



(a chartered bank under the Bank Act (Canada))

€10 billion

Global Public Sector Covered Bond Programme
unconditionally and irrevocably guaranteed as to payments of interest and principal by

BMO COVERED BOND TRUST

(a trust established under the laws of the Province of Ontario)

Financial Services Authority
UK Listing Authority
Document approved
Date: 24 October 2011
Signed: 1 [Signature]
Signed: 2 [Signature]

Under this €10 billion global public sector covered bond programme (the Programme) established by Bank of Montreal (the Issuer) on the Programme Date, the Issuer may from time to time issue bonds (the Covered Bonds) denominated in any currency agreed between the Issuer and the relevant Dealer(s) (as defined below). The payments of all amounts due in respect of the Covered Bonds have been unconditionally guaranteed by BMO Covered Bond Trust (the Trust) pursuant to a guarantee which is secured over the Portfolio (as defined below) and its other assets. Recourse against the Trust under its guarantee is limited to the Portfolio and such assets.

Covered Bonds may be issued in bearer or registered form. The maximum aggregate nominal amount of all Covered Bonds from time to time outstanding under the Programme will not exceed €10 billion (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein. The Covered Bonds may be issued on a continuing basis to one or more of the Dealers specified under Overview of the Programme and any additional Dealer appointed under the Programme from time to time by the Issuer (each a Dealer, and together, the Dealers), which appointment may be for a specific issue or on an ongoing basis. References in this offering circular (the Offering Circular) to the relevant Dealer(s) shall, in the case of an issue of Covered Bonds which are to be subscribed for by one or more Dealers, be to all Dealers agreeing to subscribe for such Covered Bonds. This Offering Circular, except those items incorporated by reference set out in the Documents Incorporated by Reference section shall constitute the prospectus (the Prospectus).

Application has been made to the Financial Services Authority (the FSA or the U.K. Listing Authority, as applicable) in its capacity as competent authority under the Financial Services and Markets Act 2000 (the FSMA) for Covered Bonds issued under the Programme during the period of 12 months from the date of this Prospectus to be admitted to the official list of the U.K. Listing Authority (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. References in this Prospectus to Covered Bonds being listed (and all related references) shall mean that such Covered Bonds have been admitted to trading on the London Stock Exchange's Regulated Market and have been admitted to the Official List. The London Stock Exchange's Regulated Market is a regulated market for the purposes of Directive 2004/39/EC (the Markets in Financial Instruments Directive).

The price and amount of Covered Bonds to be issued under the Programme will be determined by the Issuer and each relevant Dealer at the time of issue in accordance with prevailing market conditions. Notice of the aggregate nominal amount of Covered Bonds, interest (if any) payable in respect of Covered Bonds, the issue price of Covered Bonds and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under Terms and Conditions of the Covered Bonds) of Covered Bonds will be set out in a separate document containing the final terms for that Tranche (each, a Final Terms Document) which, with respect to Covered Bonds to be listed on the London Stock Exchange, will be delivered to the U.K. Listing Authority and the London Stock Exchange on or before the date of issue of such Tranche of Covered Bonds.

The Programme provides that Covered Bonds may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or regulated or unregulated markets as may be agreed between the Issuer, the Trust, the Bond Trustee (as defined below) and the relevant Dealer(s). The Issuer may also issue unlisted Covered Bonds and/or Covered Bonds not admitted to trading on any regulated or unregulated market. This Prospectus supersedes any previous prospectus describing the Programme. Any Covered Bonds issued under the Programme on or after the date of this Prospectus are issued subject to the provisions described herein.

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 not be deposits insured under the Canada Deposit Insurance Corporation Act (Canada) or under any other governmental insurance scheme of any country.

The Covered Bonds and the Covered Bond Guarantee (each as defined below) have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the Securities Act), and may not be offered or sold in the United States or to, or for the benefit of, U.S. persons unless (i) such securities are registered under the Securities Act or (ii) 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 and (ii) to qualified institutional buyers in reliance upon 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.

The Issuer and the Trust 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, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Covered Bonds.

Each Series of Covered Bonds issued under the Programme will have the rating set out in the applicable Final Terms document. 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 organisation. DBRS Limited (DBRS), Fitch, Inc. (Fitch) and Moody's Investors Service, Inc (Moody's) (and together, the Rating Agencies) will rate the Covered Bonds issued under the Programme unless otherwise specified in the Final Terms Document.

As of the date of this Prospectus, each of the Rating Agencies is not a credit rating agency established in the European Union and has not applied for registration under Regulation (EU) No 1060/2009 (the CRA Regulation), however the application for registration under the CRA Regulation of DBRS Ratings Limited, Fitch Ratings Limited and Moody's Investors Service Ltd. which are established in the European Union, disclosed the intention to endorse the credit ratings of DBRS, Fitch and Moody's, respectively. Notification of the corresponding registration decision has not yet been provided by the relevant competent authority.

Whether or not each credit rating applied for in relation to relevant Series of Covered Bonds will be issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the Final Terms. To the extent that this Prospectus contains a reference to any other credit rating, each such credit rating has been issued by one or more Rating Agency, unless otherwise stated herein. Unless otherwise stated each such credit rating agency has been established in the European Union and registered under the CRA Regulation. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation unless the rating is provided by a credit rating agency operating in the European Union before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused.

Arrangers for the Programme

BMO Capital Markets

Barclays Capital

Société Générale Corporate and Investment Banking

Dealers

Barclays Capital

BMO Capital Markets

HSBC

Société Générale Corporate and Investment Banking

UniCredit Bank

This Prospectus has been approved by the U.K. Listing Authority as a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the **Prospectus Directive**) 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 Issuer and the Trust (the **Responsible Persons**) each accept responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of each of the Issuer and the Trust (each having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Copies of each Final Terms Document (in the case of Covered Bonds to be admitted to the Official List) will be available from the registered office of the Issuer and from the specified office of each of the Paying Agents (as defined below). Final Terms Documents relating to the Covered Bonds which are admitted to trading on the London Stock Exchange's Regulated 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](http://www.londonstockexchange.com).

This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see the section entitled *Documents Incorporated by Reference* below). This Prospectus shall be read and construed on the basis that such documents are so incorporated and form part of this Prospectus approved by the FSA for the purpose of the Prospectus Directive.

The information contained in this Prospectus was obtained from the Issuer, the Trust and other sources, but no assurance can be given by the Dealers, the Bond Trustee, the BMO Trustee or the Security Trustee (each as defined below) 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 Dealers, the Bond Trustee, the BMO Trustee or the Security Trustee as to the accuracy or completeness of the information contained or incorporated in this Prospectus or any other information provided by the Issuer and the Trust in connection with the Programme. Neither the Dealers nor the Bond Trustee nor the BMO Trustee nor the Security Trustee accepts any liability in relation to the information contained or incorporated by reference in this Prospectus or any other information provided by the Issuer and the Trust in connection with the Programme.

Subject as provided in the applicable Final Terms Document, the only persons authorised to use this Prospectus in connection with an offer of Covered Bonds are the persons named in the applicable Final Terms Document as the relevant Dealers.

No person is or has been authorised by the Issuer, the Trust, any of the Dealers, the Bond Trustee, the BMO Trustee or the Security 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 Programme or the Covered Bonds and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Trust, the BMO Trustee, any of the Dealers, the Bond Trustee or the Security Trustee.

Neither this Prospectus nor any other information supplied in connection with the Programme or any Covered Bonds (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer, the Trust, any of the Dealers, the Bond Trustee, the BMO Trustee or the Security Trustee that any recipient of this Prospectus or any other information supplied in connection with the Programme 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 Issuer and the Trust. Neither this Prospectus nor any other information supplied in connection with the Programme or the issue of any Covered Bonds constitutes an offer or invitation by or on behalf of the Issuer, the Trust, any of the

Dealers, the Bond Trustee, the BMO Trustee or the Security 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 shall in any circumstances imply that the information contained herein concerning the Issuer and the Trust is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers, the Bond Trustee, the BMO Trustee and the Security Trustee expressly do not undertake to review the financial condition or affairs of the Issuer or the Trust during the life of the Programme or to advise any investor in the Covered Bonds of any information coming to their attention.

As set forth in the applicable Final Terms Document, the Covered Bonds are being offered and sold (a) in reliance on Rule 144A under the Securities Act (**Rule 144A**) to "qualified institutional buyers" (as defined in Rule 144A) (**QIBs**) and/or (b) in accordance with Regulation S under the Securities Act (**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.

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 the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Covered Bonds may be restricted by law in certain jurisdictions. The Issuer, the Trust, the Dealers, the Bond Trustee, the BMO Trustee and the Security 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 Issuer, the Trust, the Dealers, the Bond Trustee, the BMO Trustee or the Security Trustee which would permit a public offering of any Covered Bonds outside the European Economic Area 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 and 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 Covered Bonds. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Covered Bonds in Canada, the United States, the European Economic Area (including the United Kingdom, The Netherlands, the Republic of Italy, the Republic of France and Spain) and Japan: see *Subscription and Sale and Transfer and Selling Restrictions*. This Prospectus has been prepared on the basis that any offer of Covered Bonds in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Covered Bonds. Accordingly any person making or intending to make an offer in a Relevant Member State of Covered Bonds which are the subject of an offering contemplated in this Prospectus as completed by a Final Terms Document in relation to the offer of those Covered Bonds may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer have authorised, nor do they authorise, the making of any offer of Covered Bonds in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

This Prospectus has not been submitted for clearance to the *Autorité des marchés financiers* in France.

In connection with the issue of any Tranche of Covered Bonds, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms Document may over-allot Covered Bonds or effect transactions with a view to supporting the market price of the Covered Bonds of the Series (as defined below) of which such Tranche forms part at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. 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 be ended 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 person(s) 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 Issuer and the Trust and the terms of the Covered Bonds being offered, including the merits and risks involved.

None of the Dealers, the Issuer, the BMO Trustee, the Trust, the Security Trustee or the Bond Trustee makes any representation to any investor in the Covered Bonds regarding the legality of its investment under any applicable laws. Any investor in the Covered Bonds should be able to bear the economic risk of an investment in the Covered Bonds for an indefinite period of time.

The description of this Programme as a “Global Public Sector Covered Bond Programme” is intended to convey that the Portfolio will consist solely of Loans insured by Canada Mortgage and Housing Corporation.

## U.S. INFORMATION

The Covered Bonds have not been approved or disapproved by the United States Securities and Exchange Commission (the SEC) or any other state securities commission or other regulatory authority in the United States, nor have 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, United States 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.

To ensure compliance with Treasury Department Circular 230, Covered Bondholders are hereby notified that: (a) any discussion of U.S. federal tax issues in this document is not intended or written to be relied upon, and cannot be relied upon, by Covered Bondholders for the purpose of avoiding penalties that may be imposed on Covered Bondholders under the Internal Revenue Code; (b) such discussion is included herein by the Issuer in connection with the promotion or marketing (within the meaning of Circular 230) by the Issuer of the transactions addressed herein; and (c) Covered Bondholders should seek advice based on their particular circumstances from an independent tax advisor.

Notwithstanding anything herein to the contrary, from the commencement of discussions with respect to any transaction contemplated by this Prospectus, all persons may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of any transaction contemplated by this Prospectus and all materials of any kind (including opinions and other tax analyses) that are provided to such persons relating to such tax treatment and tax structure, except to the extent that any such disclosure could reasonably be expected to cause any offering pursuant to the Programme not to be in compliance with securities laws. For purposes of this paragraph, the tax treatment of a transaction is the purported or claimed U.S. federal income tax treatment of that transaction and the tax structure of a transaction is any fact that may be relevant to understanding the purported or claimed U.S. federal income tax treatment of that transaction.

In making an investment decision, investors must rely on their own examination of the Issuer and the Trust 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. It 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 Covered Bonds represented by a Rule 144A Global Covered Bond (as defined herein), or any Covered Bond issued in registered form in exchange or substitution therefor, 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*. Unless otherwise stated, terms used in this paragraph have the meanings given to them in Form of the Covered Bonds.

## NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER CHAPTER 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

## AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with any resales or other transfers of Covered Bonds that are "restricted securities" as defined in Rule 144(a)(3) under the Securities Act, the Issuer has 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 him, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, the Issuer is neither subject to reporting under Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the **Exchange Act**), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder. The Issuer is a Foreign Private Issuer under the Exchange Act.

## SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Issuer is a chartered bank under the *Bank Act* (Canada) (the **Bank Act**) and the Trust is a trust established under the laws of the Province of Ontario. The majority of the directors of the Bank reside outside the United States and a substantial portion of the assets of the Issuer and the Trust 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 Issuer or the Trust, as applicable, or such directors, or to enforce judgments against them obtained in the United States predicated upon civil liabilities of the Issuer or the Trust, as applicable, or such directors under laws other than those of Canada and England and Wales, including any judgment predicated upon United States federal securities laws. The Issuer and the Trust have been advised by Allen & Overy LLP, their English solicitors, that there is doubt as to the enforceability in England and Wales, in original actions or in actions for enforcement of judgments of United States courts of civil liabilities predicated solely upon the federal securities laws of the United States.

## FORWARD-LOOKING STATEMENTS

The Issuer's public communications often include written or oral forward-looking statements. Statements of this type are included in this Prospectus (including documents incorporated by reference), and may be included in other filings with Canadian securities regulators or the U.S. Securities and Exchange Commission, or in other communications. All such statements are made pursuant to the "safe harbour" 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. Forward-looking statements may involve, but are not limited to, comments with respect to the Issuer's objectives and priorities for 2011 and beyond, its strategies or future actions, its targets, expectations for its financial condition or share price, and the results of or outlook for its operations or for the Canadian and U.S. economies.

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

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

With respect to the Marshall & Ilsley Corporation (**M&I**) transaction, such factors include, but are not limited to: the possibility that the anticipated benefits from the transaction such as it being accretive to earnings and other impacts on earnings, expanding the Issuer's North American presence and synergies are not realized in the time frame anticipated or at all as a result of changes in general economic and market conditions, interest and exchange rates, monetary policy, laws and regulations (including changes to capital requirements) and their enforcement, and the degree of competition in the geographic and business areas in which the combined businesses now operate; the ability to promptly and effectively integrate the businesses of M&I and the Issuer; reputational risks and the reaction of M&I's customers to the transaction; diversion of management time on integration and restructuring related issues; and increased exposure to exchange rate fluctuations. A significant amount of M&I's business involved making loans or otherwise committing resources to specific companies, industries or geographic areas. Unforeseen events affecting such borrowers, industries or geographic areas could have a material adverse effect on the performance of the Issuer's integrated U.S. operations.

The Issuer cautions that the foregoing list is not exhaustive of all possible factors. Other factors could adversely affect the Issuer's results. For more information, please see the discussion on pages 29, 30, 61 and 62 of the 2010 MD&A, which outlines in detail certain key factors that may affect the Issuer's future results. When relying on the Issuer's forward-looking statements to make decisions with respect to the Issuer, investors and others should carefully consider these factors as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. The Issuer does not undertake to update any forward-looking statements, whether written or oral, that may be made, from time to time, by the organisation or on behalf of the Issuer, except as required by law. The forward-looking information contained in this Prospectus is presented for the purpose of assisting its investors in understanding its operations, prospects, risks and other external factors that impact it significantly as at and for the periods ended on the dates presented as well as certain strategic priorities and objectives, and may not be appropriate for other purposes.

The impacts of the changes from IFRS are based on the Issuer's analysis to date, as set out in Transition to International Financial Reporting Standards in the Future Changes in Accounting Policies – IFRS Section in the 2010 Annual Report and in the Third Quarter 2011 Report to Shareholders. In setting out the expectation that the Issuer will be able to refinance certain capital instruments in the future, as and when necessary to meet regulatory capital requirements, the Issuer has assumed that factors beyond its control, including the state of the economic and capital markets environment, will not impair its ability to do so.

Assumptions about the performance of the Canadian and U.S. economies as well as overall market conditions and their combined effect on the Issuer's business are material factors the Issuer considers when determining its strategic priorities, objectives, and expectations for the Issuer's businesses. In determining the Issuer's expectations for economic growth, both broadly and in the financial services sector, the Issuer primarily considers historical economic data provided by the Canadian and U.S. governments and their agencies.

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

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 establishing the European Community, as amended, and to **Canadian Dollars, Canadian \$, CAD** and **Cdn\$** are to the currency of Canada.



