to:			
Bank Shareholders	2,281	5,758	5,453**
Non-controlling interest in subsidiaries	0	0	0
Earnings per Share			
- Basic	3.38	8.68	8.19
- Diluted	3.37	8.66	8.17

***** Unaudited.

**Certain comparative figures have been reclassified to conform with the current period's presentation.

***Effective the first quarter of 2019, the Bank retrospectively adopted IFRS 15, *Revenue from contracts with customers* (IFRS 15). Under IFRS 15, the primary impact is the reclassification of amounts within the Consolidated Statement of Income. As a result, loyalty rewards and cash promotion costs on cards previously recorded in non- interest expense are presented as a reduction in non-interest revenue. In addition, when customers reimburse us for certain out-of-pocket expenses incurred on their behalf, we will record the reimbursement in non-interest revenue. Previously, these reimbursements were recorded as a reduction in the related expense. These is also minimal impact to net income resulting from the fact that IFRS 15 does not require discounting of loyalty reward liabilities and we will amortize costs to obtain card customers, which were previously expensed as incurred.

Trend Information

Canada faces an unprecedented contraction in the first half of 2020, like most economies, due to business closures and containment measures required to suppress the outbreak of COVID-19. Low energy prices will deepen the downturn in the oil-producing regions. Activity is expected to partially recover in the second half of 2020 as businesses gradually re-open, supported by substantial fiscal policy stimulus amounting to over 8% of GDP and an expected improvement in oil prices arising from crude output reductions in major producing nations. The economic outlook depends critically on the assumption that the number of new coronavirus cases subsides to manageable levels by late spring, allowing social distancing measures to relax and business activity to gradually resume. After slowing to a 1.6% rate in 2019, real GDP is expected to contract 6.0% in 2020, before rebounding 6.0% in 2021. The unemployment rate, which had fallen to a near half-century low of 5.5% prior to the outbreak, could stay in the mid-teens or higher for a few months, before declining to an average of 7.5% in 2021. Government income-support measures should offset most of the lost wages in the second quarter of 2020. Due to high unemployment and low inflation, the overnight policy rate is expected to stay near zero until at least 2022. The Canadian dollar is projected to remain weak until the COVID-19 pandemic subsides, before rising moderately in response to higher resource prices and less safe-haven demand for U.S. dollars. Although consumer spending will contract sharply in 2020, the impact on industry-wide consumer credit balances will be at least partly offset by government relief programs, payment deferrals and higher utilization rates on revolving products. Mortgage balances will also come under pressure amid declining home sales in the first half of 2020, though the impact is expected to be tempered by payment deferrals. Mortgage demand should improve in the second half of 2020 with support from low interest rates. Weaker business investment will depress industry-wide business loan demand in 2020, with some offset from the increased need to cover expenses during the shutdowns.

After growing 2.3% in 2019, the U.S. economy is expected to contract 5.0% in 2020, the most in the post-war era, before rebounding 5.0% in 2021. The recovery will be supported by unprecedented fiscal policy support amounting to over 10% of GDP. After reaching a 50-year low of 3.5% prior to the outbreak, the unemployment rate is expected to remain near the mid-teens or higher in the near term, before declining to an average of approximately 6% in 2021. The Federal Reserve reduced policy rates by 150 basis points in March 2020, and it is expected to keep rates close to zero until at least 2022 to sustain the recovery and return inflation to the 2% target. A sharp decline in consumer spending is expected to slow industry-wide consumer credit growth this year, while demand for residential mortgages will likely moderate alongside home sales. Declining business investment will reduce industry-wide commercial loan growth, but business credit should improve alongside the broader economy. The coronavirus pandemic subjects the economic outlook to a high degree of uncertainty and risks.

Directors

The Directors of the Bank, their function in the Bank and their other principal activities (if any) outside of the Bank are of significance to the Bank and are as follows:

Name and Municipality of Residence	Principal Activities
Janice M. Babiak Franklin, Tennessee, U.S.A.	Corporate Director
Sophie Brochu Bromont, Québec, Canada	President and Chief Executive Officer, Énergir, a diversified energy company

Name and Municipality of Residence	Principal Activities
Craig Broderick Greenwich, Connecticut, U.S.A.	Senior Director, Goldman, Sachs & Co., a financial services company
George A. Cope, O.C. Toronto, Ontario, Canada	President and Chief Executive Officer, BCE Inc. and Bell Canada, communications companies
Christine A. Edwards Chicago, Illinois, U.S.A.	Capital Partner, Winston & Strawn LLP, a law firm
Martin S. Eichenbaum Glencoe, Illinois, U.S.A.	Charles Moskos Professor of Economics, Northwestern University
Ronald H. Farmer Markham, Ontario, Canada	Managing Director, Mosaic Capital Partners, a management and holding company
David Harquail Toronto, Ontario, Canada	Chief Executive Officer, Franco-Nevada Corporation, a royalty and streaming company active in both the mining and oil & gas industries
Linda Huber New York City, New York, U.S.A.	Corporate Director
Eric R. LaFlèche Montreal, Québec, Canada	President and Chief Executive Officer, Metro Inc., a food retailer and distributor
Lorraine Mitchelmore Calgary, Alberta, Canada	Corporate Director
Darryl White Toronto, Ontario, Canada	Chief Executive Officer, BMO Financial Group

The business address of all of the Directors is the executive offices of the Bank, 100 King Street West, 1 First Canadian Place, 21st Floor, Toronto, Ontario, Canada, M5X 1A1. No directors hold executive positions with the Bank other than as shown above.

As at the date of the Prospectus, there are no potential conflicts of interest between any duties owed to the Bank by the Directors and the private interests and/or other duties owed by these individuals. If a Director

had a material interest in a matter being considered by the Board or its Committees, such Director would not participate in any discussions relating to, or any vote on, such matter.

Major Shareholders

To the extent known to the Bank, the Bank is not directly or indirectly owned or controlled by any person. The Bank Act restricts the beneficial ownership of shares of a bank. No person may be a major shareholder of a bank if the bank has equity of $12 billion or more, which applies to the Bank. A major shareholder is defined as a person, or group of persons under common control or acting jointly or in concert, that beneficially owns more than 20 per cent. of any class of voting shares or more than 30 per cent. of any class of non-voting shares of the bank.

In addition, no person may have a significant interest in any class of shares of a bank, including the Bank, unless the person first receives the approval of the Minister of Finance of Canada. A person has a significant interest in a class of shares of a bank when the person or group of persons under common control or acting jointly or in concert, beneficially owns more than 10 per cent. of any class of shares of the bank.

Governments and their agents are also restricted from acquiring shares of a bank, except for certain cases that require the Minister of Finance's consent.

Material Contracts

The Bank and its subsidiaries have not entered into any material contracts outside the ordinary course of the Bank's business which could materially affect the Bank's obligations in respect of any Covered Bonds to be issued by the Bank other than, with respect to any Covered Bonds, the contracts described in *Subscription and Sale and Transfer and Selling Restrictions* and in *Terms and Conditions of the Covered Bonds*.

Legal Proceedings

The Bank and its subsidiaries are party to legal proceedings, including regulatory investigations, in the ordinary course of business. While there is inherent difficulty in predicting the outcome of these proceedings, management does not expect the outcome of any of these other proceedings, individually or in the aggregate, to have a material adverse effect on the consolidated financial position or the results of operations of the Bank.

Save as disclosed in the first paragraph under this section headed *Legal Proceedings*, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware) during the 12 month period preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on the Bank's and its subsidiaries' financial position or profitability.

THE GUARANTOR

General

BMO Covered Bond Guarantor Limited Partnership (the **Guarantor**) is a limited partnership formed on 30 May 2013 and existing under the *Limited Partnerships Act* (Ontario). The principal place of business of the Guarantor is Ontario and the telephone contact number is 416-867-7083. The Guarantor is governed by the Guarantor Agreement (see *Overview of the Principal Documents—Guarantor Agreement*).

Description of Limited Partnership

Pursuant to the terms of the *Limited Partnerships Act* (Ontario), a limited partner in a limited partnership is liable for the liabilities, debts and obligations of the partnership, but only to the extent of the amount contributed by it or agreed to be contributed by it to the partnership, unless, in addition to exercising rights and powers as a limited partner, the limited partner takes part in the control of the business of the partnership. Subject to applicable law, limited partners will otherwise have limited liability in respect of the liabilities, debts and obligations of the partnership. Each general partner will have unlimited liability for an obligation of the partnership unless the holder of such obligation agrees otherwise.

Business of the Guarantor

The Guarantor is a limited partnership established under the laws of the Province of Ontario whose only business is providing services to the Bank in respect of the Program by: (i) 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 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 and the CMHC Guide, from time to time, to make Capital Distributions to the Limited Partner; and/or (d) 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 Cash Limitation); (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 Partnerships Act* (Ontario)) to publish any financial statements.

The Guarantor has no employees.

Partners of the Guarantor

The partners (the **Partners**) of the Guarantor are:

- BMO Covered Bond GP, Inc., as the managing general partner (the **Managing GP**), a wholly-owned subsidiary corporation of the Bank incorporated on 24 May 2013 under the laws of Canada

to be the managing general partner of the Guarantor, with its registered office at 1 First Canadian Place, 10th Floor, Toronto, Ontario, Canada M5X 1A1;

- 8429065 Canada Inc., as the liquidation general partner (the **Liquidation GP**), a corporation incorporated on 17 May 2013 under the laws of Ontario to be the liquidation general partner of the Guarantor, with its registered office at c/o Norton Rose Fulbright Canada LLP, Suite 3800, 200 Bay Street, P.O. Box 84, Royal Bank Plaza, South Tower, Toronto, Ontario, Canada M5J 2Z4; and

- the Bank, as the sole limited partner.

The Capital Contribution amounts, individually and cumulatively, of each of the Partners will be recorded in the Capital Account Ledger. As of the date of this Prospectus, 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.

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, 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.

Directors of the Partners of the Guarantor

The following table sets out the directors of the Managing GP and the Liquidation GP (and their respective business addresses and occupations). For the directors of the Bank see *Bank of Montreal—Directors*.

Directors of the Managing GP

Name	Business Address	Business Occupation
Caroline Dufaux	1 First Canadian Place, 10th Floor, Toronto, Ontario, Canada M5X 1A1	Head, Capital Management, Bank of Montreal
Stephen Lobo	1 First Canadian Place, 10th Floor, Toronto, Ontario, Canada M5X 1A1	Treasurer, Bank of Montreal

The directors of the Managing GP are officers and/or employees of the Bank.

Directors of the Liquidation GP

Name	Business Address	Business Occupation
Toni De Luca	Computershare Trust Company of Canada 100 University Avenue Toronto, Ontario, Canada M5J 2Y1	Chairman of the Board of Directors, President and Secretary of Liquidation GP
Charles Eric Gauthier	Computershare Trust Company of Canada 100 University Avenue Toronto, Ontario, Canada M5J 2Y1	Vice-Chairman of the Board of Directors, Vice-President and Assistant Secretary of Liquidation GP

Ownership Structure of the Liquidation GP

91 per cent. 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 per cent. 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 is appointed by the Corporate Services Provider, as trustee of the LGP Trust, and is independent of the Bank. The Bank is entitled, for as long as it or an affiliate of it (within the meaning of the Bank Act) is a holder of voting securities of the Liquidation GP, to receive notice of and is entitled to attend all meetings of the board of directors of the Liquidation GP in a non-voting observation capacity.

Governance of the Guarantor

Pursuant to the terms of the Guarantor Agreement, the Managing GP will manage the business and affairs of the Guarantor, act on behalf of the Guarantor, make decisions regarding the business of the Guarantor and have the authority to bind the Guarantor in respect of any such decision. The Managing GP will be required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of the Guarantor, and to exercise the care, diligence and skill of a reasonably prudent person in comparable circumstances. The authority and power vested in the Managing GP to manage the business and affairs of the Guarantor includes all authority necessary or incidental to carry out the objects, purposes and business of the Guarantor, including the ability to engage agents to assist the Managing GP to carry out its management obligations and administrative functions in respect of the Guarantor and its business.

Except in certain limited circumstances (described below under —*Withdrawal or Removal of the General Partners*), the Liquidation GP will not generally take part in managing the affairs and business of the Guarantor. However, the Liquidation GP's consent will be required for a voluntary wind-up or dissolution of the Guarantor.

Each of the Partners has agreed that it will not, for so long as there are Covered Bonds outstanding, terminate or purport to terminate the Guarantor or institute any winding-up, administration, insolvency or other similar proceedings against the Guarantor. Furthermore, the Partners have agreed, among other things, except as specifically otherwise provided in the Transaction Documents, not to demand or receive payment of any amounts payable 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.

Potential Conflict of Interest

As at the date of this Prospectus, there are no potential conflicts of interest between the duties owed to the Guarantor by any of the directors of the Managing GP or by any of the directors of the Liquidation GP and their private interests and other duties.

Reimbursement of General Partners

The Guarantor will be obliged to reimburse the Managing GP and Liquidation GP for all out-of-pocket costs and expenses incurred on behalf of the Guarantor by the Managing GP or Liquidation GP in the performance of their duties under the Guarantor Agreement.

Liability of the Limited Partners of the Guarantor

The Guarantor is required to operate in a manner so as to ensure, to the greatest extent possible, the limited liability of the limited partner(s). Limited partner(s) may lose their limited liability in certain circumstances. If limited liability is lost by reason of negligence of the Managing GP or Liquidation GP, as the case may be, in performing its duties and obligations under the Guarantor Agreement, in each case, as determined by a court of competent jurisdiction in a final non-appealable decision, the Managing GP or the Liquidation GP, as applicable, will indemnify the limited partner(s) against all claims arising from assertions that their respective liabilities are not limited as intended by the Guarantor Agreement. However, since the Managing GP and the Liquidation GP have no significant assets or financial resources, any indemnity from them may have nominal value.

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 automatically 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 (other than the Bank or any of its affiliates) 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.

FORM OF THE COVERED BONDS

The Covered Bonds of each Series will be in either bearer form, with or without interest coupons and/or talons attached, or registered form, without interest coupons and/or talons attached. Bearer Covered Bonds will be issued outside the United States in reliance on Regulation S under the Securities Act (**Regulation S**) and Registered Covered Bonds will be issued both outside the United States in reliance on the exemption provided by Regulation S and within the United States to, or for the benefit of U.S. persons who are QIBs in reliance on Rule 144A under the Securities Act.

Bearer Covered Bonds

Each Tranche of Bearer Covered Bonds will be initially issued in the form of a temporary global covered bond without receipts and interest coupons attached (a **Temporary Global Covered Bond**) which will:

(a) if the Bearer Global Covered Bonds are intended to be issued in New Global Covered Bond form, as stated in the applicable Final Terms Document or Pricing Supplement, be delivered on or prior to the Issue Date of the relevant Tranche to the Common Safekeeper for Euroclear and Clearstream, Luxembourg; and

(b) if the Bearer Global Covered Bonds are not intended to be issued in NGCB form as stated in the applicable Final Terms Document or Pricing Supplement, be delivered on or prior to the Issue Date of the relevant Tranche to the Common Depositary.

While any Bearer Covered Bond is represented by a Temporary Global Covered Bond, payments of principal, interest (if any) and any other amount payable in respect of the Bearer Covered Bonds due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Global Covered Bond if the Temporary Global Covered Bond is not intended to be issued in NGCB form) only to the extent that certification to the effect that the beneficial owners of interests in such Bearer Covered Bond are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. regulations, (in the form established under the Trust Deed as such form may be amended from time to time in accordance with the terms thereof) is provided.

On and after the date (the **Exchange Date**) which is 40 days after a Temporary Global Covered Bond is issued, interests in such Temporary Global Covered Bond will be exchangeable (free of charge) upon a request as described therein either for (a) interests in a permanent global covered bond without receipts and interest coupons attached (a **Permanent Global Covered Bond**) of the same Series, or (b) Bearer Definitive Covered Bonds of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Final Terms Document or Pricing Supplement and subject, in the case of Bearer Definitive Covered Bonds, to such notice period as is specified in the applicable Final Terms Document or Pricing Supplement), in each case against certification of non-U.S. beneficial ownership as described above unless such certification has already been given. Purchasers in the United States and certain U.S. persons will not be able to receive Bearer Definitive Covered Bonds or interests in the Permanent Global Covered Bond. The holder of a Temporary Global Covered Bond will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Covered Bond for an interest in a Permanent Global Covered Bond or for Bearer Definitive Covered Bonds is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Global Covered Bond will be made through Euroclear and/or Clearstream, Luxembourg against presentation or surrender (as the case may be) of the Permanent Global Covered Bond (if the Permanent Global Covered Bond is not intended to be issued in NGCB form) without any requirement for certification.

The applicable Final Terms Document or Pricing Supplement will specify that a Permanent Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for Bearer Definitive Covered Bonds with, where applicable, receipts, interest coupons and talons attached upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (a) the Bank has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, whether statutory or otherwise) or have announced an intention to permanently cease business or have in fact done so and no successor clearing system is available, or (b) the Bank has or will become subject to adverse tax consequences which would not be suffered were the Bearer Global Covered Bond (and any interests therein) exchanged for Bearer Definitive Covered Bonds. The Bank will promptly give notice to Covered Bondholders of each Series of Bearer Global Covered Bonds in accordance with Condition 13 (*Notices*) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Covered Bond) or the Bond Trustee may give notice to the Issuing and Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (b) above, the Bank may also give notice to the Issuing and Paying Agent requesting exchange. Any such exchange will occur not later than 45 days after the date of receipt of the first relevant notice by the Issuing and Paying Agent.

Bearer Global Covered Bonds, Bearer Definitive Covered Bonds and any Coupons or Talons attached thereto will be issued pursuant to the Agency Agreement.

Any Coupon or Talon which does not form part of or is capable of being detached from a Bearer Global Covered Bond or Bearer Definitive Covered Bond shall be marked or identified in the prescribed manner indicating whether interest on such Covered Bond is payable free of or subject to Canadian withholding tax.

The following legend will appear on all Permanent Global Covered Bonds and Bearer Definitive Covered Bonds and on all receipts and interest coupons relating to such Bearer Covered Bonds where TEFRA D is specified in the applicable Final Terms Document or Pricing Supplement:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Covered Bonds, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale or other disposition in respect of such Bearer Covered Bonds, receipts or interest coupons.

Covered Bonds, which are represented by a Bearer Global Covered Bond, will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

Registered Covered Bonds

The Registered Covered Bonds of each Tranche offered and sold in reliance on Regulation S will initially be represented by a Regulation S Global Covered Bond. Prior to expiry of the Distribution Compliance Period applicable to each Tranche of Covered Bonds, beneficial interests in a Regulation S Global Covered Bond may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in Condition 2 (*Transfers of Registered Covered Bonds*) and may not be held otherwise than through agent

members of Euroclear or Clearstream, Luxembourg and such Regulation S Global Covered Bond will bear a legend regarding such restrictions on transfer. See *Subscription and Sale and Transfer and Selling Restrictions*.

The Registered Covered Bonds of each Tranche offered and sold in the United States or to U.S. persons will only be offered and sold in private transactions to QIBs who agree to purchase the Covered Bonds for their own account or for the account or benefit of other QIBs.

The Registered Covered Bonds of each Tranche sold to QIBs will be represented by a global covered bond in registered form (a **Rule 144A Global Covered Bond** and, together with a Regulation S Global Covered Bond, the **Registered Global Covered Bonds**).

Registered Global Covered Bonds will either: (a) be deposited with a custodian for DTC and registered in the name of DTC or its nominee for the accounts of its participants or Euroclear and Clearstream, Luxembourg; or (b) be deposited with a Common Depositary or, if the Registered Global Covered Bonds are held under the new safekeeping structure (the **NSS**), a Common Safekeeper for, as the case may be, Euroclear and Clearstream, Luxembourg and registered in the name of a common nominee for the Common Depository of, Euroclear and Clearstream, Luxembourg or the name or a nominee of the Common Safekeeper, as specified in the applicable Final Terms Document or Pricing Supplement. In the case of a Regulation S Global Covered Bond registered in the name of a nominee of DTC, prior to the end of the Distribution Compliance Period (as defined in Regulation S) applicable to the Covered Bonds represented by such Regulation S Global Covered Bond, interests in such Regulation S Global Covered Bond may only be held through the accounts of Euroclear and Clearstream, Luxembourg. Persons holding beneficial interests in Registered 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.

If the Registered Global Covered Bonds are stated in the applicable Final Terms Document or Pricing Supplement to be held under the NSS, Euroclear and Clearstream, Luxembourg will be notified by or on behalf of the Bank as to whether or not the Covered Bonds are intended to be recognised as eligible collateral for European monetary policy and intra-day credit operations by the Eurosystem, notwithstanding that such recognition will depend upon satisfaction of the Eurosystem eligibility criteria. The Rule 144A Global Covered Bonds will be subject to certain restrictions on transfer set forth therein and will bear a legend regarding such restrictions described under *Subscription and Sale and Transfer and Selling Restrictions*.

Payments of principal, interest and any other amount in respect of the Registered Global Covered Bonds will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 5.4 (*Payments in respect of Registered Covered Bonds*)) as the registered holder of the Registered Global Covered Bonds. None of the Bank, the Guarantor, the Bond Trustee, any Paying Agent or 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 Regulation S Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Definitive Covered Bonds will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 5.4 (*Payments in respect of Registered Covered Bonds*)) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for Registered Definitive Covered Bonds without receipts, interest coupons or talons attached only

upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (a) in the case of a Registered Global Covered Bond registered in the name of DTC or its nominee, either DTC has notified the Bank that it is unwilling or unable to continue to act as depositary 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, (b) in the case of a Registered Global Covered Bond registered in the name of a nominee for the Common Depositary or Common Safekeeper, as the case may be, the Bank has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, whether statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available, or (c) the Bank has or will become subject to adverse tax consequences which would not be suffered were the Registered Global Covered Bond (and any interests therein) exchanged for Registered Definitive Covered Bonds. The Bank will promptly give notice to Covered Bondholders of each Series of Registered Global Covered Bonds in accordance with Condition 13 (*Notices*) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, DTC, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any registered holder of an interest in such Registered Global Covered Bond) or the Bond Trustee may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event, as described in (c) above, the Bank may also give notice to the Registrar requesting exchange. Any such exchange will occur not later than ten days after the date of receipt of the first relevant notice by the Registrar.

Definitive Rule 144A Covered Bonds will be issued only in minimum denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (or the approximate equivalents in the applicable Specified Currency).

Transfer of Interests

Interests in a Rule 144A Global Covered Bond may, subject to compliance with all applicable restrictions be transferred to a person who wishes to hold such interests in a Regulation S Global Covered Bond representing the same Series and Tranche of Covered Bonds and vice versa. No beneficial owner of an interest in a Registered Global Covered Bond will be able to transfer such interest, except in accordance with the applicable procedures of DTC, Euroclear and Clearstream, Luxembourg in each case to the extent applicable. Registered Covered Bonds are also subject to the restrictions on transfer set forth therein and will bear a legend regarding such restrictions. See *Subscription and Sale and Transfer and Selling Restrictions*.

General

Pursuant to the Agency Agreement (as defined under *Terms and Conditions of the Covered Bonds*), the Issuing and Paying Agent will arrange that, where a further Tranche of Covered Bonds is issued which is intended to form a single Series with an existing Tranche of Covered Bonds, the Covered Bonds of such further Tranche will be assigned a Common Code and ISIN and, where applicable, a CUSIP and CINS number which are different from the Common Code, ISIN, CUSIP and CINS number assigned to Covered Bonds of any other Tranche of the same Series until at least the Exchange Date applicable to the Covered Bonds of such further Tranche.

Any reference herein to DTC, Euroclear and/or Clearstream, Luxembourg will, whenever the context so permits, be deemed to include a reference to any successor operator and/or successor clearing system and/or additional or alternative clearing system specified in the applicable Final Terms Document or Pricing Supplement or as may otherwise be approved by the Bank, the Issuing and Paying Agent and the Bond Trustee.

No Covered Bondholder or Couponholder will be entitled to proceed directly against the Bank or the Guarantor unless the Bond Trustee, having become so bound to proceed, fails to do so within a reasonable period, and the failure is continuing.

Eurosystem eligibility

The Bank will notify the ICSDs and the Paying Agents upon issue whether the Covered Bonds are intended, or are not intended, to be held in a manner which would allow Eurosystem eligibility and deposited with one of the ICSDs as Common Safekeeper (and in the case of Registered Covered Bonds, registered in the name of a nominee of one of the ICSDs acting as Common Safekeeper). Where the Covered Bonds are not intended to be deposited with one of the ICSDs as Common Safekeeper upon issuance, should the Eurosystem eligibility criteria be amended in the future such that the Covered Bonds are capable of meeting such criteria, the Covered Bonds may then be deposited with one of the ICSDs as Common Safekeeper. Where the Covered Bonds are so deposited with one of the ICSDs as Common Safekeeper (and in the case of Registered Covered Bonds, registered in the name of a nominee of one of the ICSDs acting as Common Safekeeper) upon issuance or otherwise, this does not necessarily mean that the Covered Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intraday credit operations by the Eurosystem at issuance or at any time during their life. Such recognition will depend upon the European Central Bank being satisfied that Eurosystem eligibility criteria have been met.

FORM OF FINAL TERMS DOCUMENT

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 THESE FINAL TERMS. THE COVERED BONDS ARE NEITHER INSURED NOR GUARANTEED BY CMHC OR THE GOVERNMENT OF CANADA OR ANY OTHER AGENCY THEREOF.

[**MIFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET** – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Covered Bonds has led to the conclusion that: (i) the target market for the Covered Bonds is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, **MiFID II**); and (ii) all channels for distribution of the Covered Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Covered Bonds (a **distributor**) should take into consideration the manufacturers' (or manufacturer's) target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the manufacturers' (or manufacturer's) target market assessment) and determining appropriate distribution channels.][6]

[PRIIPS REGULATION / PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS – The Covered Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (**EEA**) or the United Kingdom (**UK**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, **MiFID II**); (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended) where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the **Prospectus Regulation**). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the **PRIIPs Regulation**) for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.][7]

[NOTIFICATION UNDER SECTION 309B(1)(C) OF THE SECURITIES AND FUTURES ACT (CHAPTER 289) OF SINGAPORE (the SFA) - [*To insert notice if classification of the Covered Bonds is not "capital markets products other than prescribed capital markets products[8]", pursuant to Section 309B of the SFA or Specified Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products)*].]

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6 Legend to be included on front of the Final Terms Document if transaction is in scope of MiFID II and following the ICMA 1 "all bonds to all professionals" target market approach.

7 Legend to be included on front of the Final Terms Document if the Covered Bonds potentially constitute "packaged" products and no key information document will be prepared or the Issuer wishes to prohibit offers to EEA and UK retail investors for any other reason, in which case the "Prohibition of Sales to EEA and UK Retail Investors" selling restriction should be specified to be "Applicable".

8 Relevant Dealer(s) to consider whether it/they have received the necessary product classification from the Issuer prior to the launch of the offer, pursuant to Section 309B of the SFA.

[Date]

Bank of Montreal
(LEI No.: NQQ6HPCNCCU6TUTQYE16)

Issue of [Aggregate Nominal Amount of Tranche] [Title of Covered Bonds]
unconditionally and irrevocably guaranteed as to payment of principal and interest by
BMO Covered Bond Guarantor Limited Partnership
under the U.S.$30 billion
Global Registered Covered Bond Program

PART 1

CONTRACTUAL TERMS

Terms used herein will be deemed to be defined as such for the purposes of the Terms and Conditions set forth in the Prospectus dated [date] [and the supplemental Prospectus dated [date]] which [together] constitute[s] a base prospectus (the **Prospectus**) for the purposes of the Prospectus Regulation (Regulation (EU) 2017/1129) (as amended, the **Prospectus Regulation**). This document constitutes the final terms of the Covered Bonds described herein for the purposes of the Prospectus Regulation and must be read in conjunction with the Prospectus [as so supplemented] in order to obtain all relevant information. The Prospectus is available for viewing at **[address]** [and] http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html and copies of the Prospectus [and the supplemental Prospectus] are available free of charge to the public at the Executive Offices of the Issuer and from the specified office of each of the Paying Agents.

The Guarantor is not now, and, immediately following the issuance of the Covered Bonds pursuant to the Trust Deed, will not be, a "covered fund" for purposes of regulations adopted under Section 13 of the Bank Holding Company Act of 1956, as amended, commonly known as the **Volcker Rule**. In reaching this conclusion, although other statutory or regulatory exemptions under the Investment Company Act of 1940, as amended, and under the Volcker Rule and its related regulations may be available, the Guarantor has relied on the exemption from registration set forth in Section 3(c)(5) of the Investment Company Act of 1940, as amended. See *Certain Volcker Rule Considerations* in the Prospectus dated [date].

1.	(a)	Issuer:	Bank of Montreal
	(b)	Guarantor:	BMO Covered Bond Guarantor Limited Partnership
2.	(a)	Series Number:	[●]
	(b)	Tranche Number:	[●]
	(c)	Series which Covered Bonds will be consolidated and form a single Series with:	[●]/[Not Applicable]
	(d)	Date on which the Covered Bonds will be consolidated and form a	[●]/[Issue Date]/[Not Applicable]

		single Series with the Series specified above:	
3.		Specified Currency or Currencies:	[●]
4.		Aggregate Nominal Amount of Covered Bonds admitted to trading:	
	(a)	[Series:]	[●]
	(b)	[Tranche:]	[●]
5.	(a)	Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [●]]
	(b)	Canadian Dollar exchange rate on the date hereof:	[●]
	(c)	U.S. Dollar exchange rate on the date hereof:	[●]
6.	(a)	Specified Denominations:	[● (not to be less than €100,000)]/[€100,000 and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Covered Bonds in definitive form will be issued with a denomination above [€199,000]] *(Specify only for Bearer Covered Bonds)*/At least [U.S.$200,000 (and no less than the equivalent of €100,000) and integral multiples of U.S.$1,000 in excess thereof].
	(b)	Calculation Amount:	[●]
7.	(a)	Issue Date:	**[●]**
	(b)	Interest Commencement Date:	[●]/[Issue Date]/[Not Applicable]
8.	(a)	Final Maturity Date:	[Fixed rate – [●]]/ [Floating rate – Interest Payment Date falling in or nearest to [●]]
	(b)	Extended Due for Payment Date of Guaranteed Amounts corresponding to the Final Redemption Amount under the Covered Bond Guarantee:	[Fixed rate – [●] [Floating rate – Interest Payment Date falling in or nearest to [●]]
9.		Interest Basis:	[[●] per cent. Fixed Rate]

		[[SONIA]/[SOFR]/[[●] [●] LIBOR/EURIBOR]] +/-[●] per cent. Floating Rate] [Zero Coupon]
10.	Redemption/Payment Basis:	[Redemption at par] [Hard Bullet Covered Bond]
11.	Change of Interest Basis or Redemption/Payment Basis:	[Fixed to Floating] [Floating to Fixed] [Floating to Floating]
12.	Put/Call Options:	[Investor Put] [Issuer Call] [(further particulars specified below)]
13.	Date of [Board] approval for issuance of Covered Bonds:	[●]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14.	Fixed Rate Covered Bond Provisions:		[Applicable/Not Applicable]
	(a)	Rate(s) of Interest:	[●] per cent. per annum payable annually in arrears on each Interest Payment Date]
	(b)	Interest Period(s):	[●]
	(c)	Interest Payment Date(s):	[●] in each year up to and including the [Final Maturity Date]/[Extended Due for Payment Date, if applicable] [each, an Original Due for Payment Date] [adjusted in accordance with Business Day Convention] (*provided however* that after the Extension Determination Date, the Interest Payment Date may be monthly)
	(d)	Business Day Convention:	[Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
	(e)	Business Day(s):	Business Days has the meaning given to it in Condition 4.5(a)
	(f)	Additional Business Centre(s):	[●]
	(g)	Fixed Coupon Amount(s):	[●] per Calculation Amount

	(h)	Broken Amount(s):	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]/[Not Applicable]
	(i)	Day Count Fraction:	[[Actual/365]/[Actual/Actual]/[Actual/Actual (ISDA)]/[Actual/365 (Fixed)]/[Actual/Actual (ICMA)]/[Actual/360]/[Actual/365 (Sterling)]/[30/360]/[360/360]/[Bond Basis]/[30E/360]/[Eurobond Basis]] [(adjusted)]/ [(not adjusted)] *(Specify "(adjusted)" or "(not adjusted)" after the Day Count Fraction)*
	(j)	Determination Date(s):	[●] in each year
	(k)	Other terms relating to the method of calculating interest for Fixed Rate Covered Bonds:	[Not Applicable/[●]]
15.	Floating Rate Covered Bond Provisions:		[Applicable/Not Applicable] [Applicable in respect of the Extended Due for Payment Date of Guaranteed Amounts corresponding to the Final Redemption Amount under the Covered Bond Guarantee]
	(a)	Interest Period(s):	[●]
	(b)	Interest Payment Date(s):	[●] (*provided however* that after the Extension Determination Date, the Interest Payment Date may be monthly)
	(c)	First Interest Payment Date:	[●]
	(d)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[Not Applicable]]
	(e)	Business Day(s):	Business Days has the meaning given to it in Condition 4.5(a)
	(f)	Additional Business Centre(s):	[●]
	(g)	Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination]
	(h)	Party responsible for calculating the Rate of Interest and Interest Amount (if not the Issuing and Paying Agent):	[●]

(i)	Screen Rate Determination:	[Applicable]/[Not Applicable]
	Reference Rate and Relevant Financial Centre:	Reference Rate: [SONIA]/[SOFR]/[[●]–month] [●] LIBOR/EURIBOR] Relevant Financial Centre: [London/Brussels/New York/Toronto]
	Compounded Daily SONIA Observation Convention:	[Observation Lookback Convention][Observation Shift Convention][Not Applicable]
	Interest Determination Date(s):	[[The [second] [●] day on which the TARGET System is open prior to the start of each Interest Period]/[[●] Business Days [in [●]] prior to the [●] day in each Interest Period/each Interest Payment Date][[●] London Banking Day prior to the end of each Interest Period] [[two] U.S. Government Securities Business Days before each Interest Payment Date] [●]
	Relevant Screen Page:	[●]
(j)	ISDA Determination:	[Applicable/Not Applicable]
	Observation Look-Back Period	[[●] London Banking Days][Not Applicable]
	Floating Rate Option:	[●]
	Designated Maturity:	[●]
	Reset Date:	[●]
(k)	Floating Rate Covered Bond Margin(s):	[+/-] [●] per cent. per annum
(l)	Minimum Rate of Interest:	[●] per cent. per annum
(m)	Maximum Rate of Interest:	[●] per cent. per annum
(n)	Day Count Fraction:	[Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 [Actual/Actual (ICMA)] [Actual/Actual (ISDA)] 30/360

			360/360 Bond Basis 30E/360 Eurobond Basis] [(adjusted)]/ [(not adjusted)] *(Specify "(adjusted)" or "(not adjusted)" after the Day Count Fraction)*
16.	Zero Coupon Covered Bond Provisions:		[Applicable/Not Applicable]
	(a)	Accrual Yield:	[●] per cent. per annum
	(b)	Reference Price:	[●]
	(c)	Business Day Convention:	[Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
	(d)	Business Day(s):	[●]
	(e)	Additional Business Centre(s):	[●]
	(f)	Day Count Fraction in relation to Early Redemption Amounts and late payment:	[Conditions 6.7(b) (*Early Redemption Amounts*) and 6.10(b) (*Late Payment*) apply]
	(g)	Determination Date(s):	[●]

PROVISIONS RELATING TO REDEMPTION

17.	Issuer Call:		[Applicable/Not Applicable]
	(a)	Optional Redemption Date(s):	[●]
	(b)	Optional Redemption Amount of each Covered Bond and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(c)	If redeemable in part:	
		(i) Minimum Redemption Amount:	[●] per Calculation Amount
		(ii) Maximum Redemption Amount:	[●] per Calculation Amount
18.	Put Option:		[Applicable/Not Applicable]

	(a) Optional Redemption Date(s):	[●]
	(b) Optional Redemption Amount(s) of each Covered Bond and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
19.	Final Redemption Amount of each Covered Bond:	[●] per Calculation Amount
20.	Early Redemption Amount of each Covered Bond payable on redemption for taxation reasons or illegality or upon acceleration following an Issuer Event of Default or Guarantor Event of Default or other early redemption and/or the method of calculating the same (if required or if different from that set out in Condition 6.7 (*Early Redemption Amounts*)):	[●] per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

21.	Form of Covered Bonds:	[Bearer Covered Bonds: [Temporary Global Covered Bond exchangeable for Bearer Definitive Covered Bonds on [●] days' notice] [Temporary Global Covered Bond exchangeable for a Permanent Global Covered Bond which is exchangeable for Bearer Definitive Covered Bonds only upon an Exchange Event] [Registered Covered Bonds: [Regulation S Global Covered Bond ([●] nominal amount) registered in the name of the [common depositary/common safekeeper] for [DTC or its nominee/Euroclear and Clearstream, Luxembourg or its nominee]][Rule 144A Global Covered Bond ([●] nominal amount) registered in the name of the [common depositary/Common Safekeeper] for [DTC or its nominee/Euroclear and Clearstream, Luxembourg or its nominee]
22.	New Global Covered Bond:	[Yes/No]
23.	Global Covered Bond held under the New Safekeeping Structure:	[Yes/No]

24.	Financial Centre(s) or other special provisions relating to payment dates:	[Not Applicable/[●]]
25.	Talons for future Coupons to be attached to Bearer Definitive Covered Bonds (and dates on which such Talons mature):	[Yes/No]
26.	Redenomination, renominalisation and reconventioning provisions:	[Not Applicable/The provisions in Condition 5.8 (*Redenomination*) apply]

RESPONSIBILITY

[[●] has been extracted from [●]. Each of the Issuer and the Guarantor confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [●], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer:

By:

Duly authorised

Signed on behalf of the Guarantor:

By:

Duly authorised

PART 2

OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

(a)	Listing and admission to trading:	Application [is expected to be][has been] made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on the London Stock Exchange's Regulated Market and to the Official List of the FCA with effect from [●].
(b)	Estimate of total expenses related to admission to trading:	[●]

2. RATINGS

Ratings:	The Covered Bonds to be issued [are expected to be][have been rated]: Fitch: [●] Moody's: [●] DBRS: [●]

3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save as discussed in *Subscription and Sale and Transfer and Selling Restrictions*, so far as the Issuer and the Guarantor are aware, no person involved in the offer of the Covered Bonds has an interest material to the offer.] [The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business.]

4. YIELD (*Fixed Rate Covered Bonds only*)

Indication of yield:	[●]

5. OPERATIONAL INFORMATION

(a)	ISIN Code:	[●]
(b)	Common Code:	[●]
(c)	WKN Code:	[●]
(d)	CFI Code:	[●]
(e)	FISN Code:	[●]

(f)	Any clearing system(s) other than DTC, Euroclear or Clearstream, Luxembourg and the relevant identification number(s) or codes such as CUSIP and CINS codes:	[Not Applicable/[●]]
(g)	Name and address of initial Paying Agent(s)/Registrar(s)/Transfer Agent(s):	[●]
(h)	Names and addresses of additional Paying Agent(s)/Transfer Agent(s) (if any):	[●]
(i)	Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes. Note that the designation "yes" simply means that the Covered Bonds are intended upon issue to be deposited with one of the ICSDs as common safekeeper[, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper] [*include this text for Registered Notes which are to be held under the NSS*] and does not necessarily mean that the Covered Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]/[No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Covered Bonds are capable of meeting them the Covered Bonds may then be deposited with one of the ICSDs as common safekeeper [, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper] [*include this text for Registered Notes*]. Note that this does not necessarily mean that the Covered Bonds will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

6. DISTRIBUTION

U.S. Selling Restrictions:	[Rule 144A]/[Regulation S Category [●]/Other [●]][TEFRA [C]/[D]/TEFRA not applicable]

Prohibition of Sales to EEA and UK Retail Investors: [Applicable/Not Applicable]

7. UNITED STATES TAX CONSIDERATIONS

[Not applicable]/[*For Covered Bonds issued in compliance with Rule 144A:*][For U.S. federal income tax purposes, the Issuer intends to treat the Covered Bonds as [Discount Bonds/fixed rate debt/Contingent Payment Bonds, [for which purpose, the comparable yield relating to the Covered Bonds will be [●] per cent. compounded [semi-annually/quarterly/monthly], and the projected payment schedule with respect to a Covered Bond consists of the following payments: [●]/for which purpose, the comparable yield and the projected payment schedule are available by contacting [●] at [●]]/Variable Rate Bonds/Variable Rate Bonds issued with original issue discount/foreign currency Covered Bonds/foreign currency Covered Bonds issued with original issue discount/foreign currency Contingent Payment Bonds, [for which purpose, the comparable yield relating to the Covered Bonds will be [●] per cent. compounded [semi-annually/quarterly/monthly], and the projected payment schedule with respect to a Covered Bond consists of the following payments: [●]/for which purpose, the comparable yield and the projected payment schedule are available by contacting [●] at [●]]/Short-Term Bonds.]]

[*For a Qualified Reopening of Covered Bonds issued in compliance with Rule 144A:*][Qualified Reopening. The issuance of the Covered Bonds should be treated as a "qualified reopening" of the Covered Bonds issued on [●] within the meaning of the U.S. Treasury regulations governing original issue discount on debt instruments (the **OID Regulations**). Therefore, for purposes of the OID Regulations, the Covered Bonds issued in this offering should be treated as having the same issue date and the same issue price as the Covered Bonds issued on [●] and should [not] be considered to have been issued with original issue discount for U.S. federal income tax purposes.]

FORM OF THE PRICING SUPPLEMENT

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.

[**MIFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET** – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Covered Bonds has led to the conclusion that: (i) the target market for the Covered Bonds is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, **MiFID II**); and (ii) all channels for distribution of the Covered Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Covered Bonds (a **distributor**) should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.][9]

[[PRIIPS REGULATION/PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS – The Covered Bonds are not intended to be offered, sold or otherwise made available to, and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (**EEA**) or the United Kingdom (**UK**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, **MiFID II**); (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the **Prospectus Regulation**). Consequently no key information document required by Regulation (EU) No. 1286/2014 (as amended, the **PRIIPs Regulation**) for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.][10]

[NOTIFICATION UNDER SECTION 309B(1)(C) OF THE SECURITIES AND FUTURES ACT (CHAPTER 289) OF SINGAPORE (the SFA) - [*To insert notice if classification of the Covered Bonds is not "capital markets products other than prescribed capital markets products[11]", pursuant to Section 309B of the SFA or Specified Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products)*].**]**

Set out below is a form of Pricing Supplement for use in connection with Exempt Covered Bonds issued under the Program. This pro forma Pricing Supplement is subject to completion and amendment to set out the terms upon which each Tranche or Series of Exempt Covered Bonds is to be issued.

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9 Legend to be included on front of the Pricing Supplement if transaction is in scope of MiFID II and following the ICMA 1 "all bonds to all professionals" target market approach.

10 Legend to be included on front of the Pricing Supplement if the Covered Bonds potentially constitute "packaged" products and no key information document will be prepared or the issuer wishes to prohibit offers to EEA and UK retail investors for any other reason, in which case the "Prohibition of Sales to EEA and UK Retail Investors" selling restriction should be specified to be "Applicable".

11 Relevant Dealer(s) to consider whether it/they have received the necessary product classification from the Issuer prior to the launch of the offer, pursuant to Section 309B of the SFA.

IMPORTANT NOTICE

In accessing the attached pricing supplement (the Pricing Supplement) you agree to be bound by the following terms and conditions.

The information contained in the Pricing Supplement may be addressed to and/or targeted at persons who are residents of particular countries only as specified in the Pricing Supplement and/or in the Prospectus (as defined in the Pricing Supplement) and is not intended for use and should not be relied upon by any person outside those countries and/or to whom the offer contained in the Pricing Supplement is not addressed. Prior to relying on the information contained in the Pricing Supplement, you must ascertain from the Pricing Supplement and/or Prospectus whether or not you are an intended addressee of the information contained therein.

The Guarantor is not now, and immediately following the issuance of the Covered Bonds pursuant to the Trust Deed will not be, a "covered fund" for purposes of regulations adopted under Section 13 of the Bank Holding Company Act of 1956, as amended, commonly known as the **Volcker Rule**. In reaching this conclusion, although other statutory or regulatory exemptions under the Investment Company Act of 1940, as amended, and under the Volcker Rule and its related regulations may be available, the Guarantor has relied on the exemption from registration set forth in Section 3(c)(5) of the Investment Company Act of 1940, as amended. See *Certain Volcker Rule Considerations* in the Prospectus dated [date].

Neither the Pricing Supplement nor the Prospectus constitutes an offer to sell or the solicitation of an offer to buy securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration, exemption from registration or qualification under the securities law of any such jurisdiction.

NO PROSPECTUS IS REQUIRED IN ACCORDANCE WITH REGULATION (EU) 2017/1129 (AS AMENDED, THE PROSPECTUS REGULATION) FOR THIS ISSUE OF COVERED BONDS. THE COVERED BONDS WHICH ARE THE SUBJECT OF THIS PRICING SUPPLEMENT ARE NOT COMPLIANT WITH THE PROSPECTUS REGULATION, AND THE FCA HAS NEITHER APPROVED NOR REVIEWED THE INFORMATION CONTAINED IN THIS PRICING SUPPLEMENT.

[Date]

Bank of Montreal

Issue of [Aggregate Nominal Amount of Tranche] [Title of Covered Bonds]
unconditionally and irrevocably guaranteed as to payment of principal and interest by
BMO Covered Bond Guarantor Limited Partnership
under the U.S.$30 billion
Global Registered Covered Bond Program

The Prospectus referred to below (as completed by this Pricing Supplement) has been prepared on the basis that any offer of Covered Bonds in any member state of the EEA or in the UK (each, a **Relevant State**) will be made pursuant to an exemption under the Prospectus Regulation from the requirement to publish a prospectus for offers of the Covered Bonds. Accordingly, any person making or intending to make an offer in that Relevant State of the Covered Bonds may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish or supplement a Prospectus pursuant to the Prospectus Regulation, in each case, in relation to such offer. Neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Covered Bonds in any other circumstances.

PART A

CONTRACTUAL TERMS

Terms used herein will be deemed to be defined as such for the purposes of the Terms and Conditions set forth in the Prospectus dated [date] [and the supplemental Prospectus dated [date]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Regulation (Regulation (EU) 2017/1129) (as amended, the **Prospectus Regulation**). This document constitutes the pricing supplement of the Covered Bonds described herein for the purposes of the Prospectus Regulation and must be read in conjunction with the Prospectus [as so supplemented]. Full information on the Issuer and the Guarantor and the offer of the Covered Bonds is only available on the basis of the combination of this Pricing Supplement and the Prospectus. Copies of the Prospectus [and the supplemental Prospectus] are available free of charge to the public at the Executive Offices of the Issuer and from the specified office of each of the Paying Agents.

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote guidance for completing the Pricing Supplement.]

1.	(a)	Issuer:	Bank of Montreal
	(b)	Guarantor:	BMO Covered Bond Guarantor Limited Partnership
2.	(a)	Series Number:	[●]
	(b)	Tranche Number:	[●] (If fungible with an existing Series, details of that Series, including the date on which the Covered Bonds become fungible)
3.	Specified Currency or Currencies:		[●]
4.	Aggregate Nominal Amount of Covered Bonds admitted to trading:		
	(a)	[Series:]	[●]
	(b)	[Tranche:]	[●]
5.	(a)	Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [●]] *(if applicable)*
	(b)	Canadian Dollar exchange rate on the date hereof:	[●]
	(c)	U.S. Dollar exchange rate on the date hereof:	[●]

6.	(a)	Specified Denominations:	[[●] (not to be less than €100,000)]/[€100,000 and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Covered Bonds in definitive form will be issued with a denomination above [€199,000]] *(Specify only for Bearer Covered Bonds)*/At least [$200,000 (and no less than the equivalent of €100,000) and integral multiples of $1,000 in excess thereof].
(in the case of Registered Covered Bonds, this means the minimum integral amount in which transfers can be made)			*(N.B. Where multiple denominations above €100,000 (or the equivalent in another currency) are being used, the following sample wording should be followed: €100,000 (or the equivalent in another currency) and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Bearer Covered Bonds in definitive form will be issued with a denomination above [€199,000].)* *[So long as the Covered Bonds are represented by a Temporary Global Covered Bond or a Permanent Global Covered Bond and the relevant clearing system(s) so permit, the Covered Bonds will be tradable only in the principal amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination) and higher integral multiples of [●], notwithstanding that no Bearer Covered Bonds in definitive form will be issued with a denomination above [●]]* (*N.B. If an issue of Covered Bonds is (i) not admitted to trading on a regulated market within the European Economic Area exchange, and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Regulation, the €100,000 (or the equivalent in another currency) minimum denomination is not required.*)
	(b)	Calculation Amount: (*Applicable to Covered Bonds in definitive form*)	[●] (*If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination or integral multiples, insert the highest common factor. N.B. There must be a common factor in the case of two or more Specified Denominations or integral multiples.*)
7.	(a)	Issue Date:	**[●]**

	(b)	Interest Commencement Date:	[●]/[Issue Date]/[Not Applicable]
8.	(a)	Final Maturity Date:	[Fixed rate – [*specify date*]]/ [Floating rate – Interest Payment Date falling in or nearest to [*specify month and year*]]
	(b)	Extended Due for Payment Date of Guaranteed Amounts corresponding to the Final Redemption Amount under the Covered Bond Guarantee:	[Fixed rate – [*specify date*] [Floating rate – Interest Payment Date falling in or nearest to [*specify month and year, falling after the Final Maturity Date*]]
9.	Interest Basis:		[[●] per cent. Fixed Rate] [[SONIA][SOFR][●] EURIBOR/LIBOR] +/-[●] per cent. Floating Rate] [Zero Coupon]
10.	Redemption/Payment Basis:		[Redemption at par] [Hard Bullet Covered Bond] [*specify other*] (*N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value, the Covered Bonds will be derivative securities for the purposes of the Prospectus Regulation, and the requirements of Annex XII to the Prospectus Regulation will apply.*)
11.	Change of Interest Basis or Redemption/Payment Basis:		(Specify details of any provision for convertibility of Covered Bonds into another Interest Basis or Redemption/Payment Basis)
12.	Put/Call Options:		[Investor Put] [Issuer Call] [(further particulars specified below)]
13.	[Date of [Board] approval for issuance of Covered Bonds:		[●] (*N.B. Only relevant where Board (or similar authorisation) is required for the particular Tranche of Covered Bonds or the Covered Bond Guarantee*)

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14.	Fixed Rate Covered Bond Provisions:		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Rate(s) of Interest:	[●] per cent. per annum payable annually in arrears on each [Interest Payment Date] (*N.B. If an Extended Due for Payment Date is specified, interest following the Due for Payment Date will continue to accrue and be payable on any unpaid amount at a Rate of Interest determined in accordance with Condition 4.2 (Interest on Floating Rate Covered Bonds)*)
	(b)	Interest Payment Date(s):	[●] in each year up to and including the [Final Maturity Date]/[Extended Due for Payment Date, if applicable]/[specify other] [each, an Original Due for Payment Date] [adjusted in accordance with Business Day Convention] (*provided however* that after the Extension Determination Date, the Interest Payment Date may be monthly)
	(c)	Business Day Convention:	[Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]/[specify other]
	(d)	Business Day(s):	Business Days has the meaning given to it in Condition 4.5(a)
	(e)	Additional Business Centre(s):	[●]
	(f)	Fixed Coupon Amount(s):	[●] per Calculation Amount
	(g)	Broken Amount(s):	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]/[Not Applicable]
	(h)	Day Count Fraction:	[[Actual/365]/[Actual/Actual]/[Actual/Actual (ISDA)]/[Actual/365 (Fixed)]/[Actual/Actual (ICMA)]/[Actual/360]/[Actual/365 (Sterling)]/[30/360]/[360/360]/[Bond Basis]/[30E/360]/[Eurobond Basis]] [(adjusted)]/ [(not adjusted)] *(Specify "(adjusted)" or "(not adjusted)" after the Day Count Fraction)* (*N.B. If interest is not payable on a regular basis (for example, if Broken Amounts are specified)*

			Actual/Actual (ICMA) may not be a suitable Day Count Fraction)
	(i)	Determination Date(s):	[●] in each year (*N.B. Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon*) (*This will need to be amended in the case of regular interest payment dates which are not of equal durations*) *(N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA))*
	(j)	Other terms relating to the method of calculating interest for Fixed Rate Covered Bonds:	[Not Applicable/[*Give details*]]
15.	Floating Rate Covered Bond Provisions:		[Applicable/Not Applicable] [Applicable in respect of the Extended Due for Payment Date of Guaranteed Amounts corresponding to the Final Redemption Amount under the Covered Bond Guarantee] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
	(a)	Interest Period(s):	[●]
	(b)	Interest Payment Date(s):	[●] (*provided however* that after the Extension Determination Date, the Interest Payment Date may be monthly) (*NB: Specify the Interest Period(s)/Interest Payment Date(s) up to and including the Extended Due for Payment Date, if applicable*)
	(c)	First Interest Payment Date:	[●]
	(d)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[Not Applicable]]
	(e)	Business Day(s):	Business Days has the meaning given to it in Condition 4.5(a)
	(f)	Additional Business Centre(s):	[●]

(g)	Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination]/[specify other]
(h)	Party responsible for calculating the Rate of Interest and Interest Amount (if not the Issuing and Paying Agent):	[●]
(i)	Screen Rate Determination:	[Applicable]/[Not Applicable]
	Reference Rate and Relevant Financial Centre:	[●] (*Either SONIA, SOFR, LIBOR, EURIBOR or other, although additional information is required if other – including amendment to fallback provisions in the Terms and Conditions*)Relevant Financial Centre: [London/Brussels/New York/Toronto]
	Compounded Daily SONIA Observation Convention:	[Observation Lookback Convention][Observation Shift Convention][Not Applicable]
	Interest Determination Date(s):	[●] (*Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR, the second day on which the TARGET System is open prior to the start of each Interest Period if EURIBOR and the [second] U.S. Government Securities Business Day before each Interest Payment Date if SOFR*)
	Relevant Screen Page:	[●] *(N.B. Specify the Interest Determination Date(s) up to and including the Extended Due for Payment Date, if applicable)*
(j)	ISDA Determination:	[Applicable/Not Applicable]
	Observation Look-Back Period	[[●] London Banking Days][Not Applicable]
	Floating Rate Option:	[●]
	Designated Maturity:	[●]
	Reset Date:	[●]
(k)	Floating Rate Covered Bond Margin(s):	[+/-] [●] per cent. per annum
(l)	Minimum Rate of Interest:	[●] per cent. per annum

	(m)	Maximum Rate of Interest:	[●] per cent. per annum
	(n)	Day Count Fraction:	[Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 [Actual/Actual (ICMA)] [Actual/Actual (ISDA)] 30/360 360/360 Bond Basis 30E/360 Eurobond Basis] [(adjusted)]/ [(not adjusted)] *(Specify "(adjusted)" or "(not adjusted)" after the Day Count Fraction)*
16.	Zero Coupon Covered Bond Provisions:		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Accrual Yield:	[●] per cent. per annum
	(b)	Reference Price:	[●]
	(c)	Any other formula/basis of determining amount payable:	[●] (*Consider applicable Day Count Fraction if not U.S. dollar denominated*)
	(d)	Business Day Convention:	[Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[*specify other*]]
	(e)	Business Day(s):	[●]
	(f)	Additional Business Centre(s):	[●]
	(g)	Day Count Fraction in relation to Early Redemption Amounts and late payment:	[Conditions 6.7(b) (*Early Redemption Amounts*) and 6.10(b) (*Late Payment*) apply]
	(h)	Determination Date(s):	[●]

(*N.B. Zero Coupon Covered Bonds are not to be issued with an Extended Due for Payment Date unless otherwise agreed with the relevant Dealer(s) and the Bond Trustee*)

PROVISIONS RELATING TO REDEMPTION

17.	Issuer Call:		[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
	(a)	Optional Redemption Date(s):	[●] (*N.B. Optional Redemption Dates must be Interest Payment Dates unless otherwise agreed with the relevant Dealer(s) and the Bond Trustee*)
	(b)	Optional Redemption Amount of each Covered Bond and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(c)	If redeemable in part:	
		(i) Minimum Redemption Amount:	[●] per Calculation Amount
		(ii) Maximum Redemption Amount:	[●] per Calculation Amount
	(d)	Notice period (if other than as set out in the Terms and Conditions):	[●] (*N.B. If setting notice periods which are different to those provided in the Terms and Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Issuing and Paying Agent or Bond Trustee*)
18.	Put Option:		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Optional Redemption Date(s):	[●]

	(b) Optional Redemption Amount(s) of each Covered Bond and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(c) Notice Period:	[●] (*NB: If setting notice periods which are different to those provided in the terms and conditions, issuers are advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the issuer or any trustee*)
19.	Final Redemption Amount of each Covered Bond:	[●] per Calculation Amount
20.	Early Redemption Amount of each Covered Bond payable on redemption for taxation reasons or illegality or upon acceleration following an Issuer Event of Default or Guarantor Event of Default or other early redemption and/or the method of calculating the same (if required or if different from that set out in Condition 6.7 (*Early Redemption Amounts*)):	[●] per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

21.	Form of Covered Bonds:	[Bearer Covered Bonds: [Temporary Global Covered Bond exchangeable for Bearer Definitive Covered Bonds on [●] days' notice] [Temporary Global Covered Bond exchangeable for a Permanent Global Covered Bond which is exchangeable for Bearer Definitive Covered Bonds only upon an Exchange Event] [Registered Covered Bonds: Regulation S Global Covered Bond ([●] nominal amount) registered in the name of the [common depositary/common safekeeper] for [DTC or its nominee/Euroclear and Clearstream, Luxembourg or its nominee]

22.	New Global Covered Bond:	[Yes/No]
23.	Global Covered Bond held under the New Safekeeping Structure:	[Yes/No]
24.	Financial Centre(s) or other special provisions relating to payment dates:	[Not Applicable/[●]] *(Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which subparagraphs 14(e), 15(f), and 16(e) relate)*
25.	Talons for future Coupons to be attached to Bearer Definitive Covered Bonds (and dates on which such Talons mature):	[Yes/No]
26.	Redenomination, renominalisation and reconventioning provisions:	[Not Applicable/The provisions in Condition 5.8 (*Redenomination*) apply]

DISTRIBUTION

27.	(a)	If syndicated, names of Managers:	[Not Applicable/[●]]
	(b)	Stabilising Manager (if any):	[Not Applicable/[●]]
28.	If non-syndicated, name and address of Dealer:		[●]
29.	(a)	U.S. Selling Restrictions:	[Rule 144A]/[Regulation S Category [●] /Other [●]; TEFRA [C/D] Rules/TEFRA not applicable]
	(b)	ERISA:	[Yes/No]
30.	Non-exempt Offer:		Not Applicable
31.	Additional selling restrictions:		[Not Applicable/[●]]
32.	Additional United States Tax Considerations:		[Not Applicable/[●]]
33.	Prohibition of Sales to EEA and UK Retail Investors:		[Applicable/Not Applicable]

PURPOSE OF PRICING SUPPLEMENT

This Pricing Supplement comprises the pricing supplement required for issue of Exempt Covered Bonds described herein pursuant to the U.S.$30 billion Global Registered Covered Bond Program of Bank of Montreal.

RESPONSIBILITY

Each of the Issuer and the Guarantor accepts responsibility for the information contained in this Pricing Supplement. **[[●] has been extracted from [●]. Each of the Issuer and the Guarantor confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [●], no facts have been omitted which would render the reproduced information inaccurate or misleading.]**

Signed on behalf of the Issuer:

By:

Duly authorised

Signed on behalf of the Guarantor:

By:

Duly authorised

PART B

OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

(a)	Listing and admission to trading:	[Not Applicable] [Application has been made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on the [(insert name of stock exchange outside of the UK)] with effect from [●].] [Application is expected to be made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on the [(insert name of stock exchange outside of the UK)] with effect from [●].]
(b)	Estimate of total expenses related to admission to trading:	[●]

2. RATINGS

Ratings:	The Covered Bonds to be issued [are expected to be][have been rated]:
	Fitch: [●]
	Moody's: [●]
	DBRS: [●]

3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save as discussed in *Subscription and Sale and Transfer and Selling Restrictions*, so far as the Issuer and the Guarantor are aware, no person involved in the offer of the Covered Bonds has an interest material to the offer.] [The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business.]

4. YIELD (*Fixed Rate Covered Bonds only*)

Indication of yield:	[●]
	[The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

5. OPERATIONAL INFORMATION

(a)	ISIN Code:	[●]

(b)	Common Code:	[●]
(c)	WKN Code:	[●]
(d)	CFI Code:	[●]
(e)	FISN Code:	[●]
(f)	Any clearing system(s) other than DTC, Euroclear or Clearstream, Luxembourg and the relevant identification number(s) or codes such as CUSIP and CINS codes:	[Not Applicable/[●]]
(g)	Name and address of initial Paying Agent(s)/Registrar(s)/Transfer Agent(s):	[●]
(h)	Names and addresses of additional Paying Agent(s)/Transfer Agent(s) (if any):	[●]
(i)	Intended to be held in a manner which would allow Eurosystem Eligibility:	[Yes. Note that the designation "yes" simply means that the Covered Bonds are intended upon issue to be deposited with one of the ICSDs as common safekeeper[, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper] [*include this text for Registered Notes which are to be held under the NSS*] and does not necessarily mean that the Covered Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]/[No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Covered Bonds are capable of meeting them the Covered Bonds may then be deposited with one of the ICSDs as common safekeeper [, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper] [*include this text for Registered Notes*]. Note that this does not necessarily mean that the Covered Bonds will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem

at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

6. DISTRIBUTION

U.S. Selling Restrictions:	[Rule 144A]/[Regulation S Category [●]/Other [●]; TEFRA [C/D] Rules/TEFRA not applicable]
Prohibition of Sales to EEA and UK Retail Investors:	[Applicable/Not Applicable]

7. UNITED STATES TAX CONSIDERATIONS

[Not applicable]/[*For Covered Bonds issued in compliance with Rule 144A:*] For U.S. federal income tax purposes, the Issuer intends to treat the Covered Bonds as [Discount Bonds/fixed rate debt/Contingent Payment Bonds, [for which purpose, the comparable yield relating to the Covered Bonds will be [●] per cent. compounded [semi-annually/quarterly/monthly], and the projected payment schedule with respect to a Covered Bond consists of the following payments: [●]/for which purpose, the comparable yield and the projected payment schedule are available by contacting [●] at [●]]/Variable Rate Bonds/Variable Rate Bonds issued with original issue discount/foreign currency Covered Bonds/foreign currency Covered Bonds issued with original issue discount/foreign currency Contingent Payment Bonds, [for which purpose, the comparable yield relating to the Covered Bonds will be [●] per cent. compounded [semi-annually/quarterly/monthly], and the projected payment schedule with respect to a Covered Bond consists of the following payments: [●]/for which purpose, the comparable yield and the projected payment schedule are available by contacting [●] at [●]]/Short-Term Bonds.]]

[*For a Qualified Reopening of Covered Bonds issued in compliance with Rule 144A*:][Qualified Reopening. The issuance of the Covered Bonds should be treated as a "qualified reopening" of the Covered Bonds issued on [●] within the meaning of the U.S. Treasury regulations governing original issue discount on debt instruments (the **OID Regulations**). Therefore, for purposes of the OID Regulations, the Covered Bonds issued in this offering should be treated as having the same issue date and the same issue price as the Covered Bonds issued on [●] and should [not] be considered to have been issued with original issue discount for U.S. federal income tax purposes.]

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 Issuer 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 Pricing Supplement in relation to any Tranche of Exempt Covered Bonds may specify other terms and conditions which shall, 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 Exempt Covered Bonds. The applicable Final Terms Document or the relevant Pricing Supplement (as the case may be) (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 Final Terms Document or Pricing 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 Issuer constituted by a trust deed dated the Program Date made between Bank of Montreal, acting through its Toronto branch (the **Issuer**), 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 or bearer covered bond representing Covered Bonds (a **Global Covered Bond**);

(b) in relation to any Covered Bonds represented by a Global Covered Bond, units of the lowest Specified Denomination in the Specified Currency;

(c) any Bearer Definitive Covered Bonds issued in exchange for a Global Covered Bond in bearer form; and

(d) any Definitive Covered Bonds or Covered Bonds in registered form representing Covered Bonds issued under a registration statement under the Securities Act (the **U.S. Registered Covered Bonds**), or Covered Bonds sold to non-U.S. persons outside the United States in reliance on Regulation S (**Regulation S Definitive Covered Bonds**) and within the United States to "qualified institutional buyers" within the meaning of Rule 144A under the Securities Act (**Rules 144A Definitive Covered Bond**, together with U.S. Registered Covered Bonds, Regulation S Definitive Covered Bonds and Bearer Definitive Covered Bonds, **Definitive Covered Bonds**) (whether or not issued in exchange for a Global Covered Bond in registered form) (whether or not issued in exchange for a Global Covered Bond in registered form).

The Covered Bonds and the Coupons (as defined below) have the benefit of an amended and restated agency agreement dated 11 April 2014, made between the Issuer, the Guarantor, the Bond Trustee, The Bank of New York Mellon, London Branch and The Bank of New York Mellon as issuing and paying agents (in such capacity, collectively, the **Issuing and Paying Agent**, which expression will include any successor Issuing and Paying Agent, and together with any other paying agents, the **Paying Agents**, which expression will include any additional or successor Paying Agents), The Bank of New York Mellon (Luxembourg) S.A. and The Bank of New York Mellon as registrars (together, as the **Registrar**, which expression will

include any successor Registrar), The Bank of New York Mellon, London Branch, The Bank of New York Mellon SA/NV – Luxembourg Branch (formerly named The Bank of New York Mellon S.A.) and The Bank of New York Mellon as transfer agents (together, as the **Transfer Agent**, which expression will include any successor Transfer Agent), and The Bank of New York Mellon as the exchange agent (the **Exchange Agent**, which expression will include any successor Exchange Agent, and together with the Paying Agents, the 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**).

Interest bearing Bearer Definitive Covered Bonds have (unless otherwise indicated in the applicable Final Terms Document or Pricing Supplement) interest coupons (**Coupons**) and, if indicated in the applicable Final Terms Document or Pricing Supplement, talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons or coupons will, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Registered Covered Bonds and Global Covered Bonds do not have Coupons or Talons attached on issue.

The Final Terms Document or Pricing Supplement for the Covered Bonds is endorsed on or attached to the Covered Bond and supplements these Terms and Conditions (the **Terms and Conditions**). The relevant Final Terms Document or Pricing Supplement in relation to any Tranche of Exempt Covered Bonds 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 such Covered Bonds. References to the applicable Final Terms Document (or Pricing Supplement) are to the Final Terms Document or Pricing 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**, which expression will, in relation to any Covered Bonds represented by a Global Covered Bond, be construed as provided below) and the holders of the Coupons (the **Couponholders**, which expression will, unless the context otherwise requires, include the holders of the Talons), 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 Issuer (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 Charged Property 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

Charged Property and recourse against the Guarantor is limited to the Charged Property 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 redacted or other general form and subject to any exclusions pursuant to applicable Law, including, without limitation, privacy Law, and policies of the Issuer relating to confidentiality and privacy matters) are available for inspection (i) during normal business hours at the office for the time being of the Bond Trustee being at 100 University Avenue, 11th Floor, Toronto, Ontario, Canada M5J 2Y1, and at the specified office of each of the Paying Agents and at the Executive Offices of the Bank and (ii) through the CMHC's covered bond registry at (http://www.cmhc.ca/en/hoficlincl/cacobo/cacobo_004.cfm). Information on or accessible through the Bank's website or the CMHC website does not form part of this Prospectus. Copies of the applicable Final Terms Document or Pricing 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 Issuer and at the specified office of each of the Paying Agents. The Covered Bondholders and the Couponholders are deemed to have notice of and 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 Final Terms Document or Pricing Supplement which are applicable to them.

Except where the context otherwise requires, capitalised 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 Final Terms Document or Pricing 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 bearer form or in registered form as specified in the applicable Final Terms Document or Pricing Supplement and may be issued in book-entry form or definitive form. Definitive Covered Bonds are serially numbered and issued in the Specified Currency and the Specified Denomination(s). Unless otherwise specified in the applicable Final Terms Document or Pricing Supplement, Covered Bonds of one Specified Denomination may not be exchanged for Covered Bonds of another Specified Denomination. Bearer Covered Bonds may not be exchanged for Registered Covered Bonds and vice versa.

For the purposes of the Bank Act, the main branch of the Bank located at its executive offices in Toronto shall be the branch of account for the deposits evidenced by the Covered Bonds.

The Covered Bonds may be denominated in any currency.

The Covered Bonds in a Series may be Fixed Rate Covered Bonds, Floating Rate Covered Bonds, Zero Coupon Covered Bonds or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms Document or Pricing 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 Issuer has obtained confirmation from each of the Rating Agencies that

the ratings of 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.

Bearer Definitive Covered Bonds are issued with Coupons attached, unless they are Zero Coupon Covered Bonds, in which case, references to Coupons and Couponholders in these Terms and Conditions are not applicable.

Subject as set out below, title to the Bearer Covered Bonds and Coupons will pass by delivery and title to the Registered Covered Bonds will pass upon registration of transfers in accordance with the provisions of the Agency Agreement. The Issuer, the Guarantor, the Paying Agents, and the Bond Trustee will (except as otherwise required by Law) deem and treat the bearer of any Bearer Covered Bond or Coupon and 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 the Common Depositary, or Common Safekeeper, as the case may be, for Euroclear, Clearstream, Luxembourg or DTC, each Person (other than Euroclear, Clearstream, Luxembourg or DTC) who is for the time being shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a particular nominal amount of such Covered Bonds (in which regard any certificate or other document issued by Euroclear, DTC or Clearstream, Luxembourg 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 (including, without limitation, Euroclear's EUCLID or Clearstream, Luxembourg's Cedcom 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 Issuer, 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 Euroclear, DTC and Clearstream, Luxembourg or any other relevant clearing system, as the case may be.

References to Euroclear, DTC and/or Clearstream, Luxembourg will, whenever the context so permits (but not in the case of any NGCB), 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 Final Terms Document or Pricing Supplement or as may otherwise be approved by the Issuer, the Issuing and 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 Euroclear, Clearstream, Luxembourg or DTC, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such Clearing Systems 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 Final Terms Document or Pricing Supplement and only in accordance with the rules and operating procedures for the time being of Euroclear, Clearstream, Luxembourg or DTC, as the case may be, and in accordance with the terms and conditions specified in the Agency Agreement. Transfers of a Registered Global Covered Bond registered in the name of a nominee for DTC will be limited to transfers of such Registered Global Covered Bond, in whole but not in part, to another nominee of DTC or to a successor of DTC or to such successor's nominee.

2.2 Transfers of Registered Covered Bonds in definitive form

Subject as provided in Conditions 2.3 (*Registration of transfer upon partial redemption*), 2.4 (*Costs of registration*), and 2.5 (*Transfers of interests in Regulation S Global Covered Bonds in the United States or to U.S. Persons*), 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 Final Terms Document or Pricing 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 authorised 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 inquiry, 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 Issuer, the Bond Trustee and the Registrar may from time to time prescribe (the initial such regulations being set out in the Agency Agreement).

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 Issuer 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 Issuer, 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.

2.5 Transfers of interests in Regulation S Global Covered Bonds in the United States or to U.S. Persons

Prior to expiry of the applicable Distribution Compliance Period (as defined below), transfers by the holder of, or of a beneficial interest in, a Regulation S Global Covered Bond to a transferee in the United States or who is a U.S. Person will only be made: (a) upon receipt by the Registrar of a written certification substantially in the form set out in the Agency Agreement, amended as appropriate with the consent of the Issuer (a **Transfer Certificate**), copies of which are available from the specified office of the Registrar or any Transfer Agent, from the transferor of the Covered Bond or beneficial interest therein to the effect that such transfer is being made to a Person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A; or (b) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities Laws of any State of the United States, and, in each case, in accordance with any applicable securities Laws of any State of the United States or any other jurisdiction. Such transferee may take delivery through a Rule 144A Covered Bond.

Prior to the expiry of the applicable Distribution Compliance Period beneficial interests in Regulation S Covered Bonds registered in the name of a nominee for DTC may only be held through the accounts of Euroclear and Clearstream, Luxembourg. After expiry of the applicable Distribution Compliance Period (i) beneficial interests in Regulation S Global Covered Bonds registered in the name of a nominee for DTC may be held through DTC directly, by a participant in DTC, or indirectly through a participant in DTC and (ii) such certification requirements will no longer apply to such transfers.

2.6 Transfers of interests in Rule 144A Covered Bonds

Transfers of Rule 144A Covered Bonds or beneficial interests therein may be made:

(a) to a transferee who takes delivery of such interest through a Regulation S Covered Bond, upon receipt by the Registrar of a duly completed Transfer Certificate from the transferor to the effect that such transfer is being made in accordance with Regulation S and that, in the case of a Regulation S Global Covered Bond registered in the name of a nominee for DTC, if such transfer is being made prior to expiry of the applicable Distribution Compliance Period, the interests in the Covered Bonds being transferred will be held immediately thereafter through Euroclear and/or Clearstream, Luxembourg; or

(b) to a transferee who takes delivery of such interest through a Rule 144A Covered Bond, where the transferee is a Person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, without certification; or

(c) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities Laws of any State of the United States,

and, in each case, in accordance with any applicable securities Laws of any State of the United States or any other jurisdiction.

Upon the transfer, exchange or replacement of Rule 144A Covered Bonds, or upon specific request for removal of any United States securities law legend on Rule 144A Covered Bonds, the Registrar shall deliver only Rule 144A Covered Bonds or refuse to remove the legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence as may reasonably be required by the Issuer, which may include an opinion of U.S. counsel, that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

2.7 Definitions

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

Bearer Covered Bonds means Covered Bonds in bearer form;

Bearer Definitive Covered Bonds means a Bearer Covered Bond in definitive form issued or, as the case may require, to be issued by the Issuer in accordance with the provisions of the Program Agreement or any other agreement between the Issuer and the relevant Dealer(s), the Agency Agreement and the Trust Deed in exchange for either a Temporary Global Covered Bond or part thereof or a Permanent Global Covered Bond (all as indicated in the applicable Final Terms Document), such Bearer Covered Bond in definitive form being substantially in the form set out in the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Issuer and Paying Agent, the Bond Trustee and the relevant Dealer(s) or Lead Manager (in the case of syndicated issues) and having the Terms and Conditions endorsed thereon or, if permitted by the relevant Stock Exchange, incorporating the Terms and Conditions by reference as indicated in the applicable Final Terms Document or Pricing Supplement and having the relevant information supplementing, replacing or modifying the Terms and Conditions appearing in the applicable Final Terms Document endorsed thereon or attached thereto and (except in the case of a Zero Coupon

Covered Bond in bearer form) having Coupons and, where appropriate, Receipts and/or Talons attached thereto on issue;

Bond Trustee means Computershare Trust Company of Canada, in its capacity as Bond Trustee under the Trust Deed or as trustee under the Security Agreement together with any successor Bond Trustee appointed from time to time;

Covered Bond means each covered bond issued or to be issued pursuant to the Program Agreement and which is or is to be constituted under the Trust Deed, which Covered Bond may be represented by a Global Covered Bond or any Definitive Covered Bond and includes any replacements for a Covered Bond issued pursuant to Condition 6 (*Redemption and Purchase*) and Condition 10 (*Replacement of Covered Bonds, Coupons and Talons*);

Dealer means each dealer appointed from time to time in accordance with the Program Agreement, which appointment may be for a specific issue or on an ongoing basis. References in this Prospectus to the relevant Dealer(s) will, in the case of an issue of Covered Bonds being (or intended to be) subscribed for or purchased by more than one Dealer, be to all relevant Dealer(s) agreeing to subscribe for or purchase such Covered Bonds;

Dealership Agreement means the Dealership Agreement entered into on or after the Program Date between the Issuer, the Guarantor and the Dealers (as amended and/or supplemented and/or restated from time to time) for the sale of Covered Bonds;

Definitive Covered Bonds means Rule 144A Definitive Covered Bonds, Regulation S Definitive Covered Bonds and Bearer Definitive Covered Bonds;

Distribution Compliance Period, with respect to a Tranche of Covered Bonds, means the period that ends 40 days after the completion of the distribution of the Tranche of Covered Bonds of which such Covered Bonds are a part;

European Registrar means The Bank of New York Mellon SA/NV – Luxembourg Branch (formerly named The Bank of New York Mellon (Luxembourg) S.A.), in its capacity as European registrar (and any successor European registrar thereunder);

Exempt Covered Bonds means Covered Bonds which are neither to be admitted to trading on a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC) in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Regulation (Regulation (EU) 2017/1129, as amended);

Final Terms Document means the final terms document relating to each Series (or Tranche, as the case may be) of Covered Bonds, which sets out the final terms for that Tranche or Series; and **applicable Final Terms Document** means, with respect to a Series or Tranche of Covered Bonds, the Final Terms Document applicable to such Series or Tranche, as the case may be, and unless the context requires otherwise, any reference to a Final Terms Document or applicable Final Terms Document shall include a reference to the related pricing supplement, if applicable;

Fixed Rate Covered Bonds means Covered Bonds that pay a fixed rate of interest on such date or dates as may be agreed between the Issuer and the relevant Dealer(s) and on redemption calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s);

Floating Rate Covered Bonds means Covered Bonds which bear interest at a rate determined:

(a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the ISDA Definitions; or

(b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or

(c) in respect of Exempt Covered Bonds only, on such other basis as may be agreed between the Issuer and the relevant Dealer(s),

as set out in the applicable Final Terms Document or Pricing Supplement;

Interest Commencement Date means, in the case of interest bearing Covered Bonds, the date specified in the applicable Final Terms Document or Pricing Supplement from (and including) which the relevant Covered Bonds start accruing interest;

Issue Date means each date on which the Issuer issues a Tranche of Covered Bonds under the Program, as specified in the applicable Final Terms Document or Pricing Supplement;

Issue Price means the price, generally expressed as a percentage of the nominal amount of the Covered Bonds, at which a Series or Tranche of Covered Bonds will be issued;

Issuer means Bank of Montreal, a chartered bank under the Bank Act, whose registered office is at 129 rue Saint-Jacques, Montréal, Québec, Canada H2Y 1L6;

Issuing and Paying Agent means, unless otherwise specified in applicable Final Terms Document, (a) in relation to all or any Series of Covered Bonds with respect to which the Clearing System is Euroclear and/or Clearstream, Luxembourg, The Bank of New York Mellon, London Branch, in its capacity as an issuing and paying agent or, if applicable, any successor issuing and paying agent in relation to any such Series of Covered Bonds, and (b) in relation to all or any other Series of Covered Bonds, The Bank of New York Mellon, in its capacity as an issuing and paying agent or, if applicable, any successor issuing and paying in relation to any such Series of Covered Bonds; The Bank of New York Mellon, London Branch, in its capacity as issuing and paying agent (which expression shall include any successor issuing and paying agent);

Lead Manager means, in relation to any Series or Tranche of Covered Bonds, the Person named as the Lead Manager in the applicable subscription agreement or, when only one Dealer signs such subscription agreement, such Dealer;

Permanent Global Covered Bond means a Global Covered Bond substantially in the form set out in Part 2 of Schedule 2 to the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Issuing and Paying Agent, the Bond Trustee and the relevant Dealer(s) or Lead Manager (in the case of syndicated issues), together with the copy of the applicable Final Terms Document annexed thereto, comprising some or all of the Covered Bonds of the same Series, issued by the Issuer pursuant to the Program Agreement or any other agreement between the Issuer and the relevant Dealer(s) relating to the Program, the Agency Agreement and the trust presents in exchange for the whole or part of any Temporary Global Covered Bond issued in respect of such Covered Bonds;

Pricing Supplement means the pricing supplement in the form set out in Part C of Schedule 3 to the Agency Agreement;

Program Agreement means the Dealership Agreement and such other agreement or agreements, as the case may be, to the extent then in force, under which Covered Bonds may from time to time be agreed to be sold by the Issuer to, and purchased by, the relevant Dealer(s);

Program Date means 30 September 2013;

Prospectus Regulation means Regulation (EU) 2017/1129 (as amended);

QIB means a "qualified institutional buyer" within the meaning of Rule 144A;

Registered Covered Bonds means Covered Bonds in registered form;

Registered Global Covered Bonds means Global Covered Bonds in registered form, comprising Rule 144A Global Covered Bonds and Regulation S Global Covered Bonds, substantially in the form set out in **Part 8** of Schedule 2 to the Trust Deed;

Regulation S means Regulation S under the Securities Act;

Regulation S Definitive Covered Bond means a definitive Covered Bond in registered form representing Covered Bonds sold to non-U.S. Persons outside the United States in reliance on Regulation S;

Regulation S Global Covered Bond means a Registered Covered Bond in registered form representing Covered Bonds sold to non-U.S. Persons outside the United States in reliance on Regulation S;

Rule 144A means Rule 144A under the Securities Act;

Rule 144A Covered Bond means a Covered Bond represented by a Rule 144A Global Covered Bond or a Definitive Rule 144A Covered Bond;

Rule 144A Definitive Covered Bond means a Registered Covered Bond sold in the United States to QIBs in reliance on Rule 144A, which is in definitive form;

Rule 144A Global Covered Bond means a Registered Global Covered Bond representing Covered Bonds sold in the United States to QIBs in reliance on Rule 144A;

Specified Currency means, subject to any applicable legal or regulatory restrictions, euro, Sterling, U.S. Dollars, Canadian Dollars and such other currency or currencies as may be agreed from time to time by the Issuer, the relevant Dealer(s), the Issuing and Paying Agent and the Bond Trustee and specified in the applicable Final Terms Document;

Specified Denomination means, in respect of a Series of Covered Bonds, the denomination or denominations of such Covered Bonds specified in the applicable Final Terms Document;

Temporary Global Covered Bond means a temporary Global Covered Bond substantially in the form set out in **Part 1** of Schedule 2 to the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Issuing and Paying Agent, the Bond Trustee and the relevant Dealer(s) or Lead Manager (in the case of syndicated issues), together with the copy of the

applicable Final Terms Document annexed thereto, comprising some or all of the Covered Bonds of the same Series, issued by the Issuer pursuant to the Program Agreement or any other agreement between the Issuer and the relevant Dealer(s) relating to the Program, the Agency Agreement and the trust presents; and

Zero Coupon Covered Bonds means Covered Bonds which will be offered and sold at a discount to their nominal amount and which will not bear interest.

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 Issuer for purposes of the Bank Act and will rank *pari passu* with all deposit liabilities of the Issuer 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 Issuer from time to time outstanding (except as prescribed by Law).

The Covered Bonds will not be deposits insured under the CDIC Act or under any other governmental insurance scheme of any country.

The Covered Bonds will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer (except as prescribed by Law).

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 favour 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 Issuer) or, if earlier, the occurrence of a Guarantor Event of Default and service of a Guarantor Acceleration Notice by the Bond Trustee on 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 favour 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, but subject to Condition 4.3 (*Interest following a Notice to Pay*) 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 Final Terms Document or Pricing Supplement, the amount of interest payable on each Interest Payment Date in respect of the Interest Period (as defined in Condition 4.5 (*Business Day, Business Day Convention, Day Count Fractions and other adjustments*)) 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 Final Terms Document or Pricing Supplement, include an amount which may be paid in addition to the interest payment on such Interest Payment Date, if so specified (the **Broken Amount**).

Except in the case of Covered Bonds in definitive form where a "Fixed Coupon Amount" or "Broken Amount" is specified in the applicable Final Terms Document or Pricing 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 the applicable Day Count Fraction, 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 Final Terms Document or Pricing 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 Final Terms Document or Pricing 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.

The yield for any Fixed Rate Covered Bond is calculated at the Issue Date on the basis of the Issue Price and is not an indication of future yield.

4.2 Interest on Floating Rate Covered Bonds

(a) *Interest Payment Dates*

Each Floating Rate Covered Bond bears interest on its Principal Amount Outstanding (subject to Condition 4.3 (*Interest following a Notice to Pay*)) from (and including) the Interest Commencement Date and such interest will be payable in arrears on either:

(i) the Interest Payment Date(s) in each year specified in the applicable Final Terms Document or Pricing Supplement; or

(ii) if no Interest Payment Date(s) is/are specified in the applicable Final Terms Document or Pricing Supplement, each date which falls the number of months or other period specified as the Interest Period in the applicable Final Terms Document or Pricing Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date,

each such date, an **Interest Payment Date**.

Such interest will be payable in respect of each Interest Period.

(b) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Covered Bonds will be determined in the manner specified in the applicable Final Terms Document or Pricing Supplement.

(i) ISDA Determination for Floating Rate Covered Bonds

Where "ISDA Determination" is specified in the applicable Final Terms Document or Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms Document or Pricing Supplement) the Floating Rate Covered Bond Margin (if any). For the purposes of this subparagraph (i), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Issuing and Paying Agent or other Person specified in the applicable Final Terms Document or Pricing Supplement under an interest rate swap transaction if the Issuing and Paying Agent or that other Person were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the ISDA Definitions, and under which:

(A) the Floating Rate Option is as specified in the applicable Final Terms Document or Pricing Supplement;

(B) the Designated Maturity is the date specified in the applicable Final Terms Document or Pricing Supplement; and

(C) unless otherwise stated in the applicable Final Terms Document or Pricing Supplement, the relevant Reset Date is the first day of that Interest Period.

For the purposes of this subparagraph (i), "Floating Rate", "Calculation Agent", "Floating Rate Option", "Designated Maturity" and "Reset Date" have the meanings given to those terms in the ISDA Definitions.

(ii) Screen Rate Determination for Floating Rate Covered Bonds

LIBOR/EURIBOR

Where "Screen Rate Determination" is specified in the applicable Final Terms Document or Pricing Supplement as the manner in which the Rate of Interest is to be determined and the Reference Rate in respect of the relevant Series of Floating Rate Covered Bonds is specified in the applicable Final Terms Document or Pricing Supplement as being LIBOR

or EURIBOR, the Rate of Interest for each Interest Period will, subject as provided below, be either:

(A) the offered quotation (if there is only one quotation on the Relevant Screen Page); or

(B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 am (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms Document or Pricing Supplement) the Floating Rate Covered Bond Margin (if any), all as determined by the Issuing and Paying Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) will be disregarded by the Issuing and Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

If the Relevant Screen Page is not available or if, in the case of this subparagraph (ii), no offered quotation appears or fewer than three offered quotations appear, in each case as at the Specified Time, the Issuing and Paying Agent will request each of the Reference Banks to provide the Issuing and Paying Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Specified Time on the Interest Determination Date in question. If two or more of the Reference Banks provide the Issuing and Paying Agent with offered quotations, the Rate of Interest for the Interest Period will be the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Floating Rate Covered Bond Margin (if any), all as determined by the Issuing and Paying Agent.

SONIA

Where "Screen Rate Determination" is specified in the applicable Final Terms Document or Pricing Supplement as the manner in which the Rate of Interest is to be determined and the Reference Rate in respect of the relevant Series of Floating Rate Covered Bonds is specified in the applicable Final Terms Document or Pricing Supplement as being SONIA, the Rate of Interest for each Interest Period will, subject as provided below, be Compounded Daily SONIA plus or minus (as indicated in the applicable Final Terms Document or Pricing Supplement) the Margin. Compounded Daily SONIA will be calculated in accordance with either the lag observation method (the "**Observation Lookback Convention**") or the shift observation method (the "**Observation Shift Convention**" and each a "**Compounded Daily SONIA Observation Convention**"). The applicable Final Terms Document or Pricing Supplement will indicate which Compounded Daily SONIA Observation Convention is applicable.

Compounded Daily SONIA means, with respect to an Interest Accrual Period, the rate of return of a daily compound interest investment (with the daily SONIA reference rate as reference rate for the calculation of interest) and will be calculated by the Issuing and

Paying Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the applicable Final Terms Document or Pricing Supplement) on the relevant Interest Determination Date, as follows, and the resulting percentage will be rounded if necessary to the fifth decimal place, with 0.000005 per cent. being rounded upwards:

Observation Lookback Convention:

$$\left[\prod_{i=1}^{d_0}\left(1+\frac{SONIA_{i-pLBD}\ \times\ n_i}{365}\right)-1\right]\times\frac{365}{d}$$

where:

d is the number of calendar days in the relevant Interest Accrual Period;

d_0 is the number of London Banking Days in the relevant Interest Accrual Period;

i is a series of whole numbers from one to d_o, each representing the relevant London Banking Day in chronological order from, and including, the first London Banking Day in the relevant Interest Accrual Period;

Interest Accrual Period means any given Interest Period;

n_i, for any London Banking Day "i", means the number of calendar days from and including such London Banking Day "i" up to but excluding the following London Banking Day;

Observation Look-Back Period is as specified in the applicable Final Terms Document or Pricing Supplement;

p, for any Interest Accrual Period, is the number of London Banking Days included in the Observation Look-Back Period, as specified in the applicable Final Terms Document or Pricing Supplement; and

$SONIA_{i-pLBD}$ means, in respect of any London Banking Day "i", the SONIA reference rate for the London Banking Day falling "p" London Banking Days prior to the relevant London Banking Day "i".

Observation Shift Convention:

$$\left[\prod_{i=1}^{d_o}\left(1+\frac{SONIA_i \times n_i}{365}\right)-1\right]\times\frac{365}{d}$$

where:

"**d**" is the number of calendar days in the relevant Observation Shift Period;

"**d_o**" is the number of London Banking Days in the relevant Observation Shift Period;

"**i**" is a series of whole numbers from one to d_o, each representing the relevant London Banking Day in chronological order from, and including, the first London Banking Day in the relevant Observation Shift Period;

"$\mathbf{n_i}$", for any London Banking Day "i", in the Observation Shift Period, means the number of calendar days from and including such London Banking Day "i" up to but excluding the following London Banking Day;

"**p**", for any Interest Accrual Period, is the number of London Banking Days included in the Observation Shift Period, as specified in the applicable Final Terms Document or Pricing Supplement;

"**Observation Shift Period**" means the period from and including the date falling "p" London Banking Days prior to the first day of the relevant Interest Accrual Period (and the first Interest Accrual Period shall begin on and include the Interest Commencement Date) and ending on, but excluding, the date falling "p" London Banking Days prior to the Interest Payment Date for such Interest Accrual Period; and

"$\mathbf{SONIA_i}$" means, in respect of any London Banking Day "i" falling in the relevant Observation Shift Period the SONIA reference rate for that day London Banking Day "i".

And, for each Compounded Daily SONIA Observation Convention:

London Banking Day or **LBD** means any day on which commercial banks are open for general business (including dealing in foreign exchange and foreign currency deposits) in London, United Kingdom;

the **SONIA reference rate,** in respect of any London Banking Day, is a reference rate equal to the daily Sterling Overnight Index Average **(SONIA)** rate for such London Banking Day as provided by the administrator of SONIA to authorised distributors and as then published on the Relevant Screen Page or, if the Relevant Screen Page is unavailable, as otherwise published by such authorised distributors, in each case on the London Banking Day immediately following such London Banking Day; and

If, in respect of any London Banking Day, the Issuing and Paying Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the applicable Final Terms Document or Pricing Supplement) determines that the SONIA reference rate is not available on the Relevant Screen Page and has not otherwise been published by the relevant authorized distributors, then the SONIA reference rate in respect of such London Banking Day shall be: (a) (i) the Bank of England's Bank Rate (the **Bank Rate**) prevailing at 5:00 p.m. (or, if earlier, close of business) on such London Banking Day; plus (ii) the mean of the spread of the SONIA reference rate to the Bank Rate over the previous five London Banking Days in respect of which a SONIA reference rate has been published, excluding the highest spread (or, if there is more than one highest spread, one only of those highest spreads) and lowest spread (or, if there is more than one lowest spread, one only of those lowest spreads) to the Bank Rate; or (b) if the Bank Rate is not available on the relevant London Banking Day, the most recent SONIA reference rate in respect of a London Banking Day.

Notwithstanding the paragraph above, in the event the Bank of England publishes guidance as to (i) how the SONIA rate is to be determined or (ii) any rate that is to replace the SONIA

reference rate, the Issuing and Paying Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the applicable Final Terms Document or Pricing Supplement) shall, subject to receiving written instructions from the Issuer and to the extent that it is reasonably practicable, follow such guidance in order to determine the SONIA rate for any London Banking Day "i" for the purpose of the relevant Series of Covered Bonds for so long as the SONIA rate is not available and has not been published by the authorised distributors.

If the relevant Series of Covered Bonds become due and payable in accordance with Condition 9 (*Events of Default, Acceleration and Enforcement*), the final Interest Determination Date shall, notwithstanding any Interest Determination Date specified in the applicable Final Terms Document or Pricing Supplement, be deemed to be the date on which such Covered Bonds become due and payable, and the Rate of Interest on such Covered Bonds shall, for so long as such Covered Bonds remain outstanding, be that determined on such date.

SOFR

On 22 June 2017, the Alternative Reference Rates Committee (**ARRC**) convened by the Board of Governors of the Federal Reserve System and the Federal Reserve Bank of New York identified the Secured Overnight Financing Rate (**SOFR**) as the rate that, in the consensus view of the ARRC, represented the best practice for use in certain new U.S. dollar derivatives and other financial contracts. SOFR is a broad measure of the cost of borrowing cash overnight collateralized by U.S. Treasury securities, and has been published by the Federal Reserve Bank of New York since April 2018. The Federal Reserve Bank of New York has also begun publishing historical indicative Secured Overnight Financing Rates from 2014. Investors should not rely on any historical changes or trends in SOFR as an indicator of future changes in SOFR.

The composition and characteristics of SOFR are not the same as those of LIBOR, and SOFR is fundamentally different from LIBOR in two key respects. First, SOFR is a secured rate, while LIBOR is an unsecured rate. Second, SOFR is an overnight rate, while LIBOR is a forward-looking rate that represents interbank funding over different maturities (e.g., three months). As a result, there can be no assurance that SOFR (including Compounded SOFR) will perform in the same way as LIBOR would have at any time, including, without limitation, as a result of changes in interest and yield rates in the market, market volatility or global or regional economic, financial, political, regulatory, judicial or other events.

The SOFR Index is published by the Federal Reserve Bank of New York and measures the cumulative effect of compounding SOFR on a unit of investment over time, with the initial value set to 1.00000000 on 2 April 2018, the first value date of SOFR. The SOFR Index value reflects the effect of compounding SOFR each U.S. Government Securities Business Day and allows the calculation of compounded SOFR averages over custom time periods.

The Federal Reserve Bank of New York notes on its publication page for the SOFR Index that use of the SOFR Index is subject to important limitations, indemnification obligations and disclaimers, including that the Federal Reserve Bank of New York may alter the methods of calculation, publication schedule, rate revision practices or availability of the SOFR Index at any time without notice.

Where "Screen Rate Determination" is specified in the applicable Final Terms Document or Pricing Supplement as the manner in which the Rate of Interest is to be determined and the Reference Rate in respect of the relevant Series of Floating Rate Covered Bonds is specified in the applicable Final Terms Document or Pricing Supplement as being SOFR, the Rate of Interest for each Interest Period will, subject as provided below, be Compounded SOFR plus or minus (as indicated in the applicable Final Terms Document or Pricing Supplement) the Margin.

Compounded SOFR means, with respect to an Interest Accrual Period, the rate of return of a daily compound interest investment (with the daily SOFR reference rate as the reference rate for the calculation of interest) and will be calculated by a calculation agent (as specified in the applicable Final Terms Document or Pricing Supplement) on the relevant Interest Determination Date, as follows, and the resulting percentage will be rounded if necessary to the fifth decimal place, with 0.000005 per cent. being rounded upwards:

$$\left(\frac{SOFR\ Index_{End}}{SOFR\ Index_{Start}} - 1\right) \times \frac{360}{d}$$

where:

SOFR Index$_{Start}$ is the SOFR Index value on the day which is two U.S. Government Securities Business Days preceding the first date of the relevant Interest Period;

SOFR Index$_{End}$ is the SOFR Index value on the Interest Determination Date relating to the applicable Interest Payment Date (or in the final Interest Period, the Maturity Date);

d is the number of calendar days in the relevant Observation Period;

Federal Reserve Bank of New York's Website means the website of the Federal Reserve Bank of New York, currently at http://www.newyorkfed.org, or any successor source;

Interest Accrual Period means any given Interest Period;

Observation Period means, in respect of each Interest Period, the period from, and including, the date two U.S. Government Securities Business Days preceding the first date in such Interest Period to, but excluding, the date two U.S. Government Securities Business Days preceding the Interest Payment Date for such Interest Period;

SOFR Index means, with respect to any U.S. Government Securities Business Day:

(1) the SOFR Index published for such U.S. Government Securities Business Day as such value appears on the Federal Reserve Bank of New York's Website at 3:00 p.m. (New York time) on the immediately following U.S. Government Securities Business Day (the **SOFR Index Determination Time**); or

(2) if the SOFR Index specified in (1) above does not so appear, the SOFR Index as published in respect of the first preceding U.S. Government Securities Business Day for which the SOFR Index was published on the Federal Reserve Bank of New York's Website; and

U.S. Government Securities Business Day means any day except for a Saturday, a Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities;

If on any Interest Determination Date one only or none of the Reference Banks provides the Issuing and Paying Agent with an offered quotation as provided in subparagraph (ii) above, the Rate of Interest for the relevant Interest Period will be the rate per annum which the Issuing and Paying Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Issuing and Paying Agent by the Reference Banks or any two or more of them, at which such Reference Banks offered, at approximately the Specified Time on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate to leading banks in the London interbank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Floating Rate Covered Bond Margin (if any) or, if fewer than two of the Reference Banks provide the Issuing and Paying Agent with offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately the Specified Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for the purpose) informs the Issuing and Paying Agent it is quoting to leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Floating Rate Covered Bond Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this section, the Rate of Interest will be determined as at the last preceding Interest Determination Date (though substituting, where a different Floating Rate Covered Bond Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Floating Rate Covered Bond Margin relating to the relevant Interest Period in place of the Floating Rate Covered Bond Margin relating to that last preceding Interest Period).

If the Reference Rate from time to time in respect of Floating Rate Covered Bonds is specified in the applicable Final Terms Document or Pricing Supplement as being other than LIBOR, EURIBOR, SONIA or SOFR, the Rate of Interest in respect of such Covered Bonds will be determined as provided in the applicable Final Terms Document or Pricing Supplement.

(c) *Minimum Rate of Interest and/or Maximum Rate of Interest*

If the applicable Final Terms Document or Pricing Supplement for a Floating Rate Covered Bond specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period will be such Minimum Rate of Interest.

If the applicable Final Terms Document or Pricing Supplement for a Floating Rate Covered Bond specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period will be such Maximum Rate of Interest.

(d) *Determination of Rate of Interest and Calculation of Interest Amounts*

The Issuing and Paying Agent will, at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Issuing and Paying Agent will calculate the amount of interest (the **Interest Amount**) payable on the Floating Rate Covered Bonds for the relevant Interest Period by applying the Rate of Interest to:

(i) in the case of Floating Rate Covered Bonds which are represented by a Global Covered Bond, the aggregate outstanding nominal amount of the Covered Bonds represented by such Global Covered Bond; or

(ii) in the case of Floating Rate Covered Bonds in definitive form, the Calculation Amount,

and, in each case, multiplying such sum by the applicable Day Count Fraction, 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 Floating Rate Covered Bond in definitive form comprises more than one Calculation Amount, the Interest Amount payable in respect of such 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.

(e) *Notification of Rate of Interest and Interest Amounts*

The Issuing and Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Guarantor, the Bond Trustee and any stock exchange or other relevant competent authority or quotation system on which the relevant Floating Rate Covered Bonds are for the time being listed, quoted and/or traded or by which they have been admitted to listing or trading and to be published in accordance with Condition 13 (*Notices*) as soon as possible after their determination but in no event later than the fourth Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. Any such amendment or alternative arrangements will be promptly notified to the Bond Trustee and each stock exchange or other relevant authority on which the relevant Floating Rate Covered Bonds are for the time being listed, quoted and/or traded or by which they have been admitted to listing or trading and to Covered Bondholders in accordance with Condition 13 (*Notices*).

(f) *Determination or Calculation by Bond Trustee*

If for any reason at any relevant time after the Issue Date, the Issuing and Paying Agent defaults in its obligation to determine the Rate of Interest or the Issuing and Paying Agent defaults in its obligation to calculate any Interest Amount in accordance with subparagraph (b)(i) or (ii) above or as otherwise specified in the applicable Final Terms Document or Pricing Supplement, as the case may be, and in each case in accordance with paragraph (d) above, the Bond Trustee will determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it will think fit to the foregoing provisions of this Condition 4.2 (*Interest on Floating Rate Covered Bonds*), but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Final Terms Document or Pricing Supplement), it will deem fair and reasonable in all the circumstances or, as the case may be, the Bond Trustee will calculate the Interest Amount(s) in

such manner as it will deem fair and reasonable in all the circumstances. In making any such determination or calculation, the Bond Trustee may appoint and rely on a determination or calculation by a calculation agent (which will be an investment bank or other suitable entity of international repute). Each such determination or calculation will be deemed to have been made by the Issuing and Paying Agent.

(g) *Certificates to be Final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4.2 (*Interest on Floating Rate Covered Bonds*), whether by the Issuing and Paying Agent or the Bond Trustee will (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Guarantor, the Issuing and Paying Agent, the other Paying Agents, the Bond Trustee and all Covered Bondholders and Couponholders and (in the absence of wilful default, negligence, bad faith or fraud) no liability to the Issuer, the Guarantor, the Covered Bondholders or the Couponholders will attach to the Issuing and Paying Agent or the Bond Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

4.3 Interest following a Notice to Pay

If a Notice to Pay is served on the Guarantor, the Guarantor will, in accordance with the terms of the Trust Deed, pay Guaranteed Amounts corresponding to the amounts of interest described under Condition 4.1 (*Interest on Fixed Rate Covered Bonds*) or 4.2 (*Interest on Floating Rate Covered Bonds*) (as the case may be) under the Covered Bond Guarantee in respect of the Covered Bonds on the Original Due for Payment Dates and, if applicable, the Extended Due for Payment Date in accordance with the applicable Priorities of Payments.

4.4 Accrual of interest

Interest (if any) will cease to accrue on each Covered Bond (or, in the case of the redemption of part only of a Covered Bond, that part only of such Covered Bond) on the due date for redemption thereof unless, upon due presentation thereof, payment of principal is improperly withheld or refused or unless default is otherwise made in respect of payment, in which event, interest will continue to accrue as provided in Condition 6.10 (*Late Payment*).

4.5 Business Day, Business Day Convention, Day Count Fractions and other adjustments

(a) In these Terms and Conditions, **Business Day** means:

(i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre specified in the applicable Final Terms Document or Pricing Supplement; and

(ii) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre) or as otherwise specified in the applicable Final Terms Document or Pricing Supplement or (B) in relation to any sum

payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the **TARGET System**) is open.

(b) If a **Business Day Convention** is specified in the applicable Final Terms Document or Pricing Supplement and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur, or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

(i) in any case where Interest Periods are specified in accordance with Condition 4.2(a)(ii) (*Interest Payment Dates*), the **Floating Rate Convention**, such Interest Payment Date (1) in the case of clause (x) above, will be the last day that is a Business Day in the relevant month and the provisions of clause (II) below will apply *mutatis mutandis*, or (2) in the case of clause (y) above, will be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (I) such Interest Payment Date will be brought forward to the immediately preceding Business Day, and (II) each subsequent Interest Payment Date will be the last Business Day in the month which falls on the Interest Period after the preceding applicable Interest Payment Date occurred; or

(ii) the **Following Business Day Convention**, such Interest Payment Date will be postponed to the next day which is a Business Day; or

(iii) the **Modified Following Business Day Convention**, such Interest Payment Date will be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date will be brought forward to the immediately preceding Business Day; or

(iv) the **Preceding Business Day Convention**, such Interest Payment Date will be brought forward to the immediately preceding Business Day.

(c) **Day Count Fraction** means, in respect of the calculation of an amount of interest for any Interest Period:

(i) if **Actual/Actual (ICMA)** is specified in the applicable Final Terms Document or Pricing Supplement, a fraction equal to "number of days accrued/number of days in year", as such terms are used in Rule 251 of the statutes, by-laws, rules and recommendations of the International Capital Market Association (the **ICMA Rule Book**), calculated in accordance with Rule 251 of the ICMA Rule Book as applied to non-U.S. Dollar denominated straight and convertible bonds issued after 31 December 1998, as though the interest coupon on a bond has been calculated for a coupon period corresponding to the Interest Period;

(ii) if **Actual/Actual** or **Actual/Actual (ISDA)** is specified in the applicable Final Terms Document or Pricing Supplement, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366, and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

(iii) if **Actual/365 (Fixed)** is specified in the applicable Final Terms Document or Pricing Supplement, the actual number of days in the Interest Period divided by 365;

(iv) if **Actual/365 (Sterling)** is specified in the applicable Final Terms Document or Pricing Supplement, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(v) if **Actual/360** is specified in the applicable Final Terms Document or Pricing Supplement, the actual number of days in the Interest Period divided by 360;

(vi) if **30/360**, **360/360** or **Bond Basis** is specified in the applicable Final Terms Document or Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + D_2 - D_1}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day included in the Interest Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M_2" is the calendar month, expressed as number, in which the day immediately following the last day included in the Interest Period falls;

"D_1" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30; and

(vii) if **30E/360** or **Eurobond Basis** is specified in the applicable Final Terms Document or Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + D_2 - D_1}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day included in the Interest Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Interest Period falls;

"D_1" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D_2 will be 30; or

(viii) such other Day Count Fraction as may be specified in the applicable Final Terms Document or Pricing Supplement.

(d) **Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) (i) the next (or first) Interest Payment Date or (ii) the Final Maturity Date or other redemption date of the Covered Bonds.

(e) **Principal Amount Outstanding** means, in respect of a Covered Bond, on any day, the principal amount of that Covered Bond on the relevant Issue Date thereof less principal amounts received by the relevant Covered Bondholder in respect thereof on or prior to that day.

(f) If **adjusted** is specified in the applicable Final Terms Document or Pricing Supplement against the Day Count Fraction, interest in respect of the relevant Interest Period will be payable in arrears on the relevant Interest Payment Date and calculated from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date, as such Interest Payment Date will, where applicable, be adjusted in accordance with the Business Day Convention.