## TABLE OF CONTENTS

	<b>Page</b>
Documents Incorporated by Reference.....	10
Structure Overview.....	18
Overview of the Programme .....	25
Risk Factors.....	34
Form of the Covered Bonds .....	69
Form of Final Terms Document .....	73
Terms and Conditions of the Covered Bonds .....	90
Use of Proceeds.....	132
Bank of Montreal.....	133
BMO Covered Bond Trust.....	142
Summary of the Principal Documents .....	143
Credit Structure .....	181
Cashflows.....	185
The Portfolio .....	198
Book-Entry Clearance Systems .....	199
Taxation .....	203
Subscription and Sale and Transfer and Selling Restrictions.....	216
General Information .....	225
Consent of KPMG LLP to the Issuer.....	228
Glossary .....	229

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents, which have previously been published or are published simultaneously with this Prospectus and have been filed with the Financial Services Authority, shall be incorporated in, and form part of, this Prospectus:

1. the annual information form of the Issuer dated 7 December 2010, for the fiscal year ended 31 October 2010 (the **AIF**);
2. (i) the 2010 audited consolidated financial statements of the Issuer as at and for the year ended 31 October 2010 with comparative audited consolidated financial statements as at and for the year ended 31 October 2009 and the audited consolidated financial statements of the Issuer as at and for the year ended 31 October 2009 with comparative audited consolidated financial statements for the year ended 31 October 2008, prepared in accordance with Canadian generally accepted accounting principles (**GAAP**), together with the auditors' report thereon (the **2010 Audited Consolidated Financial Statements**), (ii) Management's Discussion and Analysis, as contained in the Issuer's 2010 Annual Report (the **2010 MD&A**), and (iii) pages 170 to 171 of the Issuer's 2010 Annual Report, which provide explanatory information relating to Management's Discussion and Analysis (the remainder of this report is not relevant for prospective investors);
3. the Issuer's unaudited interim consolidated financial statements for the three-month period ended 31 January 2011 with comparative unaudited interim consolidated financial statements for the three-month period ended 31 January 2010 prepared in accordance with Canadian GAAP (the **First Quarter 2011 Interim Financial Statements**) and management's discussion and analysis for the three-month period ended 31 January 2011 (the **First Quarter 2011 MD&A**), set out in the Issuer's First Quarter 2011 Report to Shareholders (the remainder of this report is not relevant for prospective investors);
4. the Issuer's unaudited interim consolidated financial statements for the three-month and six-month periods ended 30 April 2011 with comparative unaudited interim consolidated financial statements for the three-month and six-month periods ended 30 April 2010 prepared in accordance with Canadian GAAP (the **Second Quarter 2011 Interim Financial Statements**) together with management's discussion and analysis for the three-month and six-month periods ended 30 April 2011 (the **Second Quarter 2011 MD&A**), set out in the Issuer's Second Quarter 2011 Report to Shareholders (the remainder of this report is not relevant for prospective investors);
5. the Issuer's latest unaudited interim consolidated financial statements for the three-month and nine-month periods ended 31 July 2011 with comparative unaudited interim consolidated financial statements for the three-month and nine-month periods ended 31 July 2010 prepared in accordance with Canadian GAAP (the **Third Quarter 2011 Interim Financial Statements**) together with management's discussion and analysis for the three-month and nine-month periods ended 31 July 2011 (the **Third Quarter 2011 MD&A**), set out in the Issuer's Third Quarter 2011 Report to Shareholders (the remainder of this report is not relevant for prospective investors);
6. the Terms and Conditions of the Covered Bonds set out in the previous prospectus dated 3 June 2010, relating to the Programme (for the avoidance of doubt, the applicable Final Terms Document for a Series or Tranche of Covered Bonds will indicate the Terms and Conditions applicable to such Series or Tranche and unless otherwise indicated in the applicable Final Terms Document, the Terms and Conditions of all Covered Bonds issued after the date hereof shall be those set out in this Prospectus), the remaining portions of the prospectus dated 3 June 2010 are not relevant for prospective investors;

7. The Issuer's Annual Report on Form 40-F for the fiscal year ended 31 October 2010 containing the following exhibits:
  - (a) the Issuer's Annual Information Form for the year ended 31 October 2010;
  - (b) the Issuer's Fiscal Year 2010 Management's Discussion and Analysis of Results of Operations and Financial Condition for the period ended 31 October 2010;
  - (c) the Issuer's audited Consolidated Financial Statements for the year ended 31 October 2010 including the Statement of Management's Responsibility for Financial Information;
  - (d) Consent of the Issuer's Independent Registered Public Accounting Firm, KPMG LLP;
  - (e) Comments by Auditors for U.S. Readers on Canada-U.S. Reporting Differences;
  - (f) Certification of the Issuer's President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002;
  - (g) Certification of the Issuer's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002; and
  - (h) Certifications of the Issuer's President and Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002;
8. Form 6-K filed by the Issuer with the Securities and Exchange Commission on 13 December 2010 containing the following exhibit:
  - (a) Press Release announcing that the Issuer has received approvals from the Toronto Stock Exchange and the Office of the Superintendent of Financial Institutions Canada in connection with the normal course issuer bid and that it has renewed its bid to purchase for cancellation up to 15 million of its common shares;
9. Form 6-K filed by the Issuer with the Securities and Exchange Commission on 17 December 2010 (Acc. no – 0000950123-10-114570) containing the following exhibit:
  - (a) Press Release announcing that the Issuer and M&I have entered into a definitive agreement under which the Issuer will acquire all outstanding shares of common stock of M&I in a stock-for-stock transaction;
10. Form 6-K filed by the Issuer with the Securities and Exchange Commission on 17 December 2010 (Acc. no – 0000950123-10-114572) containing the following exhibit:
  - (a) Material Change Report relating to the agreement between the Issuer and M&I for the Issuer to acquire all outstanding shares of common stock of M&I in a stock-for-stock transaction;
11. Form 6-K filed by the Issuer with the Securities and Exchange Commission on 25 February 2011 containing the Notice of Annual Meeting of Shareholders and Proxy Circular;
12. Form 6-K filed by the Issuer with the Securities and Exchange Commission on 1 March 2010 (Acc. no – 0001193125-11-052258) containing the following exhibit:
  - (a) Press Release announcing that the Issuer declared a quarterly dividend on its common shares for the second quarter of fiscal year 2011;

13. Form 6-K filed by the Issuer with the Securities and Exchange Commission on 2 March 2011 (Acc. no –0001193125-11-053234) containing the following exhibits:
  - (a) the Issuer's First Quarter 2011 Management's Discussion and Analysis of Results of Operations and Financial Condition for the period ended 31 January 2011; and
  - (b) the Issuer's First Quarter 2011 Consolidated Financial Statements for the period ended 31 January 2011;
14. Form 6-K filed by the Issuer with the Securities and Exchange Commission on 2 March 2011 (Acc. no – 0001193125-11-053437) containing the following exhibits:
  - (a) the Issuer's Consolidated Ratios of Earnings to Fixed Charges;
  - (b) the Issuer's Statement Regarding the Computation of Consolidated Ratios of Earnings to Fixed Charges; and
  - (c) the Issuer's Consolidated Capitalisation as at 31 January 2011;
15. Form 6-K/A filed by the Issuer with the Securities and Exchange Commission on 15 March 2011 containing the following exhibits:
  - (a) the Issuer's Consolidated Ratios of Earnings to Fixed Charges;
  - (b) the Issuer's Statement Regarding the Computation of Consolidated Ratios of Earnings to Fixed Charges; and
  - (c) the Issuer's Consolidated Capitalisation as at 31 January 2011;
16. Form 6-K filed by the Issuer with the Securities and Exchange Commission on 22 March 2011 containing the following exhibit:
  - (a) Report of the voting results from the Annual Meeting of Shareholders of the Issuer held on March 22, 2011;
17. Form 6-K filed by the Issuer with the Securities and Exchange Commission on 28 March 2011 containing the following exhibit:
  - (a) The amended and restated bylaws of the Issuer;
18. Form 6-K filed by the Issuer with the Securities and Exchange Commission on 26 April 2011 containing the following exhibits:
  - (a) M&I Consolidated Financial Statements and Supplementary Data for years ended 31 December 2010, 2009 and 2008;
  - (b) Unaudited Pro Forma Condensed Combined Consolidated Financial Information of the Issuer for the year ended 31 October 2010 and M&I for the year ended 31 December 2010 and of the Issuer at and for the three months ended 31 January 2011 and M&I at and for the three months ended 31 December 2010. Please note that the Pro Forma Condensed Combined Consolidated Financial Information has been prepared for illustrative purposes only and due to its nature addresses a hypothetical situation and, therefore, does not represent the Issuer's actual financial position or results;

- (c) M&I Consolidated Financial Statements and Supplementary Data for years ended 31 December 2010, 2009 and 2008—Reconciliation of Canadian and United States Generally Accepted Accounting Principles; and
  - (d) Consent of Independent Registered Public Accounting Firm, Deloitte & Touche LLP;
19. Form 6-K filed by the Issuer with the Securities and Exchange Commission on 11 May 2011 containing the following exhibits:
- (a) Unaudited Pro Forma Condensed Combined Consolidated Financial Information relating to the Issuer and M&I. Please note that the Pro Forma Condensed Combined Consolidated Financial Information has been prepared for illustrative purposes only and due to its nature addresses a hypothetical situation and, therefore, does not represent the Issuer's actual financial position or results; and
  - (b) M&I Unaudited Consolidated Financial Statements and Supplemental Data for the three month periods ended 31 March 2011 and 2010;
20. Form 6-K filed by the Issuer with the Securities and Exchange Commission on 25 May 2011 (Acc. no – 0001193125-11-150273) containing the following exhibit:
- (a) Press Release announcing that the Issuer declared a quarterly dividend on its common shares for the third quarter of fiscal year 2011;
21. Form 6-K filed by the Issuer with the Securities and Exchange Commission on 25 May 2011 (Acc. no – 0001193125-11-150526) containing the following exhibits:
- (a) the Issuer's Second Quarter 2011 Management's Discussion and Analysis of Results of Operations and Financial Condition for the period ended 30 April 2011; and
  - (b) the Issuer's Second Quarter 2011 Consolidated Financial Statements for the period ended 30 April 2011;
22. Form 6-K filed by the Issuer with the Securities and Exchange Commission on 2 June 2011 containing the following exhibits:
- (a) the Issuer's Consolidated Ratios of Earnings to Fixed Charges;
  - (b) the Issuer's Statement Regarding the Computation of Consolidated Ratios of Earnings to Fixed Charges;
  - (c) the Issuer's Consolidated Capitalisation as at 30 April 2011; and
  - (d) the Issuer's Reconciliation of Canadian and United States Generally Accepted Accounting Principles;
23. Form 6-K filed by the Issuer with the Securities and Exchange Commission on 9 June 2011 containing the following exhibits:
- (a) M&I Consolidated Financial Statements and Supplementary Data as at and for the three months ended 31 March 2011;
  - (b) Unaudited Pro Forma Condensed Combined Consolidated Financial Information of the Issuer for the year ended 31 October 2010 and M&I for the year ended 31 December 2010 and of the Issuer at and for the six months ended 30 April 2011 and M&I at and for the six

months ended 31 March 2011. Please note that the Pro Forma Condensed Combined Consolidated Financial Information has been prepared for illustrative purposes only and due to its nature addresses a hypothetical situation and, therefore, does not represent the Issuer's actual financial position or results; and

- (c) M&I Consolidated Financial Statements and Supplementary Data as at and for the three months ended 31 March 2011- Reconciliation of Canadian and United States Generally Accepted Accounting Principles;

24. Form 6-K filed by the Issuer with the Securities and Exchange Commission on 21 June 2011 containing the following exhibit:

- (a) Press Release of the Issuer announcing that it has received regulatory approvals required to complete its acquisition of M&I;

25. Form 6-K filed by the Issuer with the Securities and Exchange Commission on 22 June 2011 containing the following exhibits:

- (a) Unaudited Pro Forma Condensed Combined Consolidated Financial Information relating to the Issuer and M&I. Please note that the Pro Forma Condensed Combined Consolidated Financial Information has been prepared for illustrative purposes only and due to its nature addresses a hypothetical situation and, therefore, does not represent the Issuer's actual financial position or results;

26. Form 6-K filed by the Issuer with the Securities and Exchange Commission on 24 June 2011 containing the following exhibit:

- (a) Press Release announcing that Master Credit Card Trust has entered into arrangements with the Issuer to provide additional credit enhancement to outstanding series of debt securities;

27. Form 6-K filed by the Issuer with the Securities and Exchange Commission on 6 July 2011 containing the following exhibit:

- (a) Press Release announcing that the Issuer has completed the acquisition of M&I;

28. Form 6-K filed by the Issuer with the Securities and Exchange Commission on 22 July 2011 containing the following exhibit:

- (a) Business Acquisition Report relating to the acquisition of M&I;

29. Form 6-K filed by the Issuer with the Securities and Exchange Commission on 23 August 2011 containing the following exhibit:

- (a) Press Release announcing that the Issuer declared a quarterly dividend on its common shares for the fourth quarter of fiscal year 2011;

30. Form 6-K filed by the Issuer with the Securities and Exchange Commission on 24 August 2011 (Acc. no – 0001193125-11-230700) containing the following exhibits:

- (a) the Issuer's Third Quarter 2011 Management's Discussion and Analysis of Results of Operations and Financial Condition for the period ended 31 July 2011; and
- (b) the Issuer's Third Quarter 2011 Consolidated Financial Statements for the period ended 31 July 2011;

31. Form 6-K filed by the Issuer with the Securities and Exchange Commission on 22 September 2011 containing the following exhibits:
  - (a) the Issuer's Consolidated Ratios of Earnings to Fixed Charges;
  - (b) the Issuer's Statement Regarding the Computation of Consolidated Ratios of Earnings to Fixed Charges; and
  - (c) the Issuer's Consolidated Capitalisation as at 31 July 2011;
32. BMO Covered Bond Program Monthly Investor Report dated 18 November 2009, containing information on the BMO Covered Bond Program's Cover Pool as at the Calculation Date falling on 31 October 2009<sup>1</sup>;
33. BMO Covered Bond Program Monthly Investor Report dated 16 December 2009, containing information on the BMO Covered Bond Program's Cover Pool as at the Calculation Date falling on 30 November 2009<sup>1</sup>;
34. BMO Covered Bond Program Monthly Investor Report dated 19 January 2010, containing information on the BMO Covered Bond Program's Cover Pool as at the Calculation Date falling on 31 December 2009<sup>1</sup>;
35. BMO Covered Bond Program Monthly Investor Report dated 17 February 2010, containing information on the BMO Covered Bond Program's Cover Pool as at the Calculation Date falling on 31 January 2010<sup>1</sup>;
36. BMO Covered Bond Program Monthly Investor Report dated 16 March 2010, containing information on the BMO Covered Bond Program's Cover Pool as at the Calculation Date falling on 28 February 2010<sup>1</sup>;
37. BMO Covered Bond Program Monthly Investor Report dated 19 April 2010, containing information on the BMO Covered Bond Program's Cover Pool as at the Calculation Date falling on 31 March 2010<sup>1</sup>;
38. BMO Covered Bond Program Monthly Investor Report dated 18 May 2010, containing information on the BMO Covered Bond Program's Cover Pool as at the Calculation Date falling on 30 April 2010<sup>1</sup>;
39. BMO Covered Bond Program Monthly Investor Report dated 16 June 2010, containing information on the BMO Covered Bond Program's Cover Pool as at the Calculation Date falling on 31 May 2010<sup>1</sup>;
40. BMO Covered Bond Program Monthly Investor Report dated 19 July 2010, containing information on the BMO Covered Bond Program's Cover Pool as at the Calculation Date falling on 30 June 2010<sup>1</sup>;

---

<sup>1</sup> As of the date of this Prospectus, each of Fitch Ratings Ltd., Moody's Investor Service Limited and Standard and Poor's Rating Services, as referred to within each report, is a credit rating agency established in the European Union and has applied for registration under the CRA Regulation, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation unless the rating is provided by a credit rating agency operating in the European Union before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused.