(g) If **not adjusted** is specified in the applicable Final Terms Document or Pricing Supplement against the Day Count Fraction, interest in respect of the relevant Interest Period will be payable in arrears on the relevant Interest Payment Date and calculated from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date, but such Interest Payment Dates will not be adjusted in accordance with any Business Day Convention.

(h) **sub-unit** means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, €0.01.

5. Payments

5.1 Method of payment

Subject as provided below:

(a) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency (which, in the case of a payment in Yen to a non-resident of Japan, will be a non-resident account) maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency; and

(b) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

In the case of Bearer Covered Bonds, payments in U.S. Dollars will be made by transfer to a U.S. Dollar account maintained by the payee with a bank outside of the United States (which expression, as used in this Condition 5.1 (*Method of payment*), means the United States of America, including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction), or by cheque drawn on a United States bank. In no event will payment in respect of Bearer Covered Bonds be made by a cheque mailed to an address in the United States. All payments of interest in respect of Bearer Covered Bonds will be made to accounts located outside the United States except as may be permitted by United States tax Law in effect at the time of such payment without detriment to the Issuer or the Guarantor.

Payments will be subject in all cases to (i) any fiscal or other Laws and regulations applicable thereto in the place of payment but without prejudice to the provisions of Condition 7 (*Taxation*), and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or (without prejudice to the provisions of Condition 7 (*Taxation*)) any Law implementing an intergovernmental approach thereto. References to Specified Currency will include any successor currency under applicable Law.

5.2 Presentation of Bearer Definitive Covered Bonds and Coupons

Payments of principal and interest (if any) will (subject as provided below) be made in accordance with Condition 5.1 (*Method of payment*) only against presentation and surrender of Bearer Definitive Covered Bonds or Coupons (or, in the case of part payment of any sum due, endorsement of the Bearer Definitive Covered Bond (or Coupon)), as the case may be, only at a specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America, including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction).

Fixed Rate Covered Bonds in definitive bearer form (other than Long Maturity Covered Bonds) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression will include Coupons failing to be issued on exchange of matured Talons), failing which an amount equal to the face value of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of ten years after the Relevant Date (as defined in Condition 7 (*Taxation*)) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 8 (*Prescription*)) or, if later, five years from the date on which such Coupon would otherwise have become due but in no event thereafter.

Upon amounts in respect of any Fixed Rate Covered Bond in definitive bearer form becoming due and payable by the Issuer (in the absence of a Notice to Pay or a Guarantor Acceleration Notice) or by the Guarantor under the Covered Bond Guarantee (if a Notice to Pay or a Guarantor Acceleration Notice has been served) prior to its Final Maturity Date (or, as the case may be, Extended Due for Payment Date), all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the due date for redemption of any Floating Rate Covered Bond or Long Maturity Covered Bond in definitive bearer form, all unmatured Coupons and Talons (if any) relating thereto (whether or not attached) will become void and no payment or, as the case may be, exchange for further Coupons will be made in respect thereof. A **Long Maturity Covered Bond** is a Fixed Rate Covered Bond (other than a Fixed Rate Covered Bond which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon *provided* that such Covered Bond will cease to be a Long Maturity Covered Bond on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the Principal Amount Outstanding of such Covered Bond.

If the due date for redemption of any Bearer Definitive Covered Bond is not an Interest Payment Date, interest (if any) accrued in respect of such Covered Bond from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date will be payable only against presentation and surrender of the relevant Bearer Definitive Covered Bond.

5.3 Payments in respect of Bearer Global Covered Bonds

Payments of principal and interest (if any) in respect of Covered Bonds represented by any Bearer Global Covered Bond will (subject as provided below) be made in the manner specified above in relation to Bearer Definitive Covered Bonds and otherwise in the manner specified in the relevant Bearer Global Covered Bond against presentation or surrender, as the case may be, of such Bearer Global Covered Bond if the Bearer Global Covered Bond is not issued in NGCB form at the specified office of any Paying Agent outside the United States. On the occasion of each payment (i) in the case of any Bearer Global Covered Bond which is not issued in NGCB form, a record of such payment made on such Bearer Global Covered Bond, distinguishing between any payment of principal and any payment of interest, will be made on such Bearer Global Covered Bond by the Paying Agent and such record will be *prima facie* evidence that the payment in question has been made, and (ii) in the case of any Bearer Global Covered Bond which is issued in NGCB form, the Paying Agent will instruct Euroclear and Clearstream, Luxembourg to make appropriate entries in their records to reflect such payment.

No payments of principal, interest or other amounts due in respect of a Bearer Global Covered Bond will be made by mail to an address in the United States or by transfer to an account maintained in the United States.

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**) (i) where in global form, at the close of the business day (being for this purpose a day on which DTC, Euroclear or Clearstream, Luxembourg, as applicable, are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the tenth business day (**business day** being for the purposes of this Condition 5.4 (*Payments in respect of Registered Covered Bonds*) 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 (each, 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 cheque in the Specified Currency 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 (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency and (in the case of a payment in euro) any bank which processes payments in euro.

Payments of interest in respect of each Registered Covered Bond (whether or not in global form) will be made by a cheque 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.

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 cheque 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 Issuer, 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 Issuer 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, Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Covered Bonds represented by such Global Covered Bond must look solely to DTC, Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer 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 Issuer or the

Guarantor under the Covered Bond Guarantee in respect of any payments due on that Global Covered Bond.

Notwithstanding the foregoing provisions of this Condition, payments of principal and/or interest in respect of Bearer Covered Bonds in U.S. Dollars will only be made at the specified office of a Paying Agent in the United States if:

(a) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. Dollars at such specified offices outside the United States of the full amount of principal and/or interest on the Bearer Covered Bonds in the manner provided above when due;

(b) payment of the full amount of such principal and interest at such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. Dollars; and

(c) such payment is then permitted under United States Law without involving, in the opinion of the Issuer and the Guarantor, adverse tax consequences to the Issuer or the Guarantor under the Covered Bond Guarantee.

5.6 Payment Day

If the date for payment of any amount in respect of any Covered Bond or Coupon 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 Final Terms Document or Pricing Supplement), **Payment Day** means any day which (subject to Condition 8 (*Prescription*)) is:

(a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:

(i) London;

(ii) the relevant place of presentation; and

(iii) any Additional Business Centre specified in the applicable Final Terms Document or Pricing Supplement; and

(b) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, London and any Additional Business Centre) or as otherwise specified in the applicable Final Terms Document or Pricing Supplement, or (ii) in relation to any sum payable in euro, a day on which the TARGET System is open; or

(c) in the case of any payment in respect of a Registered Global Covered Bond denominated in a Specified Currency other than U.S. dollars and registered in the name of DTC or its

nominee and in respect of which an accountholder of DTC (with an interest in such Registered Global Covered Bond) has elected, by a date not later than 15 days prior to a Payment Day, to receive any part of such payment in U.S. dollars, a day on which commercial banks are not authorised or required by Law to be closed in New York City.

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:

(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) in relation to Zero Coupon Covered Bonds, the Amortised Face Amount (as defined in Condition 6.7 (*Early Redemption Amounts*));

(f) any premium and any other amounts (other than interest) which may be payable under or in respect of the Covered Bonds; and

(g) 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.

5.8 Redenomination

Where redenomination is specified in the applicable Final Terms Document or Pricing Supplement as being applicable, the Issuer may, without the consent of the Covered Bondholders and the Couponholders, on giving prior written notice to the Bond Trustee, the Agents, the Registrar (in the case of Registered Covered Bonds), Euroclear and Clearstream, Luxembourg and at least 30 days' prior notice to the Covered Bondholders in accordance with Condition 13 (*Notices*), elect that, with effect from the Redenomination Date specified in the notice, the Covered Bonds will be redenominated in euro. In relation to any Covered Bonds where the applicable Final Terms Document or Pricing Supplement provides for a minimum Specified Denomination in the Specified Currency which is equivalent to at least €100,000 and which are admitted to trading on a regulated market in the European Economic Area, it will be a term of any such article that the holder of any Covered Bonds held through Euroclear, Clearstream, Luxembourg and/or DTC must have credited

to its securities account with the relevant clearing system a minimum balance of Covered Bonds of at least €100,000.

The election will have effect as follows:

(a) the Covered Bonds will be deemed to be redenominated in euro in the denomination of €0.01 with a nominal amount for each Covered Bond equal to the nominal amount of that Covered Bond in the Specified Currency, converted into euro at the Established Rate, *provided* that, if the Issuer determines, in consultation with the Agents and the Bond Trustee, that the then market practice in respect of the redenomination in euro of internationally offered securities is different from the provisions specified above, such provisions will be deemed to be amended so as to comply with such market practice and the Issuer will promptly notify the Covered Bondholders, the competent listing authority, stock exchange, and/or market (if any) on or by which the Covered Bonds may be listed and/or admitted to trading and the Paying Agents of such deemed amendments;

(b) save to the extent that an Exchange Notice has been given in accordance with paragraph (d) below, the amount of interest due in respect of the Covered Bonds will be calculated by reference to the aggregate nominal amount of Covered Bonds presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment will be rounded down to the nearest €0.01;

(c) if Definitive Covered Bonds are required to be issued after the Redenomination Date, they will be issued at the expense of the Issuer in the denominations of €100,000 and/or such higher amounts as the Agents may determine and notify to the Covered Bondholders and any remaining amounts less than €100,000 will be redeemed by the Issuer and paid to the Covered Bondholders in euro in accordance with Condition 6 (*Redemption and Purchase*);

(d) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Covered Bonds) will become void with effect from the date on which the Issuer gives notice (the **Exchange Notice**) that replacement euro-denominated Covered Bonds and Coupons are available for exchange (*provided* that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Covered Bonds and Coupons so issued will also become void on that date although those Covered Bonds and Coupons will continue to constitute valid exchange obligations of the Issuer. New euro-denominated Covered Bonds and Coupons will be issued in exchange for Covered Bonds and Coupons denominated in the Specified Currency in such manner as the Agents may specify and as will be notified to the Covered Bondholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Covered Bonds;

(e) after the Redenomination Date, all payments in respect of the Covered Bonds and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Covered Bonds to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque;

(f) if the Covered Bonds are Fixed Rate Covered Bonds and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than

on an Interest Payment Date, it will be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, 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;

(g) if the Covered Bonds are Floating Rate Covered Bonds, the applicable Final Terms Document or Pricing Supplement will specify any relevant changes to the provisions relating to interest; and

(h) such other changes will be made to this Condition (and the Transaction Documents) as the Issuer may decide, after consultation with the Agents and the Bond Trustee, and as may be specified in the notice given to the Covered Bondholders pursuant to paragraph (a) above, to conform it to conventions then applicable to instruments denominated in euro.

5.9 Definitions

In these Conditions, the following expressions have the following meanings:

Established Rate means the rate for the conversion of the relevant Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Community regulations) into euro established by the Council of the European Union pursuant to Article 123 of the Treaty.

euro means the lawful currency of the Member States that adopt the single currency in accordance with the Treaty.

Redenomination Date means (in the case of interest bearing Covered Bonds) any date for payment of interest under the Covered Bonds or (in the case of Zero Coupon Covered Bonds) any date, in each case specified by the Issuer in the notice given to the Covered Bondholders pursuant to Condition 5.8(a) (*Redenomination*) and which falls on or after the date on which the country of the relevant Specified Currency first adopts the euro.

Treaty means the Treaty establishing the European Community, as amended.

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 Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms Document or Pricing 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 Final Terms Document or Pricing Supplement for a Series of Covered Bonds and the Issuer has failed to pay the Final Redemption Amount on the Final Maturity Date specified in the Final Terms Document or Pricing 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 Canadian 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 Canadian 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.

The Issuer will confirm to the Issuing and Paying Agent as soon as reasonably practicable and in any event at least four Canadian 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 Issuer to notify the Issuing and 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 Issuing and 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 Canadian 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 Issuer 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 Issuer 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 Issuer 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 Issuer 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 (*Redemption for taxation reasons*) 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.

6.3 Redemption at the option of the Issuer (Issuer Call)

If an "Issuer Call" is specified in the applicable Final Terms Document or Pricing Supplement, the Issuer 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 Final Terms Document or Pricing Supplement to the Bond Trustee, the Issuing and 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 Final Terms Document or Pricing Supplement together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date(s). The Issuer 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 Final Terms Document or Pricing 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, Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion), 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 Final Terms Document or Pricing 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 (*Redemption at the option of the Issuer (Issuer Call)*) and notice to that effect will be given by the Issuer to the Covered Bondholders in accordance with Condition 13 (*Notices*) at

least five days (or such shorter period as is specified in the applicable Final Terms Document or Pricing 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 Final Terms Document or Pricing Supplement for a Covered Bond, then if and to the extent specified in the applicable Final Terms Document or Pricing Supplement, and provided that an Issuer Event of Default has not occurred, upon the Covered Bondholder giving to the Issuer, in accordance with Condition 13 (*Notices*), not less than 30 nor more than 60 days' notice (which notice will be irrevocable), the Issuer 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 Final Terms Document or Pricing 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 Final Terms Document or Pricing Supplement, together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date.

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 (a **Put Notice**) and in which the holder must specify a bank account (or, if payment is by cheque, an address) to which payment is to be made under this Condition 6.4 (*Redemption at the option of the Covered Bondholders (Investor Put*)).

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 Final Terms Document or Pricing Supplement.

6.5 Redemption due to illegality or invalidity

(a) The Covered Bonds of all Series may be redeemed at the option of the Issuer 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 Issuing and Paying Agent, the Registrar and, in accordance with Condition 13 (*Notices*), all Covered Bondholders (which notice will be irrevocable), if the Issuer 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 Issuer 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 paragraph (a) above 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 Condition 6.2 (*Redemption for taxation reasons*) or 6.5(a) (*Redemption due to illegality or invalidity*), the Issuer will deliver to the Bond Trustee a certificate signed by two Authorised Signatories stating that the Issuer is entitled or required to effect such redemption and setting forth a statement of facts showing that the conditions set out in Condition 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 Issuer 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 and Couponholders.

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 Final Terms Document or Pricing Supplement) at its Early Redemption Amount calculated as follows:

(a) in the case of a Covered Bond other than a Zero Coupon Covered Bond, at the amount specified in, or determined in the manner specified in, the applicable Final Terms Document or Pricing Supplement or, if no such amount or manner is so specified in the applicable Final Terms Document or Pricing Supplement, at its Principal Amount Outstanding, together with interest accrued to (but excluding) the date fixed for redemption; and

(b) in the case of a Zero Coupon Covered Bond, at an amount (the **Amortised Face Amount**) equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date of the first Tranche of such Covered Bond to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Covered Bond becomes due and payable.

Where such calculation in paragraph (b) above is to be made for a period which is not a whole number of years, it will be made (A) in the case of a Zero Coupon Covered Bond payable in a Specified Currency other than euro, on the basis of a 360-day year consisting of 12 months of 30 days each, or (B) in the case of a Zero Coupon Covered Bond payable in euro, on the basis of the actual number of days elapsed divided by 365 (or, if any of the days elapsed falls in a leap year, the sum of (x) the number of those days falling in a leap year divided by 366 and (y) the number of those days falling in a non-leap year divided by 365), or (C) on such other calculation basis as may be specified in the applicable Final Terms Document or Pricing Supplement.

6.8 Purchases

The Issuer or any of its Subsidiaries, or the Guarantor, may at any time purchase or otherwise acquire Covered Bonds (*provided* that, in the case of Bearer Definitive Covered Bonds, all unmatured Coupons and Talons appertaining thereto are attached thereto or surrendered therewith)

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 Issuer 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 (together with, in the case of Bearer Definitive Covered Bonds, all unmatured Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Covered Bonds so cancelled and any Covered Bonds purchased and surrendered for cancellation pursuant to Condition 6.8 (*Purchases*) and cancelled (together with, in the case of Bearer Definitive Covered Bonds, all unmatured Coupons and Talons cancelled therewith) will be forwarded to the Issuing and 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 in accordance with the following provisions:

(a) in the case of a Covered Bond other than a Zero Coupon Covered Bond, at the rate determined in accordance with Condition 4.1 (*Interest on Fixed Rate Covered Bonds*) or 4.2 (*Interest on Floating Rate Covered Bonds*), as the case may be; and

(b) in the case of a Zero Coupon Covered Bond, at a rate equal to the Accrual Yield,

in each case on the basis of the Day Count Fraction specified in the applicable Final Terms Document or Pricing Supplement or, if none is specified, on a 30/360 basis.

For the purpose of this Condition 6.10 (*Late Payment*), 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

(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 paragraphs (i) and (ii) above, 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 Bonds and Coupons by or on behalf of the Issuer 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 administrative practice of any jurisdiction.

In the event that any payments made by the Issuer 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 Issuer 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 and Coupons, the Issuer will pay such additional amounts as will be necessary in order that the net amounts received by the Covered Bondholders or Couponholders 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 or Coupons, 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 or Coupon presented for payment in the United Kingdom or Canada:

(a) to, or to a third party on behalf of, a Covered Bondholder or Couponholder who is liable to such taxes, duties, assessments or government charges in respect of such Covered Bond or Coupon by reason of such Covered Bondholder or Couponholder having some connection with Canada or the jurisdiction imposing such tax otherwise than the mere holding of such Covered Bond or Coupon;

(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 30th day;

(c) to, or to a third party on behalf of, a Covered Bondholder or Couponholder in respect of whom such tax, duty, assessment or governmental charge is required to be withheld or deducted by reason of such Covered Bondholder, Couponholder or other Person entitled to payments on the Covered Bonds being a Person not dealing at arm's length (within the meaning of the ITA) with the Issuer; or

(d) to, or to a third party on behalf of, a Covered Bondholder or Couponholder who is liable for such taxes, duties, assessments or other charges by reason of such Covered Bondholder or Couponholder'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 or Couponholder or other Person entitled to payments under the Covered Bond, 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 Issuer has given such Covered Bondholder or Couponholder or, if such Covered Bondholder or Couponholder is not the beneficial owner of the Covered Bond or Coupon in question, the beneficial owner of such Covered Bond or Coupon at least 30 days' notice

that such Covered Bondholder, Couponholder 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 or Coupon first becomes due and payable but, if the full amount of the funds payable on such date has not been received by the Issuing and 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 province, territory or political subdivision thereof or by any authority or agency therein or thereof having the power to tax or, in the case of Covered Bonds issued by a branch of the Issuer 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 the power to tax, the Guarantor will not be obliged to pay any additional amount as a consequence.

8. Prescription

The Covered Bonds (whether in bearer or registered form) and Coupons will become void unless presented for payment within ten 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 4.5 (*Business Day, Business Day Convention, Day Count Fractions and other adjustments*) and Condition 5 (*Payments*).

The Issuer 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 cheque which has been duly dispatched in the Specified Currency remains uncashed at, the end of the period of ten years from the Relevant Date for such payment.

The Issuer will be discharged from its obligation to pay interest on a Registered Covered Bond to the extent that a cheque 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.

There will not be included in any Coupon sheet issued on exchange of a Talon any Coupon, the claim for payment in respect of which would be void pursuant to this Condition or Condition 4.5 (*Business Day, Business Day Convention, Day Count Fractions and other adjustments*) or any Talon which would be void pursuant to Condition 4.5 (*Business Day, Business Day Convention, Day Count Fractions and other adjustments*).

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 per cent. 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 (*Issuer Events of Default*) 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 Issuer that as against the Issuer (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 payable 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 Issuer for a period of ten Canadian 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 Issuer fails to perform or observe any of its obligations not otherwise specified in paragraph (a) above or paragraph (f) below under the Covered Bonds or Coupons of any Series or the Trust Deed or any other Transaction Documents to which the Issuer is a party (other than the Program Agreement and any subscription agreement), but excluding any obligation of the Issuer to comply with the Asset Coverage Test or any Loan Representations and Warranties given by the Issuer 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 Issuer requiring the same to be remedied; or

(c) if an Insolvency Event has occurred with respect to the Issuer; 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 less than six months prior to the Final Maturity Date for such Series and the Guarantor has not taken the necessary actions to cure the breach before the earlier to occur of:

    (i) ten 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

(f) if a Ratings Trigger prescribed by the Conditions or the Transaction Documents (and not otherwise specifically provided for in this Condition 9.1 (*Issuer Events of Default*)) 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, the Stand-By Account Bank Required Ratings, the Servicer Deposit Threshold Ratings or the Cash Management Deposit Ratings, such breach occurs at a time that the Guarantor is Independently Controlled and Governed,

provided that the condition, event or act described in paragraphs (b) to (e) above will only constitute an Issuer Event of Default if the Bond Trustee has certified in writing to the Issuer 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 Issuer pursuant to this Condition 9.1 (*Issuer Events of Default*), 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 Issuer 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 Issuer or any liquidator or Person with similar powers appointed in relation to the Issuer 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 Charged Property 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 Issuer (other than the obligation to make any payments in respect of additional amounts which may become payable by the Issuer 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 and/or Couponholders 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 and/or Couponholders will have no rights against the Issuer with respect to payment of such Excess Proceeds.

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 per cent. 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 (*Guarantor Events of Default*) 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 (a **Guarantor Acceleration Notice**) in writing to the Issuer and the Guarantor, that (i) each Covered Bond of each Series is, and each Covered Bond of each Series will as against the Issuer (if not already due and payable against the Issuer following service of an Issuer Acceleration Notice), thereupon immediately become, due and payable 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 and in accordance with 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 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 or as specified in paragraph (f) below) 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 within 60 days of a demand therefor or an obligation to do so pursuant to the terms of the Intercompany Loan Agreement, and (ii) 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

(d) if there is a failure to satisfy the Amortisation 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 (*Guarantor Events of Default*)) 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, the Stand-By Account Bank Required Ratings, the Servicer Deposit Threshold Ratings or the Cash Management Deposit Ratings, such breach occurs at a time that the Guarantor is Independently Controlled and Governed,

provided that the condition, event or act described in paragraphs (b) to (e) above will only constitute a Guarantor Event of Default if the Bond Trustee has certified in writing to the Issuer 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 Issuer 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, the Coupons 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, the Coupons 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 per cent. 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.

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 per cent. 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, 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.

No Covered Bondholder or Couponholder will be entitled to proceed directly against the Issuer or the Guarantor or to take any action with respect to the Trust Deed, any other Transaction Document, the Covered Bonds, the Coupons, 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.

10. Replacement of Covered Bonds, Coupons and Talons

If any Covered Bond, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Issuing and Paying Agent in London (in the case of Bearer Covered Bonds or Coupons) or 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 Issuer may reasonably require. Mutilated or defaced Covered Bonds, Coupons or Talons must be surrendered before replacements will be issued.

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

The Issuer 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 Issuing and Paying Agent and a Registrar;

(b) the Issuer will, so long as any Covered Bond is outstanding, maintain a Paying Agent (which may be the Issuing and 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 Paying Agent (in the case of Bearer Covered Bonds) and 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; and

(d) so long as any of the Registered Global Covered Bonds payable in a Specified Currency other than U.S. dollars are held through DTC or its nominee, there will at all times be an Exchange Agent.

In addition, the Issuer 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 Issuer 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 Issuer 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 or Couponholders. 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.

12. Exchange of Talons

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Bearer Covered Bond to which it appertains) a further Talon, subject to the provisions of Condition 8 (*Prescription*).

13. Notices

Any notice regarding Bearer Covered Bonds will be deemed to have been duly given to the relevant Covered Bondholders if sent to Euroclear and/or Clearstream, Luxembourg for communication by them to the Covered Bondholders and will be deemed to be given on the date on which it was so sent and (so long as the relevant Covered Bonds are admitted to trading on the London Stock Exchange's regulated market and listed on the Official List)) any notice will also be published in accordance with the relevant listing rules and regulations. 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.

In addition, for so long as any Covered Bonds are admitted to trading and listed as described above, the Issuer will give copies of any such notice in accordance with this Condition 13 (*Notices*) to the Financial Conduct Authority, if required, in accordance with the relevant listing rules and regulations.

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.

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 Issuing and Paying Agent (in the case of Bearer Covered Bonds) or 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 Issuing and Paying Agent or the Registrar through DTC, Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Issuing and Paying Agent, the Registrar and DTC, Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

14. Meetings of Covered Bondholders, Modification, Waiver and Substitution

Covered Bondholders, Couponholders and other Secured Creditors should note that the Issuer, the Guarantor and the Issuing and Paying Agent may without their consent or the consent of the Bond Trustee agree to modify any provision of any Final Terms Document or Pricing 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 Issuer, the Guarantor or the Bond Trustee and will be convened by the Issuer at the request in writing of Covered Bondholders holding not less than 10 per cent. 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, and on all Couponholders in respect of such Series of Covered Bonds. 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*.

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 Issuer, 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 per cent. 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, and on all related Couponholders in respect of such Covered Bonds.

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 Issuer may also agree, without the consent of the Covered Bondholders or Couponholders of any Series 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), the related Coupons 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

(b) any modification of the terms and conditions applying to Covered Bonds of any one or more Series (including these Terms and Conditions), the related Coupons 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.

(c) in relation to any Covered Bonds issued after 23 October 2018 any modification (other than in respect of a Series Reserved Matter, provided that a Base Rate Modification (as defined below) will not constitute a Series Reserved Matter) to the Conditions and/or any Transaction Document (including, for the avoidance of doubt but without limitation, the Covered Bond Swap Agreement in relation to the relevant Series of Covered Bonds and subject to the consent only of the Secured Creditors (i) party to the relevant Transaction Document being amended or (ii) whose ranking in any Priorities of Payments is affected) that the Issuer considers necessary for the purpose of changing the base rate in respect of the Covered Bonds from a Reference Rate to an alternative base rate (any such rate, an **Alternative Base Rate**) and making such other amendments as are necessary or advisable in the reasonable judgment of the Issuer to facilitate such change (a "**Base Rate Modification**"), provided that:

(A) the Issuer certifies to the Bond Trustee in writing (such certificate, a "**Base Rate Modification Certificate**") that:

(I) such Base Rate Modification is being undertaken due to:

(1) a material disruption to the relevant Reference Rate, an adverse change in the methodology of calculating the relevant Reference Rate or the relevant Reference Rate ceasing to exist or be published; or

(2) the insolvency or cessation of business of the administrator of the Reference Rate (in circumstances where no successor administrator has been appointed); or

(3) a public statement by the administrator of the relevant Reference Rate that it will cease publishing such Reference Rate permanently or indefinitely (in circumstances where no successor administrator for the Reference Rate has been appointed that will continue publication of the relevant Reference Rate) and such cessation is reasonably expected by the Issuer to occur prior to the Final Maturity Date or the Extended Due for Payment Date, as applicable; or

(4) a public statement by the supervisor of the administrator of the relevant Reference Rate that such Reference Rate has been or will be permanently or indefinitely discontinued or will be changed in an adverse manner and

such cessation is reasonably expected by the Issuer to occur prior to the Final Maturity Date or the Extended Due for Payment Date, as applicable; or

(5) a public statement by the supervisor of the administrator of the relevant Reference Rate that means such Reference Rate may no longer be used or that its use is or will be subject to restrictions or adverse consequences; or

(6) the reasonable expectation of the Issuer that any of the events specified in sub-paragraphs (1), (2), (3), (4) or (5) will occur or exist within six months of the proposed effective date of such Base Rate Modification,

(II) such Alternative Base Rate is:

(1) a base rate published, endorsed, approved or recognised by the Bank of England, the Federal Reserve or the European Central Bank, any regulator in the United States, the United Kingdom or the European Union or any stock exchange on which the Covered Bonds are listed (or any relevant committee or other body established, sponsored or approved by any of the foregoing); or

(2) in relation to LIBOR, the Sterling Over Night Index Average, the Secured Overnight Financing Rate or the Broad Treasuries Repo Financing Rate (or any rate which is derived from, based upon or otherwise similar to any of the foregoing); or

(3) a base rate utilised in a material number of publicly-listed new issues of floating rate covered bonds or floating rate senior unsecured notes prior to the effective date of such Base Rate Modification (for these purposes, unless agreed otherwise by the Bond Trustee, five such issues shall be considered material); or

(4) a base rate utilised in a publicly-listed new issue of floating rate covered bonds where the issuer (or, in the case of asset backed securities, the originator of the relevant assets) is the Issuer or a Subsidiary of the Issuer,

(III) the Base Rate Modification proposed is required solely for the purpose of applying the Alternative Base Rate and making consequential modifications to the Conditions, the Trust Deed and/or any Transaction Document which are, as reasonably determined by the Issuer, necessary or advisable, and the modifications have been drafted solely to such effect;

(B) at least 30 days' prior written notice of any proposed Base Rate Modification has been given to the Bond Trustee;

(C) the Base Rate Modification Certificate is provided to the Bond Trustee at the time the Bond Trustee is notified of the Base Rate Modification and on the effective date of such Base Rate Modification;

(D) with respect to each Rating Agency, the Rating Agency Condition (as specified in Condition 20) has been satisfied;

(E) the Issuer pays (or arranges for the payment of) all documented fees, costs and expenses (including legal fees) properly incurred by the Bond Trustee in connection with such Base Rate Modification;

(F) the Issuer has provided at least 30 days' notice to the Covered Bondholders of the relevant Series of Covered Bonds of the Base Rate Modification in accordance with this Condition 14(c) and by publication on Bloomberg on the "Company News" screen relating to the Covered Bonds (in each case specifying the date and time by which Covered Bondholders must respond), and Covered Bondholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the relevant Series of Covered Bonds then outstanding have not notified the Issuer or the Issuing and Paying Agent in accordance with the then current practice of any applicable Clearing System through which such Covered Bonds may be held by the time specified in such notice that such Covered Bondholders do not consent to the Base Rate Modification.

If Covered Bondholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the relevant Series of Covered Bonds then outstanding have notified the Issuer or the Issuing and Paying Agent in accordance with the then current practice of any applicable Clearing System through which the Covered Bonds may be held or in the manner specified in the next following paragraph of this Condition 14(c) where there is no applicable Clearing System by the time specified in such notice that such Covered Bondholders do not consent to the Base Rate Modification, then the Base Rate Modification will not be made unless an Extraordinary Resolution of the Covered Bondholders of the relevant Series then outstanding is passed in favour of the Base Rate Modification in accordance with this Condition 14(c).

Where there is no applicable Clearing System, Covered Bondholders may object in writing to a Base Rate Modification by notifying the Issuer or the Issuing and Paying Agent but any such objection in writing must be accompanied by evidence to the Bond Trustee's satisfaction (having regard to prevailing market practices) of the relevant Covered Bondholder's holding of the Covered Bonds.

For the avoidance of doubt, the Issuer may give effect to an Alternative Base Rate on more than one occasion provided that the conditions set out in this Condition 14(c) are satisfied.

(d) When implementing any modification pursuant to Condition 14(c):

(A) the Bond Trustee shall not consider the interests of the Covered Bondholders, any other Secured Creditor or any other person and shall act and rely solely and without investigation or liability on any Base Rate Modification Certificate or other certificate or evidence provided to it by the Issuer and shall not be liable to the Covered Bondholders, any other Secured Creditor or any other person for so acting or relying, irrespective of whether any such modification is or may be materially prejudicial to the interests of any such person; and

(B) the Bond Trustee shall not be obliged to agree to any modification which, in the sole opinion of the Bond Trustee, would have the effect of (i) exposing the Bond Trustee to any liability against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction or (ii) increasing the obligations or duties, or decreasing the rights, powers, authorisations, discretions, indemnification or protections, of the Bond Trustee in the Transaction Documents and/or these Conditions.

Notwithstanding the above, the Issuer, the Guarantor and the Issuing and Paying Agent may agree, without the consent of the Bond Trustee, the Covered Bondholders or Couponholders or any of the other Secured Creditors, to any modification of any of the provisions of any Final Terms Document or Pricing 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, and/or the related Couponholders, to the waiver or authorisation 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, the related Couponholders or any other Secured Creditor, to the waiver or authorisation 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.

Any such modification, waiver, authorisation or determination will be binding on all Covered Bondholders of all Series of Covered Bonds, the related Couponholders and the other Secured Creditors; any such modification will be notified by the Issuer 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. In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation 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 or Couponholders (whatever their number)) and, in particular, but without limitation, will not have regard to the consequences of any such exercise for individual Covered Bondholders or the related Couponholders (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 sub-division thereof and the Bond Trustee will not be entitled to require, nor will any Covered Bondholder or Couponholder be entitled to claim, from the Issuer, 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 and/or Couponholders, 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.

Provided that the Bond Trustee has received a certificate signed by two authorised signatories of the Issuer 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 Issuer) 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 Section 21.3 of the Trust Deed are satisfied, but without the consent of the Covered Bondholders of any Series and the Coupons related thereto, or of any other Secured Creditor, another Subsidiary of the Issuer or any direct or indirect holding company of the Issuer may assume the obligations of the Issuer 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).

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 fulfilment 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 fulfilment of any similar condition, would constitute a Guarantor Event of Default.

15. Indemnification of the Bond Trustee; Contracting with the Issuer 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 per cent. 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:

(a) to enter into business transactions with the Issuer, the Guarantor and/or any of the Issuer's Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer, the Guarantor and/or any of the Issuer's Subsidiaries;

(b) 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 Couponholders or any other Secured Creditors; and

(c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

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 organisations or their operators or by intermediaries such as banks, brokers or other similar Persons on behalf of the Bond Trustee. The Bond Trustee will not be responsible for:

(i) supervising the performance by the Issuer, 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 Issuer, 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 Amortisation Test; or

(iv) monitoring whether Loans and their Related Security satisfy the Eligibility Criteria.

16. Further Issues

The Issuer will be at liberty from time to time (but subject to the Terms and Conditions) without the consent of the Covered Bondholders, Couponholders 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.

With regard to the requirement for satisfaction of the Rating Agency Condition 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;

(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, ten 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 Coupons, the Interest Rate Swap Agreement, the Covered Bond Swap Agreement, the Security Agreement, the Mortgage Sale Agreement, the Servicing Agreement, the Guarantor Agreement, the Program Agreement, the Intercompany Loan Agreement, the Cash Management Agreement, the Cover Pool Monitor Agreement, the Bank Account Agreement, the Stand-By Bank Account Agreement, the Guaranteed Deposit Account Contract and the Stand-By 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.

19. Listing

Without prejudice to the Issuer's rights under the Trust Deed, if, in the case of any Covered Bonds admitted to trading on the Market and admitted to the Official List by the FCA in its capacity as a competent authority under the FSMA (or such other regulated market in the European Economic Area), the Issuer is of the opinion (in its sole discretion) that maintaining such quotation or listing

is unduly burdensome due to the need of the Issuer to meet the requirements introduced following the implementation of any future Law or EU Directive imposing requirements (including new corporate governance requirements) on the Issuer that it in good faith determines are impractical or unduly burdensome, the Issuer may cease to maintain such admission (the date of such cessation, the **Cessation Date**), *provided* that it will use all commercially reasonable endeavours to obtain and maintain an alternative admission to trading, listing and/or quotation of the Covered Bonds on or prior to or as soon as reasonably practicable after the Cessation Date by another listing authority, securities exchange and/or quotation system as the Issuer may select. However, if such alternative listing authority, securities exchange and/or quotation system is not available or, in the opinion of the Issuer, is impractical or unduly burdensome, an alternative listing may not be obtained.

If required, the Issuer and the Guarantor will enter into a supplemental Trust Deed to effect such consequential amendments to the Trust Deed and these Terms and Conditions as the Bond Trustee may require or will be requisite to comply with the requirements of any such stock exchange or securities market.

Any such amendments will be binding on Covered Bondholders and will be notified to them by the Issuer in accordance with Condition 13 (*Notices*).

OVERVIEW 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*.

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*);
- 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.

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 any Final Terms Document or Pricing Supplement.

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 Covered Bondholders; (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, the Amortisation Test, the Pre-Maturity Test or the Valuation Calculation, among others.

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 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, wilful 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.

Covered Bond Guarantee

Under the terms of the Covered Bond Guarantee, if the Bank defaults in the payment on the due date of any funds 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 Canadian 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.

Under the Covered Bond Guarantee, the Guaranteed Amounts will also 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 *Certain Tax Legislation Affecting the Covered Bonds—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 a 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 Coupons 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 or Couponholders 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 defence of a guarantor.

As consideration for providing the Covered Bond Guarantee, the Guarantor will be entitled to receive guarantee fees from the Bank as agreed between the Bank and the Guarantor from time to time 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 9.2(a) (*Guarantor 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 funds from time to time standing to the credit of the GDA Account.

By subscribing for or purchasing a Covered Bond, 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 Event, 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 Bank 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 Bank 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 Bank 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.

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; and (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.

Under the terms of the Intercompany Loan Agreement, prior to the issuance of the first Series of Covered Bonds, the Bank made available to the Guarantor an interest bearing Intercompany Loan, comprising a Guarantee Loan and a 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 was 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 collateralise the Covered Bonds to ensure that the Asset Coverage Test is met (see *—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 the 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 Loans and their Related Security from the Seller.

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 unless: (i) a Demand Loan Repayment Event has occurred and is continuing (see below in respect of the repayment of the Demand Loan in such circumstance); or (ii) the Asset Coverage Test will not be satisfied 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.

The Demand Loan shall not have a positive balance at any time following the occurrence of a Demand Loan Repayment Event and the repayment in full of the then outstanding Demand Loan by the Guarantor.

If:

(a) 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 Agreement);

(b) a Notice to Pay has been served on the Guarantor;

(c) the Intercompany Loan Agreement is terminated; or

(d) to the extent Fitch is a Rating Agency, if the Bank is assigned (i) a short-term issuer default rating by Fitch of less than F2, or (ii) a long-term issuer default rating by Fitch of less than BBB+;

(each of paragraphs (a), (b), (c) and (d) above, 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 per cent. 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 applicable Priorities of Payments and the terms of the Intercompany Loan Agreement, (a) using 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 (b) using proceeds from the sale of Substitution Assets; and/or (c) using 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 (d) 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 (c) in the preceding paragraph 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 any Payment in Kind, the outstanding amount of the Demand Loan will be reduced by the Fair Market Value of such Loans determined as of the date of the Payment in Kind, less an amount equal to the collections received by or on behalf of the Guarantor after the date of the notice of the Payment in Kind and prior to the date of the Payment in Kind in respect of the Loans listed in the notice of the Payment in Kind. In addition, if the Payment in Kind occurs on or after a Covered Bond Guarantee Activation Event and the Intercompany Loan Provider is the Limited Partner, the Limited Partner will be deemed to have made a Capital Contribution to the Guarantor on the date of the Payment in Kind in an amount equal to the excess, if any of the True Loan Balance of the Loans and their Related Security applied towards the Payment in Kind over the aggregate Fair Market Value of such Loans and their Related Security, and such Capital Contribution will be deemed to have been applied by the Guarantor against the Demand Loan, such that the outstanding amount of the Demand Loan will be reduced by the greater of (i) the True Loan Balance of such Loans, and (ii) the Fair Market Value of such Loans. See *Cashflows*.

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).

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

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 the Bank (in its capacity as Seller, Servicer and Cash Manager), the Guarantor, the Custodian and the Bond Trustee.

Sale by the Seller of the Loans and their Related Security

The Loans included in 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 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

(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) above.

If Selected Loans are sold by or on behalf of the Guarantor as described below 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 to the Guarantor*, 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* for Loan Representations and Warranties relating Loans and their Related Security and *—Servicing Agreement—Undertakings of the Servicer* 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 their 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 Seller's loan number;

(b) the mortgagor'(s') full name;

(c) the mortgaged property address (street number, city/town, province, postal code);

(d) the principal balance amount;

(e) the authorised loan amount (at origination or last renewal);

(f) the interest adjustment date (at origination or last renewal);

(g) the mortgage maturity date; and

(h) 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. The Seller will pay to the Custodian such fees as may be agreed between the Seller and the Custodian from time to time. If the Seller breaches its obligation to pay such fees, the Custodian will be paid such fees by the Guarantor in accordance with the applicable Priorities of Payments.

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 does not satisfy the Rating Agency Condition;

(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;

(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 with respect to the sale of such Loans to the Guarantor;

(e) such Loan is not secured by a Mortgage that also secures one or more other loans that has the benefit of insurance from any Prohibited Insurer;

(f) if the Loan is extended or advanced upon the security of a Mortgage that also secures (or is capable of securing) Retained Loans, the Loan 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 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 (in a manner and in circumstances customary for a prudent lender) of the Loan or such Related Retained Loan upon a default under the Loan or such Related Retained Loan, as the case may be;

(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 ranking mortgage lien or hypothecary lien over the related Property under which no claims have been made and subject to certain permitted security interests;

(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 or ownership interests, other than (i) certain permitted security interests, and (ii) security interests that are reflected in a security sharing agreement and the subject of a release of security in favour of the Guarantor, in each case that complies with the CMHC Guide;

(k) as at the Purchase Date, the Loan is not subject to any dispute proceeding, set-off, counterclaim or defence whatsoever;

(l) to the extent the Loan is extended, advanced or renewed on or after 1 July 2014 (which for greater certainty will not include further advances under an existing non-amortising Loan unless amended), an express waiver of set-off rights on the part of the borrower is included in the terms and conditions of the Loan or the provisions of any other documentation applicable to the Loan and enforceable against the borrower;

(m) neither the Mortgage Conditions for the Loan nor the terms of any other documentation applicable to the Loan and enforceable by the borrower expressly affords the borrower a right of set-off;

(n) prior to the making of each advance under such Loan, the Lending Criteria and all preconditions to the making of that Loan were satisfied;

(o) as at the Purchase Date immediately prior to the transfer by the Seller to the Guarantor of such Loan and the Related Security for such Loan, such Loan, the Related Security and each Related Retained Loan, if any, are owned or beneficially owned by the Seller; and

(p) such Loan is an "Eligible Loan" as defined in 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 per cent. 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 other 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 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 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 upon the purchase by or contribution to the Guarantor of the loan, (B) those of the Guarantor, (C) those in favour of Covered Bondholders (or the Bond Trustee on behalf of such holders) or in favour 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;

(e) a loan will not qualify as an Eligible Loan if one or more other loans advanced under the same Mortgage have been insured by a Prohibited Insurer;

(f) a loan extended or advanced upon the security of a Mortgage 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 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 or such Related Retained Loan 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, it is the subject of any dispute proceeding, set-off, counterclaim or defence whatsoever;

(h) a loan will not qualify as an Eligible Loan if its terms and conditions or the provisions of the Mortgage 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 1 July 2014 (which for greater certainty will not include further advances under an existing non-amortising 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 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's approved underwriting policies (in effect or otherwise applicable at the time the loan was originated); a loan is deemed to otherwise comply with an underwriting policy to the extent that an independent third-party prudent lender conducting a credit assessment of the Loan would be able to apply all aspects of the applicable underwriting policy, based on available documentation, and arrive at the same credit decision.

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.

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.

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 but 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 their Related Security as agent, bare trustee and nominee in trust for and on behalf of the Guarantor; and (b) deliver such agreements and take all actions with respect to the Loans and their Related Security as the Guarantor may direct in accordance with the Mortgage Sale Agreement and the Servicing Agreement. On the First Purchase Date, the Seller will deliver registrable powers of attorney appointing the Guarantor and the Bond Trustee, as its true and lawful attorney and agent, with full power of substitution, to execute, sign, seal and deliver, in the name of the Seller all conveyances, assignments, transfers, documents and instruments necessary to record the sale, assignment and transfer to the Guarantor, or any other Person as the Guarantor and the Bond Trustee may direct, of all Loans and their Related Security (including all documents comprising the Customer Files) in all applicable land registry or land titles offices, including directions to borrowers directing them to remit all payments under their related Loans to the Guarantor (or as the Guarantor may otherwise direct), and to register and record all such sales, assignments, transfers, documents and instruments in such land registry or land titles offices. The powers of attorney will not be exercisable by the Guarantor or the Bond Trustee (or such other Person) until the occurrence of a Registered Title Event (as described below).

Upon the occurrence of a Registered Title Event, the Seller will do or will cause to be done on its behalf the following:

(a) give notice of the Guarantor's ownership interest in the relevant Loans and their Related Security to each borrower thereunder, which notice will direct that payments be made directly to the Guarantor or its designee, and upon such instruction from the Guarantor, the Seller will give such notice at the expense of the Seller; provided that if the Seller fails to so notify each such borrower, the Guarantor may so notify such borrowers at the expense of such Seller;

(b) direct the borrowers or any guarantor of such borrowers to pay all amounts payable under the relevant Loans included in the Portfolio directly to the Guarantor or a nominee on its behalf;

(c) cause Registrable Transfers for each of the Loans and their Related Security to be prepared, executed and delivered by the Seller to the Guarantor and registered in the appropriate land registry or land titles office; and

(d) (A) assemble all of the records then in its possession (including Customer Files, computer records and files) and which are necessary or desirable to collect the related Loans and make the same available to the Guarantor or its designee at a place selected by the Guarantor; (B) segregate all cash, cheques and other instruments received by it from time to time constituting payments with respect to the relevant Loans in a manner acceptable to the Guarantor and, promptly upon receipt, remit all such cash, cheques and instruments, duly endorsed or with duly executed instruments of transfer, to the Guarantor or its designee; and (C) name the Guarantor (or its designee) as loss payee on any applicable related insurance policies maintained by the Seller in respect of the Loans sold to the Guarantor in place of the Seller.

The duty of the Seller in paragraph (c) above will be fulfilled no later than the 60th day, and the duties in paragraphs (a), (b) and (d) above will be fulfilled by the Guarantor no later than 20 Canadian Business Days, following the day on which the Registered Title Event occurs. The Seller will be liable for all costs and expenses associated with such duties. The Seller will co-operate fully to do all such further acts and things and execute any further documents that may be necessary or desirable by the Guarantor (or the Bond Trustee) to give full effect to such duties.

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 Stand-By 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 Insolvency Event with respect to the Seller (without regard to the parenthetical language in clause (a) of such definition);

(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;

(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 rating of the Bank's unsecured, unsubordinated and unguaranteed debt obligations or its issuer default rating ceases to be at least A3 by Moody's, BBB (low) by DBRS or BBB- by Fitch.

Notwithstanding the occurrence of any event or circumstance described in paragraphs (a) through (c) immediately above, none of the steps relating to a Registered Title Event are required to be taken if (A) the Rating Agency Condition has been satisfied with respect to the Seller not fulfilling such requirements, and (B) 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 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.

If the Seller fails to co-operate in the performance of any of the foregoing duties, the Guarantor will use the powers of attorney to transfer registered or recorded title to the Mortgages evidencing and securing the Loans sold by the Seller and their Related Security into its name or the name of a nominee on its behalf.

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 to the Custodian 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 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 favour of the Guarantor on each Purchase Date:

(a) 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;

(b) it is qualified under all applicable law, and has obtained all necessary licences and approvals and is in good standing thereunder, in each jurisdiction in which failure to so qualify or to obtain such licences 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;

(c) the execution and delivery of the Mortgage Sale Agreement and each of the documents, agreements or instruments to be executed and delivered thereunder by the Seller, and the performance by the Seller of its obligations thereunder, have been duly authorised 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, reorganisation, 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);

(d) 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 fulfilment of the terms thereof applicable to the Seller, will not (i) conflict with or violate the constating 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 (ii) 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;

(e) there are no proceedings or investigations, to the best knowledge of the Seller, pending or threatened against the Seller before any governmental authority: (i) asserting the invalidity of the Mortgage Sale Agreement, (ii) seeking to prevent the consummation of any of the transactions contemplated by the Mortgage Sale Agreement, (iii) seeking any determination or ruling that, in the reasonable judgement of the Seller, would materially and adversely affect the performance by the Seller of its obligations under the Mortgage Sale Agreement, or (iv) seeking any determination or ruling that would materially and adversely affect the validity or enforceability of the Mortgage Sale Agreement;

(f) all authorisations, 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 authorisations, 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;

(g) it is not a non-resident of Canada for purposes of the ITA;

(h) none of the transactions contemplated thereunder require compliance with any applicable bulk sales legislation; and

(i) it has duly and timely paid all amounts that it is liable to pay under the ITA, including all instalments 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 their Related Security to be sold to the Guarantor only on that date:

- the Loan meets the Eligibility Criteria and is an "Eligible Loan" as defined in the CMHC Guide from time to time;

- 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 permits 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 and prudent institutional mortgage lender in the Seller's market;

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

- the Loan has a remaining amortisation 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 or mixed use 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;

- 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 and prudent institutional mortgage lender in the Seller's market;

- the Loan has been duly authorised, 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, reorganisation, insolvency, moratorium or similar laws affecting creditors' rights generally and to equitable principles of general application (regardless of whether endorsements are sought in a proceeding at law or in equity);

- the Loan or applicable law permits realisation 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; and

- 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.

If New Loan Types are proposed to be sold to the Guarantor, then the Loan Representations and Warranties and Eligibility Criteria may be modified as required, with the prior consent of the Bond Trustee and subject to satisfaction of the Rating Agency Condition and compliance with the CMHC Guide, 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. The repurchase price payable upon the repurchase of any Loans and their Related Security in such circumstances will be an amount equal to the greater of (i) the aggregate Fair Market Value of all such Loans, and (ii) the aggregate Repurchase Amount of all such Loans. 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*). Any breach of the Loan Representations and Warranties with respect to a Loan meeting the Eligibility Criteria will be deemed to be material and incapable of being cured.

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
- any change to a borrower under the Loan or the addition of a new borrower under a Loan.

Since the Bank holds substantially all of the interests in the Guarantor, there are conflicts of interest associated with the Guarantor's performance of its role in identifying a Loan or Related Security in the Portfolio that may be subject to repurchase by the Seller. See *Risk Factors—Risks Relating To Counterparties*.

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 Non-Performing Loan) and its Related Security from the Guarantor for a purchase price equal to the Fair Market Value of such 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, and any such Loans and their Related Security will have been selected in a manner that would not reasonably be expected to adversely affect the interests of the Covered Bondholders. 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 Loans that are not Performing Eligible Loans in the Portfolio and upon identification serve a Non-Performing Loans Notice on the Bank and the Servicer. Loans that are not Performing Eligible Loans (as defined below) will be given no credit in the Asset Coverage Test or the Amortisation Test, as applicable.

Since both the Seller and the Cash Manager will be the Bank (or an affiliate), there are conflicts of interest associated with the Cash Manager's performance of its role in identifying Loans that are Non-Performing Loans in the Portfolio. See *Risk Factors—Risks Relating To Counterparties*.

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.

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, however,* that the Seller will not repurchase and will not be required to repurchase any Loan which (A) is or becomes a Non-Performing Loan on its maturity date, or (B) is repaid in full on its maturity date from funding provided to the borrower under such Loan by a Person other than the Seller. On the Calculation Date next following the maturity date on which the Seller purchases any such Loan, the Seller will pay to the GDA Account an amount equal to the greater of (I) the Fair Market Value of such Loan at such maturity date, and (II) the Repurchase Amount of such Loan at such maturity date.

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.

If, (a) following service of an Asset Coverage Test Breach Notice (which has not been revoked), (b) following service of a Notice to Pay, (c) following a breach of the Pre-Maturity Test, or (d) 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, and in certain circumstances may elect to sell certain Selected Loans, in accordance with the Guarantor Agreement, and *provided* that the Seller is not in default of any of its obligations in the Mortgage Sale Agreement or under any other Transaction Document to which it is a party, the Guarantor will by serving on the Seller a Selected Loan Offer Notice, prior to the Guarantor making any offer to sell Selected Loans to other Purchasers, offer immediately to sell to the Seller those Selected Loans in accordance with the Guarantor Agreement for an offer price equal to the amount specified in the Guarantor Agreement. See *—Guarantor Agreement—Method of sale of Portfolio assets*.

If the Seller accepts the Guarantor's offer to sell the relevant Selected Loans by signing the Selected Loan Offer Notice in a manner indicating acceptance and delivering it to the Guarantor with a copy to the Bond

Trustee within ten Canadian Business Days from and including the date of the Selected Loan Offer Notice and *provided* that (if an Issuer Event of Default has occurred and is continuing) the Seller has provided a solvency certificate in a form acceptable to the Guarantor and the Bond Trustee (each acting reasonably), the Guarantor will within three Canadian Business Days of receipt of such acceptance serve a notice accepting the offer set out in the Selected Loan Offer Notice (a **Selected Loan Repurchase Notice**) on the Seller.

The Guarantor will offer for sale the Selected Loans in respect of which the Seller rejects or fails within the requisite time limit to accept the Guarantor's offer to sell to Purchasers in the manner and on the terms set out in the Guarantor Agreement: see *—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 to the Guarantor*.

Upon receipt of the Selected Loan Repurchase Notice duly signed on behalf of the Guarantor, the Seller will promptly sign and return the Selected Loan Repurchase Notice and will repurchase from the Guarantor, and the Guarantor will re-assign or re-transfer to the Seller the 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 and, subject to the Security Agreement, upon execution of the Selected Loan Repurchase Notice by the Bond Trustee, on its own behalf such Selected Loans will be re-assigned or re-transferred to the Seller free from the Security created by and pursuant to the Security Agreement and all related rights of the Bond Trustee and the Guarantor in respect thereof, without the need for any further action. Completion of such repurchase will take place on the Guarantor Payment Date next occurring after receipt by the Seller of such Selected Loan Repurchase Notice or such other 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 to be later than the earlier to occur of the date which is (a) ten Canadian Business Days after receipt by the Guarantor of the returned Selected Loan Repurchase Notice, or (b) the Final Maturity Date of, as applicable, the Hard Bullet Covered Bonds or the Earliest Maturing Covered Bonds) and the Seller will pay to the GDA Account (or as the Guarantor will direct) an amount in cash equal to the offer price specified in the relevant Selected Loan Repurchase Notice.

At any time when there is no Asset Coverage Test Breach Notice outstanding 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 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.

Termination of Custodian

The Guarantor may, at any time, but subject to the prior written consent of the Bond Trustee (if the Custodian is not the Bond Trustee), terminate the appointment of the Custodian upon providing the Custodian with at least 60 days' prior written notice, *provided that,* subject to the following sentence, such termination may not be effected unless and until a replacement approved by the Bond Trustee, acting reasonably, has been found by the Guarantor which agrees to perform the duties (or substantially similar duties) of the Custodian set out in the Mortgage Sale Agreement. In the event that there is a breach by the Custodian of certain representations and warranties or a failure by the Custodian to perform certain covenants made by it under the Mortgage Sale Agreement, the Guarantor will have the right to terminate the Custodian and appoint a replacement Custodian, without the need for a replacement having been appointed upon such termination.

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

Servicing Agreement

Servicing

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, as agent for the Guarantor (to the extent provided in the Servicing Agreement), will perform its duties under the Servicing Agreement with reasonable care and diligence, using that degree of skill and attention that the Servicer exercises in managing, servicing, administering, collecting on and performing similar functions relating to comparable loans that it services for itself or other persons and in accordance with the Credit and Collection Policy.

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.

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.

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 and prudent institutional mortgage lender in the Seller's market;

- 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;

- assist the Cash Manager in the preparation of Investor Reports 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 and prudent institutional mortgage lender in the Seller's market 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 and prudent institutional mortgage lender in the Seller's market 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.

Representations and Warranties of the Servicer

Under the Servicing Agreement, the Servicer represents and warrants to the Guarantor, the Seller, the Cash Manager 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 Servicer is rated by each of the Rating Agencies at ratings that are at or above the Servicer Replacement Threshold Ratings; and (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.

Removal or resignation of the Servicer

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

(a) one or more Rating Agencies downgrades the Servicer's ratings 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) an Insolvency Event occurs in relation to the Servicer;

(d) default is made by the Servicer (or any delegate thereof) in the performance of its obligations under the Servicing Agreement with respect to the requirements with respect to the deposit of funds at any time that one or more Rating Agencies has downgraded the Servicer's ratings below the Servicer Deposit Threshold Ratings, and such default continues unremedied for a period of one Canadian Business Day after the earlier of the Servicer becoming aware of such default and receipt by the Servicer of written notice from the Bond Trustee or the Guarantor requiring the same to be remedied;

(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;

(f) if the Servicer is the Bank or an affiliate of the Bank, 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; or

(g) 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 Covered Bondholders 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.

In the case of the occurrence of the first Servicer Termination Event described above, 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 fulfilment 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 the consent of the Bond Trustee having been received in respect of such appointment if the Servicer is the Bank. The resignation of the Servicer is also conditional upon satisfaction of the Rating Agency Condition 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 Amortisation Test, as applicable, is met on each applicable Calculation Date, and (ii) confirming the accuracy of the Valuation Calculation.

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 its 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 endeavours, 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 endeavours 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 under any circumstances.

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

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 initial managing general partner and the Liquidation GP is the initial liquidation general partner and the Bank is currently 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, among other requirements, (i) the consent of the Partners and, while there are Covered Bonds outstanding, the Bond Trustee, and (ii) 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 authorise 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 authorisation, 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 whose 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

The Managing GP and the Liquidation GP hold 99 per cent. and 1 per cent. respectively of the 0.05 per cent. general partner interest. The Limited Partner holds the substantial economic interest in the Guarantor (approximately 99.95 per cent.). 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 contributed by it as at the Purchase Date recorded in the Capital Account Ledger.

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.

Subject to the satisfaction of the Rating Agency Condition and the requirement that such assignment will not cause, or would not reasonably be expected to cause, a breach of the related provisions of the Guarantor Agreement, 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 CMHC, the Managing GP, the Liquidation GP, and the Bond Trustee, and the assignee of such interest acceding to the Guarantor Agreement. Any such assignment will not require the consent of the general partners, the Bond Trustee, the Covered Bondholders or, if applicable, any other Limited Partner, provided that such subsidiary is not a non-resident of Canada for the purposes of the ITA.

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.

OC Valuation

The CMHC Guide requires that the Guarantor confirm that the cover pool's Level of Overcollateralisation exceeds 103 per cent. (the **Guide OC Minimum**). Accordingly, for so long as Covered Bonds remain outstanding, the Guarantor (or the Cash Manager on behalf of the Guarantor) will calculate the Level of Overcollateralisation (as defined below) at the same time that the Asset Coverage Test is performed, and the Guarantor will compare such Level of Overcollateralisation with the Guide OC Minimum (such calculation and comparison, the **OC Valuation**).

For purposes of the OC Valuation, the **Level of Overcollateralisation** means the amount, expressed as a percentage, calculated as at each Calculation Date as follows:

$$A \div B$$

where,

A = the lesser of: (i) the total amount of the Cover Pool Collateral; and (ii) the amount of Cover Pool Collateral required to collateralise the Covered Bonds outstanding and ensure that the Asset Coverage Test is met, and

B = the Canadian Dollar Equivalent of the Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date.

The term **Cover Pool Collateral** shall, for the purposes of the foregoing calculation, include, as calculated on the relevant Calculation Date,

(a) the Loans owned by the Guarantor that meet the Eligibility Criteria and are less than three months in arrears and such Loans will be valued using their outstanding principal balance; and

(b) Substitution Assets owned by the Guarantor and such assets shall be valued using their outstanding principal amount,

provided that, the Cover Pool Collateral shall not include Swap Collateral or Voluntary Overcollateralisation.

The Issuer must provide immediate notice to CMHC if the Level of Overcollateralisation falls below the Guide OC Minimum. Once implemented, the OC Valuation will be calculated by the Cash Manager as at each Calculation Date and monitored from time to time by the Cover Pool Monitor. Such calculation will be completed within the time period specified in the Cash Management Agreement. The Level of Overcollateralisation, with a comparison to the Guide OC Minimum, must be disclosed for the month the calculation is performed in each Investor Report and each public offering document prepared, filed or otherwise made available to investors during the currency of the calculation.

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 Managing GP (or the Cash Manager on its behalf) will serve an Asset Coverage Test Breach Notice on the Guarantor, the Partners and the Bond Trustee in accordance with the Guarantor Agreement. Under the Guarantor Agreement, the Managing GP (or the Cash Manager on its behalf) 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 where the Asset Coverage Test is not satisfied, the Limited Partner will use all reasonable efforts to, in its sole discretion, (i) make advances under the Intercompany Loan, (ii) sell 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.

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 at any time an Asset Coverage Test Breach Notice is outstanding or a Notice to Pay has been served to the Guarantor below); and

(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 *Cashflows—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 Event has occurred*.

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:

Asset Coverage Test = ACT Asset Value - ACT Liability Value

ACT Asset Value = A + B + C + D + E - F

where:

A = the lower of (1) and (2):

(1) the sum of the LTV Adjusted Loan Balance of each Loan in the Portfolio, net of Adjustments; and

(2) the sum of the Asset Percentage Adjusted Loan Balance of each Loan in the Portfolio, 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 proceeds advanced 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

D = the outstanding principal amount of any Substitution Assets

E = the amount credited to the Reserve Fund balance and/or amount 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 = the lower of (1) and (2):

(1) the True Loan Balance of the relevant Loan; and

(2) if such Loan is a Performing Eligible Loan, 80 per cent. of the Market Value of the related Property or, if such loan is not a Performing Eligible Loan, zero

Asset Percentage Adjusted Loan Balance = the Asset Percentage x the lower of (1) and (2):

(1) the True Loan Balance of the relevant Loan; and

(2) if such Loan is a Performing Eligible Loan, the Market Value of the related Property or, if such loan is not a Performing Eligible Loan, zero

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

True Loan Balance = the sum of:

(1) the outstanding loan balance of the relevant Loan; and

(2) all arrears of interest and accrued interest in respect of the relevant Loan

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 cent. per annum, then 0.5 per cent.; 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 cent. per annum, then the sum of (x) 0.5 per cent. and (y) such margin less 0.1 per cent.,

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 Agreement, whereupon the Negative Carry Factor will be nil

ACT Liability Value	=	the nominal amount of covered bond liabilities outstanding in Canadian Dollars (with currency transaction undertaken using or at foreign exchange rates reflected in the related Covered Bond Swap Agreement)

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 **Cashflow 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 that 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 Cashflow Model Calculation Date as a whole or on the basis of a sample of Randomly Selected Loans (as described below) 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 one or more Rating Agencies to, determine the Asset Percentage at least two days prior to the Guarantor Payment Date following the Cashflow 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 Cashflow Model

Calculation Date and each Calculation Period thereafter to but excluding the last day of the following Calculation Period ending on a Cashflow 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 95 per cent., as determined in accordance with the Guarantor Agreement, provided that the Asset Percentage will not be less than 80 per cent. 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.

Randomly Selected Loans means Loans and, if applicable, their Related Security, in the Portfolio, selected in accordance with the terms of the Guarantor Agreement on a basis that (i) such Loans would not, or would not reasonably be expected to, adversely affect the interests of the Covered Bondholders, and (ii) such Loans are not designed to favour the selection of any identifiable class or type or quality of Loans and their Related Security over all Loans and their Related Security in the Portfolio.

Amortisation Test

The Guarantor must ensure that as of each Calculation Date following an Issuer Event of Default that is continuing, the Amortisation Asset Value will be in an amount at least equal to the Amortisation 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 Amortisation Asset Value is less than the Amortisation Liability Value as calculated as of the relevant Calculation Date, then the Amortisation 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 the Bond Trustee of any breach of the Amortisation Test.

Amortisation Test = Amortisation Asset Value - Amortisation Liability Value

Amortisation Asset Value = A + B + C - D

where:

A = the aggregate Amortisation True Loan Balance of each Loan in the Portfolio

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

Amortisation True Loan Balance = the lower of (1) and (2):

(1) the True Loan Balance of the relevant Loan; and

(2) if such Loan is a Performing Eligible Loan, 80 per cent. of the Market Value of the related Property, or if such Loan is not a Performing Eligible Loan, zero

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 cent. per annum, then 0.5 per cent.; 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 cent. per annum, then the sum of (x) 0.5 per cent. and (y) such margin less 0.1 per cent.,

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 Agreement whereupon the Negative Carry Factor will be nil

Amortisation Liability Value = the nominal amount of Covered Bond liabilities outstanding in Canadian Dollars (with currency translations undertaken using or at foregoing exchange rates reflected in the related Covered Bond Swap Agreement or, to the extent the foreign exchange risk of a non-Canadian Dollar denominated Covered Bond liability is not or no longer the subject of (or otherwise addressed or mitigated by) a Covered Bond Swap Agreement (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 section 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 (i) each Loan that is a Performing Eligible Loan, which will be the lower of (1) the Present Value of the relevant Loan on such Calculation Date, and (2) 80 per cent. multiplied by the Latest Valuation relating to that Loan, and (ii) each Loan that is not a Performing Eligible Loan, which will be equal to zero

minus

the aggregate sum of the following deemed reductions to the aggregate LTV Adjusted Loan Present Value of the Performing Eligible 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.

Trading Value = the value determined with reference to one of the methods set forth in paragraphs (a) through (f) below which can reasonably be considered the most accurate indicator of institutional market value in the circumstances:

(a) the last selling price;

(b) the average of the high and low selling price on the calculation date;

(c) the average selling price over a given period of days (not exceeding 30) preceding the calculation date;

(d) the close of day bid price on the calculation date (in the case of an asset);

(e) the close of day ask price on the calculation date (in the case of a liability); or

(f) such other value as may be indicated by at least two actionable quotes obtained from appropriate market participants instructed to have regard for the nature of the asset or liability, its liquidity and the current interest rate environment,

plus accrued return where applicable (with currency translations undertaken using or at the average close of day foreign exchange rates posted on the Bank of Canada website for the month in relation to which the calculation is made), *provided that,* in each case, the methodology selected, the reasons therefor and the determination of value pursuant to such selected methodology will be duly documented.

Sale of Selected Loans following a breach of the Pre-Maturity Test

The Pre-Maturity Test will be breached if one or more Rating Agencies downgrade the Bank's ratings 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 Test.* 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*), 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 Test*.

Sale 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 (a) sell Selected Loans in accordance with the Guarantor Agreement (see *—Method of sale of Portfolio assets*), 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, or (b) make a Payment in Kind in accordance with the terms of the Intercompany Loan 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 to the Guarantor

At any time an Asset Coverage Test Breach Notice is outstanding or a Notice to Pay has been served to 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*).

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 (as described above); and

(b) the Selected Loans have an aggregate True Loan Balance in an amount that 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);

A is an amount equal to the True Loan Balance of all the Loans and their Related Security 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.

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

the Principal Amount Outstanding of the relevant Series of Covered Bonds	x	[1 + Negative Carry Factor x (days to maturity of the relevant Series of Covered Bonds/365)].

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;

(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; and

(c) at any other time, for an amount not less than the Fair Market Value of such Selected Loans.

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 recognised standing on a basis intended to incentivise 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 to 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.

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*,) are satisfied.

Any such sale will not include any representations, warranties or indemnities from the Guarantor.

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, 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;

(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 or convey or transfer its properties or assets substantially as an entirety to any other 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 to 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 per cent. 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 Event 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; provided that to the extent that cash receipts of the Guarantor cause it to hold cash in excess of the amount in clause (i) above, 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.

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 to 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.

The Guarantor Agreement provides that, upon the occurrence of any of the following events:

(a) the passing of any resolution of the directors or the shareholder of the Managing GP requiring or approving the bankruptcy, dissolution, liquidation or winding up of the Managing GP;

(b) the making of any assignment for the benefit of creditors of the Managing GP, or upon the appointment of a receiver of the assets and undertaking of the Managing GP;

(c) the appointment of a receiver of the assets and undertaking of the Managing GP; or

(d) the occurrence of a Covered Bond Guarantee Activation Event,

(each, a **Managing GP Default Event**), the initial Managing GP (being BMO Covered Bond GP, Inc.) will cease to be the Managing GP of the Guarantor, and the Liquidation GP will be automatically appointed the new Managing GP without the need for consent on the part of any person.

Other Provisions

The allocation and distribution of Revenue Receipts, Principal Receipts and all other amounts received by the Guarantor is described under *Cashflows*.

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 or any of its general partners. 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 or receiver 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 or receivership only.

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

Cash Management Agreement

The Cash Manager (initially the Bank) will provide certain cash management services to the Guarantor pursuant to the terms of the Cash Management Agreement between the Guarantor, the Cash Manager, GDA Provider, Seller and 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*;

(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 *Credit Structure—Asset Coverage Test*;

(d) determining whether the Amortisation 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 *Credit Structure—Amortisation Test*;

(e) preparation of Investor 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 *Credit Structure—Pre-Maturity Test*.

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 each of the Cash Manager Required Ratings by each of the Rating Agencies; (iii) it is and will continue to be in regulatory good standing; (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; and (v) 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 Rating Agency withdrawing or downgrading the ratings of the Cash Manager by one or more Rating Agency below any of the Cash Management Deposit Ratings or the occurrence of a Covered Bond Guarantee Activation Event, 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 Rating Agency withdrawing or downgrading the ratings of the Cash Manager below any of the Cash Manager Required Ratings, the Guarantor and the Bond Trustee will, in certain circumstances, each have the right to terminate the appointment of the Cash Manager, and will be obligated to terminate

the appointment of the Cash Manager if its ratings fall below the Cash Manager Required Ratings at any time that the Guarantor is not Independently Controlled and Governed. Upon any such termination, 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).

Pursuant to the Cash Management Agreement, for so long as the Bank or an affiliate of the Bank is the Cash Manager, no fee will be payable to the Cash Manager for its services thereunder. Any substitute Cash Manager that is not an affiliate of the Bank will be entitled to such fee as may be agreed between such substitute Cash Manager and the Guarantor, which fee will be paid by the Guarantor pursuant to the applicable Priorities of Payments.

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 entered into the Interest Rate Swap Agreement with the Interest Rate Swap Provider (initially the Bank). The Guarantor and the Interest Rate Swap Provider have agreed to swap the amount of interest received by the Guarantor from borrowers and related amounts in the Portfolio in exchange for an amount sufficient to pay the interest payable on the Intercompany Loan plus a certain amount for expenses. Amounts payable under the Interest Rate Swap Agreement will be in Canadian Dollars.

The Interest Rate Swap Agreement will terminate (unless terminated earlier by an Interest Rate Swap Early Termination Event) on the date on which the notional amount thereunder is reduced to zero.

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 Bank 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 an Initial Downgrade Event occurs and the Interest Rate Swap Provider does not provide credit support to the Guarantor within ten Canadian 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;

- at the option of the Guarantor, in the event that a Subsequent Downgrade Trigger Event occurs 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 ten Canadian 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 items (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.

The notional amount of the Interest Rate Swap Agreement will generally be equal to the aggregate value of the Portfolio, and 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.

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 Canadian Business Days' prior written notice to the 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 if such transfer is obligatory due to a ratings downgrade, 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 is 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, and the Interest Rate Swap Provider makes the following representations (other than those in (x)) with respect to itself and/or the Interest Rate Swap Agreement: (i) that it is duly organised 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 organised 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 it 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 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 has entered into the Covered Bond Swap Agreement with the Covered Bond Swap Provider (initially the Bank), 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 have agreed 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 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 cashflows will be exchanged under the Covered Bond Swap Agreement unless and until the Covered Bond Swap Effective Date has occurred.

If prior to (a) the Final Maturity Date in respect of the relevant Series or Tranche of Covered Bonds, or (b) any Interest Payment Date or the Extended Due for Payment Date following a deferral of the Original 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 Final Terms Document or the Pricing 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 in the Specified Currency to be paid by the 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 Early Redemption 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 realising 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*).

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 ten Canadian 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 ten Canadian 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 clauses (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.

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 Agreement 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 Canadian Business Days' prior written notice to the 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. The Bond Trustee's consent to such transfer is required if such transfer is obligatory due to a ratings

downgrade, 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.

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, and the Covered Bond Swap Provider makes the following representations (other than those in (x)) with respect to itself and/or the Covered Bond Swap Agreement: (i) that it is duly organised 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 organised 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.

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 the Bank), the GDA Provider (initially the Bank), the Cash Manager (initially the Bank) and the Bond Trustee, the Guarantor will maintain with the Account Bank the Transaction Account (to the extent maintained), into which amounts may be deposited by the Guarantor prior to their transfer to the GDA Account. Funds standing to the credit of the Transaction Account will be transferred to the GDA Account on each Guarantor Payment Date and applied by the Cash Manager in accordance with the Priorities of Payments described below under *Cashflows*. The Transaction Account will be operated in accordance with the Cash Management Agreement the Guarantor Agreement, and the Security Agreement.

Under the Bank Account Agreement, the Account Bank represents and warrants to the Cash Manager, the GDA Provider, 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 authorised 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 Transaction Documents to which it is a party, (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, (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, and (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 Bank Account Agreement and the other Transaction Documents to which it is a party.

If one or more Rating Agencies downgrade the ratings of the Account Bank below 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 Stand-By Account Bank.

Account Bank Required Ratings means the threshold ratings of (i) P-1 (in respect of Moody's), (ii) A and F1 (in respect of Fitch), and (iii) A or R-1(low) (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 Stand-By Account Bank if the Account Bank breaches the Account Bank Required Ratings as described above, the Guarantor may (in the case of clauses (i) through (iii) below) or will (in the case of clauses (iv) through (vii) below) (in the case of each of the events below other than (vii), with the prior consent of the Bond Trustee, which consent will not be withheld unless the Bond Trustee determines that the termination of the Bank Account Agreement would be materially prejudicial to the Covered Bondholders) terminate the Bank Account Agreement and move the Guarantor Accounts to the Stand-By 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 Bank or an affiliate thereof, an Issuer Event of Default has occurred.

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

Stand-By Bank Account Agreement

Pursuant to the terms of a stand-by bank account agreement (the **Stand-By Bank Account Agreement**) between the Guarantor, Royal Bank of Canada (the **Stand-By Account Bank**), the Stand-By GDA Provider, the Cash Manager, the Bank and the Bond Trustee (as amended and/or restated and/or supplemented from time to time), the Stand-By Account Bank will open and maintain a stand-by GDA account (the **Stand-By GDA Account**) and stand-by transaction account (the **Stand-By Transaction Account**) in the name of the Guarantor following delivery by the Guarantor (or the Cash Manager on its behalf) of a stand-by account bank notice (the **Stand-By Account Bank Notice**) to the Stand-By Account Bank.

Pursuant to the terms of the Cash Management Agreement, the Cash Manager will deliver a Stand-By Account Bank Notice to the Stand-By 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 Stand-By Account Bank pursuant to the terms of the Bank Account Agreement or the Bank Account Agreement is terminated for any reason.

The Stand-By Bank Account Agreement provides that the Stand-By GDA Account and the Stand-By Transaction Account, when opened, will be subject to the security interest in favour 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 Stand-By 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 Stand-By Bank Account Agreement, the Stand-By 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 Stand-By 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 Stand-By Bank Account Agreement (x) are within its corporate powers, (y) have been duly authorised 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 other Transaction Documents to which it is a party, (v) it is rated at or above the Stand-By 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 Stand-By 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 Stand-By Bank Account Agreement and the other Transaction Documents to which it is a party.

The Stand-By Bank Account Agreement further provides that if one or more Rating Agencies downgrades or withdraws the ratings of the Stand-By Account Bank below the Stand-By Account Bank Required Ratings, then the Stand-By GDA Account and the Stand-By 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 bank having the Stand-By Account Bank Required Ratings.

Stand-By Account Bank Required Ratings means the threshold ratings of (i) P-1 with respect to the short-term unsecured, unsubordinated and unguaranteed debt obligations of the Stand-By Account Bank by Moody's, (ii) F1 with respect to the short-term issuer default rating of the Stand-By Account Bank by Fitch, (iii) A with respect to long-term issuer default rating of the Stand-By Account Bank by Fitch, and (iv) either (A) R-1 (low) with respect to the short-term unsecured, unsubordinated and unguaranteed debt obligations of the Stand-By Account Bank by DBRS, or (B) A with respect to the long-term unsecured, unsubordinated and unguaranteed debt obligations of the Stand-By Account Bank by DBRS.

In addition to the requirement that the Guarantor Accounts be moved from the Stand-By Account Bank to a bank having the Stand-By Account Bank Required Ratings if one or more Rating Agencies downgrades or withdraws the ratings of the Stand-By Account Bank below the Stand-By Account Bank Required Ratings as described above, the Guarantor may (in the case of clauses (i) through (iii) below) or will (in the case of clauses (iv) through (vi) below) (in the case of each of the events below other than (vii), with the prior consent of the Bond Trustee, which consent will not be withheld unless the Bond Trustee determines that the termination of the Stand-By Bank Account Agreement would be materially prejudicial to the Covered Bondholders) terminate the Stand-By Bank Account Agreement and move the Guarantor Accounts from the Stand-By Account Bank to a bank having the Stand-By Account Bank Required Ratings 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 Stand-By Account Bank of certain representations and warranties or a failure by the Stand-By Account Bank to perform certain covenants made by it under the Stand-By Bank Account Agreement, (iii) the Stand-By Account Bank materially breaches any of its other covenants and obligations under the Stand-By Bank Account Agreement or the Stand-By Guaranteed Deposit Account Contract, (iv) the Stand-By Account Bank ceases or threatens to cease carrying on the business of the Stand-By Account Bank, (v) an order is made for the winding up of the Stand-By Account Bank, or (vi) an Insolvency Event occurs with respect to the Stand-By Account Bank.

References herein to the GDA Account or the Transaction Account include, unless otherwise stated, references to the Stand-By GDA Account or the Stand-By Transaction Account when the Stand-By GDA Account and the Stand-By Transaction Account become operative.

The Stand-By Bank Account Agreement is governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein.

Guaranteed Deposit Account Contract

The Guarantor has entered into a guaranteed deposit account contract (**Guaranteed Deposit Account Contract** or **GDA**) with the GDA Provider, the Cash Manager and the Bond Trustee pursuant to which the GDA Provider has agreed to pay interest on the moneys standing to the credit thereof at the GDA Rate. 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*.

The Guaranteed Deposit Account Contract is governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein.

Stand-By Guaranteed Deposit Account Contract

The Guarantor has entered into a stand-by guaranteed deposit account contract with Royal Bank of Canada (the **Stand-By GDA Provider**), the Cash Manager and the Bond Trustee on the Program Date (as amended

and/or supplemented and/or restated from time to time, the **Stand-By Guaranteed Deposit Account Contract**), pursuant to which the Stand-By GDA Provider has agreed to pay interest on the Stand-By GDA Account at the Stand-By GDA Rate. Under the Stand-By Guaranteed Deposit Account Contract, the Stand-By 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 Stand-By GDA Account and on each Guarantor Payment Date as are made by the Stand-By Account Bank and which are described under —*Stand-By Bank Account Agreement*.

Funds on deposit in the GDA Account and the Transaction Account (to the extent maintained) will be transferred to the Stand-By GDA Account if the Cash Manager has delivered a Stand-By Account Bank Notice to the Stand-By Account Bank that such funds are required to be transferred to the Stand-By Account Bank pursuant to the terms of the Bank Account Agreement or the Bank Account Agreement is terminated for any reason, and funds that were previously required to be deposited to the GDA Account and the Transaction Account (to the extent maintained) pursuant to the terms of the Transaction Documents will thereafter be deposited only to the Stand-By GDA Account.

The Stand-By Guaranteed Deposit Account Contract is governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein.

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 future 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 favour 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 authorisation, 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.

(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.

(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 authorised by all necessary action on the part of the Guarantor and its partners in accordance with the terms of the Guarantor Agreement and constitute 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 Bank 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*.

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).

Issuer-ICSDs Agreement

Prior to the issuance of any NGCBs, the Bank will enter into an Issuer-ICSDs Agreement with Euroclear Bank S.A./N.V. and Clearstream Banking SA (the **ICSDs**) in respect of any Covered Bonds issued in NGCB form. The Issuer-ICSDs Agreement provides that the ICSDs will, in respect of any such NGCBs, maintain their respective portion of the issue outstanding amount through their records.

The Issuer-ICSDs Agreement will be governed by English law.

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.

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

Agency Agreement

Under the terms of the Agency Agreement between the Agents, the Bank, the Guarantor and the Bond Trustee, the Agents have been appointed by the Bank 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 systems on behalf of the Bank 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 Bank 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 Bank, 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 Issuing and Paying Agent, the Registrar or any Calculation Agent will not be effective unless a successor has been appointed.

The Bank 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. In addition, if the ratings of a Paying Agent cease to be rated by the Rating Agencies at or above each of the Paying Agent Required Ratings at any time that (a) the Guarantor is Independently Controlled and Governed, the Guarantor may, and (b) the Guarantor is not Independently Controlled and Governed, the Guarantor will, terminate the appointment of such Paying Agent and appoint one or more further or other Agents. Furthermore, if an Issuer Event of Default (A) occurs and is continuing, or (B) has previously occurred and is continuing, at any time that the Guarantor is Independently Controlled and Governed, the Guarantor may terminate the appointment of an Agent which is the Bank or an affiliate of the Bank and appoint one or more further or other Agents.

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 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.

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

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 Covered Bondholders). 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.

Modification of Ratings Triggers and Consequences

Any amendment to (a) a Ratings Trigger that (i) lowers the ratings specified therein or (ii) changes the applicable ratings type, in each case, provided for in any Transaction Document, or (b) the consequences of breaching any such Ratings Trigger, or changing the applicable ratings type, 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.

CREDIT STRUCTURE

The Covered Bonds will constitute deposit liabilities of the Bank for purposes of the Bank Act, however the Covered Bonds will not be insured under the CDIC Act and will constitute legal, valid and binding direct, unconditional, unsubordinated and unsecured obligations of the Bank and rank *pari passu* with all deposit liabilities of the Bank without any preference among themselves and at least *pari passu* with all other present and future unsubordinated and unsecured obligations of the Bank from time to time outstanding, except as prescribed by law.

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 in respect of 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 Charged Property and will be subject to the applicable Priorities of Payments.

The Program includes certain features relating to the timely and, as applicable, ultimate payments of principal and interest to Covered Bondholders, as follows:

- 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 and the OC Valuation are 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 Amortisation 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 0.10 per cent. below one-month CDOR that appears on the Reuters Screen as of 10.00 am (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 on the Bank. 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.

See further *Overview of the Principal Documents*.

Pre-Maturity Test

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 Final Terms Document or Pricing 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 in respect of the Hard Bullet Covered Bonds when the Bank's ratings fall below a certain level. On each Canadian Business Day that falls within 12 months prior to 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 Seller and the Bond Trustee. The Cash Manager and the Guarantor are required to undertake certain actions upon the failure or breach of the Pre-Maturity Test by the Bank, including the sale of Selected Loans. See *Overview of the Principal Documents—Guarantor Agreement—Sale of Selected Loans following a breach of the Pre-Maturity Test* and *Overview of the Principal Documents—Mortgage Sale Agreement—Right of Pre-emption.*

Asset Coverage Test

An Asset Coverage Test is conducted on the Portfolio on each Calculation Date. The Asset Coverage Test determines whether the assets and cashflow of the Guarantor satisfy the required overcollateralisation which is intended to ensure that the Guarantor meets its obligations under the Covered Bond Guarantee following the occurrence of the Covered Bond Guarantee Activation Event. If the Asset Coverage Test is not met on two consecutive Calculation Dates, an Asset Coverage Test Breach Notice will be served to 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 ever 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 *Overview of the Principal Documents—Guarantor Agreement—Asset Coverage Test*.

Amortisation Test

The Amortisation Test is conducted on the Portfolio on each Calculation Date following an Issuer Event of Default that is continuing. The Amortisation Test has been structured to determine whether the assets of the Guarantor, including the Loans and their Related Security in the Portfolio, have fallen 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 Amortisation Test will constitute a Guarantor Event of Default and will entitle the Bond Trustee to serve a Guarantor Acceleration Notice on the Guarantor. See *Overview of the Principal Documents—Guarantor Agreement—Amortisation Test*.

Valuation Calculation

The Guarantor is required to perform on a monthly basis 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 *Overview 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 and Available Principal 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 Capital Contribution made in cash (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.

Voluntary Overcollateralisation

From time to time, the Guarantor may hold Loans and Related Security, Substitution Assets and cash with a value in excess of the value required to satisfy the coverage tests prescribed by the Transaction Documents and the CMHC Guide, including the Asset Coverage Test and the Amortisation Test, as applicable. Such excess collateral is the **Voluntary Overcollateralization**. For the avoidance of doubt, in

calculating such Voluntary Overcollateralization, any Excess Proceeds received by the Guarantor following an Issuer Event of Default will be deducted from the assets used to perform the coverage tests as described above, including the ACT Asset Value and the Amortization Asset Value.

Pursuant to the terms of the Transaction Documents and provided that the Guarantor must at all times be in compliance with such coverage tests, the terms of the Transaction Documents and the CMHC Guide, the Guarantor is from time to time permitted to:

- apply cash (in an amount up to the Voluntary Overcollateralisation) to the repayment of any loan advanced by the Issuer, including the Intercompany Loan;

- distribute cash (in an amount up to the Voluntary Overcollateralisation) to the Partners;

- subject to the rights of pre-emption enjoyed by the Seller pursuant to the terms of the Mortgage Sale Agreement, transfer, or agree with the Seller to withdraw or remove Loans and Related Security and Substitution Assets (with an aggregate value, in the case of Loans and Related Security, equal to the LTV Adjusted Loan Balance thereof, and in the case of Substitution Assets, equal to the face value thereof, up to the Voluntary Overcollateralisation); or

- agree with the Seller to substitute Assets owned by the Guarantor with other Loans and Related Security and/or Substitution Assets that in each case comply with the terms of the Transaction Documents, the CMHC Guide and the Covered Bond Legislative Framework.

Any Loans and Related Security and/or Substitution Assets transferred, withdrawn, removed or substituted in accordance with the above will be selected in a manner that would not reasonably be expected to be materially prejudicial to the interests of the Covered Bondholders and the consideration received by the Guarantor therefor (whether in cash or in kind) will, unless otherwise prescribed by the terms of the Transaction Documents, not be less than the fair market value thereof. See *Overview of the Principal Documents—Intercompany Loan* Agreement.

CASHFLOWS

As described above under *Credit Structure*, until the occurrence of a Covered Bond Guarantee Activation Event, the Covered Bonds will be the 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 summarises 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 Event has occurred;

(b) when an Asset Coverage Test Breach Notice is outstanding but no Covered Bond Guarantee Activation Event 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.

Allocation and distribution of Available Revenue Receipts when no Asset Coverage Test Breach Notice is outstanding and no Covered Bond Guarantee Activation Event has occurred.

At any time when no Asset Coverage Test Breach Notice is outstanding and no Covered Bond Guarantee Activation Event 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:

(a) the amount of Available Revenue Receipts available for distribution on the immediately following Guarantor Payment Date;

(b) the Reserve Fund Required Amount (if applicable); and

(c) 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 12 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.

On each Guarantor Payment Date, the Guarantor (or the Cash Manager on its behalf) will transfer Available Revenue Receipts from the Revenue Ledger to the Payment Ledger, and use Available Revenue Receipts held by the Cash Manager for and on behalf of the Guarantor and, as necessary, transfer Available Revenue Receipts from the GDA Account to the Transaction Account (to the extent maintained), in an amount equal to the lower of (a) the amount required to make the payments or credits described below and (b) the amount of Available Revenue Receipts.

Pre-Acceleration Revenue Priorities of Payments

At any time no Asset Coverage Test Breach Notice is outstanding and no Covered Bond Guarantee Activation Event has occurred, Available Revenue Receipts will be applied by or on behalf of the Guarantor

(or the Cash Manager on its behalf) on each Guarantor Payment Date (except for amounts due to third parties by the Guarantor under paragraph (a) below or Third Party Amounts which will be paid when due) in making the following payments and provisions (the **Pre-Acceleration Revenue Priorities of Payments**) (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

(a) *first,* in or towards satisfaction of any amounts due and payable by the Guarantor to third parties and incurred without breach by the Guarantor of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere in the relevant Priorities of Payments) and to provide for any such amounts expected to become due and payable by the Guarantor in the immediately succeeding Guarantor Payment Period and to pay and discharge any liability of the Guarantor for taxes;

(b) *second,* any amounts in respect of interest due to the Bank in respect of the Demand Loan pursuant to the terms of the Intercompany Loan;

(c) *third,* in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:

(i) any remuneration then due and payable to the Servicer and any costs, charges, liabilities and expenses then due or to become due and payable to the Servicer under the provisions of the Servicing Agreement in the immediately succeeding Guarantor Payment Period together with applicable Goods and Services Tax (**GST**) (or other similar taxes) thereon to the extent provided therein;

(ii) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager under the provisions of the Cash Management Agreement in the immediately succeeding Guarantor Payment Period, together with applicable GST (or other similar taxes) thereon to the extent provided therein, provided that if the Cash Manager is the Bank or a member of the BMO Group, it will not receive any fees;

(iii) amounts (if any) due and payable to the Account Bank (or, as applicable, the Stand-By Account Bank) (including costs) pursuant to the terms of the Bank Account Agreement (or, as applicable, the Stand-By Bank Account Agreement), together with applicable GST (or other similar taxes) thereon to the extent provided therein;

(iv) amounts due and payable to the Cover Pool Monitor pursuant to the terms of the Cover Pool Monitor Agreement (other than the amounts referred to in paragraph (j) below), together with applicable GST (or other similar taxes) thereon to the extent provided therein; and

(v) amounts due and payable to the Custodian pursuant to the terms of the Mortgage Sale Agreement, together with applicable GST (or other similar taxes) thereon to the extent provided therein;

(d) *fourth*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:

(i) payment due to the Interest Rate Swap Provider (including any termination payment due and payable by the Guarantor under the Interest Rate Swap Agreement (but excluding any

Excluded Swap Termination Amount)) pursuant to the terms of the Interest Rate Swap Agreement; and

(ii) payment due to the Covered Bond Swap Provider (including any termination payment due and payable by the Guarantor under the Covered Bond Swap Agreement (but excluding any Excluded Swap Termination Amount)) pursuant to the terms of the Covered Bond Swap Agreement;

(e) *fifth*, in or towards payment on the Guarantor Payment Date of, or to provide for payment on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine (in the case of any such payment or provision, after taking into account any provisions previously made and any amounts receivable from the Interest Rate Swap Provider under the Interest Rate Swap Agreement), any amounts due or to become due and payable (excluding principal amounts) to the Bank in respect of the Guarantee Loan pursuant to the terms of the Intercompany Loan Agreement;

(f) *sixth*, if a Servicer Event of Default has occurred, all remaining Available Revenue Receipts to be credited to the GDA Account (with a corresponding credit to the Revenue Ledger maintained in respect of that account) until such Servicer Event of Default is either remedied by the Servicer or waived by the Bond Trustee or a new servicer is appointed to service the Portfolio (or the relevant part thereof);

(g) *seventh*, in or towards a credit to the GDA Account (with a corresponding credit to the Reserve Ledger) of an amount up to but not exceeding the amount by which the Reserve Fund Required Amount (if applicable) exceeds the existing balance on the Reserve Ledger as calculated on the immediately preceding Calculation Date;

(h) *eighth*, if the Guarantor is required to make a deposit to the Pre-Maturity Liquidity Ledger due to a breach of the Pre-Maturity Test in respect of any Series of Hard Bullet Covered Bonds, towards a credit to the GDA Account (with a corresponding credit to the Pre-Maturity Liquidity Ledger) of an amount up to but not exceeding the difference between:

(i) the Pre-Maturity Liquidity Required Amount as calculated on the immediately preceding Calculation Date; and

(ii) the sum of any amounts standing to the credit of the Pre-Maturity Liquidity Ledger on the immediately preceding Calculation Date;

(i) *ninth*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:

(i) payment of any Excluded Swap Termination Amount due and payable by the Guarantor under the Interest Rate Swap Agreement; and

(ii) payment of any Excluded Swap Termination Amount due and payable by the Guarantor under the Covered Bond Swap Agreement;

(j) *tenth*, in or towards payment *pro rata* and *pari passu* in accordance with the respective amounts thereof of any indemnity amount due to the Cover Pool Monitor pursuant to the Cover Pool Monitor Agreement, and any indemnity amount due to any Partner pursuant to the Guarantor Agreement;

(k) *eleventh*, in or towards payment of the fee due to the Corporate Services Provider by the Guarantor pursuant to the terms of the Corporate Services Agreement; and

(l) *twelfth*, towards such distributions of profit to the Partners as may be payable in accordance with the terms of the Guarantor Agreement.

See *Summary of Fees and Expenses* for further details on the fees and expenses expected to be paid from the Available Revenue Receipts.

Any amounts received by the Guarantor under the Interest Rate Swap Agreement and the Covered Bond Swap Agreement (other than, in each case, amounts in respect of Swap Collateral Excluded Amounts) on or after the Guarantor Payment Date but prior to the next following Guarantor Payment Date will be applied, together with any provision for such payments made on any preceding Guarantor Payment Date, to make payments (other than in respect of principal) due and payable in respect of the Intercompany Loan Agreement and then the expenses of the Guarantor unless an Asset Coverage Test Breach Notice is outstanding or otherwise to make provision for such payments on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine.

Any amounts received under the Interest Rate Swap Agreement and the Covered Bond Swap Agreement on the Guarantor Payment Date or on any date prior to the next succeeding Guarantor Payment Date which are not applied towards a payment or provision in accordance with paragraph (d) above or the preceding paragraph will be credited to the Revenue Ledger and applied as Available Revenue Receipts on the next succeeding Guarantor Payment Date.

Amounts (if any) held by the Cash Manager for and on behalf of the Guarantor or standing to the credit of the Transaction Account which are not required to be applied in accordance with paragraphs (a) to (l) of the Pre-Acceleration Revenue Priorities of Payments or paragraphs (a) to (g) of the Pre-Acceleration Principal Priorities of Payments below will, if applicable, be deposited by the Cash Manager and, in each case be credited to the appropriate ledger in the GDA Account on the Guarantor Payment Date.

If any Swap Collateral Available Amounts are received by the Guarantor on a Guarantor Payment Date, such amounts will be applied by the Guarantor (or by the Cash Manager on its behalf) on that Guarantor Payment Date in the same manner as it would have applied the receipts which such Swap Collateral Available Amounts replace.

Each Partner acknowledges that the distribution paid pursuant to paragraph (l) above to such Partner represents a reasonable commercial return to the Partner from its involvement in the Guarantor and also agrees that such profits will not be paid to the Partners at a time when they know or ought to know that there was no reasonable prospect of avoiding an insolvent liquidation of the Guarantor as a result of such profit distribution.

Allocation and Distribution of Available Principal Receipts when no Asset Coverage Test Breach Notice is outstanding and no Covered Bond Guarantee Activation Event has occurred

At any time no Asset Coverage Test Breach Notice is outstanding and no Covered Bond Guarantee Activation Event has occurred, Available Principal 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 the amount of Available Principal Receipts available for distribution on the immediately following Guarantor Payment Date.

On each Guarantor Payment Date, the Guarantor (or the Cash Manager on its behalf) will transfer Available Principal Receipts from the Principal Ledger to the Payment Ledger, and use Available Principal Receipts held by the Cash Manager for and on behalf of the Guarantor and, as necessary, transfer Available Principal Receipts from the GDA Account to the Transaction Account (to the extent maintained), in an amount equal to the lower of (a) the amount required to make the payments or credits described below and (b) the amount of Available Principal Receipts.

Pre-Acceleration Principal Priorities of Payments

At any time no Asset Coverage Test Breach Notice is outstanding and no Covered Bond Guarantee Activation Event has occurred, Available Principal Receipts will be applied by or on behalf of the Guarantor on each Guarantor Payment Date in making the following payments and provisions (the **Pre-Acceleration Principal Priorities of Payments**) (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

(a) *first,* if the Pre-Maturity Test has been breached by the Bank in respect of any Series of Hard Bullet Covered Bonds, towards a credit to the Pre-Maturity Liquidity Ledger in an amount up to but not exceeding the difference between:

  (i) the Pre-Maturity Liquidity Required Amount as calculated on the immediately preceding Calculation Date; over

  (ii) any amounts standing to the credit of the Pre-Maturity Liquidity Ledger on the immediately preceding Calculation Date;

(b) *second,* to pay amounts in respect of principal outstanding on the Demand Loan pursuant to the terms of the Intercompany Loan Agreement;

(c) *third,* to acquire Loans and their Related Security offered to the Guarantor, if necessary or prudent, to ensure that, taking into account the other resources available to the Guarantor, the Asset Coverage Test is met and thereafter to acquire (in the discretion of the Guarantor or the Cash Manager on its behalf) Substitution Assets up to the prescribed limit in the CMHC Guide;

(d) *fourth,* to deposit the remaining Principal Receipts in the GDA Account (with a corresponding credit to the Principal Ledger) in an amount sufficient to ensure that, taking into account the other resources available to the Guarantor, the Asset Coverage Test is met;

(e) *fifth,* in or towards repayment on the Guarantor Payment Date (or to provide for repayment on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine) of amounts (in respect of principal) due or to become due and payable to the Bank in respect of the Guarantee Loan pursuant to the terms of the Intercompany Loan;

(f) *sixth,* in or towards a credit to the GDA Account (with a corresponding credit to the Reserve Ledger) of an amount up to but not exceeding the amount by which the Reserve Fund Required Amount (if applicable) exceeds the existing balance on the Reserve Ledger as calculated on the immediately preceding Calculation Date; and

(g) *seventh,* subject to complying with the Asset Coverage Test, to make Capital Distributions in accordance with the terms of the Guarantor Agreement.

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 Event has occurred

At any time an Asset Coverage Test Breach Notice is outstanding but no Covered Bond Guarantee Activation Event has occurred, all Available Revenue Receipts and Available Principal Receipts will continue to be applied in accordance with the Pre-Acceleration Revenue Priorities of Payments and the Pre-Acceleration Principal Priorities of Payments save that, while any Covered Bonds remain outstanding, no funds will be applied under paragraphs (b), (f), (k) (to the extent only that such Indemnity Amounts are payable to a Partner), or (l) of the Pre-Acceleration Revenue Priorities of Payments or paragraphs (b), (c), (e) or (g) of the Pre-Acceleration Principal Priorities of Payments and for greater certainty no Capital Distribution will be made to the Limited Partner and no payments will be made to the Intercompany Loan Provider.

Allocation and distribution of Available Revenue Receipts and Available Principal Receipts following service of a Notice to Pay on the Guarantor

At any time after service of a Notice to Pay on the Guarantor, but prior to service of a Guarantor Acceleration Notice, all Available Revenue Receipts and Available Principal Receipts (other than Third Party Amounts and amounts credited to the Pre-Maturity Liquidity Ledger) will be applied as described below under —*Guarantee Priorities of Payments*.

On each Guarantor Payment Date, but prior to service of a Notice to Pay on the Guarantor, the Guarantor or the Cash Manager on its behalf will transfer Available Revenue Receipts and Available Principal Receipts from the Revenue Ledger, the Reserve Ledger, the Principal Ledger or the Capital Account Ledger, as the case may be, to the Payment Ledger, in an amount equal to the lower of (a) the amount required to make the payments set out in the Guarantee Priorities of Payments and (b) the amount of all Available Revenue Receipts and Available Principal Receipts standing to the credit of such Ledgers.

The Guarantor will create and maintain ledgers for each Series of Covered Bonds and record amounts allocated to such Series of Covered Bonds in accordance with paragraphs (e) and (f) of the *Guarantee Priorities of Payments*, and such amounts, once allocated, will only be available to pay amounts due under the Covered Bond Guarantee and amounts due in respect of the relevant Series of Covered Bonds under the Covered Bond Swap Agreement on the scheduled repayment dates thereof.

Guarantee Priorities of Payments

If a Notice to Pay is served on the Guarantor, the Guarantor will on the relevant Final Maturity Date for any Series of Hard Bullet Covered Bonds, apply all funds standing to the credit of the Pre-Maturity Liquidity Ledger with respect to such Series of Hard Bullet Covered Bonds (and transferred to the Transaction Account on the relevant Guarantor Payment Date) to repay the relevant Series of Hard Bullet Covered Bonds. Subject thereto, on each Guarantor Payment Date after the service of a Notice to Pay on the Guarantor (but prior to service of a Guarantor Acceleration Notice), the Guarantor (or the Cash Manager on its behalf) will apply Available Revenue Receipts and Available Principal Receipts to make the following payments, provisions or credits in the following order of priority (the **Guarantee Priorities of Payments**) (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

(a) *first*, to pay any amounts, in respect of principal and interest due to the Bank in respect of the Demand Loan pursuant to the terms of the Intercompany Loan Agreement;

(b) *second*, in or towards payment of all amounts due and payable or to become due and payable to the Bond Trustee with respect to the performance of its obligations as Bond Trustee in the immediately succeeding Guarantor Payment Period under the provisions of the Trust Deed and the Security Agreement together with interest and applicable GST (or other similar taxes) thereon as provided therein;

(c) *third*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:

(i) any remuneration then due and payable to the Agents under the provisions of the Agency Agreement together with applicable GST (or other similar taxes) thereon as provided therein, other than any Indemnity Amounts payable to the Agents in excess of $150,000; and

(ii) any amounts then due and payable by the Guarantor to third parties, including the Corporate Services Provider, and incurred without breach by the Guarantor of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere) and to provide for any such amounts expected to become due and payable by the Guarantor in the immediately succeeding Guarantor Payment Period and to pay or discharge any liability of the Guarantor for taxes;

(d) *fourth*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:

(i) any remuneration then due and payable to the Servicer and any costs, charges, liabilities and expenses then due or to become due and payable to the Servicer in the immediately succeeding Guarantor Payment Period under the provisions of the Servicing Agreement together with applicable GST (or other similar taxes) thereon to the extent provided therein, other than any Indemnity Amounts payable to the Servicer in excess of $150,000;

(ii) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager in the immediately succeeding Guarantor Payment Period under the provisions of the Cash Management Agreement, together with applicable GST (or other similar taxes) thereon to the extent provided therein, other than any Indemnity Amounts payable to the Cash Manager in excess of $150,000, provided that if the Cash Manager is the Bank or a member of the BMO Group, it will not receive any fees;

(iii) amounts (if any) due and payable to the Account Bank (or, as applicable, the Stand-By Account Bank) (including costs) pursuant to the terms of the Bank Account Agreement (or, as applicable, the Stand-By Bank Account Agreement), together with applicable GST (or other similar taxes) thereon to the extent provided therein, other than any Indemnity Amounts payable to the Account Bank (or, as applicable, the Stand-By Account Bank) in excess of $150,000;

(iv) amounts due and payable to the Cover Pool Monitor pursuant to the terms of the Cover Pool Monitor Agreement, together with applicable GST (or other similar taxes) thereon as provided therein, other than any Indemnity Amounts payable to the Cover Pool Monitor in excess of $150,000; and

(v) amounts due and payable to the Custodian pursuant to the terms of the Mortgage Sale Agreement, together with applicable GST (or other similar taxes) thereon as provided therein, other than any Indemnity Amounts payable to the Custodian in excess of $150,000;

(e) *fifth*, to pay *pro rata* and *pari passu* according to the respective amounts thereof:

(i) the amounts due and payable to the Interest Rate Swap Provider *pro rata* and *pari passu* according to the respective amounts thereof (including any termination payment due and payable by the Guarantor under the Interest Rate Swap Agreement but excluding any Excluded Swap Termination Amount) in accordance with the terms of the Interest Rate Swap Agreement;

(ii) the amounts due and payable to the Covered Bond Swap Provider (other than in respect of principal) *pro rata* and *pari passu* in respect of each relevant Series of Covered Bonds (including any termination payment (other than in respect of principal) due and payable by the Guarantor to the Covered Bond Swap Provider but excluding any Excluded Swap Termination Amount) in accordance with the terms of the Covered Bond Swap Agreement; and

(iii) to the Bond Trustee or (if so directed by the Bond Trustee) the Issuing and Paying Agent on behalf of the Covered Bondholders *pro rata* and *pari passu* Scheduled Interest that is Due for Payment (or will become Due for Payment in the immediately succeeding Guarantor Payment Period) under the Covered Bond Guarantee in respect of each Series of Covered Bonds,

provided, that if the amount available for distribution under this paragraph (e) (excluding any amounts received from the Covered Bond Swap Provider) would be insufficient to pay the Canadian Dollar Equivalent of the Scheduled Interest that is Due for Payment in respect of each Series of Covered Bonds under paragraph (iii) above, the shortfall will be divided among all such Series of Covered Bonds on a *pro rata* basis and the amount payable by the Guarantor in respect of each relevant Series of Covered Bonds to the Covered Bond Swap Provider under paragraph (ii) above will be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

(f) *sixth*, to pay or provide for *pro rata* and *pari passu* according to the respective amounts thereof of:

(i) the amounts (in respect of principal) due and payable *pro rata* and *pari passu* in respect of each relevant Series of Covered Bonds (including any termination payment (relating solely to principal) due and payable by the Guarantor under the Covered Bond Swap Agreement but excluding any Excluded Swap Termination Amount) to the Covered Bond Swap Provider in accordance with the terms of the relevant Covered Bond Swap Agreement; and

(ii) to the Bond Trustee or (if so directed by the Bond Trustee) the Issuing and Paying Agent on behalf of the holders of the Covered Bonds *pro rata*, and *pari passu* Scheduled Principal that is Due for Payment (or will become Due for Payment in the immediately succeeding Guarantor Payment Period) under the Covered Bond Guarantee in respect of each Series of Covered Bonds, provided that if the amount available for distribution under this paragraph (f) (excluding any amounts received from the Covered Bond Swap Provider) in respect of the amounts referred to in paragraph (i) above would be insufficient to pay the Canadian Dollar Equivalent of the Scheduled Principal that is Due for Payment in respect of the relevant Series of Covered Bonds under this paragraph (ii), the shortfall will be

divided among all such Series of Covered Bonds on a *pro rata* basis and the amount payable by the Guarantor in respect of each relevant Series of Covered Bonds under paragraph (i) above to the Covered Bond Swap Provider will be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

(g) *seventh*, to deposit the remaining funds into the GDA Account for application on the next following Guarantor Payment Date in accordance with the Priorities of Payments described in paragraphs (a) to (f) (inclusive) above, until the Covered Bonds have been fully repaid or provided for (such that the Required Redemption Amount has been accumulated in respect of each outstanding Series of Covered Bonds);

(h) *eighth*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of any Excluded Swap Termination Amount due and payable by the Guarantor to the relevant Swap Provider under the relevant Swap Agreement;

(i) *ninth*, to pay or provide for *pro rata* and *pari passu* according to the respective amounts thereof any Indemnity Amounts payable to the Agents, the Servicer, the Cash Manager, the Account Bank (or the Stand-By Account Bank, as applicable), the Cover Pool Monitor and the Custodian, to the extent not paid pursuant to paragraph (c) or (d) above;

(j) *tenth*, any remaining funds will be applied in and towards repayment in full of amounts outstanding under the Intercompany Loan Agreement;

(k) *eleventh*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of any indemnity amount due to the Partners pursuant to the Guarantor Agreement; and

(l) *twelfth*, thereafter any remaining funds will be applied in accordance with the Guarantor Agreement.