41. BMO Covered Bond Program Monthly Investor Report dated 18 August 2010, containing information on the BMO Covered Bond Program's Cover Pool as at the Calculation Date falling on 31 July 2010<sup>1</sup>;
42. BMO Covered Bond Program Monthly Investor Report dated 17 September 2010, containing information on the BMO Covered Bond Program's Cover Pool as at the Calculation Date falling on 31 August 2010<sup>1</sup>;
43. BMO Covered Bond Program Monthly Investor Report dated 19 October 2010, containing information on the BMO Covered Bond Program's Cover Pool as at the Calculation Date falling on 30 September 2010<sup>1</sup>;
44. BMO Covered Bond Program Monthly Investor Report dated 17 November 2010, containing information on the BMO Covered Bond Program's Cover Pool as at the Calculation Date falling on 31 October 2010<sup>1</sup>;
45. BMO Covered Bond Program Monthly Investor Report dated 16 December 2010, containing information on the BMO Covered Bond Program's Cover Pool as at the Calculation Date falling on 30 November 2010<sup>1</sup>;
46. BMO Covered Bond Program Monthly Investor Report dated 19 January 2011, containing information on the BMO Covered Bond Program's Cover Pool as at the Calculation Date falling on 31 December 2010<sup>1</sup>;
47. BMO Covered Bond Program Monthly Investor Report dated 16 February 2011, containing information on the BMO Covered Bond Program's Cover Pool as at the Calculation Date falling on 31 January 2011<sup>1</sup>;
48. BMO Covered Bond Program Monthly Investor Report dated 16 March 2011, containing information on the BMO Covered Bond Program's Cover Pool as at the Calculation Date falling on 28 February 2011<sup>1</sup>;
49. BMO Covered Bond Program Monthly Investor Report dated 18 April 2011, containing information on the BMO Covered Bond Program's Cover Pool as at the Calculation Date falling on 31 March 2011<sup>1</sup>;
50. BMO Covered Bond Program Monthly Investor Report dated 17 May 2011, containing information on the BMO Covered Bond Program's Cover Pool as at the Calculation Date falling on 30 April 2011<sup>1</sup>;
51. BMO Covered Bond Program Monthly Investor Report dated 16 June 2011, containing information on the BMO Covered Bond Program's Cover Pool as at the Calculation Date falling on 31 May 2011<sup>1</sup>;
52. BMO Covered Bond Program Monthly Investor Report dated 19 July 2011, containing information on the BMO Covered Bond Program's Cover Pool as at the Calculation Date falling on 30 June 2011<sup>1</sup>;
53. BMO Covered Bond Program Monthly Investor Report dated 17 August 2011, containing information on the BMO Covered Bond Program's Cover Pool as at the Calculation Date falling on 31 July 2011<sup>1</sup>;



54. BMO Covered Bond Program Monthly Investor Report dated 19 September 2011, containing information on the BMO Covered Bond Program's Cover Pool as at the Calculation Date falling on 31 August 2011<sup>1</sup>; and
55. BMO Covered Bond Program Monthly Investor Report dated 19 October 2011, containing information on the BMO Covered Bond Program's Cover Pool as at the Calculation Date falling on 30 September 2011<sup>1</sup>,

in each case, excluding all information incorporated therein by reference (such information is not relevant for prospective investors or is covered elsewhere in this Prospectus).

Following the publication of this Prospectus, one or more supplements to this Prospectus may be prepared by the Issuer and approved by the UK Listing Authority in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Prospectus or in a document which is incorporated by reference in this Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus.

Those documents listed above under (7) to (31) that have been filed with the SEC are available on the SEC's website at [www.sec.gov](http://www.sec.gov). No other information on such website is incorporated by reference or is otherwise part of this Prospectus. Copies of this Prospectus, any supplementary prospectus and the documents incorporated by reference in this Prospectus and any supplementary prospectus (i) can be viewed on the website of Morningstar plc (appointed by the Financial Services Authority to act as the National Storage Mechanism) at <http://www.hemscott.com/nsm.do> and (ii) will be available for inspection at the specified office in London, England of HSBC Bank plc, the initial issuing and principal paying agent for the Covered Bonds (the **Agent**) and can be obtained without charge at the Corporate Secretary's Department of the Issuer, 100 King Street West, 1 First Canadian Place, 19th Floor, Toronto, Ontario, Canada, M5X 1A1.

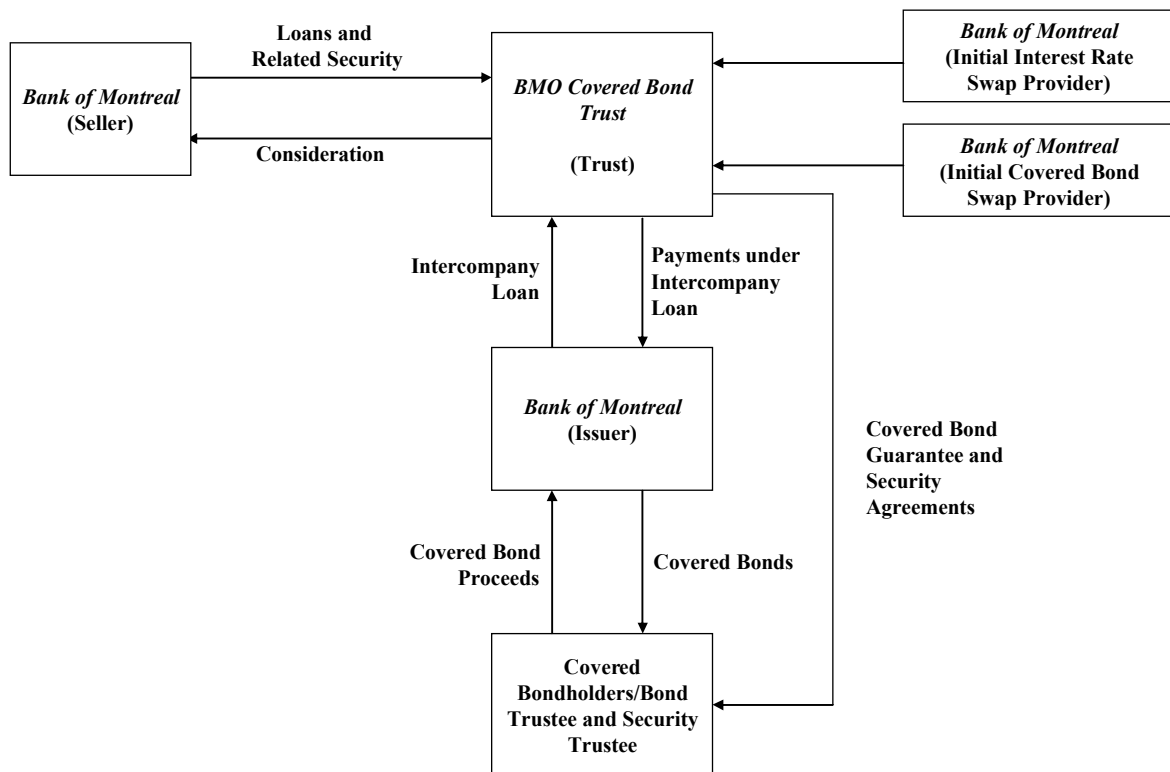
The Issuer and the Trust will, in the event of any significant new factor, material mistake or inaccuracy relating to the information included in this Prospectus which is capable of affecting the assessment of any Covered Bonds, prepare a supplement to this Prospectus or publish a new Prospectus (in each case, published in accordance with the Prospectus Directive) for use in connection with any subsequent issue of Covered Bonds. The Issuer and the Trust have each undertaken to the Dealers in the Programme Agreement (as defined in *Subscription and Sale and Transfer and Selling Restrictions*) that it will comply with section 87G of the FSMA.

The financial statements of the Issuer incorporated by reference in this Prospectus have not been prepared in accordance with the international accounting standards adopted pursuant to the procedure of Article 3 of Regulation (EC) No. 1606/2002 of the European Parliament and the European Council of the European Union.

## 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 any documents incorporated by reference. Following the implementation of the relevant provisions of the Prospectus Directive in each Member State of the European Economic Area no civil liability will attach to either Responsible Person in such Member State solely on the basis of this overview, including any translation hereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to information contained in this Prospectus is brought before a court in a Member State of the European Economic Area, the claimant may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating the Prospectus before the legal proceedings are initiated. Words and expressions defined elsewhere in this Prospectus shall have the same meanings in this overview. A glossary of certain defined terms used in this document is contained at the end of this Prospectus.*

### Structure Diagram



### Structure Overview

- *Programme:* Under the terms of the Programme, the Issuer will issue Covered Bonds on each Issue Date. The Covered Bonds will be direct, unconditional, unsubordinated and unsecured obligations of the Issuer and will rank *pari passu* among themselves and (save for any obligations required to be

preferred by law) at least equally with all other present and future senior unsecured obligations of the Issuer, from time to time outstanding. The Covered Bonds will be "deposits" of the Issuer for the purposes of the Bank Act. The Covered Bonds will not be deposits insured under the *Canada Deposit Insurance Corporation Act* (Canada) or under any other governmental insurance scheme of any country.

- *Covered Bond Guarantee:* Under the terms of the Trust Deed, the Trust has provided a guarantee as to payments of interest and principal under the Covered Bonds. The Trust has agreed to pay an amount equal to the Guaranteed Amounts when the same shall become Due for Payment but which would otherwise be unpaid by the Issuer. The obligations of the Trust under the Covered Bond Guarantee constitute absolute and (following service of a Notice to Pay or a Trust Acceleration Notice) unconditional and irrevocable obligations of the Trust, secured as provided in the Security Agreements. The Bond Trustee will be required to serve a Notice to Pay on the Trust following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice. A Trust Acceleration Notice may be served by the Bond Trustee on the Trust following the occurrence of a Trust Event of Default. If a Trust Acceleration Notice is served, the Covered Bonds will become immediately due and payable as against the Issuer and the Trust's obligations under the Covered Bond Guarantee will be accelerated. Payments made by the Trust under the Covered Bond Guarantee will be made subject to, and in accordance with, the Guarantee Priority of Payments or the Post-Enforcement Priority of Payments, as applicable. The recourse of the Covered Bondholders to the Trust under the Covered Bond Guarantee will be limited to the Charged Property.
- *Intercompany Loan Agreement:* Under the terms of the Intercompany Loan Agreement, the Issuer will make an interest bearing Intercompany Loan to the Trust, comprised of a Term Loan and a revolving Demand Loan. The Term Loan will be a multi-currency facility and will be comprised of Term Advances each of which will equal either (i) the gross proceeds of each Series or, as applicable, Tranche of Covered Bonds or (ii) the Canadian Dollar Equivalent of the gross proceeds of each Series or, as applicable, Tranche of Covered Bonds. The Term Loan will increase on each Issue Date. The Demand Loan will be a Canadian Dollar revolving facility, the outstanding balance of which will fluctuate with repayments of the Demand Loan and the Term Loan, the issuances and redemptions of the Covered Bonds and the level of overcollateralisation required to meet the Asset Coverage Test. Subject to the Asset Coverage Test being met, the Trust will repay the Demand Loan on each Trust Payment Date in accordance with the Priorities of Payments. At any time prior to a Demand Loan Repayment Event, the Trust may re-borrow any amount repaid by the Trust under the Demand Loan for a permitted purpose. The balance of the Demand Loan (in excess of any amounts required to meet the Asset Coverage Test on such date) or any portion thereof which has been demanded will become due and repayable within 60 days of a demand therefor being served on the Trust, or the occurrence of a Demand Loan Repayment Event; in each case subject to the Asset Coverage Test being met on the date of repayment after giving effect to such repayment and taking into account amounts that will be paid or provided for on the next following Trust Payment Date (see *Summary of the Principal Documents — Declaration of Trust — Asset Coverage Test*). For the avoidance of doubt, failure by the Trust to repay the Demand Loan will not constitute an event of default under the Intercompany Loan.

The Trust may repay the principal on the Demand Loan in accordance with the Priorities of Payments and the terms of the Intercompany Loan Agreement, using (i) funds in the Trust Accounts (other than any amounts standing to the credit of the GIC Account and recorded on the Pre-Maturity Liquidity Ledger); and/or (ii) proceeds from the sale of Substitute Assets and/or Authorised Investments, as the case may be; and/or (iii) proceeds from the sale of Loans and their Related Security to the Seller or to another person subject to a right of pre-emption on the part of the Seller; and/or (iv) subject to the Asset Coverage Test being met, proceeds from a Term Advance. Payments by the Issuer of amounts due under the Covered Bonds are not conditional upon receipt by the Issuer of payments from the Trust pursuant to the Intercompany Loan Agreement. Amounts owed by the

Trust under the Term Loan will be subordinated and postponed to amounts owed by the Trust under the Covered Bond Guarantee.

- *The proceeds of the Intercompany Loan:* The Trust will use the proceeds of the Intercompany Loan received under the Intercompany Loan Agreement from time to time (if not denominated in Canadian Dollars, upon exchange into Canadian Dollars under the applicable Covered Bond Swap) to, amongst other things:
  - (a) purchase Loans and their Related Security from the Seller in accordance with the terms of the Mortgage Sale Agreement;
  - (b) invest in Substitution Assets in an amount not exceeding the prescribed limit; and/or
  - (c) make a deposit in the GIC Account (including without limitation to facilitate compliance with the Asset Coverage Test or to fund the Pre-Maturity Liquidity Ledger).
- *Consideration:* Under the terms of the Mortgage Sale Agreement, the consideration payable to the Seller for the sale of Loans and their Related Security to the Trust on any Purchase Date will be a combination of:
  - (a) a cash payment made by the Trust to the Seller; and
  - (b) Deferred Consideration paid in accordance with the Priorities of Payments. If the amount of Deferred Consideration payable to the Seller by the Trust is greater than the monies available to the Trust to make such payments, such payments will be satisfied by way of set-off against Subordinated Advances.
- *Subordinated Loan:* The Seller will make Subordinated Advances available to the Trust under the Subordinated Loan Agreement. Subordinated Advances may be made (and the balance of the Subordinated Loan increased) by way of set-off against Deferred Consideration which exceeds the monies available to the Trust for payment of Deferred Consideration to the Seller pursuant to the applicable Priority of Payments, including where Available Revenue Receipts that would otherwise be applied to pay Deferred Consideration owing to the Seller are instead applied to fund the Reserve Fund. Amounts owed by the Trust under the Subordinated Loan Agreement will be subordinated and postponed to amounts owed by the Trust under the Covered Bond Guarantee and the Intercompany Loan Agreement, see *Summary of the Principal Documents — The Subordinated Loan Agreement* below.
- *Security:* To secure its obligations under the Covered Bond Guarantee and the Transaction Documents to which it is a party, the Trust has granted security over the Charged Property (which consists principally of the Trust's interest in the Portfolio, the Substitution Assets, the Transaction Documents to which it is a party, the Trust Accounts and any Authorised Investments it holds) in favour of the Security Trustee (for itself and on behalf of the other Secured Creditors) pursuant to the Security Agreements.
- *The Portfolio:* The Portfolio will consist solely of Loans originated by the Seller and subsidiaries of the Seller (each such subsidiary, an **Originator**) that are Canadian first lien residential mortgages insured under CMHC Mortgage Insurance (**CMHC Insured Mortgages**) as to principal and interest by Canada Mortgage and Housing Corporation (**CMHC**) under the *National Housing Act* (Canada).

CMHC is Canada's national housing agency, and is a Canadian federal Crown corporation, wholly owned by the Government of Canada. CMHC's obligations are those of Her Majesty The Queen in Right of Canada with full recourse to the Consolidated Revenue Fund of the Government of Canada. As a federal Crown corporation, CMHC reports to the Parliament of Canada through a Minister.

CMHC derives its authorities from the *Canada Mortgage and Housing Corporation Act* (Canada), the *National Housing Act* (Canada) and, as a federal Crown corporation, the *Financial Administration Act* (Canada). CMHC insures the payment of principal and interest on first mortgage loans on private residential properties in Canada. CMHC Insured Mortgages are considered zero per cent. credit risk weighted by the Canadian banking regulator, the Office of the Superintendent of Financial Institutions (**OSFI**).

The Seller, as a CMHC Approved Lender, has agreed to exercise reasonable care and prudence in the making of the Loans, in the administration of the Loans (including the filing of any claims under the applicable CMHC Mortgage Insurance), in the collection of the repayment of the Loans and in the protection of the security for each Loan in the Servicing Agreement, in addition to complying with all applicable eligibility, origination, servicing, realisation and other relevant criteria of CMHC (see "*Summary of the Principal Documents – Servicing Agreement*").

- *Cashflows*: Prior to service on the Trust of an Asset Coverage Test Breach Notice, a Notice to Pay or a Trust Acceleration Notice, the Trust will:
  - apply Available Revenue Receipts (i) to pay interest due on the Intercompany Loan to the Issuer, (ii) to pay Deferred Consideration to the Seller in respect of the Loans and their Related Security sold by the Seller to the Trust and (iii) to pay interest and principal due on the Subordinated Advances. However, these payments will only be made after payment of certain items ranking higher in the Pre-Acceleration Revenue Priority of Payments (including certain expenses and amounts due to the Interest Rate Swap Provider and amounts required to fund the Pre-Maturity Liquidity Ledger). For further details of the Pre-Acceleration Revenue Priority of Payments, see *Cashflows* below; and
  - apply Available Principal Receipts (i) to fund the Pre-Maturity Liquidity Ledger in respect of any liquidity that may be required in respect of Hard Bullet Covered Bonds following a breach of the Pre-Maturity Test, (ii) towards repaying principal due under the Intercompany Loan to the Issuer, (iii) towards acquiring New Loans and their Related Security offered by the Seller to the Trust and (iv) to pay Deferred Consideration to the Seller in respect of the Loans and their Related Security sold by the Seller to the Trust. For further details of the Pre-Acceleration Principal Priority of Payments, see *Cashflows* below.
- Following service on the Trust of an Asset Coverage Test Breach Notice (which has not been revoked) but prior to service of a Notice to Pay or a Trust Acceleration Notice, the Trust will continue to apply Available Revenue Receipts and Available Principal Receipts as described above, except that, whilst any Covered Bonds remain outstanding:
  - in respect of Available Revenue Receipts, no further amounts will be paid towards, amongst other things, the Issuer under the Term Loan, to the Subordinated Loan Provider under the Subordinated Loan Agreement, or into the Reserve Fund, and no further amounts will be paid towards any Deferred Consideration due to the Seller except amounts paid by way of set-off against Subordinated Advances (but payments will, for the avoidance of doubt, continue to be made under the relevant Swap Agreements and towards interest payable on the Demand Loan); and
  - in respect of Available Principal Receipts, no payments will be made other than into the GIC Account (and recorded on the Pre-Maturity Liquidity Ledger where applicable) or to the relevant Covered Bond Swap Provider (see *Cashflows* below).
- Following service of a Notice to Pay on the Trust (but prior to service of a Trust Acceleration Notice) the Trust will use all moneys (other than Third Party Amounts) to pay Guaranteed Amounts in respect of the Covered Bonds when the same shall become Due for Payment subject to paying

certain higher ranking obligations of the Trust in the Guarantee Priority of Payments. In such circumstances, the Issuer will only be entitled to receive payment of any amount owing in respect of the Term Loan and the Subordinated Loan Provider will only be entitled to receive payment of any amount owing in respect of the Subordinated Advances after all amounts due under the Covered Bond Guarantee in respect of the Covered Bonds have been paid in full or have otherwise been provided for. Subject to the Asset Coverage Test being met, payments will continue to be made by the Trust towards interest and principal on the Demand Loan in priority to payments under the Covered Bond Guarantee.

- Following service of a Trust Acceleration Notice on the Trust, the Covered Bonds will become immediately due and payable (if not already due and payable following service of an Issuer Acceleration Notice) and the Bond Trustee will then have a claim against the Trust under the Covered Bond Guarantee for an amount equal to the Early Redemption Amount in respect of each Covered Bond together with accrued interest and any other amounts due under the Covered Bonds other than additional amounts payable under Condition 7 and the security created by the Trust over the Charged Property will become enforceable. Any moneys recovered by the Security Trustee from realisation of the Charged Property following enforcement of the security created by the Trust in accordance with the Security Agreements will be distributed according to the Post-Enforcement Priority of Payments.
- *Asset Coverage:* The Programme provides that the assets of the Trust are subject to an asset coverage test in respect of the Covered Bonds. Accordingly, for so long as Covered Bonds remain outstanding, the Trust must ensure that, as of each Calculation Date, the Adjusted Aggregate Loan Amount will be in an amount equal to or in excess of the aggregate Canadian Dollar Equivalent of the Principal Amount Outstanding of the Covered Bonds from time to time. The Asset Coverage Test will be tested by the Cash Manager as of each Calculation Date. A breach of the Asset Coverage Test on a Calculation Date which is not remedied on the immediately succeeding Calculation Date will require the Bond Trustee to serve an Asset Coverage Test Breach Notice on the Trust. The Asset Coverage Test Breach Notice will be revoked if the Asset Coverage Test is satisfied on or before the Trust Payment Date immediately following the next Calculation Date after service of an Asset Coverage Test Breach Notice and neither a Notice to Pay nor a Trust Acceleration Notice has been served.

If an Asset Coverage Test Breach Notice has been delivered and has not been revoked:

- (a) the application of Available Revenue Receipts and Available Principal Receipts will be restricted; and
- (b) the Issuer will not be permitted to make any further issuances of Covered Bonds.

If an Asset Coverage Test Breach Notice has been served and not revoked on or before the Trust Payment Date immediately following the next Calculation Date after service of such Asset Coverage Test Breach Notice, then an Issuer Event of Default shall occur and the Bond Trustee shall be entitled (and, in certain circumstances may be required) to serve an Issuer Acceleration Notice on the Issuer. Following service of an Issuer Acceleration Notice, the Bond Trustee must serve a Notice to Pay on the Trust.

- *Amortisation Test:* Following the service of a Notice to Pay (but prior to service of a Trust Acceleration Notice) and, for so long as Covered Bonds remain outstanding, the Trust must ensure that as of each following Calculation Date, the Amortisation Test Aggregate Loan Amount will be in an amount at least equal to the aggregate Canadian Dollar Equivalent of the Principal Amount Outstanding of the Covered Bonds from time to time. The Amortisation Test will be carried out by the Cash Manager as of each Calculation Date following service of a Notice to Pay. A breach of the Amortisation Test will constitute a Trust Event of Default. Following the occurrence of a Trust

Event of Default, the Bond Trustee may by service of a Trust Acceleration Notice accelerate the obligations of the Issuer under the Covered Bonds and require all amounts under the Covered Bond Guarantee to become immediately due and payable. Thereafter, the Security Trustee may enforce the Security over the Charged Property.

- *Extendable obligations under the Covered Bond Guarantee:* An Extended Due for Payment Date may be specified as applying in relation to a Series of Covered Bonds in the applicable Final Terms Document. This means that if the Issuer fails to pay the Final Redemption Amount of the relevant series of Covered Bonds on the Final Maturity Date (subject to the applicable grace period), a Notice to Pay is served and the Guaranteed Amounts equal to the Final Redemption Amount of the relevant Series of Covered Bonds are not paid in full by the Extension Determination Date (for example because, following service of a Notice to Pay, the Trust has insufficient moneys available in accordance with the Guarantee Priority of Payments to pay in full the Guaranteed Amounts equal 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 Guarantee Priority of Payments), then payment of the unpaid portion of the Final Redemption Amount pursuant to the Covered Bond Guarantee shall be automatically deferred (without a Trust Event of Default occurring as a result of such non-payment). The unpaid portion of the Final Redemption Amount shall be due and payable one year later on the Extended Due for Payment Date (subject to the applicable grace period and provided that the Trust shall to the extent it has the funds available to it pay such unpaid portion of the Final Redemption Amount on any Interest Payment Date up until the Extended Due for Payment Date). The Trust will pay the Guaranteed Amounts constituting Scheduled Interest on each Original Due for Payment Date and on the Extended Due for Payment Date.
- *Servicing:* In its capacity as Servicer, Bank of Montreal has, in consideration of the amounts payable to it as Seller under the Mortgage Sale Agreement, entered into the Servicing Agreement with the Trust and the Security Trustee, pursuant to which it has agreed to provide administrative, collection and other servicing functions in respect of the Loans and their Related Security sold by the Seller to the Trust.
- *Risk Factors:* The Issuer's business activities depend on the level of banking, finance and financial services that its customers require. Customer demand can fluctuate based on prevailing economic, interest rate and other conditions. In significant part, the Issuer funds its business activities through access to the institutional debt, securitisation and, more recently, covered bond markets in Canada, the U.S., Europe and Asia. The Issuer's continued ability to fund its business in this manner depends on a number of factors, including many outside of its control, such as general market conditions. The Trust relies on the Servicer to provide administrative, calculation and other servicing functions in relation to the Loans in the Portfolio. Failure of the Servicer to perform these functions could affect payment on the Covered Bonds. Further, the Trust relies on swap providers to hedge against possible variances in the rates of interest payable on the Loans in the Portfolio and to hedge against interest rate and currency risks in respect of amounts received by the Trust on the Loans in the Portfolio and amounts payable by the Trust under the Covered Bond Guarantee. The performance of the swap providers and the Trust under their mutual swap agreements can affect both the rating of and payment on the Covered Bonds.
- *New Sellers:* Subject to meeting certain conditions precedent, including, but not limited to Rating Agency Confirmation, new Sellers, who are members of the BMO Group, may in the future accede to the Programme and sell Loans and their Related Security to the Trust. Where used in this document, the term **Seller** includes, where relevant, any **New Seller**, as the context so permits.

- *Further Information:* For a more detailed description of the transactions summarised above relating to the Covered Bonds see, amongst other relevant sections of this Prospectus, *Risk Factors, Overview of the Programme, Terms and Conditions of the Covered Bonds, Summary of the Principal Documents, Credit Structure, Cashflows and The Portfolio* below.

#### **BMO Covered Bond Trust**

- The Trust is a special purpose trust established by the BMO Trustee pursuant to the Declaration of Trust. The BMO Trustee is not owned by or connected with the Issuer.
- As at the date of this Prospectus the Beneficiaries of the Trust are the Issuer and the Independent Beneficiary.
- The Administrative Agent (being, as at the date of this Prospectus, Bank of Montreal) will provide certain administrative services for and on behalf of the Trust and will have all the rights, power and authority to act at all times for and on behalf of the Trust.



## OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and 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 applicable Final Terms Document. Words and expressions defined elsewhere in this Prospectus shall have the same meanings in this overview. A glossary of certain defined terms is contained at the end of this Prospectus.

Issuer: Bank of Montreal (**BMO**).

For a more detailed description of the Issuer, see *Bank of Montreal* below.

Trust: BMO Covered Bond Trust, a trust established under the laws of the Province of Ontario by CIBC Mellon Trust Company, as trustee, pursuant to the Declaration of Trust. The Trust is a special purpose trust whose purpose is to acquire, *inter alia*, Loans and their Related Security from the Seller pursuant to the terms of the Mortgage Sale Agreement and to guarantee the Covered Bonds. The Trust will hold the Portfolio and the other Charged Property in accordance with the terms of the Transaction Documents.

The Trust has provided a guarantee covering all Guaranteed Amounts when the same shall become Due for Payment, but only following service of a Notice to Pay or a Trust Acceleration Notice. The obligations of the Trust under the Covered Bond Guarantee and the other Transaction Documents to which it is a party are secured by the Charged Property and recourse against the Trust is limited to such property.

For a more detailed description of the Trust, see *BMO Covered Bond Trust* below.

Seller: BMO or any New Seller, who may, from time to time, accede to the Programme and sell Loans and their Related Security to the Trust.

For a more detailed description of the Seller, see *Bank of Montreal* below.

Servicer: BMO has been appointed to service, on behalf of the Trust, the Loans and Related Security in the Portfolio pursuant to the terms of the Servicing Agreement. Any New Seller that is appointed to service any New Seller Loans will constitute the Servicer with respect to such Loans.

Cash Manager: BMO has also been appointed, *inter alia*, to provide cash management services to the Trust and to monitor compliance by the Trust with the Asset Coverage Test and the Amortisation Test pursuant to the Cash Management Agreement.

Principal Paying Agent: HSBC Bank plc, London, acting through its office at 8 Canada Square, London E14 5HQ, has been appointed pursuant to the Agency Agreement as issuing and principal paying agent and agent bank.

Paying Agent: Dexia Banque Internationale à Luxembourg, Société Anonyme Luxembourg, acting through its offices at 69, route d'Esch L 2953 Luxembourg.

Exchange Agent and Registrar:	Each of HSBC Bank plc acting through its offices at 8 Canada Square, London E14 5HQ and HSBC Bank USA, National Association acting through its offices at 452 Fifth Avenue, New York, New York 10018 2706 has been appointed pursuant to the Agency Agreement as exchange agent and registrar.
Bond Trustee:	Computershare Trust Company of Canada, acting through its office at 100 University Avenue, 9th Floor, North Tower, Toronto, Ontario Canada M5J 2Y1, has been appointed to act as bond trustee on behalf of the Covered Bondholders in respect of the Covered Bonds and holds the benefit of, <i>inter alia</i> , the Covered Bond Guarantee on behalf of the Covered Bondholders pursuant to the Trust Deed.
Security Trustee:	Computershare Trust Company of Canada, acting through its office at 100 University Avenue, 9th Floor, North Tower, Toronto, Ontario Canada M5J 2Y1, has been appointed to act as security trustee to hold the benefit of the security granted by the Trust to the Security Trustee (for itself, the Covered Bondholders and the other Secured Creditors) under the Security Agreements.
Asset Monitor:	An institution appointed pursuant to the Asset Monitor Agreement as an independent monitor to perform tests in respect of the Asset Coverage Test and the Amortisation Test when required. The Asset Monitor as at the date of this Prospectus is KPMG LLP.
Covered Bond Swap Provider:	<p>Each swap provider which agrees to act as Covered Bond Swap Provider (in respect of a Series or Tranche of Covered Bonds) to the Trust to hedge certain interest rate, currency and/or other risks in respect of amounts received by the Trust under the Loans in the Portfolio and the Interest Rate Swap and:</p> <ul style="list-style-type: none"> <li>(a) in the case of a Non-Forward Starting Covered Bond Swap, amounts payable by the Trust under any relevant Term Advance or, if a Notice to Pay has been served, under the Covered Bond Guarantee; or</li> <li>(b) in the case of a Forward Starting Covered Bond Swap, if a Notice to Pay has been served, amounts payable by the Trust under the Covered Bond Guarantee,</li> </ul> <p>in respect of the Covered Bonds by entering into Covered Bond Swaps with the Trust under the Covered Bond Swap Agreements. In the event that the ratings of a Covered Bond Swap Provider fall below a specified ratings level, the relevant Covered Bond Swap Provider will be required to put in place appropriate credit support arrangements, arrange for its obligations under the relevant Covered Bond Swap to be transferred to an entity with the specified ratings, procure another entity with the specified ratings to become co obligor or guarantor in respect of its obligations under the Covered Bond Swap Agreement and/or take such other action as it may agree with the relevant Rating Agency.</p>
Interest Rate Swap Provider:	BMO has agreed to act as interest rate swap provider to the Trust to hedge possible variances between the rates of interest payable on the Loans sold by the Seller to the Trust and CDOR by entering into an Interest Rate Swap with

the Trust under the Interest Rate Swap Agreement. In the event that the ratings of the Interest Rate Swap Provider fall below a specific ratings level set out in the Interest Rate Swap Agreement, the Interest Rate Swap Provider will be required to put in place appropriate credit support arrangements, arrange for its obligations under the Interest Rate Swap to be transferred to an entity with the specified ratings, procure another entity with the specified ratings to become co-obligor or guarantor in respect of its obligations under the Interest Rate Swap Agreement and/or take such other action as it may agree with the relevant Rating Agency.

For a more detailed description of the Interest Rate Swap Provider, see *Bank of Montreal* below.