Any amounts received by the Guarantor under the Interest Rate Swap Agreement after the Guarantor Payment Date but prior to the next following Guarantor Payment Date will be applied, together with any provision for such payment made on any preceding Guarantor Payment Date, to make payments (other than in respect of principal) due and payable *pro rata* and *pari passu* in respect of the Covered Bond Swap Agreement or, as the case may be, in respect of interest due under the Covered Bond Guarantee *pro rata* and *pari passu* in respect of each relevant Series of Covered Bonds.

Any amounts received by the Guarantor under the Covered Bond Swap Agreement (whether or not in respect of principal) after the Guarantor Payment Date but prior to the next following Guarantor Payment Date will be applied, together with any provision for such payment made on any preceding Guarantor Payment Date, to make payments of interest or principal, as the case may be, in respect of the Covered Bond Guarantee *pro rata* and *pari passu* in respect of each relevant Series of Covered Bonds.

Any amounts received under the Interest Rate Swap Agreement or any Covered Bond Swap Agreement on the Guarantor Payment Date or any date prior to the next succeeding Guarantor Payment Date which are not put towards a payment or provision in accordance with paragraph (e) or (f) above or the two preceding paragraphs will be credited to the Revenue Ledger or the Principal Ledger on the GDA Account (as appropriate) and applied as Available Revenue Receipts or Available Principal Receipts, as the case may be, on the next succeeding Guarantor Payment Date.

If the Guarantor requires any available funds to be exchanged into a currency other than Canadian Dollars, and such exchange would not be subject to or covered by the terms of the Covered Bond Swap Agreement, then the Guarantor (or the Cash Manager on its behalf) will perform all necessary currency conversions at the then prevailing spot rate of exchange.

If any Swap Collateral Available Amounts are received by the Guarantor on a Guarantor Payment Date, such amounts will be applied by the Guarantor (or by the Cash Manager on its behalf) on that Guarantor Payment Date in the same manner as it would have applied the receipts which such Swap Collateral Available Amounts replace.

Termination payments received in respect of the Swap Agreements, premiums received in respect of replacement Swap Agreements

If the Guarantor receives any termination payment from a Swap Provider in respect of a Swap Agreement, such termination payment 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 Swap Provider to enter into a replacement Swap Agreement with the Guarantor, unless a replacement Swap Agreement has already been entered into on behalf of the Guarantor. If the Guarantor receives any premium from a replacement Swap Provider in respect of a replacement Swap Agreement, such premium will first be used to make any termination payment due and payable by the Guarantor with respect to the previous Swap Agreement, unless such termination payment has already been made on behalf of the Guarantor.

Any amounts received by the Guarantor which are not applied to pay a replacement Swap Provider to enter into a replacement Swap Agreement will be credited to the Revenue Ledger and applied as Available Revenue Receipts on the next succeeding Guarantor Payment Date.

Application of funds received by the Bond Trustee following service of a Guarantor Acceleration Notice and enforcement of the Security

Following a Guarantor Event of Default, service of a Guarantor Acceleration Notice and enforcement of the Security granted under the terms of the Security Agreement, all funds received or recovered by the Bond Trustee (or a receiver appointed on its behalf) (excluding all amounts due or to become due in respect of any tax credits, Swap Collateral Excluded Amounts or Third Party Amounts) will be applied in the following order of priority (the **Post-Enforcement Priorities of Payments**) (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

(a) *first*, in or towards satisfaction of *pro rata* and *pari passu* according to the respective amounts thereof of:

(i) all amounts due and payable or to become due and payable to the Bond Trustee under the provisions of the Trust Deed and the Security Agreement with respect to the performance of its obligations thereunder together with interest and applicable GST (or other similar taxes) thereon as provided therein; and

(ii) all amounts due and payable or to become due and payable to the Bond Trustee or any Receiver under the provisions of the Security Agreement together with interest and applicable GST (or other similar taxes) thereon as provided therein;

(b) *second*, in or towards (on a *pro rata* and *pari passu* basis) in satisfaction of any remuneration then due and payable to the Agents under or pursuant to the Agency Agreement together with applicable GST (or other similar taxes) thereon to the extent provided therein;

(c) *third*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:

(i) any remuneration then due and payable to the Servicer and any costs, charges, liabilities and expenses then due or to become due and payable to the Servicer under the provisions of the Servicing Agreement, together with applicable GST (or other similar taxes) thereon to the extent provided therein, other than any Indemnity Amounts payable to the Servicer in excess of $150,000;

(ii) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager under the provisions of the Cash Management Agreement, together with any applicable GST (or other similar taxes) thereon to the extent provided therein, other than any Indemnity Amounts payable to the Cash Manager in excess of $150,000 *provided that* if the Cash Manager is the Bank or a member of the BMO Group, it will not receive any fees;

(iii) amounts due to the Account Bank or, as applicable, the Stand-By Account Bank (including costs) pursuant to the terms of the Bank Account Agreement or, as applicable, the Stand-By Bank Account Agreement, together with applicable GST (or other similar taxes) thereon to the extent provided, other than any Indemnity Amounts payable to the Account Bank, or, as applicable, the Stand-By Account Bank, in excess of $150,000; and

(iv) amounts due to the Custodian pursuant to the terms of the Mortgage Sale Agreement, together with applicable GST (or other similar taxes) thereon to the extent provided therein, other than any Indemnity Amounts payable to the Custodian in excess of $150,000;

(d) *fourth*, to pay *pro rata* and *pari passu* according to the respective amounts thereof of:

(i) any amounts due and payable to the Interest Rate Swap Provider *pro rata* and *pari passu* according to the respective amounts thereof (including any termination payment (but excluding any Excluded Swap Termination Amount)) pursuant to the terms of the Interest Rate Swap Agreement;

(ii) the amounts due and payable to the Covered Bond Swap Provider *pro rata* and *pari passu* in respect of each relevant Series of Covered Bonds to the Covered Bond Swap Agreement (including any termination payment due and payable by the Guarantor under the Covered Bond Swap Agreement (but excluding any Excluded Swap Termination Amount)) in accordance with the terms of the Covered Bond Swap Agreement; and

(iii) the amounts due and payable under the Covered Bond Guarantee to the Bond Trustee on behalf of the holders of the Covered Bonds *pro rata* and *pari passu* in respect of interest and principal due and payable on each Series of Covered Bonds,

provided that if the amount available for distribution under this paragraph (d) (excluding any amounts received from the Covered Bond Swap Provider in respect of amounts referred to in paragraph (ii) above) would be insufficient to pay the Canadian Dollar Equivalent of the amounts due and payable under the Covered Bond Guarantee in respect of each Series of Covered Bonds under paragraph (iii) above, the shortfall will be divided among all such Series of Covered Bonds on a *pro rata* basis and the amount payable by the Guarantor in respect of each relevant Series of Covered Bonds under paragraph (ii) above to the Covered Bond Swap Provider will be reduced by

the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

(e) *fifth*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of any Excluded Swap Termination Amount due and payable by the Guarantor to the relevant Swap Provider under the relevant Swap Agreement;

(f) *sixth*, to pay or provide for *pro rata* and *pari passu* according to the respective amounts thereof any Indemnity Amounts payable to the Servicer, the Cash Manager, the Account Bank and the Custodian, to the extent not paid pursuant to paragraph (c) above;

(g) *seventh*, in or towards repayment in full of all amounts outstanding under the Intercompany Loan Agreement;

(h) *eighth*, towards payment of any indemnity amount due to the Partners pursuant to the Guarantor Agreement;

(i) *ninth*, in or towards payment of the fee due to the Corporate Services Provider; and

(j) *tenth*, thereafter any remaining funds will be applied in or towards payment to the Partners pursuant to the Guarantor Agreement.

If the Guarantor receives any tax credits in respect of a Swap Agreement following the occurrence of a Guarantor Event of Default and service of a Guarantor Acceleration Notice, such tax credits will be used to reimburse the relevant Swap Provider for any gross-up in respect of any withholding or deduction made under the relevant Swap Agreement. Following the occurrence of a Guarantor Event of Default and service of a Guarantor Acceleration Notice, any Swap Collateral Excluded Amounts in respect of a Swap Agreement will be returned to the relevant Swap Provider subject to the terms of the relevant Swap Agreement, and any Third Party Amounts will be returned to the Seller, with the Seller paying such Third Party Amounts to the relevant third party.

Any Third Party Amounts received by the Bond Trustee or any Receiver after service of a Guarantor Acceleration Notice will be held by it on trust for the Seller until they have been returned to the Seller.

Summary of Fees and Expenses

Prior to the occurrence of a Covered Bond Guarantee Activation Event, the following fees and expenses will be paid from the Available Revenue Receipts.

Fee Description	Payable To	Purpose	Amount (% or $ per annum)	Current Provider
Agent Fees	Issuing Paying Agent Issuing and Paying Agent Exchange Agent Calculation Agent	Making payments on bonds issued through DTC For bond issued outside the U.S., the issuing and paying agent	Up to $10,000	The Bank of New York Mellon, The Bank of New York Mellon, London Branch and The Bank of New York Mellon SA/NV – Luxembourg

				Branch (formerly named The Bank of New York Mellon (Luxembourg) S.A.)
Bond Trustee Fee	Bond Trustee	Trustee for bond holders	Up to $22,000*	Computershare Trust Company of Canada
Servicing Fee and Expenses of Servicer	Replacement Servicer	Servicing the mortgage loans	Up to 0.20% (expected fee for replacement servicer)	Bank of Montreal
Cash Manager Fee and expenses of Cash Manager	Replacement Cash Manager	Hold cash	Up to $10,000	Bank of Montreal
Account Bank Fee	Replacement Account Bank		None	Bank of Montreal
Cover Pool Monitor Fee	Cover Pool Monitor	Check accuracy of records and confirm mathematical accuracy of tests and calculations	Up to $200,000	KPMG LLP
GDA Provider Fee	Stand-By GDA Provider		None	Stand-By GDA Provider: Royal Bank of Canada
Custodial Fee	Custodian		Up to $10,000	Computershare Trust Company of Canada
Corporate Service Fees, Asset Trustee Fees and Liquidation General Partner Fees	Corporate Service Provider, Covered Bond – Asset Trustee, Liquidation General Partner		Up to approximately $120,000**	Computershare Trust Company of Canada
CMHC registration fees	CMHC	Ongoing fees to maintain registration with CMHC	Up to $350,000***	CMHC

* *Expenses may be in excess of this amount depending on the amount of the annual fees*
** *Expenses may be in excess of this amount in an Issuer Event of Default*

*** *Currently, ongoing fees to maintain registration amount to $350,000. Expenses may, however, be in excess of or less than this amount for years subsequent to 2018*

THE PORTFOLIO

The Portfolio

The Portfolio consists of cash, Loans and their Related Security, and in some cases, Substitution Assets up to certain prescribed limits. The Loans sold to the Guarantor were randomly selected from the Bank's uninsured residential mortgage portfolio after applying the Eligibility Criteria. For details on the Eligibility Criteria and Loan Representations and Warranties provided with respect to the Loans in the Portfolio, see *Overview of the Principal Documents—Mortgage Sale Agreement—Eligibility Criteria* and *Overview of the Principal Documents—Mortgage Sale Agreement—Loan Representations and Warranties*. The Asset Coverage Test and the Amortisation Test performed by the Cash Manager are intended to determine whether the assets and cashflow of the Guarantor, including the Loans and their Related Security in the Portfolio and cashflow in respect thereof, will be adequate to enable the Guarantor to meet its obligations under the Covered Bond Guarantee following the occurrence of a Covered Bond Guarantee Activation Event and the Valuation Calculation performed by the Cash Manager is intended to monitor exposure to volatility in interest rate and currency exchange rates.

Because the Portfolio is not a static pool of assets, statistical data for the Portfolio will be provided in the Investor Reports. The Cash Manager will prepare and provide Investor Reports to the Bank, the Guarantor, the Bond Trustee, and the Rating Agencies that will set out certain information in relation to the Portfolio, the calculation of the Asset Coverage Test, the Valuation Calculation, if applicable the Amortisation Test, statistical information about the Loans in the Portfolio, performance information about the Loans, information on proceeds received on assets in the Portfolio and the application of such proceeds and other information prescribed by the requirements of the CMHC Guide. The Investor Reports will be available to Covered Bondholders at the Bank's website at www.bmo.com/home/about/banking/investor-relations/covered-bonds/registered-covered-bond and through the CMHC's covered bond registry at (http://www.cmhc-schl.gc.ca/en/hoficlincl/cacobo/cacobo_004.cfm) on the 15th day of each month (or if such day is not a Business Day, the first following Business Day).

Characteristics of the Loans

Mortgage loans originated by the Seller are secured by a first mortgage on the residential property to which they relate and are full recourse against the borrower (subject to exceptions in Alberta and Saskatchewan, as described below) and, if guaranteed, to the guarantor and against the property securing the mortgage loan.

Interest is calculated using either a fixed or variable rate. Fixed rate mortgage loans provide for interest based on a fixed annual rate agreed to at the time the mortgage loan is advanced with interest calculated semi-annually, not in advance. Variable rate mortgage loans provide for interest based on the Bank's annual rate of interest announced from time to time as a reference rate then in effect for determining interest rates on Canadian Dollar commercial loans in Canada (the **Bank's Prime Rate**) plus or minus a set percentage, calculated on the outstanding balance when each regular payment is due. In the case of variable rate mortgage loans, the interest rate varies automatically with changes in the Bank's Prime Rate. If the Bank's Prime Rate changes between scheduled payment dates, the revised rate becomes effective from the date of such change and is reflected on the next payment date. The total regular scheduled payment amount due will not change (only the split between interest and principal is adjusted) unless that amount is insufficient to cover the interest amount due on the mortgage. In some circumstances the interest rate on a variable rate mortgage loan may be capped at a maximum rate.

Mortgage loans can either be open or closed to pre-payment and can be for terms up to 18 years (with a typical term of five years) with amortisation periods that do not exceed 40 years. As of the date of this

Prospectus, new mortgage loans being originated by the Bank do not have original amortisation periods that exceed 30 years. They provide for regular payments (e.g. weekly, bi-weekly or monthly) and early and/or increased payment options subject to pre-payment charges in certain circumstances. In the case of variable rate mortgage loans, in the event that the borrower's regular payment is insufficient to pay all interest when due, the mortgage loan terms and conditions allow the Bank to increase the regular payment amount payable by the borrower to cover interest costs. Interest which is not paid when due is subject to interest.

Where a mortgage loan is in default, all amounts owing under the mortgage loan will become due and payable and the Bank is allowed to require immediate payment of all amounts due. In Alberta and Saskatchewan, the law restricts a lender's recourse against a borrower where the proceeds from enforcement of the mortgage by way of a foreclosure action are insufficient to repay the amounts owing on a mortgage loan. Accordingly, if the proceeds from a foreclosure action are insufficient to repay the amounts due on a mortgage loan, the lender will suffer a loss.

Loan Origination and Lending Criteria

The description of the Bank's Lending Criteria and procedures that follows describes the Bank's Lending Criteria and procedures for the origination of mortgage loans as of the date of this Prospectus. There is no requirement for the Bank to maintain the Lending Criteria or procedures described below and the Bank reserves the right to change its Lending Criteria and procedures at any time.

General Underwriting Matters

The Bank is subject to the Bank Act and related regulations and to OSFI Guidelines, including Guideline B-20. The Bank's residential mortgage underwriting policy (the **Residential Mortgage Underwriting Policy**) is currently compliant with Guideline B-20. For a description of Guideline B-20 and certain proposed changes to Guideline B-20, see *Risk Factors—Legal And Regulatory Risks—The Bank's ability to realise on the security on the Loans and their Related Security may be affected by regulatory* guidelines.

The Residential Mortgage Underwriting Policy is reviewed annually to confirm adherence to the Bank's risk management frameworks. In addition, to the extent required, the Residential Mortgage Underwriting Policy may be revised, from time to time, to address new matters, regulations or risks. Furthermore, although the Residential Mortgage Underwriting Policy applies nation-wide, in circumstances where there may be heightened regional risk, certain additional underwriting criteria may be imposed by the Bank's Credit Risk Management department to address those risks.

Mortgage Origination and Renewal

Substantially all of the Bank's residential mortgages included in the Portfolio are originated by employees of the Bank. While the Bank does not directly originate mortgage loans from external broker channels at this time, prior to 2007, mortgage loans were originated from external broker channels and a small number of these mortgage loans are included in the Portfolio. The Bank purchases residential mortgage loans from third parties, however, such mortgage loans are not included in the Portfolio. Purchased residential mortgage loans are subject to the same credit standards as if they were originated through a Bank-owned channel.

The Residential Mortgage Underwriting Policy requires each prospective borrower to submit a mortgage loan application that discloses the applicant's credit history, assets, liabilities and income, among other information, and includes a consent for the Bank to obtain a credit report in respect of such applicant. Mortgage refinancing applications require a new credit application and risk assessment, including full

adjudication and property valuation. Mortgage loan applications undergo a due diligence process conducted by qualified personnel relating to the applicant's background, credit history (using updated credit reports from a credit bureau) and capacity to service the debt obligation. For certain mortgage loan applications and subject to specified limitations, including that the total debt service ratio remains within acceptable parameters, income discretion may be used when the proof of employment income is lower than the employment income used for adjudication. This credit risk analysis helps inform the underwriting decision as to the applicant's ability and propensity to repay a mortgage loan in accordance with its terms. Excluding specialised programs such as described below, full disclosure of all requisite financial information (including assets, liabilities, recurring payment obligations and level of income) about the applicant are obtained as part of the application process.

The Bank offers specialised mortgages programs, such as loans granted under partial disclosure for specific customer segments such as to new Canadians who are permanent residents, where not all requisite financial information (including assets, liabilities and level of income) are verified (**Partial Disclosure Mortgages**). All applications for Partial Disclosure Mortgages undergo manual adjudication through the Bank's credit department, a full appraisal (non-resident files only) of the property (regardless of the origination loan-to-value ratio (**Origination LTV Ratio**)) and are limited to a maximum Origination LTV Ratio of 65 per cent. While permitted under the Residential Mortgage Underwriting Policy, Partial Disclosure Mortgages are considered "non-conforming" and are tracked and monitored closely. The Bank has established limits on the portfolio mix that may be non-conforming.

As described below, the Bank primarily uses two proprietary channels for the origination of residential mortgages: mortgage specialists (a mobile sales force of Bank employees) and the Bank's branch channel, which also includes private banking locations, internet and telephone applications. The Bank uses real estate secured lending decision models to adjudicate residential mortgages. These models are updated from time to time.

Mortgage Specialists Channel

Mortgage specialists primarily focus on obtaining home financing business from new customers and do not participate in mortgage renewals. Mortgage specialists have credit training, but they do not have the authority to approve mortgage loans. All mortgage applications originated through this channel are submitted to the Bank's automated lending decision process (the **ALD Process**). The Bank's credit department reviews all applications for which the ALD Process generates an automated approval and manually adjudicates non-ALD Process approvals that are recommended for approval by mortgage specialists. See *—Mortgage Adjudication—Manual Adjudication* below. The ALD Process is described under *—Mortgage Adjudication—ALD Process*.

Once a mortgage loan application has been approved, completion of applications originated by mortgage specialists consists of a two-stage process where the mortgage specialist receives and reviews the required documentation, and then submits it to a dedicated team of support officers for an independent review. This second-level independent review allows for any necessary corrective action to be made to the loan application documentation before it is submitted for funding.

Branch Channel

The branch channel, which also includes private banking locations, internet and telephone applications, focuses on the home financing needs of new and existing clients. All personnel in the branch channel typically have extensive credit training. Similar to applications originated by mortgage specialists, all mortgage applications originated through the branch channel are submitted to the ALD Process. Except for applications where the ALD Process generates an automated approval decision, the applications from

this channel are then manually adjudicated by the Bank's credit department. See *—Mortgage Adjudication—Manual Adjudication*. The ALD Process is described under *—Mortgage Adjudication—ALD Process* below.

Once a mortgage loan application has been approved, completion of applications originated by the branch channel is undertaken in a similar two-stage process where the branch personnel receives and reviews the required documentation and then submits it to a dedicated team of support officers for an independent review before it is submitted for funding.

Renewals

All mortgage loans which are not in arrears are automatically eligible for renewal. Customers are typically contacted to choose their preferred term. A customer may be contacted by their branch or through a centralised call centre team. Customers renewing their mortgage loan may change their payment structure (including principal amount and frequency of payments); however, the new amortisation term cannot be extended past the remaining original amortisation term.

Quality Control

A separate support team conducts regular data and documentation quality reviews on mortgage loans originated through mortgage specialists and the branch channel to ensure adherence to the Residential Mortgage Underwriting Policy. Additionally, manually adjudicated mortgage loan applications are subject to a separate review process, described below under *—Mortgage Adjudication—Manual Adjudication*.

Mortgage Adjudication

The Bank's adjudication process includes automated lending decisioning (through the Bank's ALD Process) and manual adjudication.

ALD Process

As a first step in the Bank's adjudication process, all mortgage loan applications are entered into the Bank's loan processing system (**CCAPS**) which is an automated credit application system. The CCAPS system provides an automated method of capturing, investigating and executing various tasks associated with all mortgage applications, including: capturing the applicant's personal information (residence, assets, liabilities, employment and income); obtaining a credit bureau report; and calculating transaction values such as an applicant's total debt service ratio and gross debt service ratio. CCAPS contains an access and security system allowing management to manage the activities of credit department personnel. The CCAPS system consists of multiple levels designed to ensure credit authorities are properly utilised by lending qualified staff.

CCAPS also contains the Bank's ALD Process component. The ALD Process uses real estate secured lending decision models, which are updated from time to time, to produce system-generated approval decisions based on the information entered in the application. Once a decision is returned, the applicable personnel take the appropriate action prescribed by the Residential Mortgage Underwriting Policy.

The ALD Process includes the following steps: (i) an initial pre-screen of the application for data integrity; (ii) the identification of any application data where investigation is required before the application is submitted for manual adjudication; (iii) qualification checks to ensure that the application is eligible for automated decisioning; and (iv) an assessment of the strength of the loan application, based on various

criteria which consider the applicant's capacity to service the debt, past credit performance, property value and other factors.

The ALD Process generates four possible outcomes for a mortgage application:

(i) application approval (**AP**), in which the system generates approval of the application, although the application must be reviewed by the Bank's credit department before it can be approved if the application was originated through the Bank's mortgage specialist channel;

(ii) application approval recommendation (**AR**), in which the system recommends approval of the application, although the application must be manually adjudicated before it can be approved;

(iii) application turndown recommendation (**TR**), in which the system recommends non-approval of the application, although the final decision will be made following manual adjudication; or

(iv) application turndown (**TD**), in which the system generates non-approval of the application, although the final decision will be made following manual adjudication.

For applications originated through the branch channel, any decision that is not a system-generated approval decision (i.e., an "AP" decision outcome) requires manual adjudication by the Bank's credit department in order for the mortgage loan to be approved, with the exception of applications originated through the Bank's North American Customer Contact Centre where some lending qualified employees have unilateral decision limits. Applications exceeding their unilateral decision limits will require manual adjudication by the Bank's credit department. For applications that originated through mortgage specialists, all decisions (including an "AP" decision outcome) must be submitted to the Bank's credit department for review or manual adjudication.

If an application originated through the branch channel generates an "AP" decision outcome, branch channel personnel are permitted to proceed with the final review and approval of the mortgage, which includes prescribing necessary conditions to funding, determining appropriate loan and security terms and obtaining documentation to satisfy terms and conditions. Generally, this process will also include conducting a property value assessment on the mortgaged property. See *—Property Valuation Process*.

Credit Exception Loans

The ALD Process will not generate an approval decision (i.e., generate an "AP" outcome) if the application does not meet certain criteria set out in the Residential Mortgage Underwriting Policy (a **Credit Exception Loan**). Credit Exception Loans will cause the ALD system to generate an "AR", "TR" or "TD" decision outcome. Generally, these outcomes occur when an applicant fails to meet certain credit criteria (e.g., failure to meet the Bank's credit score thresholds) or debt-servicing criteria (i.e., failure to meet the Bank's total debt service ratio or gross debt service ratio standards), or where the mortgaged property fails to meet the Bank's prescribed property standards (e.g., zoning issues or non-standard property features such as the property being located near a highway or in close proximity to a high-voltage wire), in each case as set out in the Residential Mortgage Underwriting Policy. See *—ALD Process*.

Because the Bank considers Credit Exception Loans to be of potentially higher credit risk than "AP" decision outcome mortgage loans, they cannot be approved through the ALD Process, and are referred to the Bank's credit department for manual adjudication. As described further below under *—Manual*

Adjudication, the Bank may decide to approve a Credit Exception Loan following additional due diligence and further credit risk assessment of the applicant, which may identify sufficient offsetting borrower factors, such as low-debt servicing, high net worth, strong liquidity and/or increased equity position, to warrant an approval decision.

The Residential Mortgage Underwriting Policy restricts the Bank from approving a mortgage loan application if the loan would fall outside the Bank's risk appetite. The Bank's manual adjudication process allows the Bank to determine whether any factors exist that would compensate for any non-compliant criteria identified during the ALD Process. As such, all of the Loans included in the Portfolio, including any Credit Exception Loans, fall within the Bank's risk appetite and were originated and adjudicated in compliance with the Residential Mortgage Underwriting Policy.

Manual Adjudication

Lending qualified employees within the Bank's North American Customer Contact Centre and credit officers within the Bank's credit department have varying degrees of authority to approve or decline loan applications that were initially assessed through the ALD Process.

The Bank's assessment of a mortgage loan application is based on a review of the applicant's "5Cs" of credit at the time of the application, which are: (i) character (the overall description of an applicant's personal history); (ii) capacity (the applicant's ability to pay based on his or her circumstances); (iii) credit (the applicant's repayment history with creditors generally); (iv) capital (the availability of assets); and (v) collateral (available security). The review of an applicant's collateral includes a valuation of the mortgaged property. See —*Property Valuation Process*.

Partial Disclosure Mortgages are manually adjudicated using the "5Cs" approach, but with a heightened focus on the consistency and reasonableness of the information provided as not all requisite financial information (including assets, liabilities and level of income) are verified to the same standard as full disclosure applications given that the source may be from outside of Canada.

Generally, Credit Exception Loans fall into two categories: (i) loans where the applicant fails to meet the Bank's standards regarding debt service ratios, and (ii) loans where the mortgaged property fails to meet the Bank's prescribed property standards. In determining whether to approve a Credit Exception Loan, the Bank's credit department will look for strong offsetting borrower characteristics, which may include a combination of characteristics within the "5Cs" of credit discussed above. Where one "C" is lacking or non-evident, one or more other "Cs" will be required to compensate for that deficient "C". Where a mortgage applicant has a high total debt service ratio or gross debt service ratio, the Bank's credit department will look for one or more compensating factors, including but not limited to, strong credit (above average credit score, which generally demonstrates a good repayment history), net worth, strong liquidity and the existence of a higher customer stake in the transaction such as a lower Origination LTV Ratio, which Origination LTV Ratio is calculated on the authorised amount of the loan and the most recent property valuation or purchase price (whichever is lower). For property standard exceptions, the Bank's credit department will look for one or more compensating factors listed above, and may also look for compensating factors for the property in question in the related appraisal report. In addition, for property standard exceptions, credit officers may also reduce the Origination LTV Ratio where warranted, to align with the credit risk of the application.

Suspicious or potentially fraudulent activity is monitored throughout the origination and adjudication process. Fraud detection systems are designed to look for inconsistencies in applications and suspicious facts. Suspicious applications are referred to the Bank's Fraud Investigation group for investigation.

Except as noted below regarding electronic mortgage applications, as of January 2009, under the Bank's retention policy, all documentary evidence used in adjudicating a mortgage loan is required to be physically stored in the customer file for the entire life of the mortgage loan. For mortgage loans originated prior to 2009, the Cover Pool Monitor may be unable to test certain procedures (including income verification) as a result of certain documentary evidence not having been retained in the customer file. The percentage of Loans in the Portfolio that were originated prior to January 2009 as of 30 June 2020 is 5.45 per cent. Prior to 14 November 2014, an electronic mortgage application used in making the final adjudication decision is limited to a retention period of four years and nine months. Accordingly, where the loan was originated prior to 14 November 2014 and is older than four years and nine months, the Cover Pool Monitor would be unable to test certain procedures (including income verification) noted in the mortgage application. The percentage of Loans in the Portfolio that were originated prior to 14 November 2014 and are older than four years and nine months as of 30 June 2020 is 26.9 per cent.

Property Valuation Process

The *Bank Act* (Canada) requires that all residential mortgage loans that have an Origination LTV Ratio greater than 80 per cent. be default insured by a mortgage default insurer. These loans are referred to in this Prospectus as **insured mortgage loans** or **insured loans**. Mortgage loans that have an Origination LTV Ratio less than or equal to 80 per cent. are referred to as **conventional mortgages**.

Origination LTV Ratio is calculated on the outstanding balance or authorised amount and the most recent property valuation or purchase price (whichever is lower), which is generally at the time of origination of the mortgage loan.

As part of the Bank's adjudication process, the mortgaged property is always subject to a property value assessment. The type of property value assessment applied will depend on a combination of factors, including property location, value, mortgage amount, borrower risk and Origination LTV Ratio, and includes the following methods:

- Full appraisal: a Bank-approved appraiser's opinion of the property based on an exterior and interior inspection of the property. This type of appraisal is required for any non-resident of Canada partial disclosure application regardless of Origination LTV ratio and any purchase or refinancing transaction with an Origination LTV Ratio of 80 per cent. or less, and that is not otherwise eligible for property assessment through the low ratio emili risk assessment or automated valuation models. As a result of COVID -19 pandemic, in circumstances where an appraiser is not able to enter the property due to quarantining or social distancing, a modified full appraisal without internal inspections is completed. To replace physical internal inspections, appraisers will resort to sources of property information that may include but are not limited to:
    - an exterior site view, if conditions and safety allow;
    - all confirmed information the Bank has on such property;
    - the applicable occupant's interior photos (although less reliance may be placed on them);
    - real estate listing (MLS), tax assessment, and aerial/street view data;
- Low ratio emili risk assessment: a third party model for property risk assessment service that is used to assess whether the valuation meets the Bank's pre-determined risk parameters;

- Automated Valuation Model: an automated valuation model will leverage multiple data points (such as recent and historical sales history) to determine the value of a property; and

- Drive-by appraisal: a Bank-approved appraiser's opinion of the property based on an exterior inspection of the property. This type of appraisal is only permitted for mortgages transferred to the Bank from another financial institution (without any additional funds being loaned) that have an Origination LTV Ratio of 80 per cent. or less. The drive-by appraisal method was discontinued in August 2018.

When the low ratio emili risk assessment or automated valuation model is used, and the results indicate that the property does not pass the Bank's established risk tolerance, then a full appraisal is required. The Bank uses independent mortgage appraisal companies to ensure that full appraisals are completed independent of the mortgage application.

All appraisals are conducted in accordance with the Bank's Property Valuation Policy (the **Property Valuation Policy**). Pursuant to the Property Valuation Policy and until August 2018, an appraisal may be waived in limited circumstances, subject to a maximum Origination LTV Ratio of 65 per cent. for a purchase and a maximum LTV Ratio of 60 per cent. for a refinancing. In these circumstances, the property value assessment is obtained based on the Bank comparing the property value to (i) the listing price stated in a multiple listing service for a purchase, or (ii) a municipal property tax assessment for a refinancing.

Loan Review Process

The Bank has an independent loan review process. This process includes the review of supporting documentation used to assess the quality of the credit and is completed monthly based on a random selection of applications. Additionally, a loan review procedure is conducted by the North American Retail Loan Review team within the Bank's Risk Management Unit for manually adjudicated applications. This risk management review process requires the loan review manager to re-adjudicate the loan to ensure that the credit quality of the loan fits within the Bank's risk appetite and was originated in accordance with the Residential Mortgage Underwriting Policy. The loan review process also assesses the quality of the overall rationale used to support the final decision which includes an analysis of any risk mitigation that enabled the loan to fall within acceptable risk parameters set forth by the Bank. A loan review officer will review approximately two loans per credit officer per week. Weekly and monthly performance reports are submitted to lending managers and are designed to assist in determining when corrective action is required.

THE SERVICER

General

The Bank is the servicer (the **Servicer**) of the Loans and their Related Security pursuant to a servicing agreement (the **Servicing Agreement**) dated 30 September 2013 between the Bank, in its capacity as the Servicer and Seller, the Guarantor, as owner of the Loans and their Related Security, and Computershare Trust Company of Canada, as the Bond Trustee. The Servicer will not be liable in respect of any loss, liability, claim, expense or damage suffered or incurred by the Guarantor and/or any other person as a result of the proper performance by the Servicer of its servicing obligations under the Servicing Agreement unless such loss, liability, claim, expense or damage is suffered or incurred as a result of any gross negligence, dishonesty, bad faith, fraud or wilful misconduct of the Servicer or as a result of a breach by the Servicer of the terms and provisions of the Servicing Agreement or the other Transaction Documents in relation to such functions.

Servicing Activities

The Servicer began originating and servicing residential mortgage loans in 1954. The Servicer services its own portfolio of mortgage loans and generally retains the servicing rights with respect to any mortgage loans it sells or securitises. As at 30 June 2020, the Servicer acted as primary servicer and owned the corresponding servicing rights on approximately 441,077 residential mortgage loans having an aggregate unpaid balance of approximately $113.8 billion. The following table sets forth the dollar amount of mortgage loans serviced by the Servicer for the periods indicated, and the number of such loans for the same period.

		Year Ended 31 October					
		2019	**2018**	**2017**	**2016**	**2015**	**2014**
Conventional mortgages	No. of Loans (thousands)	207	186	167	147	141	128
	Dollar Amount of Loans (Cdn$ millions)	64,785	56,642	49,969	41,262	36,456	31,290
	Percentage Change from Prior Year	14.38%	13.35%	21.10%	13.18%	16.51%	0.50%
Insured mortgages	No. of Loans (thousands)	235	197	216	236	239	251
	Dollar Amount of Loans (Cdn$ millions)	46,699	36,225	39,924	44,095	43,276	45,087
	Percentage Change from Prior Year	28.91%	(9.26%)	(9.46%)	1.89%	-4.02%	7.61%
	No. of Loans (thousands)	441	383	383	383	380	379

Total mortgage loans serviced	Dollar Amount of Loans (Cdn$ millions)	111,484	92,867	89,893	85,357	79,732	76,377
	Percentage Change from Prior Year	20.05%	3.31%	5.31%	7.05%	4.39%	4.58%

Servicing Procedures with respect to Loans and their Related Security

Following the sale of a mortgage loan to the Guarantor, the Servicer keeps and maintains records in relation to the Loans and their Related Security sold to the Guarantor on a loan by loan basis, for the purposes of identifying amounts paid by each borrower, any amount due from a borrower and the principal balance (and, if different, the total balance) from time to time outstanding on a borrower's account and such other records as would be customarily kept by a reasonable and prudent mortgage lender. The Servicer also identifies the Loans and their Related Security as belonging to the Guarantor and maintains a computer record of the location and identification of the Loans and their Related Security by reference to an account number and pool identifier so as to be able to distinguish them from other mortgage loans and security serviced by the Servicer for retrieval purposes. In the event the ratings of the Servicer by the Rating Agencies fall below certain ratings, the Servicer will use reasonable efforts to ensure that files relating to the Loans and their Related Security are identified as distinct from the conveyancing deeds and documents which make up the title and security of other properties and mortgages which do not form part of the Portfolio.

The Servicer provides customary servicing functions with respect to the Loans and their Related Security. The Servicer makes reasonable efforts to collect all payments called for under the loan documents and follows such collection procedures as are customary with respect to such Loans. The Servicer collects and remits mortgage loan payments, responds to borrower enquiries, accounts for principal and interest, holds escrow account information and funds for payment of property taxes, counsels or otherwise works with delinquent borrowers, supervises power of sale, judicial sales or foreclosures, and property dispositions and generally administers the Loans and is required to take all reasonable steps to recover all sums due to the Guarantor in respect of the Loans and their Related Security. The Bank will administer the Loans and their Related Security in the same way it administers mortgage loans for its own account. The Servicing Agreement requires that the Loans and their Related Security are to be serviced as if the Loans had not been sold to the Guarantor but remained with the Bank.

The Servicer may act as collection agent for the Guarantor under a scheme for either the manual or automated debiting of bank accounts (the **Direct Debiting System**) provided such Direct Debiting System is operated in accordance with policies and procedures which would be acceptable to a reasonable and prudent mortgage lender. Borrowers provide authorisation for regular payments (made monthly or on a greater frequency) to be deducted automatically from bank accounts on the date each schedule payment is due.

The Servicer has the power to exercise the rights, powers and discretions and to perform the duties of the Guarantor in relation to the Loans and their Related Security and to do anything which it reasonably considers necessary or convenient or incidental to the administration of the Loans and their Related Security. This includes the authority to accept applications for product switches or advances in respect of the Loans in its sole discretion. The Bank, as seller of the Loans and their Related Security to the Guarantor is required to provide the funding for any product switches or advances approved by the Servicer. The Servicer is not restricted from, in its discretion, (i) waiving any assumption fee, late payment or other charge in connection with a Loan; or (ii) waiving, varying or modifying any term of any Loan or consenting to the

postponement of strict compliance with any such term or in any other matter grant indulgence with respect to any borrower.

With respect to collections, the Servicer may institute proceedings and enforce any relevant Loan which is in default in accordance with the Bank's enforcement procedures and the usual procedures undertaken by a reasonable and prudent institutional mortgage lender.

The Servicer's collections policy is designed to identify payment problems sufficiently early to permit the Servicer to address such delinquency problems and, when necessary, to act to preserve the lender's equity in the property. A Loan is considered delinquent if a scheduled payment remains unpaid for 30 days or more after the due date. If timely payment is not received, the Servicer's automated loan servicing system automatically places the Loan in the assigned collection queue. The account remains in the queue unless and until a payment is received, at which point the Servicer's automated loan servicing system automatically removes the Loan from that collection queue.

When a Loan appears in a collection queue, various collection techniques are employed to remind the borrower that a payment is due. Such techniques include subsequent automated attempts to contact the borrower as well as automated letters, with the borrower ultimately telephoned by a collector. Follow-up telephone contacts with the borrower are attempted until the account is current or other payment arrangements have been made. When contact is made with a delinquent borrower, collectors present the borrower with alternative payment methods, in order to expedite payments. Standard form letters are utilised when attempts to reach the borrower by telephone fail and/or in some circumstances, to supplement the phone contacts. Collectors have computer access to telephone numbers, payment histories, loan information and all past collection notes. The Servicer supplements the collectors' efforts with advanced technology such as predictive diallers and software used to determine the optimal times to call a particular customer. Additionally, collectors may attempt to mitigate losses through the use of behavioural or other models that are designed to assist in identifying workout options in the early stages of delinquency. For those Loans in which collection efforts have been exhausted without success, the Servicer determines whether mortgage enforcement proceedings are appropriate. The course of action elected with respect to a delinquent Loan generally will be guided by a number of factors, including the related borrower's payment history, ability and willingness to pay, the condition and occupancy of the Related Security, the amount of borrower equity in the Related Security, and whether there are any tax arrears, condominium or strata arrears, or construction liens.

Prior to a foreclosure or sale by power of sale, once the Servicer is in possession of the Related Security, it obtains an appraisal from a Bank approved appraiser. The Servicer then hires a real estate agent to sell the property. The Servicer, working with the real estate agent, performs a current market analysis which includes: (i) a current valuation of the Related Security; (ii) an evaluation of the amount owed, if any, for real estate taxes; and (iii) estimated carrying costs, brokers' fees, repair costs, and other related costs associated with real estate owned properties. The Servicer bases the sale price at the foreclosure process or power of sale on this analysis and its own appraisal.

The foreclosure process and power of sale process vary by jurisdiction across Canada, and there are two different ways that the Servicer can acquire the right to sell the Related Security. If the Servicer acquires title to a property at a foreclosure process or a certificate of power of sale at a power of sale process, it obtains an estimate of the sale price of the property and then hires one or more real estate agents to begin marketing the property. If the Related Security is not vacant when acquired, the lawyers that have been hired to facilitate the mortgage enforcement commence, subject to the laws of the applicable jurisdiction, eviction proceedings and/or negotiations are held with occupants in an attempt to get them to vacate without incurring the additional time and cost of eviction. Repairs are performed if it is determined that they will

increase the net liquidation proceeds, taking into consideration the cost of repairs, the carrying costs during the repair period and the marketability of the property both before and after the repairs.

Any loss, if any, on a Loan is determined based on the aggregate amount due on the Loan less the aggregate proceeds of sale of the mortgaged property minus related expenses.

The Servicer's collections procedures are updated regularly and continue to evolve on a regular basis to improve its efficiency and effectiveness.

Servicing and Other Compensation and Payment of Expenses

Each Loan acquired by the Guarantor is a serviced interest. The Guarantor does not have any obligation or liability to the Servicer on account of costs, expenses, disbursements, charges or fees of the Servicer, the sole responsibility in that connection being that of the Servicer.

Building Insurance

In case of new originations, each Loan contains a requirement that the mortgaged property be covered by building insurance maintained by the borrower with the Servicer being noted as a loss payee/mortgagee. The lawyer facilitating the origination of the Mortgage is instructed to confirm that such insurance has been obtained and to confirm that such confirmation has been obtained in the lawyers report on title and security. The proof of insurance is also reviewed by the Bank before the mortgage is advanced.

The Bank self-insures to protect against losses that occur in cases of damage to defaulted properties where property insurance has not been maintained by the borrower. When evidence of property insurance in force has not been obtained on a refinance transaction, the Bank relies on a borrower attestation and evidence of title insurance. Subject to any indemnities available under any title insurance, the Bank therefore retains the risk of loss due to damage where property insurance has not been maintained by the borrower.

Payments on Loans; Deposits to Custodial Accounts

Any collections received by the Servicer in respect of Loans and their Related Security to which the Guarantor is entitled are required to be held by the Servicer in trust for the Guarantor and to be kept distinguishable from all other funds held by the Servicer and following a downgrade in ratings by the Rating Agencies below certain thresholds, to be deposited directly into the GDA Account. All other sums received by the Servicer in respect of the Loans and their Related Security will be held by the Servicer for itself.

Replacement of Servicer

The Guarantor and the Bond Trustee may terminate the Servicing Agreement in the circumstances described in *Overview of the Principal Documents—Servicing Agreement*.

DESCRIPTION OF THE CANADIAN REGISTERED COVERED BOND PROGRAMS REGIME

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 issuers and registered covered bond programs.

Remedial Powers of the Superintendent

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 27 June 2007 that Canadian deposit taking institutions may issue covered bonds, provided certain conditions are met. That letter from OSFI was first updated in a letter dated 19 December 2014 from OSFI to Canadian deposit taking institutions issuing covered bonds (the **December 2014 letter**), and further updated in a second letter dated 23 May 2019 from OSFI to Canadian deposit taking institutions issuing covered bonds (the **May 2019 letter**) and a third letter dated 27 March 2020 from OSFI to federally regulated deposit taking institutions (the **March 2020 letter**). The conditions set out in the 27 June 2007 letter, as modified by the December 2014 letter are as follows: (i) at the time of issuance, the covered bonds must not make up more than 4 per cent. of the Total Assets (defined using a select number of data points from the 2015 Leverage Requirements Return and 2015 Basel Capital Adequacy Return filed with OSFI) of the relevant deposit taking institution; (ii) if at any time after issuance the 4 per cent. limit is exceeded, the relevant deposit taking institution must immediately notify OSFI; and (iii) excesses (above the 4 per cent. 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.

As a result of the May 2019 letter, as of 1 August 2019, OSFI required that the total assets pledged by the deposit-taking institution for covered bonds (calculated as the Canadian dollar equivalent of the deposit-taking institution's covered bonds outstanding multiplied by the level of overcollateralization, as calculated in accordance with the CMHC Guide and reported in the monthly investors' reports), must not, at any time, exceed 5.5 per cent. of the deposit-taking institution's on-balance sheet assets (as reported on the regulatory balance sheet return of the deposit-taking institution). As a result of current exceptional circumstances, the March 2020 letter increased the 5.5 per cent. limit to 10 per cent. from and after 27 March 2020 to permit deposit taking institutions to temporarily exceed the 5.5 per cent. limit in order to allow deposit taking institutions to pledge covered bonds as collateral to the Bank of Canada. The maximum amount of pool assets relating to market instruments remains at 5.5 per cent., the limit set by the May 2019 letter. The March 2020 letter provides that the 10 per cent. limit is temporary and will be in place for at least one year, with the possibility for extension if needed. The OSFI covered bond limit must be met on an ongoing basis and the following requirements must be satisfied: (i) if at any time after issuance the 10 per cent. limit is exceeded, the relevant deposit taking institution must notify OSFI in a timely manner; and (ii) excesses (above the 10 per cent. 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. Institutions which exceed the 10 per cent. pool assets limit relating to market instruments will be expected to return below this threshold as soon as market funding conditions permit, and provide a plan to OSFI outlining their proposed approach and timing to return below the required threshold. As of the date of this Prospectus, the Bank is in compliance with the OSFI covered bond limits.

The May 2019 letter also confirms that relevant deposit taking institutions will continue to be expected to amend the pledging policies they are required to maintain under the Bank Act or other applicable federal law to take into account the issuance of covered bonds consistent with the above limits. In respect of the limits in the 27 June 2007 letter and the December 2014 letter, the Bank did not issue covered bonds prior to 27 June 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.

Legislative Framework and CMHC Guide

In 2012, 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 17 December 2012, CMHC published the Canadian Registered Covered Bond Programs Guide (as amended from time to time, 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 issuers and registered covered bond programs. The Bank and the Program are required to comply with the requirements of the NHA and CMHC Guide.

Eligible Issuers

The Legislative Framework provides that in order to apply for registration as a registered issuer, a proposed issuer of covered bonds must be a "federal financial institution", as defined in section 2 of the *Bank Act* (Canada), or a co-operative credit society that is incorporated and regulated by or under an act of the legislature of a province of Canada.

Eligible Covered Bond Collateral and Coverage Tests

Assets held by a guarantor as collateral for covered bonds issued under a registered program may not include mortgages or other secured residential loans that (i) are insured by the CMHC or other Prohibited Insurers, or (ii) have a Loan-to-Value Ratio that exceeds 80 per cent. A guarantor may hold Substitution Assets consisting of Government of Canada securities and repos of such securities, provided that the value of such Substitution Assets may not exceed 10 per cent. of the total value of the assets of the guarantor held as covered bond collateral. The Legislative Framework, as further described in the CMHC Guide, further restricts assets comprising covered bond collateral by limiting cash held by the guarantor at any time to the amount necessary to meet the guarantor's payment obligations for the next six months, subject to certain exceptions.

In addition to confirm a Level of Overcollateralisation greater than the Guide OC Minimum, the CMHC Guide requires registered issuers to establish a minimum and maximum Level of Overcollateralisation by adopting a minimum and maximum value for the Asset Percentage to be used to perform the Asset Coverage Test and disclose such Asset Percentages in the registered issuer's offering documents and in the Registry.

The methodology to be employed for the asset coverage and amortisation tests is specified in the CMHC Guide. Commencing 1 July 2014, in performing such tests registered issuers have been required to adjust the market values of the residential properties securing the mortgages or other residential loans comprising covered bond collateral to account for subsequent price adjustments.

The CMHC Guide also requires that the Guarantor engage in certain risk-monitoring and risk-mitigation practices, including (i) measurement of the present value of the assets comprising covered bond collateral as compared to the outstanding covered bonds (the **Valuation Calculation**), and (ii) hedging of its interest rate and currency exchange risks.

Bankruptcy and Insolvency

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 loans and other assets to be held by a guarantor as covered bond collateral under a registered covered bond program. Such provisions will not be applicable to any covered bonds that are issued under a registered program at a time that the registered issuer has been suspended by CMHC in accordance with the powers afforded to it under the Legislative Framework and the CMHC Guide.

Qualifications of Counterparties

The CMHC Guide prescribes certain qualifications for each of the counterparties to a registered covered bond program, including that such counterparty (i) possess the necessary experience, qualifications and facilities to perform its obligations under the Program, (ii) meet or exceed any minimum standards prescribed by an applicable rating agency, (iii) if regulated, be in regulatory good standing, (iv) be in material compliance with any internal policies and procedures relevant to its role as a counterparty, and (v) be in material compliance with all laws, regulations and rules applicable to that aspect of its business relevant to its role as a counterparty (collectively, the **Counterparty Qualifications**). In connection with the Program, the counterparties are the Swap Providers, the Servicer, the Cash Manager, the Cover Pool Monitor, the Custodian, the Bond Trustee, the Account Bank, the GDA Provider, the Stand-By Account Bank and the Stand-By GDA Provider (collectively, the **Counterparties**). Each of the Counterparties has represented and warranted in the Transaction Documents that it meets the Counterparty Qualifications.

Cover Pool Monitor

The role of the cover pool monitor, as well as the specified procedures to be carried out by the cover pool monitor, are also detailed in the CMHC Guide. The Cover Pool Monitor's responsibilities include confirmation of the arithmetical accuracy of the tests required by the CMHC Guide to be carried out under the registered covered bond program and the preparation and delivery of an annual report detailing the results of the specified procedures undertaken in respect of the covered bond collateral and the Program. In addition to the Counterparty Qualifications, the cover pool monitor must be either (i) a firm engaged in the practice of accounting that is qualified to be an auditor of the registered issuer under the *Bank Act* (Canada) and Canadian auditing standards, or (ii) otherwise approved by CMHC (the **Cover Pool Monitor Qualifications**). The Cover Pool Monitor has represented and warranted in the Transaction Documents that it meets the Cover Pool Monitor Qualifications.

Custodian

The CMHC Guide requires that a registered issuer appoint a custodian for each of its registered covered bond programs. The custodian's responsibilities include holding on behalf of the Guarantor applicable powers of attorney granted by the Bank to the Guarantor and details of the Portfolio assets and Substitution

Assets. In addition to the Counterparty Qualifications, the custodian must satisfy certain other qualifications, including that it (i) be a federally or provincially chartered institution authorised to act in a fiduciary capacity with respect to valuable documents, or a chartered bank as described in Schedule I to the *Bank Act* (Canada), (ii) be equipped with secure, fireproof storage facilities, with adequate controls on access to assure the safety, confidentiality and security of the documents in accordance with customary standards for such facilities, (iii) use employees who are knowledgeable in the handling of mortgage and security documents and in the duties of a mortgage and security custodian, (iv) have computer systems that can accept electronic versions of asset details and be able to transmit that data as required by the CMHC Guide, and (v) be at arm's length from (and otherwise independent and not an affiliate of) the registered issuer (collectively, the **Custodian Qualifications**). The Custodian has represented and warranted in the Transaction Documents that it meets the Custodian Qualifications.

Bond Trustee

A registered issuer is required to appoint a bond trustee to represent the views and interests, and to enforce the rights, of the covered bondholders. In addition to the Counterparty Qualifications, a bond trustee must be at arm's length from (and otherwise independent and not an affiliate of) the registered issuer (the **Bond Trustee Qualifications**). The Bond Trustee has represented and warranted in the Transaction Documents that it meets the Bond Trustee Qualifications.

Ratings

If there are covered bonds outstanding under a registered covered bond program, at least two rating agencies must at all times have current ratings assigned to at least one series or tranche of covered bonds outstanding, provided that such ratings need not be for the same series or tranche.

Disclosure and Reporting

The CMHC Guide sets out a number of disclosure and reporting obligations for registered issuers. Underlying these obligations is the principle that investors should have access to all material information with respect to the registered issuer and the relevant Series of Covered Bonds in order to make an informed investment decision with respect to buying, selling or holding such covered bonds. Registered issuers will be required to maintain a website where investors can access, among other things, material transaction documents, monthly reports on the covered bond collateral and static covered bond collateral portfolio data that users may download and analyse. The provisions of the CMHC Guide permit registered issuers to restrict access to such website (for example, through the use of a password) in order to comply with securities laws or otherwise. The Bank's website (on which the documents referred to in this section *Disclosure and Reporting* will be made available) will be (www.bmo.com/home/about/banking/investor-relations/covered-bonds/registered-covered-bond) and through the CMHC's covered bond registry at (http://www.cmhc-schl.gc.ca/en/hoficlincl/cacobo/cacobo_004.cfm).

Status of the Bank and the Program

On 11 April 2014, the Bank was accepted as a registered issuer under Part I.1 of the NHA and the CMHC Guide in accordance with their terms, and on 11 April 2014, the Program was registered as a registered program under Part I.1 of the NHA and the CMHC Guide.

USE OF PROCEEDS

The net proceeds from each issue of Covered Bonds will be added to the general funds of the Bank.

BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of the Clearing Systems currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Bank and the Guarantor believe to be reliable, but none of the Bank, the Guarantor, the Bond Trustee nor any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Bank, the Guarantor nor any other party to the Agency Agreement 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 Covered Bonds held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Book-entry Systems

DTC

DTC has advised the Bank that it is a limited purpose trust company organised under the laws of the State of New York, a "banking organisation" within the meaning of New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC holds and provides asset servicing for securities that its participants (**Direct Participants**) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerised book-entry transfers and pledges between Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and may include certain other organisations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (**DTCC**). DTCC, in turn, is owned by a number of Direct Participants of DTC and members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., and the Financial Industry Regulatory Authority. Access to the DTC system is also available to others such as securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (**Indirect Participants**). DTC has Standard & Poor's highest rating: AAA. The DTC rules applicable to its Direct or Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Covered Bonds accepted into DTC's book-entry settlement system (**DTC Covered Bonds**) under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Covered Bonds on DTC's records. The ownership interest of each actual purchaser of each DTC Covered Bond (**Beneficial Owner**) is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Covered Bonds are to be accomplished by entries made on the books of Direct or Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Covered Bonds, except in the event that use of the book-entry system for the DTC Covered Bonds is discontinued.

To facilitate subsequent transfers, all DTC Covered Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorised representative of DTC. The deposit of DTC Covered Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Covered Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Covered Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the DTC Covered Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to DTC Covered Bonds unless authorised by a Direct Participant in accordance with the procedures laid out by DTC. Under its usual procedures, DTC mails an omnibus proxy (**Omnibus Proxy**) to the Bank as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Covered Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Covered Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorised representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Bank or the Issuing and Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct or Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct or Indirect Participant and not of DTC or its nominee, the Issuing and Paying Agent or the Bank, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorised representative of DTC) is the responsibility of the Bank or the Issuing and Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

Under certain circumstances, DTC will exchange the DTC Covered Bonds for Registered Definitive Covered Bonds, which it will distribute to its Direct Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Covered Bond, will be legended as set forth under *Subscription and Sale and Transfer and Selling Restrictions*.

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Beneficial Owner desiring to pledge DTC Covered Bonds to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Covered Bonds, will be required to withdraw its Registered Covered Bonds from DTC as described below.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are worldwide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

Book-entry Ownership of and Payments in respect of DTC Covered Bonds

The Bank may apply to DTC in order to have any Tranche of Covered Bonds represented by a Registered Global Covered Bond accepted in its book-entry settlement system. Upon the issue of any such Registered Global Covered Bond, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Covered Bond to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Registered Global Covered Bond will be limited to Direct Participants or Indirect Participants, including, in the case of any Regulation S Global Covered Bond, the respective depositaries of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in a Registered Global Covered Bond accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

It should be noted that DTC will only process payments of principal and interest in U.S. dollars. Payments in U.S. dollars of principal and interest in respect of a Registered Global Covered Bond accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Covered Bond.

The Bank expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Bank also expects that payments by Direct or Indirect Participants to beneficial owners of Covered Bonds will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Direct or Indirect Participant and not the responsibility of DTC, the Bond Trustee, the Agents or the Bank. Payment of principal, premium, if any, and interest, if any, on Covered Bonds to DTC is the responsibility of the Bank.

Transfers of Covered Bonds Represented by Registered Global Covered Bonds

Transfers of any interests in Covered Bonds represented by a Registered Global Covered Bond within DTC, Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. 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. The ability of any holder of Covered Bonds represented by a Registered Global Covered Bond accepted by DTC to resell, pledge or otherwise transfer such Covered Bonds may be impaired if the proposed transferee of such Covered Bonds is not eligible to hold such Covered Bonds through a Direct or Indirect Participant in the DTC system.

Subject to compliance with the transfer restrictions described under *Subscription and Sale and Transfer and Selling Restrictions*, cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Issuing and Paying Agent and any custodian (**Covered Bonds Custodian**) with whom the relevant Registered Global Covered Bonds have been deposited.

On or after the Issue Date for any Series, transfers of Covered Bonds of such Series between accountholders in Clearstream, Luxembourg and Euroclear and transfers of Covered Bonds of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfers. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Registered Global Covered Bonds will be effected through the Registrar, the Issuing and Paying Agent and the Covered Bonds Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Covered Bonds among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Bond Trustee, the Bank, the Guarantor, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Covered Bonds represented by Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial interests.

CERTAIN TAX LEGISLATION AFFECTING THE COVERED BONDS

Canadian Taxation

The following summary describes the principal Canadian federal income tax considerations applicable to a holder of Covered Bonds who acquires Covered Bonds, including entitlement to all payments thereunder, as a beneficial owner pursuant to this Prospectus, who, at all relevant times, for purposes of the application of the ITA and any applicable income tax treaty or convention, is not, and is not deemed to be, resident in Canada, who deals at arm's length with the Bank, the Guarantor and any transferee resident (or deemed to be resident) in Canada to whom the holder disposes of the Covered Bonds, who is not a "specified non-resident shareholder" of the Bank or a non-resident person not dealing at arm's length with a specified shareholder of the Bank, who does not use or hold the Covered Bonds in a business carried on in Canada, and who is entitled to receive all payments made in respect of the Covered Bonds (a **Non-Resident Holder**). Special rules, which are not discussed in this summary, may apply to a non-Canadian holder that is an insurer that carries on an insurance business in Canada and elsewhere.

This summary assumes that no amount paid or payable as, on account or in lieu of payment of, or in satisfaction of, interest will be in respect of a debt or other obligation to pay an amount to a person who does not deal at arm's length with the Bank or the Guarantor, as the case may be, for the purposes of the ITA.

This summary is based upon the provisions of the ITA and the regulations thereunder (the **Regulations**) in force on the date hereof and counsel's understanding of the current administrative and assessing practices and policies of the Canada Revenue Agency published in writing by it prior to the date hereof. This summary takes into account all specific proposals to amend the ITA and Regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the **Proposed Amendments**) and assumes that all Proposed Amendments will be enacted in the form proposed. However, no assurances can be given that the Proposed Amendments will be enacted as proposed, or at all. This summary does not otherwise take into account or anticipate any changes in law or administrative policy or assessing practice, whether by legislative, regulatory, administrative or judicial action, nor does it take into account provincial, territorial or foreign income tax legislation.

This summary is of a general nature only and is not exhaustive of all Canadian federal income tax considerations. It is not intended to be legal or tax advice to any particular holder, or in respect of any particular issuance of Covered Bonds, the terms and conditions of which will be material to the Canadian federal income tax considerations with respect thereto. The Canadian federal income tax considerations may be supplemented, amended and/or replaced in a Final Terms Document or Pricing Supplement related thereto, based on the terms and conditions of the Covered Bonds issued pursuant to such Final Terms Document or Pricing Supplement, as the case may be. Accordingly, prospective purchasers of Covered Bonds should consult their own tax advisors with respect to their particular circumstances, and in any event where Covered Bonds are otherwise issued without disclosure of Canadian federal income tax considerations.

Payments by the Bank in Respect of the Covered Bonds

Interest paid or credited or deemed to be paid or credited by the Bank on a Covered Bond (including amounts on account of or in lieu of, or in satisfaction of, interest) to a Non-Resident Holder will not be subject to Canadian non-resident withholding tax, unless all or any portion of such interest (other than on a **prescribed obligation** described below) is contingent or dependent on the use of or production from property in Canada or is computed by reference to revenue, profit, cashflow, commodity price or any other similar criterion or by reference to dividends paid or payable to shareholders of any class or series of shares

of the capital stock of a corporation. A "prescribed obligation" is a debt obligation the terms or conditions of which provide for an adjustment to an amount payable in respect of the obligation for a period during which the obligation was outstanding which adjustment is determined by reference to a change in the purchasing power of money and no amount payable in respect thereof, other than an amount determined by reference to a change in the purchasing power of money, is contingent or dependent upon any of the criteria described in the preceding sentence. If any interest payable on a Covered Bond, or any portion of the principal amount of a Covered Bond in excess of its Issue Price, is to be calculated by reference to an index or formula, interest on the Covered Bond together with such portion of principal may be subject to Canadian non-resident withholding tax. The applicable Final Terms Document or Pricing Supplement in respect of each particular Tranche of Covered Bonds of a Series will confirm the exemption from (or application of) Canadian non-resident withholding tax based upon the terms of that particular Tranche. If the applicable Final Terms Document or Pricing Supplement does not contain disclosure of Canadian federal income tax considerations, prospective purchasers of Covered Bonds should consult their own tax advisers.

In the event that a Covered Bond the interest on which is not exempt from Canadian non-resident withholding tax upon its terms is redeemed, cancelled, repurchased or purchased by the Bank or any other person resident or deemed to be resident in Canada from a Non-Resident Holder or is otherwise assigned or transferred by a Non-Resident Holder to a person resident or deemed to be resident in Canada for an amount which exceeds, generally, the Issue Price thereof, the excess may be deemed to be interest and may, together with any interest that has accrued or is deemed to accrue on the Covered Bond to that time, be subject to Canadian non-resident withholding tax. Such excess (but not any interest that has accrued or is deemed to accrue on the Covered Bond to such time) will not be subject to Canadian non-resident withholding tax, however, if, in certain circumstances, the Covered Bond is considered to be an **excluded obligation** for purposes of the ITA. A Covered Bond that is not an **indexed debt obligation** (described below), that was issued for an amount not less than 97 per cent. of the principal amount (as defined in the ITA) of the Covered Bond, and the yield from which, expressed in terms of an annual rate (determined in accordance with the ITA) on the amount for which the Covered Bond was issued, does not exceed 4/3 of the interest stipulated to be payable on the Covered Bond, expressed in terms of an annual rate on the outstanding principal amount from time to time, will be an **excluded obligation** for this purpose. An **indexed debt obligation** is a debt obligation the terms or conditions of which provide for an adjustment to an amount payable in respect of the obligation, for a period during which the obligation was outstanding, that is determined by reference to a change in the purchasing power of money.

If interest is subject to Canadian non-resident withholding tax, the rate is 25 per cent., subject to reduction under the terms of an applicable income tax treaty or convention between Canada and the country of residence of the Non-Resident Holder.

Generally, there are no other taxes on income (including taxable capital gains) payable by a Non-Resident Holder on interest, discount, or premium on a Covered Bond or on the proceeds received by a Non-Resident Holder on the disposition of a Covered Bond (including redemption, cancellation, purchase or repurchase).

Payments by the Guarantor under the Covered Bond Guarantee

Payments by the Guarantor under the Covered Bond Guarantee in respect of interest, amounts in lieu of interest on the Covered Bonds or in respect of the principal amount of the Covered Bonds will not be subject to Canadian non-resident withholding tax to the same extent such payments, if made by the Bank on the Covered Bonds, would be free of Canadian non-resident withholding tax, as discussed above.

United Kingdom Taxation

The following is a summary of the Issuer's understanding of current United Kingdom law and published HM Revenue and Customs' practice relating only to the United Kingdom withholding taxation treatment at the date hereof in relation to payments of interest (as that term is understood for United Kingdom tax purposes) in respect of the Covered Bonds and payments by the Guarantor under the Covered Bond Guarantee, which may be subject to change, sometimes with retrospective effect. The comments do not deal with any other United Kingdom tax implications of acquiring, holding or disposing of Covered Bonds. The United Kingdom tax treatment of prospective Covered Bondholders depends on their individual circumstances and may be subject to change in the future. The comments relate only to the position of persons who are absolute beneficial owners of the Covered Bonds. Prospective Covered Bondholders should be aware that the particular terms of issue of any Series of Covered Bonds as specified in the relevant Final Terms Document or Pricing Supplement may affect the tax treatment of that and other Series of Covered Bonds. The following is a general guide for information purposes and should be treated with appropriate caution. It is not intended as tax advice and it does not purport to describe all of the tax considerations that may be relevant to a prospective Covered Bondholder. Covered Bondholders who are in any doubt as to their tax position should consult their professional advisers. Covered Bondholders who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of the Covered Bonds are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Covered Bonds. In particular, Covered Bondholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Covered Bonds even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.

A. United Kingdom Withholding Tax

Payments of interest on the Covered Bonds that do not have a United Kingdom source may be made without deduction or withholding on account of United Kingdom income tax. If interest paid on the Covered Bonds does have a United Kingdom source (**UK Covered Bonds**), then such payments may be made without deduction or withholding on account of United Kingdom income tax in any of the following circumstances.

A.1 Covered Bonds listed on a recognised stock exchange

Payments of interest on the UK Covered Bonds issued by the Bank may be made without deduction of or withholding on account of United Kingdom income tax provided the UK Covered Bonds carry a right to interest and are and continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007 (**UK ITA**). The London Stock Exchange is a recognised stock exchange. Securities will be treated as listed on the London Stock Exchange for this purpose if they are included in the United Kingdom Official List (within the meaning of and in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000) and admitted to trading on the London Stock Exchange.

Provided, therefore, that the UK Covered Bonds carry a right to interest and are and remain so listed on a "recognised stock exchange", interest on the UK Covered Bonds will be payable without deduction of or withholding on account of United Kingdom tax.

A.2 All UK Covered Bonds

In addition to the exemption set out in A.1 above, interest on the UK Covered Bonds may be paid by the Bank without withholding or deduction for or on account of United Kingdom income tax provided that:

(a) the Bank is and continues to be a bank within the meaning of section 991 of the UK ITA; and

(b) the interest on the UK Covered Bonds is and continues to be paid in the ordinary course of its business within the meaning of section 878 of the UK ITA.

Payments of interest on the UK Covered Bonds may be made without deduction of or withholding on account of United Kingdom tax where the maturity of the UK Covered Bonds is less than 365 days and those UK Covered Bonds do not form part of a scheme or arrangement of borrowing intended to be capable of remaining outstanding for more than 364 days.

In cases falling outside the exemptions described in A.1 and A.2 above, an amount must generally be withheld from interest on the UK Covered Bonds which has a United Kingdom source on account of United Kingdom income tax at the basic rate (currently 20 per cent.), subject to any other available exemptions and reliefs. However, where an applicable double taxation treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Covered Bondholder, HMRC can issue a notice to the Bank to pay interest to the Covered Bondholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

B. Payments by Guarantor

The United Kingdom withholding tax treatment of payments by the Guarantor under the terms of the Covered Bond Guarantee which have a United Kingdom source is uncertain. In particular, such payments by the Guarantor may not be eligible for the exemptions described in A above in relation to payments of interest. Accordingly, if the Guarantor makes any such payments, these may be subject to United Kingdom withholding tax at the basic rate (currently 20 per cent).

C. Other Rules Relating to United Kingdom Withholding Tax

Covered Bonds may be issued at an Issue Price of less than 100 per cent. of their principal amount. Any discount element on any such Covered Bonds will not generally be subject to any United Kingdom withholding tax pursuant to the provisions mentioned in A above.

Where Covered Bonds are to be, or may fall to be, redeemed at a premium, as opposed to being issued at a discount, then any such element of premium may constitute a payment of interest. Payments of interest may be subject to United Kingdom withholding tax unless an exemption or relief applies as outlined in A above.

Where interest has been paid under deduction of United Kingdom income tax, Covered Bondholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

The references to "interest" in A. to C. above mean "interest" as such term is understood for United Kingdom tax purposes. The statements in A. to C. above do not take any account of any different

definition of "interest" which may prevail under any other law or which may be created by the Terms and Conditions of the Covered Bonds or any related documentation. Covered Bondholders should seek their own professional advice as regards the withholding tax treatment of any payment on the Covered Bonds which does not constitute "interest" or "principal" as those terms are understood in United Kingdom tax purposes.

United States Taxation

The following describes the material U.S. federal income tax consequences that may be relevant with respect to the purchase, ownership and disposition of the Covered Bonds by an initial holder of a Covered Bond. This summary addresses only the U.S. federal income tax considerations of holders that acquire the Covered Bonds at their original issuance and that will hold the Covered Bonds as capital assets.

This summary does not purport to address all U.S. federal income tax matters that may be relevant to a particular holder of Covered Bonds. This summary does not address tax considerations applicable to holders that may be subject to special tax rules including, without limitation, the following: (i) financial institutions; (ii) insurance companies; (iii) dealers or traders in stocks, securities, currencies or notional principal contracts; (iv) regulated investment companies; (v) tax-exempt entities; (vi) persons that will hold the Covered Bonds as part of a hedging or conversion transaction or as a position in a straddle or as a part of a synthetic security or other integrated transaction for U.S. federal income tax purposes; (vii) U.S. Holders (as defined below) that have a functional currency other than the U.S. Dollar; (viii) real estate investment trusts; (ix) persons that own (or are deemed to own) 10 per cent. or more of the voting shares (or interests treated as equity) of the Bank; (x) partnerships, pass-through entities, or persons that hold Covered Bonds through pass-through entities; and (xi) U.S. expatriates and former long-term residents of the United States. Further, this summary does not address alternative minimum tax consequences, the Medicare tax on net investment income, special tax accounting rules that apply to accrual basis taxpayers under Section 451(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or the indirect effects on the holders of equity interests in a U.S. Holder. This summary also does not address the U.S. federal estate and gift tax consequences to holders of Covered Bonds.

This summary is based on the Code, U.S. Treasury Regulations and judicial and administrative interpretations thereof, in each case as in effect and available on the date of this Prospectus. All of the foregoing are subject to change, which change could apply retroactively and could affect the tax consequences described below.

For the purposes of this summary, a **U.S. Holder** is a beneficial owner of a Covered Bond that is, for U.S. federal income tax purposes: (i) a citizen or individual resident of the United States; (ii) a corporation created or organised in or under the laws of the United States or any state thereof (including the District of Columbia); (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust if (x) a court within the U.S. is able to exercise primary supervision over its administration and (y) one or more U.S. persons have the authority to control all of the substantial decisions of such trust. A **Non-U.S. Holder** is a beneficial owner of Covered Bonds that is not a U.S. Holder. If a partnership holds Covered Bonds, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. Partners of partnerships holding Covered Bonds should consult their tax adviser.

Taxation of U.S. Holders

This discussion deals only with Covered Bonds that are treated as debt for U.S. federal income tax purposes. The United States federal income tax consequences of owning Covered Bonds whose terms are not described in this Prospectus will be discussed in an applicable supplement.

Payments of Interest

Interest paid on a Covered Bond, other than interest on a Discount Bond that is not qualified stated interest (each as defined below under *—Original Issue Discount—General*), will be taxable to a U.S. Holder as ordinary interest income at the time it is received or accrued, depending on the U.S. Holder's regular method of accounting for U.S. federal income tax purposes.

A U.S. Holder utilising the cash method of accounting for U.S. federal income tax purposes that receives an interest payment denominated in a currency other than U.S. Dollars (a **foreign currency**) will be required to include in income the U.S. Dollar value of that interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. Dollars.

If interest on a Covered Bond is payable in a foreign currency, an accrual basis U.S. Holder is required to include in income the U.S. Dollar value of the amount of interest income accrued on a Covered Bond during the accrual period. An accrual basis U.S. Holder may determine the amount of the interest income to be recognised in accordance with either of two methods. Under the first accrual method, the amount of income accrued will be based on the average spot exchange rate in effect during the interest accrual period or, with respect to an accrual period that spans two taxable years, the part of the period within the taxable year. Under the second accrual method, the U.S. Holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year. If the last day of the accrual period is within five business days of the date the interest payment is actually received, an electing accrual basis U.S. Holder may instead translate that interest expense at the exchange rate in effect on the day of actual receipt. Any election to use the second accrual method will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder and will be irrevocable without the consent of the U.S. Internal Revenue Service (the **IRS**).

A U.S. Holder utilising either of the foregoing two accrual methods will recognise ordinary income or loss with respect to accrued interest income on the date of receipt of the interest payment (including a payment attributable to accrued but unpaid interest upon the sale or retirement of a Covered Bond). The amount of ordinary income or loss will equal the difference between the U.S. Dollar value of the interest payment received (determined on the date the payment is received or on the date the Covered Bond is disposed of) in respect of the accrual period and the U.S. Dollar value of interest income that has accrued during that accrual period (as determined under the accrual method utilised by the U.S. Holder).

Foreign currency received as interest on the Covered Bonds will have a tax basis equal to its U.S. Dollar value at the time the interest payment is received. Gain or loss, if any, realised by a U.S. Holder on a sale or other disposition of that foreign currency will be ordinary income or loss and will generally be income from sources within the United States for U.S. foreign tax credit limitation purposes.

Interest on the Covered Bonds received by a U.S. Holder will be treated as foreign source income for the purposes of calculating that holder's U.S. foreign tax credit limitation. The limitation on foreign taxes eligible for the U.S. foreign tax credit is calculated separately with respect to specific classes of income. The rules relating to foreign tax credits and timing thereof are complex. U.S. Holders should consult their own tax advisers regarding the availability of a foreign tax credit in their particular situation.

Special rules governing the treatment of interest paid with respect to Covered Bonds that are treated as "contingent payment debt instruments" are described below under *—Contingent Payment Debt Instruments*.

Original Issue Discount

General. A Covered Bond, other than a Covered Bond with a term of one year or less (a **Short-Term Bond**), will be treated as issued at an original issue discount (**OID**) and a Covered Bond issued with OID, a **Discount Bond** for U.S. federal income tax purposes if the excess of the sum of all payments provided under the Covered Bond, other than qualified stated interest payments (as defined below), over the issue price of the Covered Bond is more than a de minimis amount (as defined below). Qualified stated interest is generally interest paid on a Covered Bond that is unconditionally payable at least annually at a single fixed rate. The issue price of the Covered Bonds under the applicable Final Terms Document or Pricing Supplement will be the first price at which a substantial amount of such Covered Bonds are sold to persons other than bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents or wholesalers. Special rules for Variable Rate Bonds are described below under — *Variable Rate Bonds*.

In general, if the excess of the sum of all payments provided under the Covered Bond other than qualified stated interest payments (the Covered Bond's stated redemption price at maturity) over its issue price is less than one quarter of 1 per cent. of the Covered Bond's stated redemption price at maturity multiplied by the number of complete years to its maturity (the de minimis amount), then such excess, if any, constitutes de minimis OID and the Covered Bond is not a Discount Bond. Unless the election described below under —*Election to Treat All Interest as OID* is made, a U.S. Holder of a Covered Bond with de minimis OID must include such de minimis OID in income as stated principal payments on the Covered Bond are made. The includable amount with respect to each such payment will equal the product of the total amount of the Covered Bond's de minimis OID and a fraction, the numerator of which is the amount of the principal payment made and the denominator of which is the stated principal amount of the Covered Bond.

A U.S. Holder will be required to include OID on a Discount Bond in income for U.S. federal income tax purposes as it accrues calculated on a constant yield method (described below) before the actual receipt of cash attributable to that income, regardless of the U.S. Holder's regular method of accounting for U.S. federal income tax purposes. Under this method, U.S. Holders generally will be required to include in income increasingly greater amounts of OID over the life of Discount Bonds.

The amount of OID includable in income by a U.S. Holder of a Discount Bond is the sum of the daily portions of OID with respect to the Covered Bond for each day during the taxable year or portion of the taxable year on which the U.S. Holder holds that Covered Bond (accrued OID). The daily portion is determined by allocating to each day in any accrual period a *pro rata* portion of the OID allocable to that accrual period. Accrual periods with respect to a Covered Bond may be of any length selected by the U.S. Holder and may vary in length over the term of the Covered Bond as long as (i) no accrual period is longer than one year and (ii) each scheduled payment of interest or principal on the Covered Bond occurs on either the final or first day of an accrual period.

The amount of OID allocable to an accrual period equals the excess of (a) the product of the Covered Bond's adjusted issue price at the beginning of the accrual period and the Covered Bond's yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of the payments of qualified stated interest on the Covered Bond allocable to the accrual period. The adjusted issue price of a Covered Bond at the beginning of any accrual period is the issue price of the Covered Bond increased by (x) the amount of accrued OID for each prior accrual period and decreased by (y) the amount of any payments previously made on the Covered Bond that were not qualified stated interest payments.

For the purposes of determining the amount of OID allocable to an accrual period, if an interval between payments of qualified stated interest on the Covered Bond contains more than one accrual period, the

amount of qualified stated interest payable at the end of the interval (including any qualified stated interest that is payable on the first day of the accrual period immediately following the interval) is allocated *pro rata* on the basis of relative lengths to each accrual period in the interval, and the adjusted issue price at the beginning of each accrual period in the interval must be increased by the amount of any qualified stated interest that has accrued prior to the first day of the accrual period but that is not payable until the end of the interval.

The amount of OID allocable to an initial short accrual period may be computed using any reasonable method if all other accrual periods other than a final short accrual period are of equal length. The amount of OID allocable to the final accrual period is the difference between (x) the amount payable at the maturity of the Covered Bond (other than any payment of qualified stated interest) and (y) the Covered Bond's adjusted issue price as of the beginning of the final accrual period.

OID for any accrual period on a Covered Bond that is denominated in, or determined by reference to, a foreign currency will be determined in that foreign currency and then translated into U.S. Dollars in the same manner as interest payments accrued by an accrual basis U.S. Holder, as described under —*Payments of Interest*. Upon receipt of an amount attributable to OID in these circumstances, a U.S. Holder may recognise ordinary income or loss.

OID on a Discount Bond will be treated as foreign source income for the purposes of calculating a U.S. Holder's foreign tax credit limitation. The limitation on foreign taxes eligible for the U.S. foreign tax credit is calculated separately with respect to specific classes of income. The rules relating to foreign tax credits and timing thereof are complex. U.S. Holders should consult their own tax advisers regarding the availability of a foreign tax credit in their particular situation.

Acquisition Premium. A U.S. Holder that purchases a Covered Bond for an amount less than or equal to the sum of all amounts payable on the Covered Bond after the purchase date other than payments of qualified stated interest but in excess of its adjusted issue price (as determined above under —*General*) (any such excess being acquisition premium) and that does not make the election described below under *Election to Treat All Interest as OID* will reduce the daily portions of OID by a fraction, the numerator of which is the excess of the U.S. Holder's adjusted basis in the Covered Bond immediately after its purchase over the adjusted issue price of the Covered Bond, and the denominator of which is the excess of the sum of all amounts payable on the Covered Bond after the purchase date, other than payments of qualified stated interest, over the Covered Bond's adjusted issue price.

Market Discount. A Covered Bond, other than a Short-Term Bond, will be treated as purchased at a market discount (a **Market Discount Bond**) if the Covered Bond's stated redemption price at maturity or, in the case of a Discount Bond, the Covered Bond's revised issue price, exceeds the amount for which the U.S. Holder purchased the Covered Bond by at least one quarter of 1 per cent. of such Covered Bond's stated redemption price at maturity or revised issue price, respectively, multiplied by the number of complete years to the Covered Bond's maturity. If such excess is not sufficient to cause the Covered Bond to be a Market Discount Bond, then such excess constitutes de minimis market discount and such Covered Bond is not subject to the rules discussed in the following paragraphs. For these purposes, the revised issue price of a Covered Bond generally equals its issue price, increased by the amount of any OID that has accrued on the Covered Bond.

Any gain recognised on the maturity or disposition of a Market Discount Bond will be treated as ordinary income to the extent that such gain does not exceed the accrued market discount on such Covered Bond. Alternatively, a U.S. Holder of a Market Discount Bond may elect to include market discount in income currently over the life of the Covered Bond. Such an election will apply to all debt instruments with market

discount acquired by the electing U.S. Holder on or after the first day of the first taxable year to which the election applies. This election may not be revoked without the consent of the IRS.

Market discount on a Market Discount Bond will accrue on a straight-line basis unless the U.S. Holder elects to accrue such market discount on a constant yield method. Such an election will apply only to the Covered Bond with respect to which it is made and may not be revoked. A U.S. Holder of a Market Discount Bond that does not elect to include market discount in income currently generally will be required to defer deductions for interest on borrowings allocable to such Covered Bond in an amount not exceeding the accrued market discount on such Covered Bond until the maturity or disposition of such Covered Bond.

Market discount on a Covered Bond that is denominated in, or determined by reference to, a foreign currency is determined in the relevant foreign currency. Where the taxpayer elects to include market discount in income currently, the amount of market discount will be determined for any accrual period in the relevant foreign currency and then translated into U.S. Dollars on the basis of the average rate in effect during the accrual period. Exchange gain or loss realised with respect to such accrued market discount shall be determined in accordance with the rules relating to accrued interest described under *—Payments of Interest*.

Election to Treat All Interest as OID. A U.S. Holder may elect to include in gross income all interest that accrues on a Covered Bond using the constant yield method described above under the heading "*—General*," with the modifications described below. For the purposes of this election, interest includes stated interest, OID, de minimis OID, market discount, de minimis market discount and unstated interest, as adjusted by any amortisable bond premium or acquisition premium.

In applying the constant yield method to a Covered Bond with respect to which this election has been made, the issue price of the Covered Bond will equal its cost to the electing U.S. Holder, the issue date of the Covered Bond will be the date of its acquisition by the electing U.S. Holder, and no payments on the Covered Bond will be treated as payments of qualified stated interest. This election will generally apply only to the Covered Bond with respect to which it is made and may not be revoked without the consent of the IRS. If this election is made with respect to a Covered Bond with amortisable bond premium (as defined below under *Covered Bonds Purchased at a Premium*), then the electing U.S. Holder will be deemed to have elected to apply amortisable bond premium against interest with respect to all debt instruments with amortisable bond premium (other than debt instruments the interest on which is excludible from gross income) held by the electing U.S. Holder as of the beginning of the taxable year in which the Covered Bond with respect to which the election is made is acquired or thereafter acquired. The deemed election with respect to amortisable bond premium may not be revoked without the consent of the IRS.

If the election to apply the constant yield method to all interest on a Covered Bond is made with respect to a Market Discount Bond, the electing U.S. Holder will be treated as having made the election discussed above under *—Market Discount* to include market discount in income currently over the life of all debt instruments held or thereafter acquired by such U.S. Holder.

Variable Rate Bonds. A **Variable Rate Bond** is a Covered Bond that:

(a) has an issue price that does not exceed the total non-contingent principal payments by more than the lesser of (i) the product of (x) the total non-contingent principal payments, (y) the number of complete years to maturity from the issue date and (z) 0.015, or (ii) 15 per cent. of the total non-contingent principal payments; and

(b) does not provide for stated interest other than stated interest compounded or paid at least annually at (i) one or more qualified floating rates, (ii) a single fixed rate and one or more qualified floating

rates, (iii) a single "objective rate" or (iv) a single fixed rate and a single objective rate that is a qualified inverse floating rate.

A qualified floating rate or objective rate in effect at any time during the term of the instrument must be set at a current value of that rate. A current value of a rate is the value of the rate on any day that is no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day.

A variable rate is a qualified floating rate if (i) variations in the value of the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Covered Bond is denominated or (ii) it is equal to the product of such a rate and either (a) a fixed multiple that is greater than 0.65 but not more than 1.35, or (b) a fixed multiple greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate. If a Covered Bond provides for two or more qualified floating rates that (i) are within 0.25 percentage points of each other on the issue date or (ii) can reasonably be expected to have approximately the same values throughout the term of the Covered Bond, the qualified floating rates together constitute a single qualified floating rate. A rate is not a qualified floating rate, however, if the rate is subject to certain restrictions (including caps, floors, governors or other similar restrictions) unless such restrictions are fixed throughout the term of the Covered Bond or are not reasonably expected to significantly affect the yield on the Covered Bond.

An objective rate is a rate, other than a qualified floating rate, that is determined using a single fixed formula and that is based on objective financial or economic information that is not within the control of or unique to the circumstances of the Bank or a related party (such as dividends, profits or the value of the Bank's stock). A variable rate is not an objective rate, however, if it is reasonably expected that the average value of the rate during the first half of the Covered Bond's term will be either significantly less than or significantly greater than the average value of the rate during the final half of the Covered Bond's term. An objective rate is a qualified inverse floating rate if (i) the rate is equal to a fixed rate minus a qualified floating rate, and (ii) the variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate.

If interest on a Covered Bond is stated at a fixed rate for an initial period of one year or less followed by either a qualified floating rate or an objective rate for a subsequent period and (i) the fixed rate and the qualified floating rate or objective rate have values on the issue date of the Covered Bond that do not differ by more than 0.25 percentage points or (ii) the value of the qualified floating rate or objective rate is intended to approximate the fixed rate, the fixed rate and the qualified floating rate or the objective rate constitute a single qualified floating rate or objective rate.

In general, if a Variable Rate Bond provides for stated interest at a single qualified floating rate or objective rate, all stated interest on the Covered Bond is qualified stated interest and the amount of OID, if any, is determined under the rules applicable to fixed rate debt instruments by using, in the case of a qualified floating rate or qualified inverse floating rate, the value as of the issue date of the qualified floating rate or qualified inverse floating rate, or, in the case of any other objective rate, a fixed rate that reflects the yield reasonably expected for the Covered Bond.

If a Variable Rate Bond does not provide for stated interest at a single qualified floating rate or a single objective rate and also does not provide for interest payable at a fixed rate (other than at a single fixed rate for an initial period of one year or less, as discussed above), the amount of interest and OID accruals on the Covered Bond are generally determined by (i) determining a fixed rate substitute for each variable rate provided under the Variable Rate Bond (generally, the value of each variable rate as of the issue date or, in the case of an objective rate that is not a qualified inverse floating rate, a rate that reflects the reasonably expected yield on the Covered Bond), (ii) constructing the equivalent fixed rate debt instrument (using the

fixed rate substitutes described above), (iii) determining the amount of qualified stated interest and OID with respect to the equivalent fixed rate debt instrument, and (iv) making the appropriate adjustments for actual variable rates during the applicable accrual period.

If a Variable Rate Bond provides for stated interest either at one or more qualified floating rates or at a qualified inverse floating rate, and in addition provides for stated interest at a single fixed rate (other than at a single fixed rate for an initial period of one year or less, as discussed above), the amount of interest and OID accruals are determined as in the immediately preceding paragraph with the modification that the Variable Rate Bond is treated, for the purposes of the first three steps of the determination, as if it provided for a qualified floating rate (or a qualified inverse floating rate, as the case may be) rather than the fixed rate. The qualified floating rate (or qualified inverse floating rate) replacing the fixed rate must be such that the fair market value of the Variable Rate Bond as of the issue date would be approximately the same as the fair market value of an otherwise identical debt instrument that provides for the qualified floating rate (or qualified inverse floating rate) rather than the fixed rate.

Prospective purchasers should consult their own tax advisers regarding the applicability and consequences of the variable rate debt instrument rules to any of the Covered Bonds issued under the Program.

Covered bonds Subject to Redemption. If the Covered Bonds are redeemable at the option of the Bank prior to their maturity or are repayable at the option of the U.S. Holder prior to their stated maturity, such Covered Bonds may be subject to rules that are different from the general rules discussed above. Investors intending to purchase Covered Bonds with such features should consult their own tax advisers, since the OID consequences will depend, in part, on the particular terms and features of the purchased Covered Bonds.

Short-Term Bonds. Short-Term Bonds will be treated as having been issued with OID. In general, an individual or other cash method U.S. Holder is not required to accrue such OID unless the U.S. Holder elects to do so. If such an election is not made, any gain recognised by the U.S. Holder on the sale, exchange or maturity of the Short-Term Bond will be ordinary income to the extent of the OID accrued on a straight-line basis, or upon election under the constant yield method (based on daily compounding), through the date of sale or maturity, and a portion of the deductions otherwise allowable to the U.S. Holder for interest on borrowings allocable to the Short-Term Bond will be deferred until a corresponding amount of income is realised. U.S. Holders who report income for U.S. federal income tax purposes under the accrual method, and certain other holders including banks and dealers in securities, are required to accrue OID on a Short-Term Bond on a straight-line basis unless an election is made to accrue the original issue discount under a constant yield method (based on daily compounding).

Covered Bonds Purchased at a Premium

A U.S. Holder that purchases a Covered Bond for an amount in excess of its principal amount may elect to treat such excess as amortisable bond premium. If such election is made, the amount required to be included in the U.S. Holder's income each year with respect to interest on the Covered Bond will be reduced by the amount of amortisable bond premium allocable (based on the Covered Bond's yield to maturity) to such year. In the case of a Covered Bond that is denominated in, or determined by reference to, a foreign currency, amortisable bond premium will be computed in units of foreign currency, and amortisable bond premium will reduce interest income in units of foreign currency. At the time amortisable bond premium offsets interest income, a U.S. Holder realises exchange gain or loss (taxable as ordinary income or loss) equal to the difference between exchange rates at that time and at the time of the acquisition of the Covered Bonds. Any election to amortise bond premium will apply to all bonds (other than bonds the interest in which is excludible from gross income) held by the U.S. Holder at the beginning of the first taxable year to

which the election applies or thereafter acquired by the U.S. Holder and is irrevocable without the consent of the IRS.

Sale, Exchange or Retirement of the Covered Bonds

A U.S. Holder's tax basis in a Covered Bond will generally equal its U.S. Dollar cost, increased by the amount of any OID or market discount included in the U.S. Holder's income with respect to the Covered Bond and the amount, if any, of income attributable to de minimis OID and de minimis market discount included in the U.S. Holder's income with respect to the Covered Bond (each as determined above), and reduced by the amount of any payments with respect to the Covered Bond that are not qualified stated interest payments and the amount of any amortisable bond premium applied to reduce interest on the Covered Bond. The U.S. Dollar cost of a Covered Bond purchased with a foreign currency will generally be the U.S. Dollar value of the purchase price on the date of purchase or, in the case of Covered Bonds traded on an established securities market (as defined in the applicable U.S. Treasury Regulations) that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the purchase.

A U.S. Holder will generally recognise gain or loss on the sale, exchange or retirement of a Covered Bond equal to the difference between the amount realised on the sale, exchange or retirement and the tax basis of the Covered Bond. The amount realised on the sale, exchange or retirement of a Covered Bond for an amount in foreign currency will be the U.S. Dollar value of that amount on (1) the date the payment is received in the case of a cash basis U.S. Holder, (2) the date of disposition in the case of an accrual basis U.S. Holder, or (3) in the case of Covered Bonds traded on an established securities market (as defined in the applicable U.S. Treasury Regulations), that are sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the sale. Special rules apply with respect to the sale, exchange or retirement of Covered Bonds that are treated as "contingent payment debt instruments", as described below under —*Contingent Payment Debt Instruments*.

Gain or loss recognised by a U.S. Holder on the sale, exchange or retirement of a Covered Bond that is attributable to changes in currency exchange rates will be ordinary income or loss and will consist of OID exchange gain or loss and principal exchange gain or loss. OID exchange gain or loss will equal the difference between the U.S. Dollar value of the amount received on the sale, exchange or retirement of a Covered Bond that is attributable to accrued but unpaid OID as determined by using the exchange rate on the date of the sale, exchange or retirement and the U.S. Dollar value of accrued but unpaid OID as determined by the U.S. Holder under the rules described above under —*Original Issue Discount—General*. Principal exchange gain or loss will equal the difference between the U.S. Dollar value of the U.S. Holder's purchase price of the Covered Bond in foreign currency determined on the date of the sale, exchange or retirement, and the U.S. Dollar value of the U.S. Holder's purchase price of the Covered Bond in foreign currency determined on the date the U.S. Holder acquired the Covered Bond. The foregoing foreign currency gain or loss will be recognised only to the extent of the total gain or loss realised by the U.S. Holder on the sale, exchange or retirement of the Covered Bond, and will generally be treated as from sources within the U.S. for U.S. foreign tax credit limitation purposes.

Any gain or loss recognised by a U.S. Holder in excess of foreign currency gain recognised on the sale, exchange or retirement of a Covered Bond (except for a Short-Term Bond, as discussed above) would generally be U.S. source capital gain or loss (except to the extent such amounts are attributable to market discount, accrued but unpaid interest, or subject to the general rules governing contingent payment obligations).

Prospective investors should consult their own tax advisers with respect to the treatment of capital gains (which may be taxed at lower rates than ordinary income for taxpayers who are individuals,

trusts or estates that held the Covered Bonds for more than one year) and capital losses (the deductibility of which is subject to limitations).

A U.S. Holder will have a tax basis in any foreign currency received on the sale, exchange or retirement of a Covered Bond equal to the U.S. Dollar value of the foreign currency at the time of the sale, exchange or retirement. Gain or loss, if any, realised by a U.S. Holder on a sale or other disposition of that foreign currency will be ordinary income or loss and will generally be income from sources within the U.S. for foreign tax credit limitation purposes.

Contingent Payment Debt Instruments

If the terms of the Covered Bonds provide for certain contingencies that affect the timing and amount of payments (including Covered Bonds with a variable rate or rates that do not qualify as Variable Rate Bonds for purposes of the original issue discount rules) they will be "contingent payment debt instruments" (**Contingent Payment Bonds**) for U.S. federal income tax purposes. Under the rules that govern the treatment of Contingent Payment Bonds, no payment on such Covered Bonds qualifies as qualified stated interest. Rather, a U.S. Holder must account for interest for U.S. federal income tax purposes based on a "comparable yield" and the differences between actual payments on the Covered Bond and the Covered Bond's "projected payment schedule" as described below. The comparable yield is determined by the Bank at the time of issuance of the Covered Bonds. The comparable yield may be greater than or less than the stated interest, if any, with respect to the Covered Bonds. Solely for the purpose of determining the amount of interest income that a U.S. Holder will be required to accrue on a contingent payment debt instrument, the Bank will be required to construct a "projected payment schedule" that represents a series of payments the amount and timing of which would produce a yield to maturity on the Contingent Payment Bond equal to the comparable yield.

Neither the comparable yield nor the projected payment schedule constitutes a representation by the Bank regarding the actual amount, if any, that the contingent payment debt instrument will pay.

For U.S. federal income tax purposes, a U.S. Holder will be required to use the comparable yield and the projected payment schedule established by the Bank in determining interest accruals and adjustments in respect of a Covered Bond treated as a Contingent Payment Bond, unless the holder timely discloses and justifies the use of a different comparable yield and projected payment schedule to the IRS.

A U.S. Holder, regardless of the holder's method of accounting for U.S. federal income tax purposes, will be required to accrue interest income on a contingent payment debt instrument at the comparable yield, adjusted upward or downward to reflect the difference, if any, between the actual and the projected amount of any contingent payments on the contingent payment instrument (as set forth below).

A U.S. Holder will be required to recognise interest income equal to the amount of any net positive adjustment, i.e., the excess of actual payments over projected payments, in respect of a contingent payment debt instrument for a taxable year. A net negative adjustment, i.e., the excess of projected payments over actual payments, in respect of a contingent payment debt instrument for a taxable year:

- will first reduce the amount of interest in respect of the Contingent Payment Bond that a holder would otherwise be required to include in income in the taxable year; and

- to the extent of any excess, will give rise to an ordinary loss equal to so much of this excess as does not exceed the excess of:

- the amount of all previous interest inclusions under the contingent payment debt instrument over

- the total amount of the U.S. Holder's net negative adjustments treated as ordinary loss on the contingent payment debt instrument in prior taxable years.

A net negative adjustment is not subject to the limitations imposed on miscellaneous deductions. Any net negative adjustment in excess of the amounts described above will be carried forward to offset future interest income in respect of the contingent payment debt instrument or to reduce the amount realised on a sale, exchange or retirement of the contingent payment debt instrument. Where a U.S. Holder purchases a Contingent Payment Bond for a price other than its adjusted issue price, the difference between the purchase price and the adjusted issue price must be reasonably allocated to the daily portions of interest or projected payments with respect to the Contingent Payment Bond over its remaining term and treated as a positive or negative adjustment, as the case may be, with respect to each period to which it is allocated.

Upon a sale, exchange or retirement of a Contingent Payment Bond, a U.S. Holder generally will recognise taxable gain or loss equal to the difference between the amount realised on the sale, exchange or retirement and the holder's adjusted basis in Contingent Payment Bond. A U.S. Holder's adjusted basis in a Covered Bond that is a contingent payment debt instrument generally will be the acquisition cost of the Covered Bond, increased by the interest previously accrued by the U.S. Holder on the Covered Bond under these rules, disregarding any net positive and net negative adjustments, and decreased by the amount of any non-contingent payments and the projected amount of any contingent payments previously made on the Covered Bond. A U.S. Holder generally will treat any gain as interest income, and any loss as ordinary loss to the extent of the excess of previous interest inclusions in excess of the total net negative adjustments previously taken into account as ordinary losses, and the balance as capital loss. The deductibility of capital losses is subject to limitations. In addition, if a holder recognises loss above certain thresholds, the holder may be required to file a disclosure statement with the IRS (as described under *—IRS Disclosure Reporting Requirements*).

A U.S. Holder will have a tax basis in any property, other than cash, received upon the retirement of a contingent payment debt instrument including in satisfaction of a conversion right or a call right equal to the fair market value of the property, determined at the time of retirement. The holder's holding period for the property will commence on the day immediately following its receipt.

Taxation of Non-U.S. Holders

Subject to the backup withholding and Foreign Account Tax Compliance Act rules discussed below, a Non-U.S. Holder generally should not be subject to U.S. federal income or withholding tax on any payments on the Covered Bonds and gain from the sale, redemption or other disposition of the Covered Bonds unless: (i) that payment and/or gain is effectively connected with the conduct by that Non-U.S. Holder of a trade or business in the United States; (ii) in the case of any gain realised on the sale or exchange of a Covered Bond by an individual Non-U.S. Holder, that holder is present in the United States for 183 days or more in the taxable year of the sale, exchange or retirement and certain other conditions are met; or (iii) the Non-U.S. Holder is subject to tax pursuant to provisions of the Code applicable to certain expatriates.

Non-U.S. Holders should consult their own tax advisers regarding the U.S. federal income and other tax consequences of owning Covered Bonds.

Backup Withholding and Information Reporting

Under current U.S. federal income tax law, backup withholding tax and information reporting requirements apply in the case of certain non-corporate U.S. beneficial owners of a Covered Bond to certain payments of principal of, and interest on, an obligation, and of proceeds of the sale of an obligation before maturity. The Bank, its agent, a broker, or any paying agent, as the case may be, may be required to withhold tax from any payment that is subject to backup withholding if the U.S. Holder fails to furnish the U.S. Holder's taxpayer identification number (usually on IRS Form W-9), to certify that such U.S. Holder is not subject to backup withholding, or to otherwise comply with the applicable requirements of the backup withholding rules. Certain U.S. Holders (including, among others, corporations) are not subject to the backup withholding and information reporting requirements.

Non-U.S. Holders may be required to comply with applicable certification procedures to establish that they are not U.S. Holders in order to avoid the application of such information reporting requirements and backup withholding. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a U.S. Holder generally may be claimed as a credit against such U.S. Holder's U.S. federal income tax liability provided that the required information is furnished to the IRS.

U.S. Holders should consult their own tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

Foreign Financial Asset Reporting

Certain U.S. Holders that own "specified foreign financial assets" that meet certain U.S. Dollar value thresholds generally are required to file an information report with respect to such assets with their tax returns. The Covered Bonds generally will constitute specified foreign financial assets subject to these reporting requirements unless the Covered Bonds are held in an account at certain financial institutions. U.S. Holders are urged to consult their tax advisers regarding the application of these disclosure requirements to their ownership of the Covered Bonds.

IRS Disclosure Reporting Requirements

Certain U.S. Treasury Regulations relating to Section 6011 of the Code (the **Disclosure Regulations**) meant to require the reporting of certain tax shelter transactions (**Reportable Transactions**) could be interpreted to cover transactions generally not regarded as tax shelters. Under the Disclosure Regulations it may be possible that certain transactions with respect to the Covered Bonds may be characterised as Reportable Transactions requiring a Covered Bondholder who is required to disclose such transaction, such as a sale, exchange, retirement or other taxable disposition of a Covered Bond that results in a loss that exceeds certain thresholds and other specified conditions are met. Prospective investors in the Covered Bonds should consult with their own tax advisers to determine the tax return obligations, if any, with respect to an investment in the Covered Bonds, including any requirement to file IRS Form 8886 (Reportable Transaction Disclosure Statement).

The above summary does not describe other tax consequences which will arise from purchasing, holding and disposing of Covered Bonds because the precise terms of Covered Bonds will vary from

issue to issue. Persons who are unsure of their tax position are advised to consult their professional advisers.

Benchmark Amendments

Pursuant to Condition 14(c), the Issuer may in certain circumstances modify a Series of the Floating Rate Covered Bonds to change the relevant benchmark or screen rate (as applicable) to an Alternative Base Rate (such change, a **Benchmark Amendment**). It is possible that a Benchmark Amendment will be treated as a deemed exchange of old Covered Bonds for new Covered Bonds, which may be taxable to U.S. holders.

Recently released proposed Treasury regulations describe circumstances under which a Benchmark Amendment (or related adjustments to the interest rate on the Covered Bonds) would not be treated as a deemed exchange and would not affect the calculation of OID, provided certain conditions are met. It cannot be determined at this time whether the final Treasury regulations on this issue will contain the same standards as the proposed Treasury regulations. U.S. holders should consult with their own tax advisers regarding the potential consequences of a Benchmark Amendment.

Foreign Account Tax Compliance Act

Pursuant to certain provisions of the Code, commonly known as FATCA, a **foreign financial institution** may be required to withhold on certain payments it makes (**foreign passthru payments**) to persons that fail to meet certain certification, reporting or related requirements. The Bank is a foreign financial institution for these purposes. A number of jurisdictions (including Canada and the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (**IGAs**), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Covered Bonds, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Covered Bonds, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Covered Bonds, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register and Covered Bonds executed on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the Issuer). However, if additional Covered Bonds (as described under Condition 16 (Further Issues)) that are not distinguishable from previously issued Covered Bonds are executed after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Covered Bonds, including the Covered Bonds executed prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Covered Bonds.

The proposed financial transactions tax (FTT)

On 14 February 2013, the European Commission published a proposal (the **Commission's Proposal**) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **participating Member States**). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Covered Bonds (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are expected to be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Covered Bonds where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of Covered Bonds are advised to seek their own professional advice in relation to the FTT.

ERISA AND CERTAIN OTHER U.S. EMPLOYEE BENEFIT PLAN CONSIDERATIONS

Unless otherwise provided in any supplement to this Prospectus, the Covered Bonds should be eligible for purchase by employee benefit plans and other plans subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended (**ERISA**), or the provisions of Section 4975 of the Code, and by governmental, church and non-U.S. plans that are subject to U.S. federal, state, local or non-U.S. laws or regulations that are substantially similar to the prohibited transaction provisions of Section 406 of ERISA or Section 4975 of the Code (**Similar Law**), subject to consideration of the issues described in this Section. ERISA imposes certain requirements on employee benefit plans (as defined in Section 3(3) of ERISA) subject to ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, **ERISA Plans**), and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including the requirements of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the ERISA Plan. The prudence of a particular investment must be determined by the responsible fiduciary of an ERISA Plan by taking into account the ERISA Plan's particular circumstances and all of the facts and circumstances of the investment including, but not limited to, the matters discussed under "*Risk Factors*".

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts and entities whose underlying assets include the assets of such plans (together with ERISA Plans, the **Plans**)) and certain persons (referred to as **parties in interest** or **disqualified persons**) having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. A party in interest or disqualified person, including a Plan fiduciary, who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code.

The Bank, the Guarantor, the relevant Dealer(s), the Bond Trustee or any other party to the transactions referred to in this Prospectus may be parties in interest or disqualified persons with respect to many Plans. Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if any of the Covered Bonds is acquired or held by a Plan, including but not limited to where the Bank, the Guarantor, the relevant Dealer(s), the Bond Trustee or any other party to such transactions is a party in interest or a disqualified person. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire any Covered Bonds and the circumstances under which such decision is made. Included among these exemptions are Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code (relating to transactions between a person that is a party in interest (other than a fiduciary or an affiliate that has or exercises discretionary authority or control or renders investment advice with respect to assets involved in the transaction) solely by reason of providing services to the plan, provided that there is adequate consideration for the transaction), Prohibited Transaction Class Exemption (**PTCE**) 91-38 (relating to investments by bank collective investment funds), PTCE 84-14 (relating to transactions effected by a qualified professional asset manager), PTCE 95-60 (relating to transactions involving insurance company general accounts), PTCE 90-1 (relating to investments by insurance company pooled separate accounts) and PTCE 96-23 (relating to transactions determined by in-house asset managers). Prospective investors should consult with their advisers regarding the prohibited transaction rules and these exceptions. There can be no assurance that any of these exemptions or any other exemption will be available with respect to any particular transaction involving any Covered Bonds.

Governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and non-U.S. plans (as described in Section 4(b)(4) of ERISA), while not subject to the fiduciary responsibility provisions of ERISA or the prohibited transaction provisions of Section 406 of

ERISA and Section 4975 of the Code, may nevertheless be subject to Similar Law. Fiduciaries of any such plans should consult with their counsel before purchasing the Covered Bonds to determine the need for, if necessary, and the availability of, any exemptive relief under any Similar Law.

Accordingly, except as otherwise provided in any supplement to this Prospectus, each purchaser and subsequent transferee of any Covered Bonds will be deemed by such purchase or acquisition of any such Covered Bonds to have represented and warranted, on each day from the date on which the purchaser or transferee acquires such Covered Bonds (or any interest therein) through and including the date on which the purchaser or transferee disposes of such Covered Bonds (or any interest therein), either that (a) it is not, and for so long as it holds such Covered Bonds (or any interest therein) will not be, and will not be acting on behalf of, a Plan or a governmental, church or non-U.S. plan which is subject to any Similar Law or (b) its acquisition, holding and disposition of such Covered Bonds (or any interest therein) will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental, church or non-U.S. plan subject to Similar Law, a violation of any Similar Law).

Each Plan fiduciary who is responsible for making the investment decisions whether to purchase or commit to purchase and to hold any of the Covered Bonds should determine whether, under the documents and instruments governing the Plan, an investment in such Covered Bonds is appropriate for the Plan, taking into account the overall investment policy of the Plan and the composition of the Plan's investment portfolio. Any Plan or governmental, church or non-U.S. plan proposing to invest in such Covered Bonds should consult with its counsel to confirm that such investment will not constitute or result in a non-exempt prohibited transaction (or, in the case of a governmental, church or non-U.S. plan, a violation of any Similar Law) and will satisfy the other requirements of ERISA and the Code (or, in the case of a governmental, church or non-U.S. plan, any Similar Law).