- GIC Provider: BMO, acting through its Toronto branch at 100 King Street West, 1 First Canadian Place, 1st Floor, Toronto, Ontario Canada M5J 2Y1, has agreed to act as GIC Provider to the Trust pursuant to the Guaranteed Investment Contract.
- Account Bank: BMO acting through its Toronto branch at 100 King Street West, 1 First Canadian Place, 1st Floor, Toronto, Ontario Canada M5J 2Y1, has agreed to act as an Account Bank to the Trust pursuant to the Bank Account Agreement.
- Stand-by GIC Provider: Royal Bank of Canada, acting through its main branch in Royal Bank Plaza, South Tower, 200 Bay Street, Toronto, Ontario Canada M5J 2J5, has agreed to act as Stand-by GIC Provider to the Trust pursuant to the Stand-by Guaranteed Investment Contract.
- Stand-by Account Bank: Royal Bank of Canada, acting through its main branch at Royal Bank Plaza, South Tower, 200 Bay Street, Toronto, Ontario Canada M5J 2J5, has agreed to act as Stand-by Account Bank to the Trust pursuant to the Stand-by Bank Account Agreement.
- BMO Trustee: CIBC Mellon Trust Company is the trustee of the Trust.
- Independent Beneficiary: Any non-profit corporation as the BMO Trustee (or the Administrative Agent on its behalf) may select from time to time as a beneficiary of the Trust.
- Administrative Agent: BMO has agreed to act as Administrative Agent pursuant to the terms of the Administration Agreement.
- Subordinated Loan Provider: BMO has agreed to act as Subordinated Loan Provider pursuant to the Subordinated Loan Agreement.
- Programme description:** Global Public Sector Covered Bond Programme.
- Arrangers: Bank of Montreal, London Branch, Barclays Capital Inc. and Société Générale.

Dealers:	Bank of Montreal, London Branch, BMO Capital Markets Corp., Barclays Bank PLC, Barclays Capital Inc., UniCredit Bank AG, HSBC Bank plc, Société Générale and any other Dealer in respect of the Programme or in relation to a particular Series or Tranche of Covered Bonds appointed from time to time in accordance with the Programme Agreement (as defined below).
Certain restrictions:	Each issue of Covered Bonds denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time. There are restrictions on the offer, sale and transfer of Covered Bonds in Canada, the United States, the European Economic Area (including the United Kingdom, The Netherlands, the Republic of Italy, the Republic of France and Spain) and Japan. Other restrictions may apply in connection with the offering and sale of a particular Tranche of Covered Bonds. See <i>Subscription and Sale and Transfer and Selling Restrictions</i> below.
Programme size:	Up to €10 billion (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time as described herein. The Issuer and the Trust may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Covered Bonds may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis, subject to the restrictions set forth in <i>Subscription and Sale and Transfer and Selling Restrictions</i> below.
Specified Currency:	Subject to any applicable legal or regulatory restrictions, such currency or currencies as may be agreed from time to time by the Issuer, the relevant Dealer(s), the Principal Paying Agent and the Bond Trustee (as set out in the applicable Final Terms Document).
Redenomination:	The applicable Final Terms Document may provide that certain Covered Bonds may be redenominated in euro.
Maturities:	The Covered Bonds will have such maturities as may be agreed between the Issuer and the relevant Dealer(s) and indicated in the applicable Final Terms Document, subject to such minimum or maximum maturities as may be allowed or required from time to time by any relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Issue Price:	Covered Bonds may be issued at par or at a premium or discount to par on a fully-paid or partly-paid basis.
Form of Covered Bonds:	The Covered Bonds will be issued in bearer or registered form as described in <i>Form of the Covered Bonds</i> . Registered Covered Bonds will not be exchangeable for Bearer Covered Bonds and <i>vice versa</i> .
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 Issuer and the relevant Dealer(s) and on redemption and will be calculated on the basis of

such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Final Terms Document).

Floating Rate Covered Bonds:

Floating Rate Covered Bonds will 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) 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.

The Margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer(s) for each issue of Floating Rate Covered Bonds, as set out in the applicable Final Terms Document.

Index Linked Interest Covered Bonds:

Payments of interest in respect of Index Linked Interest Covered Bonds will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer(s) may agree, as set out in the applicable Final Terms Document.

Credit Linked Interest Covered Bonds and Equity Linked Interest Covered Bonds:

Payments of interest in respect of Credit Linked Interest Covered Bonds and Equity Linked Interest Covered Bonds will be calculated by reference to the price, value, performance or some other factor relating to one or more reference assets and/or the creditworthiness of, performance of obligations by or some other factor relating to one or more reference entities, as set out in the applicable Final Terms Document.

Other provisions in relation to Floating Rate Covered Bonds and Variable Interest Covered Bonds:

Floating Rate Covered Bonds and Variable Interest 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). Interest on Floating Rate Covered Bonds and Variable Interest Covered Bonds in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer(s), will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, in each case as may be agreed between the Issuer and the relevant Dealer(s).

Dual Currency Interest Covered Bonds:

Payments of interest, whether at maturity or otherwise, in respect of Dual Currency Interest Covered Bonds will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer(s) may agree (as set out in the applicable Final Terms Document).

Variable Interest Covered Bonds:

Index Linked Interest Covered Bonds, Credit Linked Interest Covered Bonds, Equity Linked Interest Covered Bonds, Dual Currency Interest Covered Bonds and other Covered Bonds (excluding Floating Rate Covered Bonds) where the rate of interest is variable are referred to as **Variable Interest Covered Bonds**.

Zero Coupon Covered Bonds: Zero Coupon Covered Bonds, bearing no interest, may be offered and sold at a discount to their nominal amount unless otherwise specified in the applicable Final Terms Document.

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

Partly-Paid Covered Bonds: Covered Bonds may be issued on a partly-paid basis in which case interest will accrue on the paid-up amount of such Covered Bonds or on such other basis as may be agreed between the Issuer and the relevant Dealer(s) and set out in the applicable Final Terms Document.

Certain of the types of Covered Bonds outlined above may attract tax treatment which differs from that set out in *Taxation — Canadian Taxation* or *Taxation – U.S. Federal Income Taxation* below. The tax treatment of these Covered Bonds will be set out in the applicable Final Terms Document.

Redemption: The applicable Final Terms Document relating to each Tranche of Covered Bonds will indicate either that such Covered Bonds cannot be redeemed prior to their stated maturity (other than (i) in specified instalments, if applicable, (ii) for taxation reasons, (iii) if it becomes unlawful for any Term Advance to remain outstanding or (iv) following an Issuer Event of Default or a Trust Event of Default) or that such Covered Bonds will be redeemable at the option of the Issuer and/or the Covered Bondholders upon giving not more than 60 nor less than 30 days' irrevocable notice (or such other period of notice (if any) as is indicated in the applicable Final Terms Document) to the Bond Trustee, the Principal Paying Agent, the Registrar (in the case of the redemption of the Registered Covered Bonds) and the Covered Bondholders or to the Issuer (as the case may be), on one or more specified dates prior to their stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Final Terms Document).

The applicable Final Terms Document may provide that Covered Bonds may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Final Terms Document.

Extendable obligations under the Covered Bond Guarantee: The applicable Final Terms Document may also provide that the Trust's obligations under the Covered Bond Guarantee to pay the Guaranteed Amounts equal to the Final Redemption Amount of the applicable Series of Covered Bonds on their Final Maturity Date may be deferred until the Extended Due for Payment Date. In such case, such deferral will occur automatically if the Issuer fails to pay the Final Redemption Amount of the relevant Series of Covered Bonds on their Final Maturity Date (in each case subject to the applicable grace period), a Notice to Pay has been served and the Guaranteed Amounts equal to the Final Redemption Amount in respect of such Series of Covered Bonds are not paid in full by the Extension Determination Date (for example, because, following service of a Notice to Pay, the Trust has insufficient moneys available in accordance with the Guarantee Priority of Payments to pay in full the Guaranteed Amounts equal

to the Final Redemption Amount in respect of the relevant Series of Covered Bonds after payment of higher ranking amounts and taking into account amounts ranking *pari passu* in the Guarantee Priority of Payments). To the extent that the Trust has received a Notice to Pay by the time specified in Condition 6.1 and has sufficient moneys under the Guarantee Priority of Payments to pay in part the Final Redemption Amount, partial payment of the Final Redemption Amount shall be made as described in Condition 6.1. The Trust shall, to the extent it has the funds available to it, make payments in respect of the unpaid portion of the Final Redemption Amount on any Interest Payment Date up until the Extended Due for Payment Date. Interest will continue to accrue and be payable on the unpaid portion of the Final Redemption Amount up to the Extended Due for Payment Date in accordance with Condition 4 and the Trust will make payments of Guaranteed Amounts constituting Scheduled Interest on each Interest Payment Date up to and including the Extended Due for Payment Date.

Denomination of Covered Bonds:

The Covered Bonds will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer(s) and set out in the applicable Final Terms Document save that, except in certain limited circumstances (which shall not include a listed offer of Covered Bonds with a minimum denomination of less than €50,000), the minimum denomination of each Covered Bond will be €100,000 (or, if the Covered Bonds are denominated in a currency other than euro, the equivalent amount in such currency) or such other higher amount as is required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency.

Unless otherwise stated in the applicable Final Terms Document, the minimum denomination of each Definitive Rule 144A Covered Bond will be U.S.\$250,000, or its approximate equivalent in other Specified Currencies.

Taxation:

All payments in respect of the Covered Bonds will be made without deduction or withholding for or on account of any taxes or other charges imposed by any governmental authority or agency in Canada, save as provided in Condition 7. If any such deduction or withholding is made, the Issuer will, save as provided in Condition 7, be required to pay additional amounts in respect of the amounts so deducted or withheld. Under the Covered Bond Guarantee, the Trust will not be liable to pay any such additional amounts payable by the Issuer under Condition 7, see further *Taxation — Canadian Taxation*.

If any interest payable on a Covered Bond, or any portion of the nominal amount of a Covered Bond in excess of its issue price, is to be calculated by reference to an index or formula, such interest or principal, as the case may be, may be subject to Canadian non-resident withholding tax. The Final Terms Document in respect of each particular Series or Tranche of Covered Bonds will confirm the exemption for application of Canadian non resident withholding tax based upon the terms of that particular Series or Tranche. See *Taxation — Canadian Taxation*.

Cross Default:

If a Trust Acceleration Notice is served in respect of any one Series of Covered Bonds, then the obligation of the Trust to pay Guaranteed Amounts in respect of all Series of Covered Bonds then outstanding will be accelerated.

Status of the Covered Bonds:	The Covered Bonds will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and will rank <i>pari passu</i> without any preference among themselves and (save for any obligations required to be preferred by law) at least equally with all other present and future unsecured senior obligations of the Issuer, from time to time outstanding. The Covered Bonds will be "deposits" of the Issuer for the purposes of the Bank Act. The Covered Bonds will not be deposits insured under the <i>Canada Deposit Insurance Corporation Act</i> (Canada) or under any other governmental insurance scheme of any country.
Covered Bond Guarantee:	Payment of Guaranteed Amounts in respect of the Covered Bonds when Due for Payment will be irrevocably guaranteed by the Trust. The obligations of the Trust to make payment in respect of the Guaranteed Amounts when Due for Payment are subject to the condition that a Notice to Pay or a Trust Acceleration Notice has been served on the Trust. The obligations of the Trust under the Covered Bond Guarantee will accelerate against the Trust upon service of a Trust Acceleration Notice. The obligations of the Trust under the Covered Bond Guarantee constitute absolute obligations of the Trust secured against the Charged Property and recourse against the Trust is limited to such property.
Ratings:	Covered Bonds to be issued under the Programme have the ratings as specified in the applicable Final Terms Document. Whether or not each credit rating applied for in relation to relevant Series of Covered Bonds will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) No. 1060/2009 will be disclosed in the applicable Final Terms Document.
Listing and admission to trading:	Application has been made to the U.K. Listing Authority for Covered Bonds issued under the Programme during the period of 12 months from the date of this Prospectus to be admitted to the Official List and to the London Stock Exchange for such Covered Bonds to be admitted to trading on the London Stock Exchange's Regulated Market.  Covered Bonds may be unlisted or may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or regulated or unregulated markets, as may be agreed between the Issuer, the Trust, the Bond Trustee and the relevant Dealer(s) in relation to each issue. The Final Terms Document relating to each Tranche of the Covered Bonds will state whether or not the Covered Bonds are to be listed and/or admitted to trading and, if so, on which stock exchange(s) and/or markets.
ERISA Considerations:	Subject to the limitations described under <i>ERISA Considerations</i> or the Final Terms Documents, the Covered Bonds generally are eligible for purchase by or on behalf of "employee benefit plans" and other similar retirement plans and arrangements that are subject to the <i>United States Employee Retirement Income Security Act of 1974</i> , as amended, <i>Section 4975 of the United States Internal Revenue Code of 1986</i> , as amended, or any similar laws or regulations, and by entities whose underlying assets are considered to include the assets of such plans and arrangements. See <i>ERISA Considerations</i> below.
Governing law:	The Trust Deed (other than provisions relating to the Covered Bond Guarantee), the Agency Agreement, the Covered Bonds, the Receipts, the



Coupons, the Interest Rate Swap Agreement, the Covered Bond Swap Agreements, the Programme Agreement and the English Security Agreement are governed by, and shall be construed in accordance with, English law unless specifically stated to the contrary. Any non-contractual matter, claim or dispute arising out of or in connection with the Trust Deed, the Covered Bonds, the Receipts, the Coupons and the Programme Agreement is governed by, and shall be determined in accordance with, English law unless specifically stated to the contrary. The Mortgage Sale Agreement, the Servicing Agreement, the Declaration of Trust, the Intercompany Loan Agreement, the Cash Management Agreement, the Asset Monitor Agreement, the BMO Trust Security Agreement, the Bank Account Agreement, the Stand-by Bank Account Agreement, the Guaranteed Investment Contract, the Stand-by Guaranteed Investment Contract, the Subordinated Loan Agreement, the Administration Agreement and, to the extent it relates to the Covered Bond Guarantee, the Trust Deed, are governed by and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

## **RISK FACTORS**

*The Issuer and the Trust believe that the following risk factors are material for the purpose of assessing risks associated with the Issuer and the Trust. Most of these factors are contingencies which may or may not occur, and the Issuer and the Trust are not in a position to express a view on the likelihood of any such contingency occurring or the likelihood or extent to which any such contingencies may affect the ability of the Issuer or the Trust to pay interest, principal, or other amounts on or in connection with any Covered Bonds. In addition, other risk factors, although not exhaustive, which could be material for the purpose of assessing the market risk associated with the Covered Bonds issued under the Programme are also described below.*

*The Issuer and the Trust believe that the factors described below represent the principal risks inherent in investing in the Covered Bonds issued under the Programme, but the inability of the Issuer and the Trust to pay interest, principal or other amounts on or in connection with any Covered Bonds may occur for other reasons, and the Issuer and the Trust do not represent that the statements below regarding the risks of holding any Covered Bonds are exhaustive. The risks described below are not the only risks faced by the Issuer and the Trust. Additional risks and uncertainties not presently known to the Issuer or the Trust or that they currently believe to be immaterial could also have a material impact on the operations of the Issuer or the Trust or affect the ability of the Issuer or the Trust to pay interest, principal or other amounts on or in connection with any Covered Bonds. Prospective investors should also read the detailed information set out elsewhere in this Prospectus (including information incorporated by reference) and reach their own views prior to making any investment decision.*

*Words and expressions defined in Terms and Conditions of the Covered Bonds below or elsewhere in this Prospectus have the same meanings in this section.*

### **RISK FACTORS RELATING TO THE ISSUER, INCLUDING THE ABILITY OF THE ISSUER TO FULFIL ITS OBLIGATIONS UNDER THE COVERED BONDS**

#### **Issuer is liable to make payments when due on the Covered Bonds**

The Issuer is liable to make payments when due on the Covered Bonds. The obligations of the Issuer under the Covered Bonds will be direct, unconditional, unsubordinated and unsecured obligations of the Issuer and will rank *pari passu* without any preference among themselves and (save for any obligations required to be preferred by law) at least equally with all other present and future unsecured senior obligations of the Issuer, from time to time outstanding. The Covered Bonds will be "deposits" of the Issuer for the purposes of the Bank Act. The Covered Bonds will not be deposits insured under the *Canada Deposit Insurance Corporation Act* (Canada) or under any other governmental insurance scheme of any country.

The Trust has no obligation to pay the Guaranteed Amounts payable under the Covered Bond Guarantee until service of a Notice to Pay following service of an Issuer Acceleration Notice following an Issuer Event of Default or a Trust Acceleration Notice following the occurrence of a Trust Event of Default.

The occurrence of an Issuer Event of Default does not constitute a Trust Event of Default. However, failure by the Trust to pay amounts when Due for Payment under the Covered Bond Guarantee would constitute a Trust Event of Default.

Following the occurrence of a Trust Event of Default, the Bond Trustee may accelerate the obligations of the Trust under the Covered Bond Guarantee by serving a Trust Acceleration Notice. Service of a Trust Acceleration Notice will also accelerate the obligations of the Issuer under the Covered Bonds (if they have not already become due and payable following service of an Issuer Acceleration Notice). The Security Trustee would then become entitled to enforce the Security.