The sale of any Covered Bonds to a Plan or any other plan is in no respect a representation by the Bank, the Guarantor, the relevant Dealer(s), the Bond Trustee or any other party to the transactions that such an investment meets all relevant legal requirements with respect to investments by Plans or other plans generally or any particular Plan or other plan, or that such an investment is appropriate for Plans or other plans generally or any particular Plan or other plan.

Any further ERISA considerations with respect to Covered Bonds may be found in the relevant Final Terms Document or Pricing Supplement.

CERTAIN VOLCKER RULE CONSIDERATIONS

The Guarantor is not now, and solely after giving effect to any offering and sale of Covered Bonds pursuant to the Trust Deed will not be, a "covered fund" for purposes of regulations adopted under Section 13 of the Bank Holding Company Act of 1956, as amended, commonly known as the **Volcker Rule**.

In reaching this conclusion, although other statutory or regulatory exemptions under the Investment Company Act of 1940, as amended (**Investment Company Act**), and under the Volcker Rule and its related regulations may be available, the Bank has relied on the determinations that:

- the Guarantor may rely on the exemption from registration under the Investment Company Act provided by Section 3(c)(5) thereunder; and accordingly

- the Guarantor does not rely on Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act for its exemption from registration under the Investment Company Act and may rely on the exemption from the definition of a covered fund under the Volcker Rule made available to entities that do not rely solely on Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act for their exemption from registration under the Investment Company Act.

SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

The relevant Dealer(s) will, in a dealership agreement (as the same may be amended and/or supplemented and/or restated from time to time, the **Dealership Agreement**), agree with the Bank and the Guarantor on a basis upon which such relevant Dealer(s) or any of them may from time to time agree to purchase Covered Bonds. Any such agreement will extend to those matters stated under *Form of the Covered Bonds* and *Terms and Conditions of the Covered Bonds*. The Bank may pay the relevant Dealer(s) commissions from time to time in connection with the sale of any Covered Bonds. In the Dealership Agreement, the Bank will agree to reimburse and indemnify the relevant Dealer(s) for certain of their expenses and liabilities in connection with the establishment and any future updates of the Program and the issue of Covered Bonds under the Program. The relevant Dealer(s) are entitled to be released and discharged from their obligations in relation to any agreement to purchase Covered Bonds under the Dealership Agreement in certain circumstances prior to payment to the Bank. The Dealership 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.

Transfer Restrictions

As a result of the following restrictions, purchasers of Covered Bonds in the United States are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Covered Bonds.

Each purchaser of Registered Covered Bonds or person wishing to transfer an interest from one Registered Global Covered Bond to another will be deemed to or will be required to acknowledge, represent and agree as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

(a) that either:

  (i) it is a QIB, purchasing (or holding) the Covered Bonds for its own account or for the account of one or more QIBs and it is aware and each beneficial owner of such Covered Bond has been advised that any sale to it is being made in reliance on Rule 144A; or

  (ii) it is outside the United States and is not a U.S. person and it is not purchasing (or holding) the Covered Bonds for the account or benefit of a U.S. person;

(b) that the Covered Bonds are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Covered Bonds and the Covered Bond Guarantee have not been and will not be registered under the Securities Act or the securities laws or "blue sky" laws of any state or other jurisdiction of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth in this section;

(c) that neither the Bank nor the Guarantor has any obligation to register the Covered Bonds or the Covered Bond Guarantee under the Securities Act;

(d) that, unless it holds an interest in a Regulation S Global Covered Bond, if in the future it decides to resell, pledge or otherwise transfer the Covered Bonds or any beneficial interests in the Covered Bonds, it will do so, prior to the date which is one year after the later of the last Issue Date for the Series and the last date on which the Bank or an affiliate of the Bank was the owner of such Covered Bonds, only (i) to the Bank or any affiliate thereof, (ii) inside the United States to a person whom the seller reasonably believes is a QIB purchasing the Covered Bonds for its own account or for

the account of a QIB in a transaction meeting the requirements of Rule 144A, (iii) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act or (iv) pursuant to an effective U.S. Registration Statement, in each case in accordance with all applicable U.S. state securities laws;

(e) that either (i) it is not, and for so long as it holds the Covered Bonds (or any interest therein) will not be, and will not be acting on behalf of, a Plan or a governmental, church or non-U.S. plan which is subject to any Similar Law, or (ii) its acquisition, holding and disposition of the Covered Bonds (or any interest therein) will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of such a governmental, church or non-U.S. plan, a violation of any Similar Law);

(f) that it will, and will require each subsequent holder to, notify any purchaser of the Covered Bonds from it of the resale restrictions referred to in paragraph (d) above, if then applicable;

(g) that Covered Bonds initially offered in the United States to QIBs will be represented by one or more Rule 144A Global Covered Bonds, and that Covered Bonds initially offered outside the United States in reliance on Regulation S will be represented by one or more Regulation S Global Covered Bonds;

(h) that the Covered Bonds represented by a Rule 144A Global Covered Bond and Definitive Rule 144A Covered Bonds will bear a legend to the following effect unless otherwise agreed to by the Bank:

> "THIS SECURITY AND ANY GUARANTEE IN RESPECT THEREOF HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OR "BLUE SKY" LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER: (A) REPRESENTS THAT IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING THIS SECURITY FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS; (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THIS SECURITY EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT IN RESPECT OF THIS SECURITY (THE "**AGENCY AGREEMENT**") AND, PRIOR TO THE DATE WHICH IS ONE YEAR AFTER THE LATER OF THE LAST ISSUE DATE FOR THE SERIES AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH SECURITY, OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING THE SECURITY FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE

REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDER OF SUCH SECURITY SENT TO ITS REGISTERED ADDRESS, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO RESALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).

BY ITS ACQUISITION AND HOLDING OF THIS SECURITY (OR ANY INTEREST HEREIN), THE PURCHASER OR HOLDER WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED THAT EITHER (A) IT IS NOT AND FOR SO LONG AS IT HOLDS THIS SECURITY (OR ANY INTEREST HEREIN) WILL NOT BE, AND WILL NOT BE ACTING ON BEHALF OF, (I) AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**"), THAT IS SUBJECT TO PART 4 OF SUBTITLE B OF TITLE I OF ERISA, (II) A "PLAN" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "**CODE**"), (III) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE THE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN SUBJECT TO ERISA OR OTHER PLAN SUBJECT TO SECTION 4975 OF THE CODE, OR (IV) A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN WHICH IS SUBJECT TO ANY U.S. FEDERAL, STATE, LOCAL OR NON-U.S. LAWS OR REGULATIONS THAT ARE SUBSTANTIALLY SIMILAR TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("**SIMILAR LAW**"), OR (B) ITS ACQUISITION, HOLDING AND DISPOSITION OF THIS SECURITY (OR ANY INTEREST HEREIN) WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF SUCH A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN, A VIOLATION OF ANY SIMILAR LAW).

PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT THE SELLER OF THIS SECURITY MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A.";

(i) if it is outside the United States and is not a U.S. person, that if it should resell or otherwise transfer the Covered Bonds prior to the expiration of the distribution compliance period (defined as 40 days after the completion of the distribution of the Tranche of Covered Bonds of which such Covered Bonds are a part), it will do so only (i)(A) outside the United States in compliance with Rule 903 or 904 of Regulation S under the Securities Act or (B) to a QIB in compliance with Rule 144A and (ii) in accordance with all applicable U.S. state securities laws; and it acknowledges that the Covered Bonds represented by a Regulation S Global Covered Bond and Definitive Regulation S Covered Bonds will bear a legend to the following effect unless otherwise agreed to by the Bank:

> "THIS SECURITY AND ANY GUARANTEE IN RESPECT THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OR "BLUE SKY" LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT IN RESPECT OF THIS SECURITY (THE "**AGENCY AGREEMENT**") AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. UNTIL THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF THE TRANCHE OF COVERED BONDS OF WHICH THIS COVERED BOND FORMS PART, SALES MAY NOT BE MADE IN THE UNITED STATES OR TO U.S. PERSONS UNLESS MADE (I) PURSUANT TO RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT OR (II) TO QUALIFIED INSTITUTIONAL BUYERS AS DEFINED IN, AND IN TRANSACTIONS PURSUANT TO, RULE 144A UNDER THE SECURITIES ACT.
>
> BY ITS ACQUISITION AND HOLDING OF THIS SECURITY (OR ANY INTEREST HEREIN), THE PURCHASER OR HOLDER WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED THAT EITHER (A) IT IS NOT AND FOR SO LONG AS IT HOLDS THIS SECURITY (OR ANY INTEREST HEREIN) WILL NOT BE, AND WILL NOT BE ACTING ON BEHALF OF, (I) AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**"), THAT IS SUBJECT TO PART 4 OF SUBTITLE B OF TITLE I OF ERISA, (II) A "PLAN" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "**CODE**"), (III) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE THE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN SUBJECT TO ERISA OR OTHER PLAN SUBJECT TO SECTION 4975 OF THE CODE, OR (IV) A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN WHICH IS SUBJECT TO ANY U.S. FEDERAL, STATE, LOCAL OR NON-U.S. LAWS OR REGULATIONS THAT ARE SUBSTANTIALLY SIMILAR TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("**SIMILAR LAW**"), OR (B) ITS ACQUISITION, HOLDING AND DISPOSITION OF THIS SECURITY (OR ANY INTEREST HEREIN) WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF SUCH A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN, A VIOLATION OF ANY SIMILAR LAW).”; and

(j) that the Bank and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Bank; and if it is acquiring any Covered Bonds as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

No sale of Rule 144A Covered Bonds in the United States to any one purchaser will be for less than U.S.$200,000 (or the approximate equivalent in another Specified Currency) principal amount and no Rule 144A Covered Bond will be issued in connection with such a sale in a smaller principal amount. If the purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least U.S.$200,000 (or the approximate equivalent in another Specified Currency) principal amount of Registered Covered Bonds.

Relevant Dealer(s) may arrange for the resale of Covered Bonds to QIBs pursuant to Rule 144A and each such purchaser of Covered Bonds is hereby notified that the relevant Dealer(s) may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate principal amount of Covered Bonds which may be purchased by a QIB pursuant to Rule 144A is U.S.$200,000 (or the approximate equivalent in another Specified Currency). To the extent that the Bank and the Guarantor are not subject to or do not comply with the reporting requirements of Section 13 or 15(d) of the Exchange Act or the information furnishing requirements of Rule 12g3-2(b) thereunder, the Bank and the Guarantor have agreed to furnish to holders of Covered Bonds and to prospective purchasers designated by such holders, upon request, such information as may be required by Rule 144A(d)(4).

Selling Restrictions

Canada

Each Dealer has acknowledged and each further Dealer appointed under the Program will be required to acknowledge that the Covered Bonds have not been and will not be qualified for sale under the securities laws of Canada or any province or territory thereof and has represented and agreed that it has not offered, sold or distributed, and that it will not offer, sell or distribute, any Covered Bonds, directly or indirectly, in Canada or to, or for the benefit of, any resident thereof in contravention of the securities laws of Canada or any province or territory thereof. Each Dealer has also agreed and each further Dealer appointed under the Program will be required to agree not to distribute or deliver this Prospectus, or any other offering material relating to the Covered Bonds, in Canada in contravention of the securities laws of Canada or any province or territory thereof.

United Kingdom

Each Dealer has represented and agreed and each further Dealer appointed under the Program will be required to represent and agree that:

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

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Covered Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Guarantor or, in the case of the Bank, would not, if it were not an authorised person, apply to the Bank; and

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

United States

Each Dealer has acknowledged that the Covered Bonds and the Covered Bond Guarantee have not been and will not be registered under the Securities Act and Covered Bonds may not be offered, sold or delivered directly or indirectly within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from, or in transactions not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Covered Bonds in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Each Dealer has agreed that it will not offer, sell or deliver a Covered Bond in bearer form within the United States or to United States persons except as permitted by the Dealership Agreement. Terms used in this paragraph have the meanings given to them by the US Internal Revenue Code of 1986 and regulations promulgated thereunder.

In connection with any Covered Bond represented by a Regulation S Global Covered Bond or any Definitive Regulation S Covered Bond (**Regulation S Covered Bond**), each Dealer has represented and agreed that it will not offer, sell or deliver any such Regulation S Covered Bond within the United States or to, or for the account or benefit of, U.S. persons (a) as part of its distribution at any time or (b) otherwise until 40 days after the completion of the distribution of the Tranche of Covered Bonds of which such Covered Bonds are a part, as determined and certified by the relevant Dealer, in the case of a non-syndicated issue, or the Lead Manager, in the case of a syndicated issue, and except in either case in accordance with Regulation S under the Securities Act. Each Dealer has further agreed, and each further Dealer appointed under the Program will be required to agree, that it will send to each dealer to which it sells any Regulation S Covered Bond during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of such Regulation S Covered Bond within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the completion of the offering of a Tranche of Covered Bonds, an offer or sale of any Regulation S Covered Bond within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

The Dealership Agreement provides that selected relevant Dealer(s), through their selling agents which are registered broker-dealers in the United States, may resell Covered Bonds in the United States to QIBs pursuant to Rule 144A and each such purchaser of Covered Bonds is hereby notified that the relevant Dealer(s) may be relying on the exemption from the Securities Act provided by Rule 144A.

Each relevant Dealer appointed under the Dealership Agreement will be required to represent and agree in respect of transactions under Rule 144A that it has not (and will not), nor has (nor will) any person acting on its behalf: (a) made offers or sales of any security, or solicited officers to buy, or otherwise negotiated in respect of, any security, under circumstances that would require the registration of the Covered Bonds under the Securities Act; or (b) engaged in any form of general solicitation or general advertising (within the meaning of Rule 502(c) under the Securities Act) in connection with any offer or sale of Covered Bonds in the United States.

Australia

This document and the offer is only made available in Australia to persons to whom a disclosure document is not required to be given under Chapter 6D of the Australian Corporations Act 2001 (Cth) (the **Australian Corporations Act**). This document is not a prospectus, product disclosure statement or any other form of formal "disclosure document" for the purposes of the Australian Corporations Act, and is not required to, and does not, contain all the information which would be required in a disclosure document under the Australian Corporations Act. If you are in Australia, this document is made available to you provided you are a person to whom an offer of securities can be made without a disclosure document such as a professional investor or sophisticated investor for the purposes of Chapter 6D of the Australian Corporations Act.

This document has not been or will not be lodged with the Australian Securities and Investments Commission, the Australian Securities Exchange or any other regulatory body or agency in Australia.:

The persons referred to in this document may not hold Australian financial services licences and may not be licensed to provide financial product advice in relation to the securities. No "cooling-off" regime will apply to an acquisition of any interest in the Bank. This document does not take into account the investment objectives, financial situation or needs of any particular person. Accordingly, before making any investment decision in relation to this document, you should assess whether the acquisition of any interest in the Bank is appropriate in light of your own financial circumstances or seek professional advice.

Any securities issued upon acceptance of the offer may not be offered for sale or transferred to any person located in, or a resident of, Australia for a period of at least 12 months after the issue, except in circumstances where the person is a person to whom a disclosure document is not required to be given under Chapter 6D or of the Australian Corporations Act. Accordingly, each investor acknowledges these restrictions and, by applying for the securities under this document, gives an undertaking not to sell these securities (except in the circumstances referred to above) for 12 months after their issue.

Belgium

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Program will be required to represent, warrant and agree, that an offering of Covered Bonds may not be advertised to any individual in Belgium qualifying as a consumer within the meaning of Article I.1 of the Belgian Code of Economic Law, as amended from time to time (a "**Belgian Consumer**") and that it has not offered, sold or resold, transferred or delivered, and will not offer, sell, resell, transfer or deliver, the Covered Bonds, and that it has not distributed, and will not distribute, any prospectus, memorandum, information circular, brochure or any similar documents in relation to the Covered Bonds, directly or indirectly, to any Belgian Consumer.

Denmark

This Prospectus has not been filed with or approved by the Danish Financial Supervisory Authority or any other regulatory authority in Denmark.

The Covered Bonds have not been offered or sold and will not be offered, sold or delivered directly or indirectly in Denmark by way of a public offering, unless in compliance with Chapter 6 or Chapter 12 of the Danish Act on Trading in Securities and Executive Orders issued pursuant thereto amended from time to time.

France

Each of the relevant Dealer(s) and the Bank has represented and agreed and each further Dealer appointed under the Program will be required to represent and agree that it has not offered or sold and will not offer or sell, directly or indirectly, Covered Bonds to the public in France, and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, this Prospectus, the relevant Final Terms Document (or Pricing Supplement, in the case of Exempt Covered Bonds) or any other offering material relating to the Covered Bonds, and that such offers, sales and distributions have been and will be made in France only to (a) providers of investment services relating to portfolio management for the account of third parties and/or (b) qualified investors (*investisseurs qualifiés*), all as defined in, and in accordance with, Articles L.411-1, L.411-2, D.411-1 and D.411-4 of the French *Code monétaire et financier*.

Hong Kong

Each Dealer has represented and agreed that each further Dealer appointed under the Program will be required to represent and agree that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Covered Bonds other than: (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Covered Bonds which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Covered Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance.

Japan

The Covered Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the **FIEA**) and each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that it will not offer or sell any Covered Bonds, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act

No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Prohibition of Sales to EEA and UK Retail Investors

Unless the Final Terms Document (or Pricing Supplement, as the case may be) in respect of any Covered Bonds specifies "Prohibition of Sales to EEA and UK Retail Investors" as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Covered Bonds which are the subject of the offering contemplated by this Prospectus as completed by the Final Terms Document (or Pricing Supplement, as the case may be) in relation thereto to any retail investor in the EEA or in the UK. For the purposes of this provision:

(a) the expression **retail investor** means a person who is one (or more) of the following:

  (i) a retail client as defined in point (11) of Article 4(1) MiFID II; or

  (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

  (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the **Prospectus Regulation**); and

(b) the expression an **offer** includes the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Covered Bonds.

If the Final Terms Document (or Pricing Supplement, as the case may be) in respect of any Covered Bonds specifies "Prohibition of Sales to EEA and UK Retail Investors" as "Not Applicable", in relation to each Member State of the EEA and the UK (each, a **Relevant State**), each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that it has not made and will not make an offer of Covered Bonds which are the subject of the offering contemplated by this Prospectus as completed by the Final Terms Document (or Pricing Supplement, as the case may be) in relation thereto to the public in that Relevant State except that it may make an offer of such Covered Bonds to the public in that Relevant State:

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

(b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Regulation) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(c) at any time in any other circumstances falling within an exemption from the requirement to publish a prospectus as set out in the Prospectus Regulation,

provided that no such offer of Covered Bonds referred to in paragraphs (a) to (c) above shall require the Issuer or any Dealer to publish or supplement a prospectus pursuant to the Prospectus Regulation.

For the purposes of this provision:

(a) the expression **an offer** in relation to any Covered Bonds in any Relevant State means the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Covered Bonds; and

(b) the expression **Prospectus Regulation** means Regulation (EU) 2017/1129 (as amended).

Republic of Italy

Each Dealer has represented and agreed and each further Dealer appointed under the Program will be required to represent and agree that the offering of the Covered Bonds has not been registered pursuant to Italian securities legislation and, accordingly, the Covered Bonds may not be offered, sold or delivered, nor may copies of the Prospectus or of any other document relating to the Covered Bonds be distributed, in the Republic of Italy, except:

(a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the **Financial Services Act**), and Article 34-ter, first paragraph, letter b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time (**Regulation No. 11971**); or

(b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of Regulation No. 11971.

Furthermore, each Dealer has represented and agreed that any offer, sale or delivery of the Covered Bonds or distribution of copies of this Prospectus or any other document relating to the Covered Bonds in the Republic of Italy under paragraph (a) or (b) above must:

(i) be made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October 2007 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended (the **Banking Act**); and

(ii) comply with any other applicable laws and regulations or requirement imposed by CONSOB, the Bank of Italy (including the reporting requirements, where applicable, pursuant to Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time) and/or any other Italian authority.

Singapore

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore, and the Covered Bonds will be offered pursuant to exemptions under the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the **SFA**). Accordingly, the Covered Bonds may not be offered or sold or made the subject of an invitation for subscription or purchase nor may this Prospectus or any other document or material in connection with the offer or sale or invitation for subscription or purchase of any Covered Bonds be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (b) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Covered Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2 (1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Covered Bonds pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 of Singapore.

Unless otherwise stated in the applicable Final Terms or Pricing Supplement in respect of any Covered Bonds, all Covered Bonds issued or to be issued under the Program shall be capital markets products other than prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Specified Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Sweden

This is not a prospectus and has not been prepared in accordance with the prospectus requirements provided for in the Swedish Financial Instruments Trading Act (*lagen (1991:980) om handel med finansiella instrument*). Neither the Swedish Financial Supervisory Authority nor any other Swedish public body has examined, approved or registered this document.

Switzerland

This Prospectus is not intended to constitute an offer or solicitation to purchase or invest in the Covered Bonds described herein. The Covered Bonds may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange Ltd. or on any other exchange or regulated trading facility in Switzerland.

Neither this Prospectus, any amendments, supplements, Final Terms thereto nor any other offering or marketing material relating to the Covered Bonds constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the

meaning of the listing rules of the SIX Swiss Exchange Ltd or any other exchange or regulated trading facility in Switzerland.

Neither this Prospectus, any amendments, supplements, Final Terms thereto nor any other offering or marketing material relating to the Covered Bonds constitutes a prospectus in accordance with article 35 or article 45 of the Swiss Financial Services Act in its version dated 15 June 2018 to be expected to enter into force as of 1 January 2020 (the "FinSA"). The Prospectus is not and will not be reviewed and approved by a reviewing body for prospectuses (Prüfstelle) as such term is understood pursuant to article 52 FinSA.

Neither this Prospectus, any amendments, supplements, Final Terms thereto nor any other offering or marketing material relating to the Covered Bonds may be publicly distributed or otherwise made publicly available in Switzerland.

The Netherlands

Each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that any Covered Bonds will only be offered in the Netherlands to Qualified Investors (as defined in the Prospectus Regulation), unless such offer is made in accordance with the Dutch Financial Supervision Act (*Wet op het financieel toezicht*).

General

These selling restrictions may be modified by the agreement of the Bank and any relevant Dealer following a change in a relevant law, regulation or directive. Any such modification and any additional selling restrictions with which any relevant Dealer will be required to comply will be set out in the Final Terms Document or the Pricing Supplement issued in respect of the issue of Covered Bonds to which it relates or in a supplement to this Prospectus.

Each Dealer has agreed and each further Dealer appointed under the Program will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Covered Bonds or possesses or distributes this Prospectus, any other offering material or any Final Terms Document or Pricing Supplement and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Covered Bonds under the laws, directives and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Bank, the Guarantor, the Bond Trustee nor any of the other relevant Dealer(s) shall have any responsibility therefor. Furthermore, they will not directly or indirectly offer, sell or deliver any Covered Bonds or distribute or publish any form of application, prospectus, advertisement or other offering material except under circumstances that will, to the best of their knowledge and belief, result in compliance with any applicable laws and regulations, and all offers, sales and deliveries of Covered Bonds by them will be made on the same terms.

None of the Bank, the Guarantor, the Bond Trustee or any of the relevant Dealer(s) represents that Covered Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer(s) will be required to comply with such other restrictions as the Bank and the relevant Dealer(s) shall agree as a term of issue and purchase as indicated in the applicable Final Terms Document or Pricing Supplement.

Each Dealer will, unless prohibited by applicable law, furnish to each person to whom they offer or sell Covered Bonds a copy of the Prospectus as then amended or supplemented or, unless delivery of the Prospectus is required by applicable law, inform each such person that a copy will be made available upon request. The relevant Dealer(s) are not authorised to give any information or to make any representation not contained in the Prospectus in connection with the offer and sale of Covered Bonds to which the Prospectus relates.

This Prospectus may be used by the relevant Dealer(s) for offers and sales related to market-making transactions in the Covered Bonds. Any or each of the relevant Dealer(s) may act as principal or agent in these transactions. These sales will be made at prices relating to prevailing market prices at the time of sale. None of the relevant Dealer(s) has any obligation to make a market in the Covered Bonds, and any market-making may be discontinued at any time without notice. The relevant Dealer(s) are participating in the initial distribution of the Covered Bonds.

GENERAL INFORMATION

1. Trading information in relation to Covered Bonds admitted to the Official List and admitted to trading on the Market will be expressed as a percentage of their principal amount (exclusive of accrued interest). It is expected that listing of the Covered Bonds on the Official List and admission to trading on the Market will be granted on the relevant Issue Date, subject only to the issue of a Global Covered Bond of the relevant type in respect of each Tranche. The listing of the Program in respect of the Covered Bonds is expected to be granted on or about 4 August 2020. This paragraph is not applicable to Exempt Covered Bonds.

2. The Bank has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Covered Bonds. The establishment of the Program and the issue of Covered Bonds thereunder was authorised by Resolutions of the Board of Directors of the Bank passed on 29 May 2013.

3. Each Permanent Global Covered Bond, Bearer Definitive Covered Bond, Coupon and Talon will bear the following legend where TEFRA D is specified in the applicable Final Terms Document or the applicable Pricing Supplement: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".

4. There has been no significant change in the financial performance or financial position of the Bank and its Subsidiaries taken as a whole since 30 April 2020, being the date of the latest published interim results, and no material adverse change in the prospects of the Bank and its Subsidiaries taken as a whole since 31 October 2019, being the date of the latest published audited consolidated financial statements of the Bank.

   There has been no significant change in the financial performance or financial position of the Guarantor since it was established on 30 May 2013 and there has been no material adverse change in the prospects of the Guarantor since 30 May 2013.

5. On 10 December 2019, following its semi-annual review, OSFI set the Domestic Stability Buffer for Canadian domestic systemically important banks (**D-SIBs**), including the Issuer, at 2.25 per cent. of total risk-weighted assets, effective 30 April 2020 (up from 2.00 per cent. of total risk–weighted assets, effective 31 October 2019). This reflects OSFI's assessment that, on balance, the identified systemic vulnerabilities remain elevated while economic conditions continue to be accommodative. Specific vulnerabilities covered by the buffer continue to include: (i) Canadian consumer indebtedness; (ii) asset imbalances in the Canadian market; and (iii) Canadian institutional indebtedness. On 13 May 2020, OSFI lowered the Domestic Stability Buffer to 1.00 per cent. of total risk weighted assets, effective immediately. OSFI indicated that this action was being taken in order to support D-SIBs' ability to supply credit to the economy during an expected period of disruption related to COVID-19 and market conditions. OSFI also indicated that that any increases to the Domestic Stability Buffer would not take effect for at least 18 months from the date of such announcement, and that it would continue to assess the level of the Domestic Stability Buffer.

6. There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank or the Guarantor is aware) during the 12-month period preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on the financial position or profitability of the Bank, the Guarantor and/or BMO Group.

7. The Covered Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Tranche of Covered Bonds allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms Document or Pricing Supplement. In addition, the Bank may make an application for any registered Covered Bonds to be accepted for trading in book-entry form by DTC. The CUSIP and/or CINS numbers for each Tranche of Registered Covered Bonds cleared through DTC, together with the relevant ISIN and Common Code, will be specified in the applicable Final Terms Document or Pricing Supplement. Euroclear, Clearstream, Luxembourg and DTC are the entities in charge of keeping the records, as applicable. If the Covered Bonds are to clear through an additional or alternative clearing system, the appropriate information will be specified in the applicable Final Terms Document or Pricing Supplement.

   The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of DTC is 55 Water Street, New York, New York 10041-0099.

8. From the date hereof and for so long as the Program remains in effect or any Covered Bonds remain outstanding, the following documents (collectively, the **Transaction Documents**) will be available for inspection (i) during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), at the Executive Offices of the Bank and at the specified office of the Bond Trustee and each of the Paying Agents and (ii) through the CMHC's covered bond registry:

   (a) the Trust Deed (which includes the Covered Bond Guarantee and true form of the Global Covered Bonds, the Definitive Covered Bonds, the Coupons and the Talons);

   (b) the Security Agreement (and any documents entered into pursuant to the Security Agreement);

   (c) the Mortgage Sale Agreement;

   (d) the Servicing Agreement;

   (e) the Intercompany Loan Agreement;

   (f) the Interest Rate Swap Agreement;

   (g) each Covered Bond Swap Agreement;

   (h) the Cover Pool Monitor Agreement;

   (i) the Cash Management Agreement;

   (j) the Guaranteed Deposit Account Contract;

   (k) the Stand-By Guaranteed Deposit Account Contract;

   (l) the Bank Account Agreement;

   (m) the Stand-By Bank Account Agreement;

   (n) the Agency Agreement;

(o) the Guarantor Agreement;

(p) the Corporate Services Agreement;

(q) each Final Terms Document for Covered Bonds which are listed on the Official List and admitted to trading on the Market, or offered to the public in the EEA or UK;

(r) a copy of each subscription agreement for Covered Bonds issued on a syndicated basis which are listed on the Official List and admitted to trading on the Market, or offered to the public in the EEA or UK;

(s) any Security Sharing Agreement entered into by the Guarantor;

(t) the Master Definitions and Construction Agreement; and

(u) the Program Agreement.

9. Copies of the latest annual consolidated financial statements, annual management's discussion and analysis of financial condition and results of operations, condensed interim consolidated financial statements and interim management's discussion and analysis of financial condition and results of operations to the shareholders of the Bank may be obtained, and copies of the Agency Agreement will be available for inspection, at the specified offices of each of the Agents and at the Executive Offices of the Bank during normal business hours, so long as any of the Covered Bonds are outstanding.

From the date hereof and for so long as the Program remains in effect or any Covered Bonds remain outstanding, copies of the Bank Act (being the charter of the Bank) and the by-laws of the Bank will be available for inspection (i) at https://www.bmo.com/main/about-bmo/corporate-governance/select-documents/ and (ii) during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), at the Executive Offices of the Bank.

This Prospectus may also be viewed on the website of the Regulatory News Service operated by the London Stock Exchange at http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html under the name of the Bank and the headline "Publication of Prospectus".

10. *Conditions for determining price* — The price and amount of Covered Bonds to be issued under the Program will be determined by the Bank and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions.

11. *Post-issuance information* — The Bank does not intend to provide any post-issuance information in relation to any issues of Covered Bonds.

12. Settlement arrangements will be agreed between the Bank, the relevant Dealer(s) and the Paying Agent or, as the case may be, the Registrar in relation to each Tranche of Covered Bonds.

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GLOSSARY

Accrual Yield	In relation to a Zero Coupon Covered Bond, has the meaning given in the applicable Final Terms Document
Accrued Interest	In relation to any Loan as at any date, interest accrued but not yet due and payable on the Loan from (and including) the Monthly Payment Day immediately preceding the relevant date to (but excluding) the relevant date
Additional Business Centre	The meaning (if any) given in the applicable Final Terms Document
Adjusted Required Redemption Amount	The Canadian Dollar Equivalent of the: (a) the Required Redemption Amount; plus or minus (b) 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 Priority 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 (c) 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 among all Series of Covered Bonds according to the respective Principal Amount Outstanding thereof; minus (d) amounts standing to the credit of the Pre-Maturity Liquidity Ledger that are not otherwise required to provide liquidity for any Series of Hard Bullet Covered Bonds which mature within 12 months of the date of such calculation
Advances	The meaning given in Section 2.1 (*The Intercompany Loan*) of the Intercompany Loan Agreement
Affiliate	Any company which is for the time being an affiliate (within the meaning of the *Securities Act* (Ontario))
Arrangers	Bank of Montreal, London Branch and Barclays Capital Inc.

Arrears of Interest	In relation to a Loan as at any date, the aggregate of all interest and expenses which are due and payable and unpaid on that date
Asset Coverage Test Breach Notice	The notice required to be served in accordance with the Guarantor Agreement if the Asset Coverage Test has not been met on two consecutive Calculation Dates
Authorised Signatories	Means: (a) in relation to the Bank Account Agreement, any authorised signatory referred to in the mandate in respect of the GDA Account; (b) in relation to the Stand-By Bank Account Agreement, any authorised signatory referred to in the mandate in respect of the Stand-By Transaction Account or the Stand-By GDA Account, as applicable; and (c) in all other cases, an officer of the Issuer, or the Guarantor, or such other person appointed by the Issuer or the Guarantor to act as an authorised signatory, in each case as specified in the list of authorised signatories (as amended from time to time) sent to the Bond Trustee pursuant to the Trust Deed
Available Principal Receipts	Means, on a relevant Calculation Date, an amount equal to the aggregate of (without double counting): (a) the amount of Principal Receipts received during the immediately preceding Calculation Period and credited to the Principal Ledger (but, for the avoidance of doubt, excluding any Principal Receipts received in the Calculation Period commencing on (but excluding) the relevant Calculation Date); (b) any other amount standing to the credit of the Principal Ledger including (i) the proceeds of any advances under the Intercompany Loan Agreement (where such proceeds have not been applied to acquire additional Loans and their Related Security, refinance an advance under the Intercompany Loan, invest in Substitution Assets or make a Capital Distribution), (ii) any Cash Capital Contributions and (iii) the proceeds from any sale of Loans and their Related Security or Substitution Assets pursuant to the terms of the Guarantor Agreement or the Mortgage Sale Agreement but excluding any amounts received under the Covered Bond Swap Agreement in respect of principal (but, for the avoidance of doubt, excluding such other amounts received in the Calculation Period commencing on (but excluding) the relevant Calculation Date); and (c) following repayment of any Hard Bullet Covered Bonds by the Bank and the Guarantor on the Final Maturity Date thereof, any

amounts standing to the credit of the Pre-Maturity Liquidity Ledger in respect of such Series of Hard Bullet Covered Bonds (except where the Guarantor has elected to or is required to retain such amounts on the Pre-Maturity Liquidity Ledger)

Available Revenue Receipts

Means, on a relevant Calculation Date, an amount equal to the aggregate of (without double counting):

(a) the amount of Revenue Receipts received during the immediately preceding Calculation Period and credited to the Revenue Ledger;

(b) other net income of the Guarantor including all amounts of interest received on the Guarantor Accounts and the Substitution Assets in the immediately preceding Calculation Period, but excluding amounts received by the Guarantor under the Interest Rate Swap Agreement and in respect of interest received by the Guarantor under the Covered Bond Swap Agreement;

(c) prior to the service of a Notice to Pay on the Guarantor, amounts standing to the credit of the Reserve Fund in excess of the Reserve Fund Required Amount;

(d) the amount of any termination payment or premium received from a Swap Provider which is not applied to pay a replacement Swap Provider;

(e) any other Revenue Receipts not referred to in paragraphs (a) to (d) (inclusive) above received during the immediately preceding Calculation Period and standing to the credit of the Revenue Ledger; and

(f) following the service of a Notice to Pay on the Guarantor, amounts standing to the credit of the Reserve Fund,

Less Third Party Amounts, which will be paid on receipt in cleared funds to the Seller

Bank Account Agreement

The bank account agreement entered into on the Program Date between the Guarantor, the Account Bank, the GDA Provider, the Cash Manager and the Bond Trustee (as amended and/or supplemented and/or restated from time to time)

Bearer Covered Bond

Covered Bonds in bearer form

Bearer Definitive Covered Bond

A Bearer Covered Bond in definitive form issued or, as the case may require, to be issued by the Issuer in accordance with the provisions of the Program Agreement or any other agreement between the Issuer and the relevant Dealer(s), the Agency Agreement and the Trust Deed in exchange for either a Temporary Global Covered Bond or part thereof

	or a Permanent Global Covered Bond (all as indicated in the applicable Final Terms Document), such Bearer Covered Bond in definitive form being substantially in the form set out in the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Issuing and Paying Agent, the Bond Trustee and the relevant Dealer(s) or Lead Manager (in the case of syndicated issues) and having the Terms and Conditions endorsed thereon or, if permitted by the relevant Stock Exchange, incorporating the Terms and Conditions by reference as indicated in the applicable Final Terms Document or Pricing Supplement and having the relevant information supplementing, replacing or modifying the Terms and Conditions appearing in the applicable Final Terms Document endorsed thereon or attached thereto and (except in the case of a Zero Coupon Covered Bond in bearer form) having Coupons and, where appropriate, Receipts and/or Talons attached thereto on issue
Bearer Global Covered Bonds	Global Covered Bonds in bearer form, comprising Temporary Global Covered Bonds and Permanent Global Covered Bonds, substantially in the forms set out in Parts 1 and 2, respectively, of Schedule 2 to the Trust Deed
BMO Group	The Bank and its subsidiaries collectively
Bond Trustee	Computershare Trust Company of Canada, in its capacity as Bond Trustee under the Trust Deed or as trustee under the Security Agreement, together with any successor Bond Trustee appointed from time to time
borrower	In relation to a Loan, each Person specified as such in the relevant Mortgage Conditions together with each Person (if any) from time to time assuming an obligation to repay such Loan or any part of it
Calculation Agent	In relation to one or more Series of Variable Interest Covered Bonds, the person initially appointed as calculation agent in relation to such Covered Bonds by the Issuer and the Guarantor pursuant to the Agency Agreement or, if applicable, any successor calculation agent in relation to such Covered Bonds
Calculation Amount	In relation to any Series of Covered Bonds, the meaning given in the applicable Final Terms Document or Pricing Supplement
Calculation Date	The last day of each month
Calculation Period	The period from (and including) the first day of a month to (and including) the last day of that month, except that the first Calculation Period shall commence on (and include) the first Issue Date under the Program and end on (but exclude) the last day of that month, and the last Calculation Period shall commence on the first day of the month in which the last Series of Covered Bonds matures, and shall end on such maturity date

Canadian Business Day	A day (other than a Saturday or Sunday) on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in Toronto
Canadian Dollar Equivalent	In respect of any amount in another currency, the amount of Canadian Dollars that could be purchased with such amount at the then prevailing spot rate of exchange
Capital Account Ledger	The ledger maintained by the Managing GP (or the Cash Manager on its behalf) in respect of each Partner to record the balance of each Partner's Capital Contributions from time to time
Capital Contribution	In relation to each Partner, the aggregate of the capital contributed by or agreed to be contributed by that Partner to the Guarantor from time to time by way of Cash Capital Contributions and Capital Contributions in Kind as determined on each Calculation Date in accordance with the formula set out in the Guarantor Agreement
Capital Contribution Balance	The balance of each Partner's Capital Contributions as recorded from time to time in the relevant Partner's Capital Account Ledger
Capital Contribution in Kind	A contribution by a Partner to the Guarantor other than a Cash Capital Contribution, including contributions of Substitution Assets (up to the prescribed limit), and/or Loans and their Related Security on a fully serviced basis to the Guarantor (which will constitute a Capital Contribution equal to (a) the aggregate of the fair market value of those Loans as at the relevant Purchase Date, minus (b) any cash payment paid by the Guarantor for such Loans and their Related Security on that Purchase Date)
Capital Distribution	Any return on a Partner's Capital Contribution in accordance with the terms of the Guarantor Agreement
Capitalised Arrears	In relation to a Loan on any date (the **determination date**), the amount (if any) at such date of any Arrears of Interest in respect of which, on or prior to the determination date, each of the following conditions has been satisfied: (a) the Seller (or the Servicer on the Seller's behalf) acting as a Reasonable, Prudent Mortgage Lender has, by arrangement with the relevant borrower, agreed to capitalise such Arrears of Interest; and (b) such Arrears of Interest have been capitalised and added, in the relevant accounts of the Seller (or, if the determination date occurs after the First Purchase Date, the Guarantor), to the principal amount outstanding in respect of such Loan
Capitalised Expenses	In relation to a Loan, the amount of any expense, charge, fee, premium or payment (excluding, however, any Arrears of Interest) capitalised

	and added to the principal amount outstanding in respect of such Loan in accordance with the relevant Mortgage Conditions
Cash Capital Contribution	A Capital Contribution made in cash
Cash Management Agreement	The cash management agreement entered into on the Program Date between the Guarantor, the Seller, the Servicer, the Cash Manager, the GDA Provider and the Bond Trustee (as amended and/or supplemented and/or restated from time to time)
Cash Management Deposit Ratings	The threshold ratings of (i) P-1 (in respect of Moody's), (ii) F1 or A (in respect of Fitch) and (iii) BBB (low) or R-1 (low) (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 Cash Manager by the Rating Agencies
Cash Manager	BMO, in its capacity as cash manager or any successor cash manager appointed from time to time
Cash Manager Required Ratings	The threshold ratings P-2 (cr), F2 and BBB (low) (in respect of Moody's, Fitch and DBRS, respectively) as applicable, of, in the case of Moody's, the short term counterparty risk assessment, in the case of Fitch, the issuer default rating, and in the case of DBRS, the unsecured, unsubordinated and unguaranteed debt obligations, in each case, of the Cash Manager by the Rating Agencies
Cash Manager Termination Event	If any of the following events occur: (a) the Cash Manager defaults in the payment on the due date of any payment due and payable by it under the Cash Management Agreement or in the performance of its obligations thereunder and such default continues unremedied for a period of five Canadian Business Days after the earlier of the Cash Manager becoming aware of such default and receipt by the Cash Manager of written notice from the Bond Trustee requiring the same to be remedied; or (b) the Cash Manager defaults in the performance or observance of any of its other covenants and obligations under the Cash Management Agreement, which in the reasonable opinion of the Bond Trustee is materially prejudicial to the interests of the Secured Creditors and such default continues unremedied for a period of thirty (30) days after the earlier of the Cash Manager becoming aware of such default and receipt by the Cash Manager of written notice from the Bond Trustee requiring the same to be remedied; or (c) an Insolvency Event occurs in respect of the Cash Manager; or

(d) the Ratings of the Cash Manager fall below the Cash Manager Required Ratings or are withdrawn; or

(e) any other event so specified in the Cash Management Agreement

Charged Property The Collateral charged by the Guarantor pursuant to the Security Agreement

Clearing Systems DTC, Euroclear, Clearstream, Luxembourg and/or, in relation to any Covered Bonds, any other clearing system as may be specified in the applicable Final Terms Document or Pricing Supplement

Clearstream, Luxembourg Clearstream Banking S.A. or its successors

Common Depositary The common depositary for Euroclear and Clearstream, Luxembourg

Common Safekeeper An ICSD in its capacity as a common safekeeper or a person nominated by the ICSDs to perform the role of common safekeeper

Corporate Services Provider Computershare Trust Company of Canada, a trust company formed under the laws of Canada, as corporate services provider to the Liquidation GP under the Corporate Services Agreement, together with any successor corporate services provider appointed from time to time

Coupon Any interest coupon appertaining to a Bearer Definitive Covered Bond (other than a Zero Coupon Covered Bond), such coupon being:

(a) if appertaining to a Fixed Rate Covered Bond, substantially in the form set out in Part 4A of Schedule 2 to the Trust Deed or in such other form, having regard to the terms of issue of the Covered Bonds of the relevant Series, as may be agreed between the Issuer, the Issuing and Paying Agent, the Bond Trustee and the relevant Dealer(s); or

(b) if appertaining to a Floating Rate Covered Bond, substantially in the form set out in Part 4B of Schedule 2 to the Trust Deed or in such other form, having regard to the terms of issue of the Covered Bonds of the relevant Series, as may be agreed between the Issuer, the Issuing and Paying Agent, the Bond Trustee and the relevant Dealer(s); or

(c) if appertaining to a Bearer Definitive Covered Bond which is neither a Fixed Rate Covered Bond nor a Floating Rate Covered Bond, in such form as may be agreed between the Issuer, the Issuing and Paying Agent, the Bond Trustee and the relevant Dealer(s)

Covered Bond Each covered bond issued or to be issued pursuant to the Program Agreement and which is or is to be constituted under the Trust Deed,

	which covered bond may be represented by a Global Covered Bond or any Definitive Covered Bond and includes any replacements for a Covered Bond issued pursuant to Condition 6 (*Redemption and Purchase*) and Condition 10 (*Replacement of Covered Bonds, Coupons and Talons*) of the Terms and Conditions
Covered Bond Guarantee Activation Event	The earlier to occur of (a) an Issuer Event of Default, together with the service of an Issuer Acceleration Notice on the Bank and the service of a Notice to Pay on the Guarantor, and (b) a Guarantor Event of Default, together with the service of a Guarantor Acceleration Notice on the Bank and on the Guarantor (and each a **Covered Bond Guarantee Activation Event** as the context requires)
Covered Bond Swap	A Forward Starting Covered Bond Swap or a Non-Forward Starting Covered Bond Swap
Covered Bond Swap Effective Date	The earliest to occur of (i) an Issuer Event of Default, (ii) a Guarantor Event of Default, and (iii) the date on which one or more Rating Agencies downgrades or withdraws the long-term, unsecured, unsubordinated and unguaranteed debt obligations (or, in the case of Fitch, the long-term issuer default rating) of the Covered Bond Swap Provider, or any credit support provider from time to time in respect of the Covered Bond Swap Provider, below BBB (high) (in respect of DBRS), BBB+ (in respect of Fitch) and Baa1 (in respect of Moody's)
Covered Bond Swap Provider	Each provider of a Covered Bond Swap under a Covered Bond Swap Agreement
Covered Bond Swap Rate	In relation to a Series of Covered Bonds, the exchange rate specified in the Covered Bond Swap relating to such Covered Bonds or, if the relevant Covered Bond Swap Agreement has terminated, the applicable spot rate
Cover Pool Monitor	KPMG LLP, in its capacity as Cover Pool Monitor under the Cover Pool Monitor Agreement, together with any successor or additional Cover Pool Monitor appointed from time to time thereunder
Cover Pool Monitor Agreement	The cover pool monitor agreement entered into on the Program Date between the Cover Pool Monitor, the Bank, the Guarantor, the Cash Manager, the Bank and the Bond Trustee (as amended and/or supplemented and/or restated from time to time)
Credit and Collection Policy	The Seller's customary credit and collection policies and practices of the Seller or, as applicable, the relevant Originator, relating to the granting of credit on the security of Loans and the collection and enforcement of Loans, as in effect on the Program Date, as modified in compliance with the Mortgage Sale Agreement from time to time
Custodian	Computershare Trust Company of Canada, in its capacity as Custodian under the Mortgage Sale Agreement

Customer Files	With respect to any Loan, (a) the original fully executed copy of the document(s) evidencing the Loan and the Mortgage, (b) the duplicate registered Mortgage evidencing and securing such Loan bearing a certificate of registration from the applicable land registry office, land titles office or similar place of public record in which the related Mortgage is registered together with the promissory note, if any, evidencing such Loan fully executed by the borrower, (c) fully executed copies of the other loan and/or security agreements, if any, securing the Mortgage, fully executed by the borrower, (d) a record or facsimile of the original credit application fully executed by the borrower and all other credit information obtained by the Seller or the relevant Originator in connection with the Loan and the related borrower, (e) the solicitor's or notary's report of title or title insurance policy obtained by the Seller or the relevant Originator in connection with the initial advance of the Loan together with the survey or certificate of locations relied upon by the solicitor or notary or title insurance company in issuing his or its report or title insurance policy, (f) the most recent Valuation Report of the related mortgaged property obtained by the Seller or the relevant Originator in accordance with the Credit and Collection Policy, (g) the insurance policy or certificate of insurance evidencing the borrower's insurance against fire and other standard risks showing the Seller or the relevant Originator as first mortgagee and loss payee and containing a standard mortgage endorsement, and (h) any and all other documents that the Servicer or the Seller or the relevant Originator will keep on file relating to such Loan
DBRS	DBRS Limited and its successors
Dealer	Each dealer appointed from time to time in accordance with the Program Agreement, which appointment may be for a specific issue or on an ongoing basis. References in this Prospectus to the relevant Dealer(s) will, in the case of an issue of Covered Bonds being (or intended to be) subscribed for by more than one Dealer, be to all relevant Dealer(s) agreeing to subscribe for such Covered Bonds
Dealership Agreement	The dealership agreement entered into on or after the Program Date between the Issuer, the Guarantor and the Dealers (as amended and/or supplemented and/or restated from time to time) for the sale of Covered Bonds
Definitive Covered Bond	A Bearer Definitive Covered Bond and/or a Registered Definitive Covered Bond, as the context may require
Definitive Regulation S Covered Bonds	Registered Covered Bonds in definitive form sold to non-U.S. persons outside the United States in reliance on Regulation S
Definitive Rule 144A Covered Bonds	Registered Covered Bonds in definitive form sold in the United States to QIBs pursuant to Rule 144A

Demand Loan	The meaning given to it in Section 7.2(b) of the Intercompany Loan Agreement
Determination Date	The meaning given in the applicable Final Terms Document or Pricing Supplement
Downgrade Trigger Events	The Initial Downgrade Trigger Events and the Subsequent Downgrade Trigger Events
DTC	The Depository Trust Company or its successors
Due for Payment	The requirement by the Guarantor to pay any Guaranteed Amounts following the delivery of a Notice to Pay on the Guarantor: (a) prior to the occurrence of a Guarantor Event of Default, on the later of: (i) the date on which the Scheduled Payment Date in respect of such Guaranteed Amounts is reached, or, if later, the day which is two Business Days following service of a Notice to Pay on the Guarantor in respect of such Guaranteed Amounts or if the applicable Final Terms Document or Pricing Supplement specified that an Extended Due for Payment Date is applicable to the relevant Series of Covered Bonds, the Interest Payment Date that would have applied if the maturity date of such Series of Covered Bonds had been the Extended Due for Payment Date (the **Original Due for Payment Date**); and (ii) in relation to any Guaranteed Amounts in respect of the Final Redemption Amount payable on the Final Maturity Date for a Series of Covered Bonds only, the Extended Due for Payment Date, but only (A) if in respect of the relevant Series of Covered Bonds the Covered Bond Guarantee is subject to an Extended Due for Payment Date pursuant to the terms of the applicable Final Terms Document or Pricing Supplement and (B) to the extent that the Guarantor having received a Notice to Pay no later than the date falling one Business Day prior to the Extension Determination Date does not pay Guaranteed Amounts equal to the Final Redemption Amount in respect of such Series of Covered Bonds by the Extension Determination Date, as the Guarantor has insufficient moneys available under the Guarantee Priority of Payments to pay such Guaranteed Amounts in full on the earlier of (a) the date which falls two Business Days after the service of such Notice to Pay on the Guarantor or, if later, the Final Maturity Date (or, in

each case, after the expiry of the grace period set out in Condition 9.2(b) (*Guarantor Events of Default*)) under the terms of the Covered Bond Guarantee or (b) the Extension Determination Date,

or, if, in either case, such day is not a Business Day, the next following Business Day. For the avoidance of doubt, Due for Payment does not refer to any earlier date upon which payment of any Guaranteed Amounts may become due under the guaranteed obligations, by reason of prepayment, acceleration of maturity, mandatory or optional redemption or otherwise; or

(b) following the occurrence of a Guarantor Event of Default, the date on which a Guarantor Acceleration Notice is served on the Issuer and the Guarantor

Earliest Maturing Covered Bonds At any time, the Series of the Covered Bonds (other than any Series which is fully collateralised by amounts standing to the credit of the GDA Account) that has or have the earliest Final Maturity Date as specified in the applicable Final Terms Document or Pricing Supplement (ignoring any acceleration of amounts due under the Covered Bonds prior to service of a Guarantor Acceleration Notice)

Early Redemption Amount The meaning given in the relevant Final Terms

Euroclear Euroclear Bank SA/NV, or its successors

European Registrar The Bank of New York Mellon SA/NV – Luxembourg Branch (formerly named The Bank of New York Mellon (Luxembourg) S.A.), in its capacity as European registrar (which expression shall include any successor European registrar)

Excluded Swap Termination Amount In relation to a Swap Agreement, an amount equal to the amount of any termination payment due and payable under that Swap Agreement (a) to the relevant Swap Provider as a result of a Swap Provider Default with respect to such Swap Provider or (b) to the relevant Swap Provider following a Swap Provider Downgrade Event with respect to such Swap Provider

Exempt Covered Bonds Covered Bonds offered under the UK Prospectus which are neither to be admitted to trading on a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC) in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Regulation (Regulation (EU) 2017/1129 (as amended))

Extended Due for Payment Date In relation to any Series of Covered Bonds, the date, if any, specified as such in the applicable Final Terms Document or Pricing Supplement to which the payment of all or (as applicable) part of the Final Redemption Amount payable on the Final Maturity Date will be

	deferred in the event that the Final Redemption Amount is not paid in full by the Extension Determination Date
Extension Determination Date	In relation to any Series of Covered Bonds, the date falling two Business Days after the expiry of seven days from (and including) the Final Maturity Date of such Series of Covered Bonds
Extraordinary Resolution	A resolution of the Covered Bondholders passed as such under the terms of the Trust Deed
Fair Market Value	In respect of a Loan and its Related Security, the fair market value at the relevant time, being the price expressed in terms of money's or moneys' worth, a willing, prudent and informed buyer would pay in an open and unrestricted market to a willing, prudent and informed seller, each acting at arms' length, where neither party is under any compulsion to enter into the transaction, as part of the acquisition of all of the Loans and their Related Security being purchased or sold at the relevant time
Final Maturity Date	The Interest Payment Date on which a Series of Covered Bonds will be redeemed at their Final Redemption Amount in accordance with the Terms and Conditions
Final Redemption Amount	In respect of a Series of Covered Bonds, the amount as specified in the applicable Final Terms Document or Pricing Supplement
Final Terms Document	The final terms document or, in the case of Exempt Covered Bonds, the relevant pricing supplement, in each case relating to each Series (or Tranche, as the case may be) of Covered Bonds, which sets out the final terms for that Tranche or Series; and **applicable Final Terms Document** means, with respect to a Series or Tranche of Covered Bonds the Final Terms Document applicable to such Series or Tranche, as the case may be, and unless the context requires otherwise, any reference to a Final Terms Document or applicable Final Terms Document shall include a reference to the related pricing supplement, if applicable
First Purchase Date	The date on which the Initial Portfolio was sold to the Guarantor pursuant to the terms of the Mortgage Sale Agreement
Fitch	Fitch Ratings, Inc. or its successors
Fixed Coupon Amount	The meaning given in the applicable Final Terms Document or Pricing Supplement
Fixed Rate	The rate of interest paid under the Fixed Rate Covered Bonds
Fixed Rate Covered Bonds	Covered Bonds that pay a fixed rate of interest on such date or dates as may be agreed between the Bank and the relevant Dealer(s) and on redemption calculated on the basis of such Day Count Fraction as may be agreed between the Bank and the relevant Dealer(s)

Fixed Rate Loan	A Loan the interest rate on which is fixed at a specified rate at the time of its origination, and the initial term of up to ten years
Floating Rate	The rate of interest paid under the Floating Rate Covered Bonds
Floating Rate Covered Bonds	Covered Bonds which bear interest at a rate determined: (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the ISDA Definitions; or (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (c) in respect of Exempt Covered Bonds only, on such other basis as may be agreed between the Bank and the relevant Dealer(s), as set out in the applicable Final Terms Document or Pricing Supplement
Floating Rate Covered Bond Margin	The meaning given in the relevant Final Terms.
GDA Account	The account in the name of the Guarantor held with BMO and maintained subject to the terms of the Guaranteed Deposit Account Contract, the Bank Account Agreement, the Security Agreement and the Guarantor Agreement or such additional or replacement account (including the Stand-By GDA Account) as may for the time being be in place pursuant to the Cash Management Agreement with the prior consent of the Bond Trustee and designated as such
GDA Provider	BMO, in its capacity as GDA provider or any successor GDA provider appointed from time to time
GDA Rate	The rate of interest accruing on the balance standing to the credit of the GDA Account equal to the annual rate of CDOR less 0.10 per cent. in respect of a Guarantor Payment Period
Global Covered Bond	A Bearer Global Covered Bond and/or a Registered Global Covered Bond, as the context may require
Guarantee Loan	The meaning given to it in Section 3.2 of the Intercompany Loan Agreement
Guaranteed Amounts	Prior to service of a Guarantor Acceleration Notice, with respect to any Original Due for Payment Date or, if applicable, any Extended Due for Payment Date, the sum of Scheduled Interest and Scheduled Principal, in each case, payable on that Original Due for Payment Date or, if

	applicable, any Extended Due for Payment Date, or after service of a Guarantor Acceleration Notice, an amount equal to the relevant Early Redemption Amount as specified in the Terms and Conditions plus all accrued and unpaid interest and all other amounts due and payable in respect of the Covered Bonds (other than additional amounts payable under Condition 7 (*Taxation*)), including all Excluded Scheduled Interest Amounts, all Excluded Scheduled Principal Amounts (whenever the same arose) and all amounts payable by the Guarantor under the Trust Deed
Guarantor Accounts	The GDA Account and the Transaction Account and any additional or replacement accounts opened in the name of the Guarantor from time to time with the prior consent of the Bond Trustee, including the Stand-By GDA Account and the Stand-By Transaction Account
Guarantor Agreement	The limited partnership agreement in respect of the Guarantor entered into on the Program Date by and among the Managing GP, the Liquidation GP, the Bond Trustee and the Bank as Limited Partner and any other parties who accede thereto in accordance with its terms (as amended and/or restated and/or supplemented from time to time)
Guarantor Payment Date	The 12th Canadian Business Day of each month following a Calculation Date
Guarantor Payment Period	The period from (and including) a Guarantor Payment Date to (but excluding) the next following Guarantor Payment Date
Hard Bullet Covered Bond	Any Covered Bond issued by the Bank in respect of which the principal is due to be redeemed in full in one amount on the Final Maturity Date of that Covered Bond and which is identified as such in the applicable Final Terms Document or Pricing Supplement
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
Indemnity Amounts	In respect of any Person that is a party to a Transaction Document, any amounts payable to such Person pursuant to the indemnification provisions of such Transaction Document
Independently Controlled and Governed	In respect of the Guarantor, at the time of determination, it is demonstrated that, whether by attestation of an executive officer of the Bank or otherwise, each of the following is correct: (a) the managing general partner of the Guarantor is not (and cannot be) an affiliate of the Bank and less than 10 per cent. of its voting securities are (or can be) owned, directly or indirectly, by the Bank or any of its affiliates; (b) if an administrative agent or other analogous entity has been engaged by the managing general partner of the Guarantor to

fulfill its responsibility or role to carry on, oversee, manage or otherwise administer the business, activities and assets of the Guarantor, the agent or entity is not (and cannot be) an affiliate of the Bank and less than ten per cent. of its voting securities are (or can be) owned, directly or indirectly, by the Bank or any of its affiliates;

(c) all members (but one) of the board of directors or other governing body of the managing general partner of the Guarantor and each such administrative agent or other entity are not (and cannot be) directors, officers, employees or other representatives of the Bank or any of its affiliates, do not (and cannot) hold greater than 10 per cent. of the voting or equity securities of the Bank or any of its affiliates and are (and must be) otherwise free from any material relationship with the Bank or any of its affiliates (hereinafter referred to as **Independent Members**); and

(d) the board of directors or other governing body of the managing general partner of the Guarantor and each such administrative agent or other entity is (and must be) composed of at least three members, and the non-Independent Member is not (and will not be) entitled to vote on any resolution or question to be determined or resolved by the board (or other governing body) and will attend meetings of the board (or other governing body) at the discretion of the remaining members thereof, provided that such board of directors or other governing body may be composed of only two Independent Members with observer status granted to one director, officer, employee or other representative of the Bank or any of its affiliates

Indexation Methodology The meaning given in the risk factor entitled *"The Asset Coverage Test, OC Valuation, Amortisation Test, Valuation Calculation and Pre-Maturity Test may not ensure that adequate funds will be available to satisfy the Guarantor's obligations in full"* herein

Initial Downgrade Trigger Event The occurrence of any of the following events:

(a) the short-term counterparty risk assessment or the long-term counterparty risk assessment of the Interest Rate Swap Provider, the Covered Bond Swap Provider, or any credit support provider, as applicable, ceases to be at least P-1(cr) or A2(cr), respectively, by Moody's (provided that, for greater certainty, if the Interest Rate Swap Provider, the Covered Bond Swap Provider, or any credit support provider, as applicable, has one of such ratings from Moody`s, an Initial Downgrade Trigger Event will not occur),

(b) (i) the short-term issuer default rating, or (ii) the derivative counterparty rating, if one is assigned, and if not, the long-term issuer default rating, in each case, of the Interest Rate Swap

Provider, the Covered Bond Swap Provider or any credit support provider, as applicable, ceases to be at least F1 or A, respectively, by Fitch

(provided that, for greater certainty, if the Interest Rate Swap Provider, the Covered Bond Swap Provider or any credit support provider, as applicable, has one of such ratings from Fitch, an Initial Downgrade Trigger Event will not occur), or

(c) the short-term unsecured, unsubordinated and unguaranteed debt obligations or the long-term unsecured, unsubordinated and unguaranteed debt obligations of the Interest Rate Swap Provider, the Covered Bond Swap Provider or any credit support provider, as applicable, cease to be rated at least R-1(low) or A, respectively, by DBRS (provided that, for greater certainty, if the Interest Rate Swap Provider, the Covered Bond Swap Provider or any credit support provider, as applicable, has one of such ratings from DBRS, an Initial Downgrade Trigger Event will not occur);

Initial Portfolio The portfolio of Loans and their Related Security sold by the Seller to the Guarantor on the First Purchase Date pursuant to the Mortgage Sale Agreement

Insolvency Event In respect of the Seller, the Servicer or the Cash Manager or any other Person, any impending or actual insolvency on the part of such Person, as evidenced by, but not limited to:

(a) the commencement of a dissolution proceeding or a case in bankruptcy involving the relevant entity (and where such proceeding is the result of an involuntary filing, such proceeding is not dismissed within 60 days after the date of such filing); or

(b) the appointment of a trustee or other similar court officer over, or the taking of control or possession by such officer, of the business of the relevant entity, in whole or in part, before the commencement of a dissolution proceeding or a case in bankruptcy; or

(c) the relevant entity makes a general assignment for the benefit of any of its creditors; or

(d) the general failure of, or the inability of, or the written admission of the inability of, the relevant entity to pay its debts as they become due

Intercompany Loan Agreement The intercompany loan agreement entered into on the Program Date between the Bank (as the Intercompany Loan Provider), the Guarantor, the Cash Manager and the Bond Trustee documenting the Guarantee Loan and the Demand Loan

Intercompany Loan Ledger	The ledger of such name maintained by the Cash Manager pursuant to the Cash Management Agreement
Interest Basis	The meaning given in the applicable Final Terms Document or Pricing Supplement
Interest Commencement Date	In the case of interest bearing covered bonds, the date specified in the applicable Final Terms Document or Pricing Supplement from (and including) which the relevant Covered Bonds start accruing interest
Interest Determination Date	In respect of Floating Rate Covered Bonds to which Screen Rate Determination is applicable, has the meaning given to it in the applicable Final Terms Document
Interest Payment Date	In respect of Fixed Rate Covered Bonds and Floating Rate Covered Bonds, the meaning given in the applicable Final Terms Document or Pricing Supplement
Interest Rate Swap Agreement	The agreement between the Guarantor, the Interest Rate Swap Provider and the Bond Trustee dated the Program Date governing the Interest Rate Swaps in the form of an ISDA Master Agreement, including a schedule, one or more confirmations and a credit support annex (each as may be amended and/or supplemented and/or restated from time to time)
Interest Rate Swap Provider	BMO in its capacity as interest rate swap provider under the Interest Rate Swap Agreement together with any successor interest rate swap provider
Interest Rate Swaps	Swap transactions which are intended to hedge against possible variances in the rates of interest payable on the Loans in the Portfolio, the amounts payable on the Intercompany Loan and (following the Covered Bond Swap Effective Date) the Covered Bond Swap Agreement
Investor Report	A monthly report required to be delivered under Section 9.4(b) of the Cash Management Agreement
ISDA	The International Swaps and Derivatives Association, Inc.
ISDA Definitions	The 2000 ISDA Definitions, as published by ISDA
ISDA Master Agreement	The 1992 ISDA Master Agreement (Multicurrency – Cross Border), as published by ISDA
Issue Date	Each date on which the Bank issues a Series or Tranche of Covered Bonds under the Program, as specified in the applicable Final Terms Document or Pricing Supplement

Issue Price	The price, generally expressed as a percentage of the nominal amount of the Covered Bonds, at which a Series or Tranche of Covered Bonds will be issued
Issuing and Paying Agent	Unless otherwise specified in the applicable Final Terms Document, (i) in relation to all or any Series of Covered Bonds with respect to which the Clearing System is Euroclear and/or Clearstream, Luxembourg, The Bank of New York Mellon, London Branch, in its capacity as an issuing and paying agent or, if applicable, any successor issuing and paying agent in relation to any such Series of Covered Bonds, and (ii) in relation to all or any other Series of Covered Bonds, The Bank of New York Mellon, in its capacity as an issuing and paying agent or, if applicable, any successor issuing and paying in relation to any such Series of Covered Bonds; The Bank of New York Mellon, London Branch, in its capacity as issuing and paying agent (which expression shall include any successor issuing and paying agent)
Latest Valuation	In relation to any Property, the value given to that Property by the most recent Valuation Report addressed to the Seller or, as applicable, an Originator, or, if the LTV ratio of such Loan was less than 60 per cent., the purchase price of that Property or current property tax assessment, as applicable; provided that, commencing 1 July 2014, such value shall be adjusted at least quarterly to account for subsequent price adjustments using the Indexation Methodology
Law	Includes common or customary law and any constitution, decree, judgment, legislation, order, ordinance, regulation, statute, treaty or other legislative measure in any jurisdiction and any present or future directive, regulation, guideline, practice, concession, request or requirement whether or not having the force of law issued by any governmental body, agency or department or any central bank or other fiscal, monetary, Taxation, regulatory, self-regulatory or other authority or agency
Lead Manager	In relation to any Series or Tranche of Covered Bonds, the person named as the Lead Manager in the applicable Subscription Agreement or, when only one Dealer signs such Subscription Agreement, such Dealer
Ledger	Each of the Revenue Ledger, the Pre-Maturity Liquidity Ledger, the Principal Ledger, the Reserve Ledger, the Payment Ledger and the Intercompany Loan Ledger
Lending Criteria	The lending criteria of the Seller from time to time, or such other criteria as would be acceptable to reasonable and prudent institutional mortgage lenders in the Seller's market
Limited Partner	The Bank, in its capacity as a limited partner of the Guarantor, individually and together with such other persons who may from time

	to time, become limited partner(s) of the Guarantor pursuant to the terms of the Guarantor Agreement
Liquidation GP	8429065 Canada Inc., in its capacity as liquation general partner of the Guarantor together with any of its successors and any successor liquidation general partner appointed pursuant to the terms of the Guarantor Agreement
Loan	Each mortgage loan referenced by its mortgage loan identifier number and comprising the aggregate of all principal sums, interest, costs, charges, expenses and other moneys due or owing with respect to that mortgage loan under the relevant Mortgage Conditions by a borrower on the security of a Mortgage from time to time outstanding or, as the context may require, the borrower's obligations in respect of the same
Loan Representations and Warranties	The representations and warranties relating to the Loans set out in the Mortgage Sale Agreement
Loan Repurchase Notice	A notice in substantially the form set out in the Mortgage Sale Agreement served by the Guarantor on the Seller in relation to the repurchase of Loans in the Portfolio by the Seller in accordance with the terms of the Mortgage Sale Agreement
LTV ratio or LTV or Loan-to-Value ratio	The ratio of the outstanding balance of a Loan to the value of the Property securing that Loan
Managing GP	BMO Covered Bond GP, Inc., in its capacity as managing general partner of the Guarantor, any successor managing general partner of the Guarantor appointed in accordance with the terms of the Guarantor Agreement, including, without limitation, the Liquidation GP if and while appointed as Managing GP in accordance with Article 11 of the Guarantor Agreement (*Removal and Resignation of the Managing General Partner and the Liquidation General Partner*), and any successor or assign of any of them as the context requires
Market Value	With respect to a Property and any date of determination, (a) if such date of determination is prior to 31 July 2014, the Original Market Value of such Property, or (b) if such date of determination is on or after 31 July 2014, the Original Market Value of such Property as adjusted in accordance with the Indexation Methodology
Master Definitions and Construction Agreement	The master definitions and construction agreement made between the parties to the Transaction Documents on or about the Program Date (as the same may be amended and/or supplemented and/or restated from time to time)
Maximum Rate of Interest	In respect of Floating Rate Covered Bonds or Variable Interest covered bonds, the percentage rate per annum (if any) specified in the applicable Final Terms Document or Pricing Supplement

Maximum Redemption Amount	The amount specified as such in the applicable Final Terms Document or Pricing Supplement
Minimum Rate of Interest	In respect of Floating Rate Covered Bonds or Variable Interest Covered Bonds, the percentage rate per annum (if any) specified in the applicable Final Terms Document or Pricing Supplement
Minimum Redemption Amount	The amount specified as such in the applicable Final Terms Document or Pricing Supplement
Monthly Payment	The amount which the relevant Mortgage Conditions require a borrower to pay on each Monthly Payment Day in respect of that borrower's Loan
Monthly Payment Day	The date on which interest (and principal in relation to a repayment mortgage) is due to be paid by a borrower on a Loan or, if any such day is not a Canadian Business Day, the next following Canadian Business Day
Moody's	Moody's Investors Service, Inc. or its successors
Mortgage	The legal charge, standard security, mortgage, or hypothec securing a Loan
Mortgage Account	The mortgage account into which all Loans secured on the same Property will be incorporated
Mortgage Conditions	All the terms and conditions applicable to a Loan
Mortgage Pool	The Mortgages sold by the Seller to the Guarantor on or subsequent to the First Purchase Date pursuant the Mortgage Sale Agreement
Mortgage Sale Agreement	The mortgage sale agreement entered into on the Program Date and made between the Seller, the Servicer, the Cash Manager, the Guarantor, the Custodian and the Bond Trustee (as amended and/or supplemented and/or restated from time to time) and, where the context so requires, including any New Mortgage Sale Agreement entered into from time to time between any New Seller, the Servicer, the Cash Manager, the Guarantor, the Custodian and the Bond Trustee
New Loan Type	A new type of mortgage loan originated by the Seller or a New Seller, which the Seller or the New Seller intends to sell to the Guarantor, the terms and conditions of which are materially different (in the opinion of the Seller or the New Seller, acting reasonably) from any of the Loans or New Seller Loans in the Portfolio. For the avoidance of doubt, a mortgage loan will not constitute a New Loan Type if it differs from any of the Loans or New Seller Loans in the Portfolio solely due to it having different interest rates and/or interest periods and/or time periods for which it is subject to a fixed rate, capped rate or any other interest rate or the benefit of any discounts, cash-backs and/or rate

	guarantees. A home equity line of credit or a Loan originated by an Originator that is not the Seller will be a New Loan Type
New Mortgage Sale Agreement	Any new mortgage sale agreement entered into between any New Seller, the Servicer, the Cash Manager, the Guarantor, the Custodian and the Bond Trustee (as amended and/or supplemented and/or restated from time to time), which will be substantially in the same form and contain substantially the same provisions (provided that the Bond Trustee may agree variations to the representations and warranties in relation to the relevant New Seller Loans and their Related Security) as the Mortgage Sale Agreement (as amended and/or supplemented and/or restated from time to time)
New Portfolio	Loans, other than Loans comprised in the Initial Portfolio, which the Seller may assign or transfer to the Guarantor after the First Purchase Date pursuant to the Mortgage Sale Agreement
New Safekeeping Structure or NSS	The new safekeeping structure for registered global securities which are intended to constitute eligible collateral for Eurosystem monetary policy operations
New Seller	Any member of the BMO Group (other than BMO and any general partner of the Guarantor) that becomes a limited partner of the Guarantor and accedes to the relevant Transaction Documents in accordance with the terms thereof and sells New Seller Loans and their Related Security to the Guarantor in the future pursuant to a New Mortgage Sale Agreement
New Seller Loan	Loans originated by a New Seller
NGCB or **New Global Covered Bond**	A Temporary Global Covered Bond in the form set out in Part 1 of Schedule 2 to the Trust Deed or a Permanent Global Covered Bond in the form set out in Part 2 of Schedule 2 to the Trust Deed, in either case where the applicable Final Terms Document specifies that the Covered Bonds are in NGCB form
Non-Performing Loan	Any Loan that is 90 days or more in arrears
Non-Performing Loans Notice	A notice from the Cash Manager to the Seller identifying one or more Non-Performing Loans
Optional Redemption Amount	The meaning (if any) given in the applicable Final Terms Document or Pricing Supplement
Optional Redemption Date	The meaning (if any) given in the applicable Final Terms Document or Pricing Supplement
Original Due for Payment Date	The meaning given in paragraph (a) of the definition of Due for Payment

Original Market Value	In respect of a Property, its value as most recently determined or assessed in accordance with the underwriting policies of the Seller or, if not capable of determination in accordance therewith, on the basis of the most recent sale price of the property
Originator	A person that is a member of the BMO Group and has originated Loans included in the Portfolio
OSFI	Office of the Superintendent of Financial Institutions
Outstanding Principal Balance	In relation to a Loan at any date (the **determination date**), the aggregate at such date (but avoiding double counting) of: (a) the original principal amount advanced by the Seller including any retention(s) advanced to the relevant borrower after completion of the Mortgage; (b) Capitalised Expenses; and (c) Capitalised Arrears, in each case relating to such Loan less any prepayment, repayment or payment of the foregoing made on or prior to the determination date
Paying Agent Required Ratings	The threshold ratings of (i) P-1 with respect to the short-term unsecured, unsubordinated and unguaranteed debt obligations of the Paying Agent by Moody's, (ii) F1 with respect to the short-term issuer default rating of the Paying Agent by Fitch, and (iii) A with respect to long-term issuer default rating of the Paying Agent by Fitch
Payment Ledger	The ledger on the GDA Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement, to record the credits and debits of the Available Revenue Receipts and Available Principal Receipts for application in accordance with the relevant Priorities of Payments
Permanent Global Covered Bond	A Global Covered Bond substantially in the form set out in Part 2 of Schedule 2 to the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Issuing and Paying Agent, the Bond Trustee and the relevant Dealer(s) or Lead Manager (in the case of syndicated issues), together with the copy of the applicable Final Terms Document annexed thereto, comprising some or all of the Covered Bonds of the same Series, issued by the Issuer pursuant to the Program Agreement or any other agreement between the Issuer and the relevant Dealer(s) relating to the Program, the Agency Agreement and the trust presents in exchange for the whole or part of any Temporary Global Covered Bond issued in respect of such Covered Bonds
Person	A reference to any person, individual, corporation, limited liability company, partnership, joint venture, association, joint-stock company,

	trust, unincorporated organisation, governmental entity or other entity of similar nature (whether or not having separate legal personality)
Pre-Maturity Liquidity Ledger	The ledger on the GDA Account established to record the credits and debits of moneys available to repay any Series of Hard Bullet Covered Bonds on the Final Maturity Date thereof if the Pre-Maturity Test has been breached
Pre-Maturity Liquidity Required Amount	Nil, unless the Pre-Maturity Test has been breached in respect of one or more Series of Hard Bullet Covered Bonds, in which case an amount equal to the aggregate for each affected Series (without double counting) of (i) the Required Redemption Amount for such affected Series, (ii) the Required Redemption Amount for all other Series of Hard Bullet Covered Bonds which will mature within 12 months of the date of the calculation, and (iii) the amount required to satisfy paragraphs (a) through (f) of the Guarantee Priorities of Payments on the Final Maturity Date of the affected Series of Hard Bullet Covered Bonds and on the Final Maturity Date of all other Series of Hard Bullet Covered Bonds which will mature within 12 months of the date of the calculation
Pre-Maturity Required Ratings	With respect to the Bank's unsecured, unsubordinated and unguaranteed debt obligations (or the issuer default ratings) of the Bank by the Rating Agencies on any Canadian Business Day, the threshold ratings of (a) in the case of Fitch, F1+, (b) in the case of Moody's, P-1, and (c) in the case of DBRS, (i) if such Canadian Business Day falls within six months of the Final Maturity Date of any Series of Hard Bullet Covered Bonds, A (high), or (ii) otherwise, A (low)
Pre-Maturity Test	If one or more Rating Agencies downgrades the Bank's ratings below the Pre-Maturity Required Ratings and a Hard Bullet Covered Bond is due for repayment within a specified period of time thereafter
Present Value	For any Loan the value of the outstanding loan balance of such Loan, calculated by discounting the expected future cash-flow (on a loan level basis) using current market interest rates for mortgage loans with credit risks similar to those of the Loan (using the same discounting methodology as that used as part of the fair value disclosure in the Bank's audited financial statements), or using publicly posted mortgage rates
Pricing Supplement	In respect of Exempt Covered Bonds, the pricing supplement in the form set out in Part C of Schedule 3 to the Agency Agreement
Principal Amount Outstanding	Means, in accordance with Condition 4.5(e) (*Principal Amount Outstanding*), in respect of a Covered Bond on any day, the principal amount of that Covered Bond on the relevant Issue Date thereof less principal amounts received by the relevant Covered Bondholder in respect thereof on or prior to that day

Principal Ledger	The ledger on the GDA Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record the credits and debits of Principal Receipts in accordance with the terms of the Guarantor Agreement
Principal Receipts	Any payment in respect of principal received in respect of any Loan (including payments pursuant to any applicable insurance policies), whether as all or part of a Monthly Payment in respect of such Loan, on redemption (including partial redemption) of such Loan, on enforcement of such Loan (including the proceeds of sale of the relevant Property) or on the disposal of such Loan or otherwise (without double counting but including principal received or treated as received after completion of the enforcement procedures)
Priorities of Payments	The orders of priority for the allocation and distribution of amounts standing to the credit of the Guarantor in different circumstances being the Pre-Acceleration Revenue Priority of Payments, the Pre-Acceleration Principal Priorities of Payments and the Guarantee Priority of Payments and the Post-Enforcement Priority of Payments and **Priority of Payment** means any one of the foregoing
Product Switch	In respect of a Loan, a variation in the financial terms and conditions applicable to such Loan other than: (a) any variation agreed with the related borrower to control or manage arrears on such Loan; (b) any variation of such Loan imposed by statute; (c) any change in the repayment method of such Loan; or (d) any change in the borrower under such Loan or the addition of a new borrower under such Loan
Program	The meaning given on the cover page
Program Agreement	The Dealership Agreement and such other agreement or agreements, as the case may be, to the extent then in force, under which the Covered Bonds may from time to time be agreed to be sold by the Bank to, and purchased by, the relevant Dealer(s)
Program Date	30 September 2013
Prohibited Insurer	CMHC, Canada Guaranty Mortgage Insurance Company, the Genworth Financial Mortgage Insurance Company of Canada, the PMI Mortgage Insurance Company Canada, any other private mortgage insurer recognised by CMHC for purposes of the Legislative Framework or otherwise identified in the *Protection of Residential Mortgage or Hypothecary Insurance Act* (Canada), or any successor to any of them
Property	Freehold or leasehold residential property located in Canada (or owned residential immovable property situated in the Province of Québec) that is subject to a Mortgage

Purchase Date	Each of the First Purchase Date and each other date on which a New Portfolio is assigned to the Guarantor in accordance with the terms of the Mortgage Sale Agreement
Purchaser	Any third party or the Seller to whom the Guarantor offers to sell Loans and their Related Security
Rate of Interest	In respect of a Series of interest bearing Covered Bonds, the rate of interest payable from time to time in respect of such covered bonds determined in accordance with the Terms and Conditions and the applicable Final Terms Document or Pricing Supplement
Rating Agencies	Fitch, Moody's, and DBRS each, a **Rating Agency**, in each case for so long as it is rating Covered Bonds, and any other internationally recognised rating agency that may rate the Covered Bonds from time to time
Rating Agency Condition	With respect to any event or matter, (i) an indication in writing by each of the applicable Rating Agencies (other than Fitch) that the then current ratings of the existing Covered Bonds will not be downgraded or withdrawn as a result of the relevant event or matter, and (ii) no less than five Canadian Business Days' prior written notice of such event matter having been given to Fitch (for so long as Fitch is a Rating Agency)
Ratings	With respect to any entity, a rating or assessment (a) by a Rating Agency in respect of (i) such entity's senior long-term or short-term rating of the unsecured, unsubordinated and ungraduated debt obligations, (ii) short-term depositing rating, or (iii) issuer default rating or (b) by a Rating Agency of the counterparty risk rating of such entity, including the critical obligations rating (in the case of DBRS), the derivative counterparty rating if one is assigned (in the case of Fitch) or the counterparty risk assessment (in the case of Moody's), and in the event such relevant Rating Agency replaces such rating or assessment with a successor rating or assessment that uses a substantially similar methodology for assessing counterparty risk, such successor rating or assessment, in each case as the context requires or permits;
Ratings Trigger	The Account Bank Required Ratings, the Cash Management Deposit Ratings, the Cash Manager Required Ratings, the Paying Agent Required Ratings, the Pre-Maturity Required Ratings, the Reserve Fund Required Amount Ratings, the Servicer Replacement Threshold Ratings, the Servicer Deposit Threshold Ratings, the Stand-By Account Bank Required Ratings and the Swap Agreement Ratings
Reasonable, Prudent Mortgage Lender	A lender acting in a reasonable, prudent manner within the policy applied by the Seller and/or any Originator and/or the Servicer, as applicable, from time to time to the originating, underwriting and servicing of mortgage loans beneficially owned by the Seller outside

	the Mortgage Pool with no less care than that lender would service mortgages beneficially owned by it
Receiptholders	The holders of the Receipts
Receipts	Payment receipts attached on issue to Bearer Definitive Covered Bonds redeemable in instalments for the payment of an instalment of principal, such receipts being in the form or substantially in the form set out in Part IV of Schedule 2 to the Trust Deed or in such other form as may be agreed between the Issuer, the Issuing and Paying Agent, the Bond Trustee and the relevant Dealer(s) and includes any replacements for Receipts issued pursuant to Condition 10 (*Replacement of Covered Bonds, Coupons and Talons*)
Receiver	Any person or persons appointed (and any additional person or persons appointed or substituted) as an administrative receiver, receiver, manager, liquidator or receiver and manager of the Charged Property by the Bond Trustee pursuant to the Security Agreement
Records	With respect to each Loan, all documents and information (other than the Customer File) including, without limitation, computer programs, tapes, discs, punch cards, data processing software and related property and rights, maintained by the Seller or the Servicer with respect to such Loan, the Related Security and the related borrower
Reference Banks	In the case of a determination of CDOR, the principal Toronto office of four major banks in the London inter-bank market selected by the Cash Manager
Reference Price	The meaning given in the relevant Final Terms
Reference Rate	In respect of Floating Rate Covered Bonds to which Screen Rate Determination applies, has the meaning given to it in the applicable Final Terms Document or Pricing Supplement
Registered Cover Bond	A Covered Bond in registered form
Registered Definitive Covered Bond	A Registered Covered Bond in definitive form issued or, as the context may require, to be issued by the Issuer in accordance with the provisions of the Program Agreement or any other agreement between the Issuer and the relevant Dealer(s), the Agency Agreement and the Trust Deed either on issue or in exchange for a Registered Global Covered Bond or part thereof (all as indicated in the applicable Final Terms Document), such Registered Covered Bond in definitive form being substantially in the form set out in Part 7C of Schedule 2 to the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Issuing and Paying Agent, the Bond Trustee and the relevant Dealer(s) and having the Terms and Conditions endorsed thereon or, if permitted by the relevant Stock Exchange, incorporating the Terms and Conditions by reference (where applicable to the Trust Deed) as indicated in the applicable Final Terms Document and having

	the relevant information supplementing, replacing or modifying the Terms and Conditions appearing in the applicable Final Terms Document endorsed thereon or attached thereto and having a form of transfer endorsed thereon
Registered Global Covered Bonds	Global Covered Bonds in registered form, comprising Rule 144A Global Covered Bonds and Regulation S Global Covered Bonds, substantially in the form set out in Part 8 of Schedule 2 to the Trust Deed
Registrable Transfers	Each transfer, assignment or conveyance in appropriate form that is required to assign the relevant Loan and its Related Security to the relevant purchaser or as the relevant purchaser directs, containing all necessary information (including mortgage registration number and a legal description of the Property subject to the Mortgage that complies with local law) and executed as necessary (including witnessed and under seal, if necessary) and accompanied by all required affidavits and certificates, for registration in the land registry or land titles office for the location where the real property subject thereto is situated or filing under the applicable personal property security legislation as the case may be
Registrar	Unless otherwise specified in the applicable Final Terms Document, (i) in relation to all or any Series of Covered Bonds with respect to which the Clearing System is Euroclear and/or Clearstream, Luxembourg, the European Registrar, and (ii) in relation to all or any other Series of Covered Bonds, the U.S. Registrar
Registry	The registry established by Canada Mortgage and Housing Corporation pursuant to Section 21.51 of Part I.1 of the National Housing Act (Canada)
Regulation S Global Covered Bond	A Registered Global Covered Bond representing Covered Bonds sold to non-U.S. persons outside the United States in reliance on Regulation S and substantially in the form set out in Part 8 of Schedule 2 to the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Issuing and Paying Agent, the Bond Trustee and the relevant Dealer(s) or Lead Manager (in the case of syndicated issues)
Related Retained Loans	In relation to any Loan owned by the Guarantor, all Retained Loans that are secured by, or advanced upon the security of, the same Mortgage and other Related Security as such Loan
Related Security	With respect to a Loan: (a) all of the Seller's right, title and interest in the related Customer File including the Mortgage and the security interest or hypothec granted to the Seller (or, as applicable, the relevant Originator) by the related borrower in the related mortgaged property as security for or pursuant to such Loan and all proceeds thereof;

(b) all other security interests, hypothecs or liens and property subject thereto from time to time purporting to secure payment of such Loan, whether pursuant to the Related Security or otherwise, together with all personal property financing statements or other filings relating thereto;

(c) all guarantees, indemnities, insurance (other than blanket insurance coverage maintained by the Seller) and other agreements (including the Mortgage) or arrangements of whatever character from time to time supporting or securing payment of such Loan which are or should be included in the Customer Files whether pursuant to the Related Security or otherwise and all proceeds thereof; and

(d) all Records related to such Loan

Relevant Screen Page — In respect of Floating Rate Covered Bonds to which Screen Rate Determination applies, has the meaning given to it in the applicable Final Terms Document

Repurchase Amount — With respect to a Loan at any time, the sum of the Outstanding Principal Balance of such Loan and all Arrears of Interest and Accrued Interest thereon

Reserve Fund — The reserve fund that the Guarantor will be required to establish in the GDA Account which may be credited with the proceeds of Available Revenue Receipts and Available Principal Receipts up to an amount equal to the Reserve Fund Required Amount

Reserve Fund Required Amount — Nil, unless the ratings of the Bank's short-term, unsecured, unsubordinated and unguaranteed debt obligations (or issuer default rating, as applicable) by any one of the Rating Agencies fall below the Reserve Fund Required Amount Ratings and then an amount equal to the Canadian Dollar Equivalent of three months' interest due on each Series of Covered Bonds together with an amount equal to three-twelfths of the anticipated aggregate annual amount payable in respect of the items specified in paragraphs (a) to (c) and, if applicable, (d) of the Pre-Acceleration Revenue Priorities of Payments

Reserve Fund Required Amount Ratings — The threshold ratings of (i) P-1 (cr) (in respect of Moody's), (ii) R-1 (low) and A (low) (in respect of DBRS; for greater certainty, the ratings from DBRS are only required to be at or above one of such ratings), and (iii) F1 or A (in respect of Fitch, provided that, for greater certainty, only one of such ratings from Fitch is required to be at or above such ratings), as applicable, of, in the case of Moody's the short term counterparty risk assessment, in the case of Fitch, the issuer default rating, and in the case of DBRS, the unsecured, unsubordinated and unguaranteed debt obligations, in each case, of the Bank by the Rating Agencies

Reserve Ledger	The ledger on the GDA Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement, to record the crediting of Revenue Receipts to the Reserve Fund and the debiting of such Reserve Fund in accordance with the terms of the Guarantor Agreement
Retained Loans	A loan, indebtedness or liability that is secured by or advanced upon the security of, a Mortgage and other Related Security securing a Loan transferred or contributed to the Guarantor which is not also being transferred or contributed to the Guarantor
Revenue Ledger	The ledger on the GDA Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record credits and debits of Available Revenue Receipts and Available Principal Receipts in accordance with the terms of the Guarantor Agreement
Revenue Receipts	Any payment received in respect of any Loan, including payments pursuant to any related insurance policies and any payment received in respect of interest amounts on a Loan (otherwise than in respect of a Loan that has been repurchased by the Seller), whether as all or part of a Monthly Payment in respect of such Loan, on redemption (including partial redemption) of such Loan, on enforcement of such Loan (including the proceeds of sale of the relevant Property) or on the disposal of such Loan or otherwise, which in any such case is not a Principal Receipt in respect of such Loan
Scheduled Interest	In relation to a Series of Covered Bonds, an amount equal to the amount in respect of interest which is or would have been due and payable under such Covered Bonds on each Interest Payment Date as specified in Condition 4 (*Interest*) (but excluding any additional amounts relating to premiums, default interest or interest upon interest (**Excluded Scheduled Interest Amounts**) payable by the Bank following service of an Issuer Acceleration Notice, but including such amounts (whenever the same arose) following service of a Guarantor Acceleration Notice), as if such Covered Bonds had not become due and payable prior to their Final Maturity Date and (if the applicable Final Terms Document or Pricing Supplement specified that an Extended Due for Payment Date is applicable to the relevant Covered Bonds) as if the maturity date of the Covered Bonds had been the Extended Due for Payment Date (but taking into account any principal repaid in respect of such Covered Bonds or any Guaranteed Amounts paid in respect of such principal prior to the Extended Due for Payment Date) or, where applicable, after the Final Maturity Date, such other amount of interest as may be specified in the applicable Final Terms Document or Pricing Supplement less any additional amounts the Bank would be obliged to pay as a result of any gross-up in respect of any withholding or deduction made under the circumstances set out in Condition 7 (*Taxation*)

Scheduled Payment Date	In relation to payments under the Covered Bond Guarantee in respect of a Series of Covered Bonds, each Interest Payment Date or the Final Maturity Date as if such Covered Bonds had not become due and payable prior to their Final Maturity Date
Scheduled Principal	In relation to a Series of Covered Bonds, an amount equal to the amount in respect of principal which is or would have been due and payable under such Covered Bonds on each Interest Payment Date or the Final Maturity Date (as the case may be) as specified in Condition 6.1 (*Final redemption*) and Condition 6.7 (*Early Redemption Amounts*) (but excluding any additional amounts relating to prepayments, early redemption, broken funding indemnities, penalties, premiums or default interest (**Excluded Scheduled Principal Amounts**) payable by the Bank following service of an Issuer Acceleration Notice, but including such amounts (whenever the same arose) following service of a Guarantor Acceleration Notice), as if such Covered Bonds had not become due and payable prior to their Final Maturity Date and (if the applicable Final Terms Document or Pricing Supplement specified that an Extended Due for Payment Date is applicable to such relevant Covered Bonds) as if the maturity date of such Covered Bonds had been the Extended Due for Payment Date
Screen Rate Determination	If specified as applicable in the applicable Final Terms Document or Pricing Supplement, the manner in which the Rate of Interest on Floating Rate Covered Bonds as determined in accordance with Condition 4.2(b)(ii) (*Screen Rate Determination for Floating Rate Covered Bonds*)
Secured Creditors	The Bond Trustee (in its own capacity and on behalf of the other Secured Creditors), the Covered Bondholders, the Receiptholders, the Couponholders, the Issuer, the Seller, the Servicer, the Account Bank, the GDA Provider, the Stand-By Account Bank, the Stand-By GDA Provider, the Cash Manager, the Swap Providers, the Corporate Services Provider, the Agents and any other person which becomes a Secured Creditor pursuant to the Security Agreement except, pursuant to the terms of the Guarantor Agreement, to the extent and for so long as such person is a Limited Partner
Security Sharing Agreement	Means a security sharing agreement between the Bank, the Guarantor and any party which has an interest in a Related Retained Loan, in a form verified by CMHC to be in compliance with the CMHC Guide, pursuant to which such parties agree to certain security sharing arrangements required by the CMHC Guide with respect to the applicable Loans and Related Retained Loans
Selected Loan Offer Notice	A notice from the Guarantor served on the Seller offering to sell Selected Loans and their Related Security for an offer price equal to the greater of the then Outstanding Principal Balance of the Selected Loans and the Adjusted Required Redemption Amount

Selected Loans	Loans and their Related Security to be sold by the Guarantor pursuant to the terms of the Guarantor Agreement and the Mortgage Sale Agreement
Seller	BMO in its capacity as Seller under the Mortgage Sale Agreement, and **Sellers** means, together, the Seller and any New Sellers
Series	A Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds which are (a) expressed to be consolidated and form a single series and (b) 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 and the expressions **Covered Bonds of the relevant Series**, **holders of Covered Bonds of the relevant Series** and related expressions shall be construed accordingly
Series Reserved Matter	In relation to Covered Bonds of a Series: (a) reduction or cancellation of the amount payable or, where applicable, modification of the method of calculating the amount payable or modification of the date of payment or, where applicable, modification of the method of calculating the date of payment in respect of any principal or interest in respect of the Covered Bonds other than in accordance with the terms thereof; (b) alteration of the currency in which payments under the Covered Bonds, Receipts and Coupons are to be made; (c) alteration of the majority required to pass an Extraordinary Resolution; (d) any amendment to the Covered Bond Guarantee or the Security Agreement (except in a manner determined by the Bond Trustee not to be materially prejudicial to the interests of the Covered Bondholders of any Series or an amendment which is in the sole opinion of the Bond Trustee of a formal, minor or technical nature or 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); (e) the sanctioning of any such scheme or proposal for the exchange or sale of the Covered Bonds or the conversion of the Covered Bonds into, or the cancellation of the Covered Bonds in consideration of, shares, stock, covered bonds, bonds, debentures, debenture stock and/or other obligations and/or securities of the Bank, or any other company formed or to be formed, or for or into or in consideration of cash, or partly for or into or in consideration of such shares, stock, bonds, covered bonds, debentures, debenture stock and/or other obligations

and/or securities as aforesaid and partly for or into or in consideration of cash and for the appointment of some person with power on behalf of the Covered Bondholders to execute an instrument of transfer of the Registered Covered Bonds held by them in favour of the persons with or to whom the Covered Bonds are to be exchanged or sold respectively; and

(f) alteration of the proviso to paragraph 5 or paragraph 6 of Schedule 4 to the Trust Deed

Servicer Deposit Threshold Ratings — The threshold ratings of (i) a counterparty risk assessment of P-1 (cr) by Moody's (ii) a deposit rating of F1 short term or A long term, or, if Fitch has not then assigned a deposit rating to the Servicer, an issuer default rating of F1 short-term or A long term, in each case by Fitch; or (iii) a rating on its long-term unsecured, unsubordinated and unguaranteed debt obligations of BBB (low) by DBRS; provided, for greater certainty, that in the case of (ii), only one of such ratings from Fitches required to be at or above such ratings.

Servicer Replacement Threshold Ratings — The threshold ratings of (i) a counterparty risk assessment Baa3 (cr) by Moody's (ii) a deposit rating of F2 short term or BBB+ long term, or, if Fitch has not then assigned a deposit rating to the Servicer, an issuer default rating of F2 short-term or BBB+ long term, in each case by Fitch; or (iii) a rating on its long-term unsecured, unsubordinated and unguaranteed debt obligations of BBB(low) by DBRS; provided, for greater certainty, that in the case of (ii), only one of such ratings from Fitch is required to be at or above such ratings

Specified Currency — Subject to any applicable legal or regulatory restrictions, euro, Sterling, U.S. Dollars, Canadian Dollars and such other currency or currencies as may be agreed from time to time by the Issuer, the relevant Dealer(s), the Issuing and Paying Agent and the Bond Trustee and specified in the applicable Final Terms Document

Specified Denomination — In respect of a Series of Covered Bonds, the denomination or denominations of such Covered Bonds specified in the applicable Final Terms Document

Specified Time — Means 11.00 am (London time, in the case of determination of LIBOR, Brussels time, in the case of a determination of EURIBOR or Toronto Time, in the case of a determination of Canadian Dollar LIBOR)

Standard Documentation — The standard documentation used by the Seller and any applicable Originator with respect to Loans, and any update or replacement therefor as the Seller and/or an Originator may from time to time introduce acting in accordance with the standards of a Reasonable, Prudent Mortgage Lender

Standard & Poor's — Standard & Poor's Ratings Services and its successors.

Stand-By GDA Rate The variable rate of interest accruing on the balance standing to the credit of the Stand-By GDA Account equal to the rate of CDOR less 0.10 per cent. per annum

Stock Exchange The London Stock Exchange or any other or further stock exchange(s) on which any Covered Bonds may from time to time be listed or admitted to trading and references to the **relevant Stock Exchange** shall, in relation to any Covered Bonds, be references to the Stock Exchange on which such Covered Bonds are, from time to time, or are intended to be, listed or admitted to trading

Subsequent Downgrade Trigger Event The occurrence of any of the following events:

(a) the short-term counterparty risk assessment or the long-term counterparty risk assessment of the Interest Rate Swap Provider, the Covered Bond Swap Provider, or any credit support provider, as applicable, ceases to be at least P-2(cr) or A3(cr), respectively, by

Moody's (provided that, for greater certainty, if the Interest Rate Swap Provider, the Covered Bond Swap Provider, or any credit support provider, as applicable, has one of such ratings from Moody`s, an Subsequent Downgrade Trigger Event will not occur), or

(b) (i) the short-term issuer default rating, or (ii) the derivative counterparty rating, if one is assigned, and if not, the long-term issuer default rating, in each case, of the Interest Rate Swap Provider, the Covered Bond Swap Provider or any credit support provider, as applicable, ceases to be at least F2 or BBB+, respectively, by Fitch (provided that, for greater certainty, if the Interest Rate Swap Provider, the Covered Bond Swap Provider, or any credit support provider, as applicable, has one of such ratings from Fitch, an Subsequent Downgrade Trigger Event will not occur), or

(c) the short-term unsecured, unsubordinated and unguaranteed debt obligations or the long-term unsecured, unsubordinated and unguaranteed debt obligations of the Interest Rate Swap Provider, the Covered Bond Swap Provider or any credit support provider, as applicable, cease to be rated at least R-2(middle) or BBB, respectively, by DBRS (provided that, for greater certainty, if the Interest Rate Swap Provider, the Covered Bond Swap Provider, or any credit support provider, as applicable, has one of such ratings from DBRS, an Subsequent Downgrade Trigger Event will not occur);

Subsidiaries The meaning given to it in the Bank Act

Substitution Assets

The classes and types of assets from time to time eligible under the Legislative Framework and the CMHC Guide to collateralise covered bonds which include the following: (a) securities issued by the Government of Canada; and (b) repos of Government of Canada securities having terms acceptable to CMHC; provided that the total exposure to Substitution Assets shall not exceed 10 per cent. of the aggregate value of: (x) the aggregate loan balance of the Loans in the Portfolio; (y) the face value of any Substitution Assets; and (z) cash balances held by the Guarantor (subject to the Prescribed Cash Limitation); in each case, provided that:

(a) such exposures will have certain minimum long-term and short-term ratings from the Rating Agencies, as specified by such Rating Agencies from time to time;

(b) the maximum aggregate total exposures in general to classes of assets with certain ratings by the Rating Agencies will, if specified by the Rating Agencies, be limited to the maximum percentages specified by such Rating Agencies; and

(c) in respect of investments of Available Revenue Receipts in such classes and types of assets, the Interest Rate Swap Provider has given its consent to investments in such classes and types of assets

Swap Agreement Ratings

The Minimum Ratings and Subsequent Ratings by the Rating Agencies, as applicable, as such terms are defined in the Covered Bond Swap Agreement and the Interest Rate Swap Agreement

Swap Agreements

The Covered Bond Swap Agreements together with the Interest Rate Swap Agreement and each a Swap Agreement

Swap Collateral

At any time, any asset (including, without limitation, cash and/or securities) which is paid or transferred by a Swap Provider to the Guarantor as collateral in respect of the performance by such Swap Provider of its obligations under the relevant Swap Agreement together with any income or distributions received in respect of such asset and any equivalent of such asset into which such asset is transformed

Swap Collateral Available Amounts

At any time, the amount of Swap Collateral which under the terms of the relevant Swap Agreement may be applied in satisfaction of the relevant Swap Provider's obligations to the Guarantor following termination of a Swap Agreement to the extent that such obligations relate to payments to be made in connection with the Pre-Acceleration Priorities of Payments or the Guarantee Priorities of Payments

Swap Collateral Excluded Amounts

At any time, the amount of Swap Collateral which may not be applied at that time in satisfaction of the relevant Swap Provider's obligations to the Guarantor under the terms of the relevant Swap Agreement,

	including Swap Collateral which is to be returned to the relevant Swap Provider upon termination of the relevant Swap Agreement
Swap Provider Default	The occurrence of an Event of Default or Termination Event (each as defined in each of the Swap Agreements), where the relevant Swap Provider is the Defaulting Party or the sole Affected Party (each as defined in the relevant Swap Agreement), as applicable, other than a Swap Provider Downgrade Event
Swap Provider Downgrade Event	The occurrence of an Additional Termination Event (as defined in the relevant Swap Agreement) following a failure by the Swap Provider to comply with the requirements of the ratings downgrade provisions set out in the relevant Swap Agreement
Swap Providers	The Covered Bond Swap Providers and the Interest Rate Swap Provider, and each a Swap Provider
Talons	The talons (if any) appertaining to, and exchangeable in accordance with the provisions therein contained for further Coupons appertaining to, the Definitive Covered Bonds (other than Zero Coupon Covered Bonds), such talons being substantially in the form set out in Part 6 of Schedule 2 to the Trust Deed or in such other form as may be agreed between the Issuer, the Issuing and Paying Agent, the Bond Trustee and the relevant Dealer(s) and includes any replacements for Talons issued pursuant to Condition 10 (*Replacement of Covered Bonds, Coupons and Talons*) of the Terms and Conditions
Taxes	All present and future taxes, levies, imposts, duties (other than stamp duty), fees, deductions, withholdings or charges of any nature whatsoever and wheresoever imposed, including, without limitation, income tax, corporation tax, GST, VAT or other tax in respect of added value and any franchise, transfer, sales, gross receipts, use, business, occupation, excise, personal property, real property or other tax imposed by any national, local or supranational taxing or fiscal authority or agency together with any penalties, fines or interest thereon and Tax and Taxation shall be construed accordingly
Temporary Global Covered Bond	A temporary Global Covered Bond substantially in the form set out in Part 1 of Schedule 2 to the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Issuing and Paying Agent, the Bond Trustee and the relevant Dealer(s) or Lead Manager (in the case of syndicated issues), together with the copy of the applicable Final Terms Document annexed thereto, comprising some or all of the Covered Bonds of the same Series, issued by the Issuer pursuant to the Program Agreement or any other agreement between the Issuer and the relevant Dealer(s) relating to the Program, the Agency Agreement and the trust presents
Third Party Amounts	Each of:

(a) payments of insurance premiums, if any, due to an insurer in respect of any arranged policy to the extent not paid or payable by the Seller;

(b) amounts under an unpaid direct debit which are repaid by a Seller to the bank making such payment if such bank is unable to recoup that amount itself from its customer's account; or

(c) any amount received from a borrower for the express purpose of payment being made to a third party for the provision of a service (including giving insurance cover) to any of that borrower, the Seller or the Seller or the Guarantor,

which amounts will be paid on receipt by the Guarantor to the Seller from funds on deposit in the GDA Account, with the Seller paying such amounts to the relevant third party

Total Credit Commitment The combined aggregate amount available to be drawn by the Guarantor under the terms of the Intercompany Loan Agreement, subject to increase and decrease in accordance with the terms of the Intercompany Loan Agreement, which amount is currently the Canadian Dollar Equivalent of U.S.$50 billion

Tranche An issue of Covered Bonds which are identical in all respects (including as to listing and admission to trading)

Transaction Account The account (to the extent maintained) designated as such in the name of the Guarantor held with the Account Bank and maintained subject to the terms of the Bank Account Agreement and the Security Agreement or such other account as may for the time being be in place with the prior consent of the Bond Trustee and designated as such

Transfer Agent Unless otherwise specified in the applicable Final Terms Document, (i) in relation to all or any Series of Covered Bonds with respect to which the Clearing System is Euroclear and/or Clearstream, Luxembourg, The Bank of New York Mellon, London Branch, in its capacity as a transfer agent and The Bank of New York Mellon SA/NV – Luxembourg Branch (formerly named The Bank of New York Mellon (Luxembourg) S.A.), in its capacity as a transfer agent or, if applicable, any successor transfer agent in relation to any such Series of Covered Bonds, and (ii) in relation to all or any other Series of Covered Bonds, The Bank of New York Mellon, in its capacity as transfer agent or, if applicable, any successor transfer agent in relation to all or any such Series

Trust Deed The trust deed entered into on the Program Date between the Bank, the Guarantor and the Bond Trustee (as may be amended and/or supplemented and/or restated from time to time)

UK Prospectus The Prospectus relating to the Covered Bonds dated on or about the date of the Dealership Agreement and prepared in connection with the

	Program and constituting (in the case of the Covered Bonds to be listed on a Stock Exchange), to the extent specified in it, a base Prospectus for the purposes of Article 5.4 of the Directive 2003/71/EC (as amended), as revised, supplemented or amended from time to time
U.S. Registrar	The Bank of New York Mellon, in its capacity as U.S. registrar (which expression shall include any successor U.S. registrar)
Valuation Report	The valuation report or reports for mortgage purposes, in the form of the pro forma report contained in the Standard Documentation, obtained by the Seller or, as applicable, any Originator, in respect of each Property in accordance with the Credit and Collection Policy or a valuation report in respect of a valuation of a Property made using a methodology which would be acceptable to a Reasonable, Prudent Mortgage Lender and which has been approved by the relevant officers of the Seller or, as applicable, any Originator
Variable Interest Covered Bonds	Covered Bonds (excluding Floating Rate Covered Bonds) where the rate of interest is variable
VAT or **Value Added Tax**	Value added tax imposed by the United Kingdom under the Value Added Tax Act 1994 and legislation (whether delegated or otherwise) replacing the same or supplemental thereto or in any primary or subordinate legislation promulgated by the European Union or any official body or agency thereof, and any similar turnover tax replacing or introduced in addition to any of the same
Zero Coupon Covered Bonds	Covered Bonds which will be offered and sold at a discount to their nominal amount and which will not bear interest

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