## **General**

There are numerous factors, many beyond the Issuer's control, which could cause results of the Issuer to differ significantly from those anticipated. The factors set out below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties that face the Issuer's businesses. Other factors including credit and counterparty, market, liquidity and funding, operational, business, reputation and other risks are described in the Enterprise-Wide Risk Management section beginning on page 75 of the Issuer's 2010 MD&A and the Risk Management section on page 10 of the Third Quarter 2011 Report to Shareholders, which sections are incorporated herein by reference.

### **General Economic and Market Conditions in the Countries in which the Issuer Conducts Business**

The Issuer conducts business in Canada, the United States and other countries. Factors such as the general health of capital markets, including liquidity, level of activity, volatility and stability, could have a material impact on its business. As well, interest rates, foreign exchange rates, consumer spending, business investment, government spending, the rate of inflation and the threat of terrorism affect the business and economic environments in which the Issuer operates. Therefore, the amount of business the Issuer conducts in a specific geographic region and its local economic and business conditions may have an effect on the Issuer's revenues and earnings. For example, a regional economic decline may result in an increase in credit losses, a decrease in loan growth and reduced capital markets activity.

### **Fiscal and Monetary Policy**

The Issuer's earnings are affected by fiscal, monetary and economic policies that are adopted by Canadian, U.S. and other regulatory authorities. Such policies can have the effect of reducing competition and increasing uncertainty in the markets. As well, bond and money market expectations about inflation and central bank monetary policy have an impact on the level of interest rates. Changes in market expectations and monetary policy are difficult to anticipate and predict. Fluctuations in interest rates that result from these changes can have an impact on the Issuer's earnings. Refer to the Market Risk section on pages 82 to 85 of the 2010 MD&A for a more complete discussion of the Issuer's interest rate risk exposures.

### **Level of Competition**

The level of competition among financial services companies is high. Furthermore, non-financial companies have increasingly been offering services traditionally provided by banks. Customer loyalty and retention can be influenced by a number of factors, including service levels, prices for products or services, the Issuer's reputation and the actions of the Issuer's competitors. Also, laws and regulations enacted by regulatory authorities in the United States and other jurisdictions in which the Issuer operates may provide benefits to the Issuer's international competitors that could impact its ability to compete. Changes in these factors or a loss of market share could adversely affect the Issuer's earnings.

### **Currency Rates**

The Canadian dollar equivalents of the Issuer's revenues and expenses denominated in currencies other than the Canadian dollar are subject to fluctuations in the value of the Canadian dollar relative to those currencies. Refer to the Foreign Exchange section on page 36 and the Market Risk section on pages 82 to 85 of the 2010 MD&A for a more complete discussion of the Issuer's foreign exchange risk exposures.

### **Changes in Laws, Regulations and Approach to Supervision**

Regulations are in place to protect the Issuer's clients, investors and the public interest. Considerable changes in laws and regulations that relate to the financial industry have been proposed, including changes related to capital and liquidity requirements. Changes in laws and regulations, including how they are interpreted and enforced, and in approaches to supervision could adversely affect the Issuer's earnings, for

example by limiting the products or services it can provide and the manner in which it provides them and by increasing the costs of compliance. The changes could also affect the levels of capital and liquidity the Issuer chooses to maintain.

In particular, the Basel III global standards for capital and liquidity, which are discussed in the Enterprise-Wide Capital Management section that starts on page 59 of the 2010 MD&A and the Potential Impacts of Proposed Regulatory Capital Charges and Conversion to IFRS section that starts on page 14 of the Third Quarter 2011 Report to Shareholders, and enactment of the United States Dodd-Frank Wall Street Reform and Consumer Protection Act, which is discussed in the U.S. Regulatory Developments section on page 67 of the 2010 MD&A and on page 17 of the Third Quarter 2011 Report to Shareholders, may have an impact on the Issuer's results or activities. Liquidity and funding risk is discussed starting on page 85 of the 2010 MD&A. In addition to the factors outlined, the Issuer's failure to comply with laws and regulations could result in sanctions and financial penalties that could adversely affect its reputation and earnings.

### **Judicial or Regulatory Judgments and Legal and Regulatory Proceedings**

The Issuer takes reasonable measures to comply with the laws and regulations of the jurisdictions in which it conducts business. Should these measures prove not to be effective, it is possible that the Issuer could be subject to a judicial or regulatory judgment or decision which results in fines, damages or other costs that would have a negative impact on earnings and damage its reputation. The Issuer is also subject to litigation arising in the ordinary course of its business. The unfavourable resolution of any litigation could have a material adverse effect on the Issuer's financial results. Damage to the Issuer's reputation could also result, harming its future business prospects. Information about certain legal and regulatory matters currently faced by the Issuer is provided in Note 28 on page 159 of the 2010 Audited Consolidated Financial Statements.

### **Accuracy and Completeness of Customer and Counterparty Information**

When deciding to extend credit or enter into other transactions with customers and counterparties, the Issuer may rely on information provided by or on behalf of those customers and counterparties, including audited financial statements and other financial information. The Issuer also may rely on representations made by customers and counterparties that the information they provide is accurate and complete. The Issuer's financial results could be adversely affected if the financial statements or other financial information provided by customers and counterparties is materially misleading.

### **Execution of Strategy**

The Issuer's financial performance is influenced by its ability to execute strategic plans developed by management. If these strategic plans do not meet with success or if there is a change in these strategic plans, the Issuer's earnings could grow at a slower pace or decline. In addition, the Issuer's ability to execute its strategic plans is dependent to a large extent on its ability to attract, develop and retain key executives, and there is no assurance it will continue to do so successfully.

### **Acquisitions**

The Issuer conducts thorough due diligence before completing an acquisition. However, it is possible that the Issuer might make an acquisition that subsequently does not perform in line with its financial or strategic objectives. Changes in the competitive and economic environment as well as other factors may lower revenues, while higher than anticipated integration costs and failure to realize expected cost savings could also adversely affect the Issuer's earnings after an acquisition. The Issuer's post-acquisition performance is also contingent on retaining the clients and key employees of acquired companies, and there can be no assurance that it will always succeed in doing so.

## **The Issuer's acquisition of Marshall & Ilsley Corporation is subject to certain risks**

On 5 July 2011 the Issuer completed the acquisition of Marshall & Ilsley Corporation (**M&I**), a Wisconsin-based bank holding company, for consideration of approximately \$4.0 billion in the form of 66,519,673 common shares of the Issuer issued to M&I shareholders. In addition, immediately prior to the closing of the transaction, a subsidiary of the Issuer purchased from the U.S. Treasury all of M&I's outstanding Troubled Asset Relief Program (TARP) preferred shares and warrants for cash consideration of approximately US\$1.7 billion. The Issuer's first critical milestone, closing the transaction and opening the combined bank for business on 6 July 2011 was successfully completed.

While the acquisition of M&I adds scale and provides a strong entry into new markets, integration risk is a key focus for the Issuer. It includes risk of customer and employee retention and system integration. The acquisition of M&I has also increased the Issuer's exposure to U.S. real estate related loans and to potential deterioration in U.S. real estate markets.

## **Critical Accounting Estimates**

The Issuer prepares its financial statements in accordance with Canadian generally accepted accounting principles (**GAAP**). The application of GAAP requires that management make significant judgments and estimates that can affect when certain assets, liabilities, revenues and expenses are recorded in the Issuer's financial statements and their recorded values. In making these judgments and estimates, the Issuer relies on the best information available at the time. However, it is possible that circumstances may change or new information may become available. The Issuer's financial results would be affected in the period in which any new circumstances or information became apparent, and the amount of the impact could be significant. More information is included in the discussion of Critical Accounting Estimates on page 68 of the 2010 MD&A and on page 16 of the Third Quarter 2011 Report to Shareholders. The Issuer is required to adopt IFRS commencing 1 November 2011. Further discussion on the impact is included on pages 71 to 73 of the 2010 MD&A and on pages 14 to 17 of the Third Quarter 2011 Report to Shareholders.

## **Operational and Infrastructure Risks**

The Issuer is exposed to many of the operational risks that affect all large corporations. Such risks include the risk of fraud by employees or others, unauthorised transactions by employees, and operational or human error. The Issuer also faces the risk that computer or telecommunications systems could fail, despite its efforts to maintain these systems in good working order. Given the high volume of transactions the Issuer processes on a daily basis, certain errors may be repeated or compounded before they are discovered and rectified. Shortcomings or failures of the Issuer's internal processes, employees or systems, or those provided by third parties, including any of its financial, accounting or other data processing systems, could lead to financial loss and damage to its reputation. In addition, despite the contingency plans the Issuer has in place, its ability to conduct business may be adversely affected by a disruption in the infrastructure that supports its operations and the communities in which it does business, including disruption caused by pandemics or terrorist acts.

## **Changes to the Issuer's credit ratings**

There is no assurance that a rating will remain for any given period of time or that a rating will not be suspended, lowered or withdrawn by the relevant rating agency if, in its judgment, circumstances in the future so warrant. In the event that a rating assigned to the Covered Bonds or the Issuer is subsequently suspended, lowered or withdrawn for any reason, no person or entity is obliged to provide any additional support or credit enhancement with respect to the Covered Bonds, the Issuer may be adversely affected, the market value of the Covered Bonds is likely to be adversely affected and the ability of the Issuer to make payments under the Covered Bonds may be adversely affected.

## **Changes to the Government of Canada's sovereign debt rating**

If the Government of Canada's sovereign debt credit rating is downgraded, this may negatively affect the long-term debt credit rating of CMHC, and consequently, negatively affect the value ascribed to the Loans in the Portfolio for the purposes of the Asset Coverage Test and Amortisation Test.

### **Remedial Powers of the Superintendent under the Bank Act**

Under Section 645(1) of the Bank Act, the Superintendent of Financial Institutions (the **Superintendent**), has the power, where in the opinion of the Superintendent a person, 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 person or bank, 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), OSFI confirmed by letter dated 27 June 2007 that Canadian deposit taking institutions may issue covered bonds, provided certain conditions are met. The conditions are as follows: (i) at the time of issuance, the covered bonds must not make up more than four per cent. of the Total Assets (as defined below) of the relevant deposit taking institution; (ii) if at any time after issuance the four per cent. limit is exceeded, the relevant deposit taking institution must immediately notify OSFI; and (iii) excesses (above the four 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. For the purpose of the foregoing limit, **Total Assets** will be equal to the numerator of the asset-to-capital multiple of the relevant deposit taking institution. In addition, relevant deposit taking institutions are expected, prior to issuing any covered bonds, to amend the pledging policies they are required to maintain under the Bank Act to take into account the issuance of covered bonds consistent with the above limits and to obtain board and/or committee approval for such amendments prior to issuance of any covered bonds.

### **Other Factors**

Other factors beyond the Issuer's control that may affect its future results are noted in the Caution Regarding Forward Looking Statements on page 29 of the 2010 MD&A and on page 5 of the Third Quarter 2011 Report to Shareholders.

The Issuer's public communications often include written or oral forward-looking statements. Statements of this type are included in this Prospectus (including documents incorporated by reference), and may be included in other filings with Canadian securities regulators or the U.S. Securities and Exchange Commission, or in other communications. All such statements are made pursuant to the "safe harbour" 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. Forward-looking statements may involve, but are not limited to, comments with respect to the Issuer's objectives and priorities for 2011 and beyond, its strategies or future actions, its targets, expectations for its financial condition or share price, and the results of or outlook for its operations or for the Canadian and U.S. economies.

By their nature, forward-looking statements require the Issuer to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions, forecasts, conclusions or projections will not prove to be accurate, that the Issuer's assumptions may not be correct and that actual results may differ materially from such predictions, forecasts, conclusions or projections. The Issuer cautions readers of this Prospectus not to place undue reliance on its forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets,

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

With respect to the M&I transaction, such factors include, but are not limited to: the possibility that the anticipated benefits from the transaction such as it being accretive to earnings and other impacts on earnings, expanding the Issuer's North American presence and synergies are not realized in the time frame anticipated or at all as a result of changes in general economic and market conditions, interest and exchange rates, monetary policy, laws and regulations (including changes to capital requirements) and their enforcement, and the degree of competition in the geographic and business areas in which the combined businesses now operate; the ability to promptly and effectively integrate the businesses of M&I and the Issuer; reputational risks and the reaction of M&I's customers to the transaction; diversion of management time on integration and restructuring related issues; and increased exposure to exchange rate fluctuations. A significant amount of M&I's business involved making loans or otherwise committing resources to specific companies, industries or geographic areas. Unforeseen events affecting such borrowers, industries or geographic areas could have a material adverse effect on the performance of the Issuer's integrated U.S. operations.

The Issuer cautions that the foregoing list is not exhaustive of all possible factors. Other factors could adversely affect the Issuer's results. For more information, please see the discussion on pages 29, 30, 61 and 62 of the 2010 MD&A, which outlines in detail certain key factors that may affect the Issuer's future results. When relying on forward-looking statements to make decisions with respect to the Issuer, investors and others should carefully consider these factors as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. The Issuer does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by the organisation or on behalf of the Issuer, except as required by law. The forward-looking information contained in this Prospectus is presented for the purpose of assisting its investors in understanding its operations, prospects, risks and other external factors that impact it specifically as at and for the periods ended on the dates presented, as well as certain strategic priorities and objectives, and may not be appropriate for other purposes.

The impacts of the changes from IFRS are based on the Issuer's analysis to date, as set out in Transition to International Financial Reporting Standards in the Future Changes in Accounting Policies – IFRS Section in the 2010 Annual Report and in the Third Quarter 2011 Report to Shareholders. In setting out the expectation that the Issuer will be able to refinance certain capital instruments in the future, as and when necessary to meet regulatory capital requirements, the Issuer has assumed that factors beyond its control, including the state of the economic and capital markets environment, will not impair its ability to do so.

Assumptions about the performance of the Canadian and U.S. economies as well as overall market conditions and their combined effect on the Issuer's business are material factors the Issuer considers when determining its strategic priorities, objectives and expectations for its business. In determining the Issuer's expectations for economic growth, both broadly and in the financial services sector, it primarily considers historical economic data provided by the Canadian and U.S. governments and their agencies.

## **RISK FACTORS RELATING TO THE TRUST, INCLUDING THE ABILITY OF THE TRUST TO FULFIL ITS OBLIGATIONS IN RELATION TO THE COVERED BOND GUARANTEE**

### **Trust only obliged to pay Guaranteed Amounts when the same are Due for Payment**

Following service of a Notice to Pay (but prior to service of a Trust Acceleration Notice) the Trust will be obliged under the terms of the Covered Bond Guarantee to pay Guaranteed Amounts as and when the same are Due for Payment. In these circumstances the Trust will not be obliged to pay any other amounts due on the Covered Bonds which become payable for any other reason. However, the Trust may (but is not obliged to) make payments in respect of the Final Redemption Amount on any Interest Payment Date up until the Extended Due for Payment Date.

Payments by the Trust under the Covered Bond Guarantee may be made subject to any applicable withholding or deduction and the Trust will not be obliged to pay any additional amounts as a consequence. Prior to service on the Trust of a Trust Acceleration Notice, the Trust will not be obliged to make any payments in respect of broken funding indemnities, penalties, premiums, default interest or interest on interest which may accrue on or in respect of the Covered Bonds. In addition, the Trust will not be obliged at any time to make any payments in respect of additional amounts which may become payable by the Issuer under Condition 7.

Subject to the applicable grace period in the Terms and Conditions, if (after service of a Notice to Pay) the Trust fails to make a payment when Due for Payment under the Covered Bond Guarantee or any other Trust Event of Default occurs, then the Bond Trustee may accelerate the obligations of the Trust under the Covered Bond Guarantee by service of a Trust Acceleration Notice, whereupon the Bond Trustee will have a claim under the Covered Bond Guarantee for an amount equal to the Early Redemption Amount of each Covered Bond, together with accrued interest and all other amounts then due under the Covered Bonds (other than additional amounts payable under Condition 7), although in such circumstances the Trust will not be obliged to gross up in respect of any withholding or deduction which may be required in respect of any payment. Following service of a Trust Acceleration Notice, the Security Trustee may enforce the Security over the Charged Property. The proceeds of enforcement of the Security shall be applied by the Security Trustee in accordance with the Post-Enforcement Priority of Payments in the BMO Trust Security Agreement, and Covered Bondholders will receive amounts from the Trust on an accelerated basis.

### **Excess Proceeds received by the Bond Trustee**

Following service of an Issuer Acceleration Notice, the Bond Trustee may receive Excess Proceeds. The Excess Proceeds will be paid by the Bond Trustee on behalf of the Covered Bondholders of the relevant Series to the Trust for its own account, as soon as practicable, and will be held by the Trust in the GIC Account. The Excess Proceeds will thereafter form part of the Security and will be used by the Trust in the same manner as all other moneys from time to time standing to the credit of the GIC Account. Any Excess Proceeds received by the Bond Trustee will discharge a proportion of the obligations of the Issuer in respect of the Covered Bonds (subject to restitution of the same if such Excess Proceeds shall be required to be repaid by the Bond Trustee or the Trust). However, the obligations of the Trust under the Covered Bond Guarantee are (subject only to service of a Notice to Pay or a Trust Acceleration Notice) unconditional and irrevocable and the receipt by the Bond Trustee of any Excess Proceeds will not reduce or discharge any such obligations.

Upon the receipt by the Trust of any Excess Proceeds, the Trust 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), and be solely liable as principal obligor and not as a guarantor, in respect of the obligation to pay to the Covered Bondholders, the Excess Proceeds Percentage Amount, and the Covered Bondholders shall have no rights against the Issuer with respect to payment in respect of such Series of Covered Bonds in excess of the Unpaid Excess Proceeds Percentage Amount.



By subscribing for or purchasing the Covered Bonds, each of the Covered Bondholders will be deemed to have irrevocably directed the Bond Trustee to pay the Excess Proceeds to the Trust in the manner as described above.

### **Finite resources available to the Trust to make payments due under the Covered Bond Guarantee**

The Trust's ability to meet its obligations under the Covered Bond Guarantee will depend on (i) the realisable value of Selected Loans and their Related Security in the Portfolio, (ii) the amount of Revenue Receipts and Principal Receipts generated by the Portfolio and the timing thereof, (iii) amounts received from, and payable to, the Swap Providers and (iv) the receipt by it of credit balances and interest on credit balances on the GIC Account, if applicable, the Stand-by GIC Account and the other Trust Accounts. The Trust will not have any other source of funds available to meet its obligations under the Covered Bond Guarantee.

If, following the occurrence of a Trust Event of Default and service of a Trust Acceleration Notice, the Security created by or pursuant to the Security Agreements is enforced, the Charged Property may not be sufficient to meet the claims of all the Secured Creditors, including the Covered Bondholders.

If, following enforcement of the Security constituted by or pursuant to the Security Agreements, the Secured Creditors have not received the full amount due to them pursuant to the terms of the Transaction Documents, then they may still have an unsecured claim against the Issuer for the shortfall. There is no guarantee that the Issuer will have sufficient funds to pay that shortfall.

Covered Bondholders should note that the Asset Coverage Test has been structured to ensure that the Adjusted Aggregate Loan Amount is equal to or greater than the aggregate Canadian Dollar Equivalent of the Principal Amount Outstanding of the Covered Bonds for so long as Covered Bonds remain outstanding, which should reduce the risk of there being a shortfall (although there is no assurance of this) (see *Summary of the Principal Documents — Declaration of Trust — Asset Coverage Test*).

### **Maintenance of the Portfolio**

*Asset Coverage Test:* The Asset Coverage Test is met if the Adjusted Aggregate Loan Amount is equal to or exceeds the aggregate Canadian Dollar Equivalent of the Principal Amount Outstanding under the Covered Bonds from time to time. Pursuant to the terms of the Declaration of Trust, the Trust will be obliged, (a) to use all reasonable endeavours to acquire Loans and their Related Security from the Seller or Substitution Assets or (b) request further advances under the Demand Loan which may be made by the Seller in cash or in kind, in either case, in order to ensure that the Portfolio is in compliance with the Asset Coverage Test. In consideration for any sale of Loans and their Related Security to the Trust for such purpose, the Seller will receive a combination of (a) a cash payment made by the Trust, and/or (b) Deferred Consideration.

If a breach of the Asset Coverage Test occurs as of any Calculation Date and is not cured by the following Calculation Date, the Bond Trustee will serve an Asset Coverage Test Breach Notice on the Trust. If an Asset Coverage Test Breach Notice has been served and not revoked on or before the Trust Payment Date immediately following the next Calculation Date after service of such Asset Coverage Test Breach Notice, then an Issuer Event of Default shall occur and the Bond Trustee will be entitled (and, in certain circumstances may be required) to serve an Issuer Acceleration Notice on the Issuer. Following service of an Issuer Acceleration Notice, the Bond Trustee must serve a Notice to Pay on the Trust. There is no specific recourse by the Trust to the Seller in respect of the failure to transfer Loans and their Related Security or Substitution Assets to the Trust nor is there any specific recourse to BMO if it does not make an advance under the Demand Loan.

*Asset Percentage:* The Asset Percentage is a component of the Asset Coverage Test which establishes the credit enhancement required for the then outstanding Covered Bonds based on the methodologies and cashflow models prescribed or reviewed, as the case may be, by the Rating Agencies. Pursuant to the terms of the Asset Coverage Test, there is a limit to the degree to which the Asset Percentage may be decreased

without the consent of the Issuer and, as a result, there is a corresponding limit on the amount of credit enhancement required to be maintained to meet the Asset Coverage Test.

If the methodologies and cashflow models used to determine the Asset Percentage conclude that additional credit enhancement is required beyond the maximum provided for (by requiring a reduction in the Asset Percentage below the minimum Asset Percentage), and the Issuer does not agree to provide credit enhancement beyond the maximum provided for (by agreeing to a reduction in the Asset Percentage below the minimum Asset Percentage), the Rating Agencies may reduce, remove, suspend or place on credit watch, their ratings of the Covered Bonds and the assets of the Trust may be seen to be insufficient to ensure that, in the scenarios employed in the cashflow models, the assets and cashflows of the Trust will be adequate to enable it to meet its obligations under the Covered Bond Guarantee following the service of a Notice to Pay or a Trust Acceleration Notice, notwithstanding that the Asset Coverage Test continues to be met.

*Amortisation Test:* Pursuant to the Declaration of Trust, the Trust must ensure, as of each Calculation Date following service of a Notice to Pay but prior to service of a Trust Acceleration Notice, that the Amortisation Test Aggregate Loan Amount is in an amount at least equal to the aggregate Canadian Dollar Equivalent of the Principal Amount Outstanding under the Covered Bonds. The Amortisation Test is intended to ensure that the assets of the Trust do not fall below a certain threshold so that the assets of the Trust are sufficient to meet its obligations under the Covered Bond Guarantee.

If the collateral value of the Portfolio has not been maintained in accordance with the terms of the Asset Coverage Test or the Amortisation Test, that may affect the realisable value of the Portfolio or any part thereof (both before and after the occurrence of a Trust Event of Default) and/or the ability of the Trust to meet its obligations under the Covered Bond Guarantee. Failure to satisfy the Amortisation Test on any Calculation Date following an Issuer Event of Default will constitute a Trust Event of Default, thereby entitling the Bond Trustee to accelerate the Covered Bonds against the Issuer and the Covered Bond Guarantee against the Trust subject to and in accordance with the Conditions of the Covered Bonds.

Prior to service of a Notice to Pay or a Trust Acceleration Notice, the Asset Monitor will, subject to receipt of the relevant information from the Cash Manager, test the calculations performed by the Cash Manager in respect of the Asset Coverage Test once each year in respect of the Calculation Date immediately prior to each anniversary of the Programme Date and more frequently in certain circumstances. The Asset Monitor will perform such tests as soon as reasonably practicable (and in any event within 10 Canadian Business Days following receipt of the information from the Cash Manager). Following service of a Notice to Pay (but prior to service of a Trust Acceleration Notice), the Asset Monitor will be required to test the calculations performed by the Cash Manager in respect of the Amortisation Test. See further *Summary of the Principal Documents — Asset Monitor Agreement*.

Neither the Bond Trustee nor the Security Trustee shall be responsible for monitoring compliance with, nor the monitoring of, the Asset Coverage Test, the Amortisation Test or the Pre-Maturity Test or any other test, or supervising the performance by any other party of its obligations under any Transaction Document.

**Factors that may affect the realisable value of the Portfolio or any part thereof or the ability of the Trust to make payments under the Covered Bond Guarantee**

The realisable value of Selected Loans and their Related Security comprised in the Portfolio may be reduced (which may affect the ability of the Trust to make payments under the Covered Bond Guarantee) by:

- no representations or warranties being given by the Trust or (unless otherwise agreed with the Seller) the Seller;
- default by Borrowers in payment of amounts due on their Loans (see *Default by Borrowers in paying amounts due on their Loans*);

- the Loans of New Sellers or Originators being included in the Portfolio;
- changes to the lending criteria of the Seller or any New Seller;
- home equity lines of credit (or co-ownership interests therein) being included in the Portfolio;
- limited recourse to the Seller or any New Seller;
- disruption in the mortgage market at the time the Loans are being sold;
- possible regulatory changes by OSFI, CMHC and other regulatory authorities; and
- a CMHC Insured Mortgage not being administered by the Servicer or successor Servicer acceptable to CMHC.

Each of these factors is considered in more detail below. However (subject as provided above in *Maintenance of the Portfolio — Asset Percentage*), it should be noted that the Asset Coverage Test, the Amortisation Test and the Eligibility Criteria are intended to ensure (but there is no assurance) that there will be an adequate amount of Loans in the Portfolio and moneys standing to the credit of the GIC Account to enable the Trust to repay the Covered Bonds following service on the Trust of a Notice to Pay or a Trust Acceleration Notice and accordingly it is expected (but there is no assurance) that Selected Loans and their Related Security could be realised for sufficient value to enable the Trust to meet its obligations under the Covered Bond Guarantee.

There is no guarantee that a buyer will be found to acquire Selected Loans and their Related Security at the times required and there can be no guarantee or assurance as to the price which the Trust may be able to obtain, which may affect the ability of the Trust to make payments under the Covered Bond Guarantee. However, the Selected Loans may not be sold by the Trust for less than an amount equal to the Adjusted Required Redemption Amount for the relevant Series of Covered Bonds until six months prior to the Final Maturity Date in respect of such Covered Bonds or (if the same is specified as applicable in the relevant Final Terms Document) the Extended Due for Payment Date in respect of such Covered Bonds. In the six months prior to, as applicable, the Final Maturity Date or Extended Due for Payment Date, the Trust is obliged to sell the Selected Loans and their Related Security for the best price reasonably available notwithstanding that such price may be less than the Adjusted Required Redemption Amount.

**No representations or warranties to be given by the Trust or the Seller if Selected Loans and their Related Security are to be sold**

Following service of a Notice to Pay or an Asset Coverage Test Breach Notice (which is not revoked), or following a breach of the Pre-Maturity Test, the Trust will be obliged to sell Selected Loans and their Related Security to third party purchasers, subject, in most cases, to a right of pre-emption in favour of the Seller pursuant to the terms of the Declaration of Trust (see *Summary of the Principal Documents — Declaration of Trust — Method of Sale of Selected Loans and their Related Security*). In respect of any sale of Selected Loans and their Related Security to third parties, however, the Trust will not be permitted to give representations and warranties or indemnities in respect of those Selected Loans and their Related Security (unless expressly permitted to do so by the Security Trustee). There is no assurance that the Seller would give any representations and warranties or indemnities in respect of the Selected Loans and their Related Security. Any representations and warranties previously given by the Seller in respect of the Loans in the Portfolio may not have value for a third party purchaser if the Seller is then insolvent. Accordingly, there is a risk that the realisable value of the Selected Loans and their Related Security could be adversely affected by the lack of representations and warranties or indemnities which in turn could adversely affect the ability of the Trust to meet its obligations under the Covered Bond Guarantee.

## **Default by Borrowers in paying amounts due on their Loans**

Borrowers may default on their obligations under the Loans in the Portfolio. Defaults may occur for a variety of reasons. The Loans are affected by credit, liquidity and interest rate risks. Various factors influence mortgage delinquency rates, prepayment rates, repossession frequency and the ultimate payment of interest and principal, such as changes in the national or international economic climate, regional economic or housing conditions, changes in tax laws, interest rates, inflation, the availability of financing, yields on alternative investments, political developments and government policies. Other factors in Borrowers' individual, personal or financial circumstances may affect the ability of Borrowers to repay the Loans. Loss of earnings, illness, divorce and other similar factors may 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 the availability of buyers for that property, the value of that property and property values in general at the time.

Any Defaulted Loans in the Portfolio will be given reduced weighting for the purposes of any calculation of the Asset Coverage Test and the Amortisation Test.

## **CMHC Mortgage Insurance**

Interest and principal payments on the Loans in the Portfolio will be insured under CMHC Mortgage Insurance. CMHC is Canada's national housing agency and is a Canadian federal Crown corporation, wholly owned by the Government of Canada. CMHC's obligations are those of Her Majesty The Queen in Right of Canada with full recourse to the Consolidated Revenue Fund of the Government of Canada.

BMO as Servicer is a CMHC Approved Lender. Payments under CMHC Mortgage Insurance will be made to the Servicer as the CMHC Approved Lender if the Servicer continues to administer the Loans at the time of the claim. If the Servicer is: (a) in default of its obligations under the Bank Act or other applicable CMHC, OSFI or Canada Deposit Insurance Corporation (**CDIC**) requirements that affect the Servicer's ability to administer the Loans; or (b) insolvent, CMHC will, in cooperation with OSFI and CDIC (as applicable) still honour the insurance for pre-existing Loans so long as arrangements are made to transfer the administration of such Loans to another CMHC Approved Lender with the solvency, capacity, capability and track record to administer the Loans. See further *Reliance of the Trust on third parties* below.

Under the CMHC Mortgage Insurance, the amount payable by CMHC to an insured party under the policy is generally equal to:

- (a) the aggregate of:
  - (i) the outstanding principal amount of the Loan;
  - (ii) specified charges advanced by approved mortgage lenders or the holder of a Loan in order to safeguard the interest of such mortgage lender, Loan holder or of CMHC;
  - (iii) such reasonable amount on account of legal costs as is approved by CMHC; and
  - (iv) unpaid interest accruing under the Loan for a period of 12 months and such additional periods as determined in accordance with the policy, including additional periods relating to enforcement of rights or remedies with respect to the Loan (the rate at which interest is payable under the CMHC Mortgage Insurance will generally be at the mortgage rate stated in the Loan documents); less,

- (b) the aggregate of the amount of any loss or damage:
  - (i) that results from a failure to exercise reasonable care and prudence in the making or administration of the Loan, in the collection of the repayment thereof or in the protection of or realization on security for the Loan;
  - (ii) that results from a contravention of or failure to comply with the regulations under the *National Housing Act* (Canada) applicable to the policy or a condition on which the Loan was insured; or
  - (iii) that CMHC is satisfied, on reasonable grounds, results from a contravention of or failure to comply with a requirement of CMHC to refrain from exercising such of its remedies in respect of the default as CMHC may specify.

Notwithstanding the above, CHMC shall not be required to pay the amounts described in (a) above if:

- (a) the relevant Loan and its Related Security is unenforceable against the Borrower's Property;
- (b) good and marketable title to the Borrower's Property cannot be conveyed to CMHC or an arms-length purchaser;
- (c) the CMHC Approved Lender or its directors, officers, agents or employees committed fraudulent acts in the granting, insuring or servicing of the Loan; or
- (d) losses and costs incurred by the CMHC Approved Lender are recoverable by the CMHC Approved Lender or Borrower(s) out of any amount payable under any other insurance policy or under an assurance or government compensation fund that was in effect at the time of default (such as fire and standard perils insurance, a guaranteed valuation service or title insurance, title assurance funds, lawyer's or other professional's Errors and Omissions insurance, mortgage impairment insurance or mortgage life insurance).

The filing of a claim under CMHC Mortgage Insurance must be completed in the prescribed time limits and is not complete unless the insured party delivers to CMHC all documentation and evidence required by CMHC.

CMHC Mortgage Insurance will cease to be in force if:

- (a) it has been obtained by fraud or fraudulent misrepresentation on the part of the insured party;
- (b) the insured Loan is sold to a person other than a CMHC Approved Lender unless the Loan continues to be administered by CMHC or a CMHC Approved Lender (as at the date of this Prospectus, BMO as Servicer is a CMHC Approved Lender for the purposes of CMHC Mortgage Insurance); or
- (c) the right of recovery under the mortgage securing the insured Loan has ceased to exist (which, for greater certainty, would include valid security was not initially created or the security has been discharged), other than by reason of the acquisition by the insured party of the mortgaged property after default.

In the event that CMHC Mortgage Insurance ceases to be in force with respect to any Loan in the Portfolio, such Loan will be given a zero value for the purposes of calculation of the Asset Coverage Test and the Amortisation Test.

## **The Loans of New Sellers and/or new Originators may be included in the Portfolio**

New Sellers who are members of the BMO Group may in the future accede to the Programme and sell Loans and their Related Security to the Trust. However, this would only be permitted if the conditions precedent relating to New Sellers acceding to the relevant Transaction Documents (more fully described under *Summary of the Principal Documents — Mortgage Sale Agreement — New Sellers* below) are met. Provided that those conditions are met, the consent of Covered Bondholders to the accession of any New Seller to the relevant Transaction Documents will not need to be obtained.

Any loans originated by a New Seller or a new Originator will have been originated in accordance with the lending criteria of the New Seller or, as applicable, new Originator, 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 Trust to make payments under the Covered Bond Guarantee. As noted above, however, Defaulted Loans in the Portfolio may be given a reduced weighting for the purposes of the calculation of the Asset Coverage Test and the Amortisation Test depending on the long-term debt credit ratings assigned to CMHC from time to time. Further, any Loan in the Portfolio which does not have the benefit of CMHC Mortgage Insurance will not be included in calculating the Adjusted Aggregate Loan Amount and the Amortisation Test Aggregate Loan Amount.

## **New Loan Types may be included in the Portfolio**

As at the date of this Prospectus, the Portfolio is comprised of Loans secured on residential property located in Canada. Going forward, the Seller envisages that Loans secured on home equity lines of credit secured on residential property located in Canada (or co-ownership interests therein) may also be sold into the Portfolio (provided that all such New Loan Types are insured under CMHC Mortgage Insurance as to principal and interest). In the event that such loans or interests are included, amendments will be made to, amongst other things, the Asset Coverage Test, the Eligibility Criteria and the Loan Representations and Warranties. The consent of the Covered Bondholders to these changes will not need to be obtained (as to which, see *The Bond Trustee and the Security Trustee may agree to modifications to the Transaction Documents without, respectively, the Covered Bondholders' or Secured Creditors' prior consent* below). Any such amendments will be subject to Rating Agency Confirmation.

## **Changes to Lending Criteria**

Each of the Loans originated by the Seller will have been originated in accordance with its Lending Criteria at the time of origination. Each of the Loans sold to the Trust by the Seller, but originated by an Originator (as defined below), will have been originated in accordance with the Lending Criteria of such Originator at the time of origination. It is expected that the Seller's or the relevant Originator's, as the case may be, Lending Criteria will generally consider type of property, term of loan, the loan-to-value ratio, status of applicant, credit history and the ability of the applicant to repay the loan. In the event of the assignment or assignation of any Loans and their Related Security to the Trust, the Seller will warrant only that (a) such Loans and Related Security as were originated by it, were originated in accordance with the Seller's Lending Criteria applicable at the time of origination and (b) such loans and related security as were originated by an Originator, were originated in accordance with the relevant Originator's Lending Criteria applicable at the time of origination. The Seller retains the right to revise its Lending Criteria from time to time but would do so only to the extent that such a change would be acceptable to a Reasonable Prudent Mortgage Lender. An Originator may additionally revise its Lending Criteria at any time. If the Lending Criteria of the Seller or any Originator change 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 Trust to make payments under the Covered Bond Guarantee. As noted above, however, Defaulted Loans in the Portfolio may be given a reduced weighting for the purposes of the calculation of the Asset Coverage Test and the Amortisation Test (see *Default by Borrowers in paying amounts due on their Loans*).

**The Trust does not have registered or recorded title to the Loans in the Portfolio on the relevant Purchase Date**

All right, title and interest of the Seller in the Loans and Related Security, will be transferred and assigned by the Seller to the Trust pursuant to the Mortgage Sale Agreement except for registered or recorded title to the Loans which will continue to be held by the Seller, or, as applicable, the relevant Originator until the happening of a Trigger Event. As a result (and until such time) application will not be made to the applicable land registry offices to register or record the Trust'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.

Upon the occurrence of a Trigger Event, the Seller will deliver or procure that the relevant Originator delivers the Customer Files relating to the Loans to the Trust and will be obliged to transfer (or procure the transfer of) registered or recorded title to the Loans and the Related Security to the Trust or as the Trust may direct (and this obligation will be supported by a registrable power of attorney in favour of the Trust), see further *Summary of the Principal Documents — Mortgage Sale Agreement — Transfer of Title to the Loans to the Trust*.

Since the Trust has not perfected its ownership interest in the Loans and their Related Security by completing the applicable registrations at the appropriate land registry or land titles or land titles office, and providing notice of the sale of the Loans to the Borrowers, the following risks exist:

- first, if the Seller or, as applicable an Originator sells a Loan and its Related Security, which has already been sold to the Trust, to another person and that person acted in good faith and did not have notice of the interests of the Trust in the Loan and its Related Security, then such person will obtain good title to the Loan and its Related Security, free from the interests of the Trust. If this occurred then the Trust will not have good title to the affected Loan and its Related Security and it will not be entitled to payments by a Borrower in respect of that Loan. However, the risk of third party claims obtaining priority to the interests of the Trust would be likely to be limited to circumstances arising from a breach by the Seller or, as applicable an Originator of its contractual obligations or fraud, negligence or mistake on the part of the Seller or, as applicable, an Originator or its respective personnel or agents;
- second, the rights of the Trust may be subject to the rights of the Borrowers against the Seller or, as applicable an Originator, such as rights of set-off which occur in relation to transactions or deposits made between Borrowers and the Sellers or Originators, as applicable and the rights of Borrowers to redeem their mortgages by repaying the Loans directly to the Seller or the relevant Originator as applicable; and
- third, unless the Trust has perfected the assignment of the Loans (which it is only entitled to do in certain circumstances), the Trust would not be able to enforce any Borrower's obligations under a Loan or Mortgage itself but would have to join the Seller or the relevant Originator as a party to any legal proceedings.

If any of the risks described in the first two bullet points above were to occur then the realisable value of the Portfolio or any part thereof and/or the ability of the Trust to make payments under the Covered Bond Guarantee might be affected.

While the exercise of set-off rights by Borrowers may adversely affect the realisable value of the Portfolio and/or the ability of the Trust to meet its obligations under the Covered Bond Guarantee or the Security Trustee (for itself and on behalf of the other Secured Creditors) to realise on the Portfolio under the Security Agreements, the terms of the Loans include waivers on the part of the Borrower of such set-off rights. In addition, the Canadian Dollar deposits of Borrowers with the Seller are currently insured up to Cdn\$100,000, subject to certain exceptions, by Canada Deposit Insurance Corporation, a Canadian Crown corporation.

Once notice has been given to the Borrowers of the sale, transfer and assignment of the Loans and their Related Security to the Trust and of the interest of the Security Trustee (for itself and on behalf of the other Secured Creditors), legal set-off rights which a Borrower may have against the Seller, as applicable (such as, for example, set-off rights associated with Borrowers holding deposits with the Seller or the relevant Originator), will crystallise and further rights of legal set-off would cease to accrue from that date and no new rights of legal set-off could be asserted following that notice. Set-off rights arising out of a transaction connected with the Loan will not be affected by that notice and will continue to exist.

Further, so long as notice of the sale, transfer and assignment of the Loans and their Related Security has not been given to the Borrowers and legal title to the Loans has not been registered in the appropriate land registry or land titles offices in the name of the Trust, the Seller will undertake for the benefit of the Trust and the Secured Creditors that it will lend its name to, or will procure the relevant Originator lend its name to, and take such other steps as may be reasonably required by the Trust and/or the Security Trustee in relation to, any legal proceedings in respect of the Loans and their Related Security.

### **Insolvency of Seller May Affect Enforcement of Rights and Remedies**

The sales of the Loans and their Related Security by the Seller to the Trust have been structured in a manner designed to ensure that they are treated as "true sale" transactions, rather than secured loans. However, a court could conclude that the Seller effectively still owns the Loans and their Related Security and that the Trust is a creditor of the Seller. This could happen, for example, if a court presiding over an insolvency proceeding in respect of the Seller were to conclude that the sales referred to above were not "true sales". If this were to occur, recovery on the Covered Bonds and Covered Bond Guarantee could be significantly affected. For example:

- the Trust might not have a perfected interest in the Loans and their Related Security at the time that the insolvency proceeding begins;
- tax or government liens on the Loans that arose prior to the sale thereof might have priority over the interest of the Trust in respect of the Loans that form part of the Charged Property;
- the insolvency proceeding could give rise to a stay of proceedings that would prevent the Trust and/or the Security Trustee from exercising rights and remedies against the Seller or the Loans without permission from the court. Moreover, applicable legislation in some circumstances permits an insolvent debtor to retain possession and administration of its property, subject to court oversight, even though it may be in default under applicable debt instruments and other contracts; and
- certain insolvency proceedings in Canada allow for a proposal or plan of arrangement to be proposed to all or some of the creditors of a debtor, to be voted on by the class(es) of creditors affected thereby. Such a proposal or plan, if accepted by the requisite majorities of each affected class of creditors and if approved by the court, would affect creditors within any such class who may not otherwise be willing to accept the proposal or plan.

Alternatively, the court could make an order in an insolvency proceeding in respect of the Seller to the effect that the Seller and the Trust should be treated as the same person and their assets and liabilities should be treated on a consolidated basis for the purposes of the proceeding. If this were to occur, recovery on the Covered Bonds and Covered Bond Guarantee could also be significantly affected. For example, the examples immediately above regarding the effect of an insolvency proceeding in respect of the Seller on the rights and remedies of the Trust would equally apply to the rights and remedies of the Security Trustee as they relate to the Trust in the consolidated proceeding.



### **Interest obligations may be greater than the monthly instalment payment**

When the BMO 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 Borrowers 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 Issuer 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.

### **Valuations**

If the Loan-to-Value Ratio is less than or equal to 60 per cent. (as determined based on the purchase price of a property), BMO does not require an independent valuation of the property. Where no such independent valuation has been obtained, there is an increased risk that the valuation of a property may not correspond to the market value of the property.

### **Sale of Selected Loans and their Related Security following service of a Notice to Pay or a breach of the Pre-Maturity Test**

If a Notice to Pay is served on the Trust, the Trust will be obliged to sell Selected Loans and their Related Security in order to make payments to the Trust's creditors, including payments under the Covered Bond Guarantee, as appropriate (see *Summary of the Principal Documents — Declaration of Trust — Sale of Selected Loans and their Related Security following service of a Notice to Pay*).

If, prior to maturity of Hard Bullet Covered Bonds, the Pre-Maturity Test is breached, the Trust may offer to sell Selected Loans to seek to generate sufficient cash to enable the Trust to pay the Final Redemption Amount on any Hard Bullet Covered Bonds should the Issuer fail to pay the Final Redemption Amount on the Final Maturity Date (see *Summary of the Principal Documents—Declaration of Trust—Sales of Selected Loans following a breach of the Pre-Maturity Test*).

There is no guarantee that a buyer will be found to acquire such Loans and their Related Security at the times required and there can be no guarantee or assurance as to the price which may be able to be obtained, which may affect payments under the Covered Bond Guarantee. However, prior to the service of a Trust Acceleration Notice, the Loans and their Related Security may not be sold by the Trust for less than an amount equal to the Adjusted Required Redemption Amount for the relevant Series of Covered Bonds until six months prior to: (i) the Final Maturity Date in respect of such Covered Bonds; or (ii) (if the same is specified as applicable in the applicable Final Terms) the Extended Due for Payment Date under the Covered Bond Guarantee in respect of such Covered Bonds. In the six months prior to, as applicable, the Final Maturity Date or Extended Due for Payment Date, the Trust is obliged to sell Loans and their Related Security for the best price reasonably available notwithstanding that such price may be less than the Adjusted Required Redemption Amount. Where the Trust is obliged to sell the Loans by a particular date, this may have an adverse affect on the sale price of such Loans. The Seller will have a right of pre-emption to purchase such Loans and their Related Security in the event the Trust wishes to or is required to sell such Loans and their Related Security (see *Summary of the Principal Documents—Mortgage Sale Agreement—Right of pre-emption*).

## **Limited recourse to the Seller**

The Trust, the Bond Trustee and the Security Trustee will not undertake any investigations, searches or other actions on any Loan or its Related Security and will rely instead on the Loan Representations and Warranties given in the Mortgage Sale Agreement by the Seller in respect of the Loans sold by it to the Trust.

If any Loan sold by the Seller does not materially comply with any of the Loan Representations and Warranties made by the Seller as at the Purchase Date of that Loan, then the Seller will be required to remedy the breach within 20 Business Days (or such longer period as the Security Trustee may direct) of receipt by it of a notice from the Trust requiring the Seller to remedy the breach.

If the Seller fails to remedy the breach of a Loan Representation and Warranty within such 20 Business Day period (or any longer period permitted), then the Seller will be required to repurchase on or before the next following Calculation Date (or such other date that may be agreed between the Trust and the Seller) the relevant Loan and its Related Security and any other Loan secured or intended to be secured by that Related Security or any part of it at their Outstanding Principal Balance and all Arrears of Interest, Accrued Interest and amounts deducted from amounts outstanding under such Loan or Loans in accordance with the terms of the Mortgage Sale Agreement as of the date of repurchase.

There can be no assurance that the Seller will have the financial resources to repurchase a Loan or Loans and its or their Related Security. However, if the Seller does not repurchase those Loans and their Related Security which are in breach of the Loan Representations and Warranties, then the Outstanding Principal Balance of those Loans will be excluded from the calculation of the Asset Coverage Test. There is no further recourse to the Seller in respect of a breach of a Loan Representation or Warranty.

## **Risks relating to Enforcement of Mortgages**

*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 *Bankruptcy and Insolvency Act* (Canada) or other insolvency, arrangement or other legislation for the relief of debtors, the Issuer or the Trust 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.

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) 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 *Income Tax Act* (Canada) upon any sale of the Property under or in respect of the related Loan which may require the lender to withhold from realization proceeds an amount equal to (or, in certain cases, greater than) the withholding tax applicable to any accrued capital gain of such non-resident person triggered by such sale. All 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.

*Prior Liens.* The priority of mortgages and hypothecs 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 Properties. In each province, the priority of a mortgage against real property will 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.

*Registered Title.* The mortgages securing the Loans will be registered in the name of the Seller or, as applicable, the relevant Originator as agent, bare nominee and bailee for the Trust. Upon the occurrence of a Trigger Event, the Trust will exercise certain powers of attorney granted to it by the Seller or, as applicable, the relevant Originator and record assignments and transfers of all mortgages in the name of the Trust. If such registration becomes necessary, there will 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 registration. However, if the Seller does not have the funds to pay such costs, any related expenses the Trust is required to pay may reduce the amounts available to pay the Covered Bondholders.

### **Environmental Matters**

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, which liability could exceed the value of the Property; or (iv) the practical inability to sell the Property 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 (such as the Trust and/or the Security Trustee) 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 Trust and/or the Security Trustee's exposure to liability for clean up costs will increase if it or its agent actually takes possession of a Property.

### **Reliance of the Trust on third parties**

The Trust has entered into agreements with a number of third parties, which have agreed to perform services for the Trust. In particular, but without limitation, the Administrative Agent has been appointed to provide administrative services to the Trust, the Servicer has been appointed to service Loans in the Portfolio, the Cash Manager has been appointed to calculate and monitor compliance with the Asset Coverage Test and the Amortisation Test and to provide cash management services to the Trust and the GIC Provider has been appointed to receive and hold moneys on behalf of the Trust and to provide an agreed rate of interest thereon. In the event that any of those parties fails to perform its obligations under the relevant agreement to which it is a party, the realisable value of the Portfolio or any part thereof or pending such realisation (if the Portfolio or any part thereof cannot be sold) the ability of the Trust to make payments under the Covered Bond Guarantee may be affected. For instance, if the Servicer has failed to adequately administer the Loans, this may lead to higher incidences of non-payment or default by Borrowers. Further, if the Servicer ceases to be

a CMHC Approved Lender or fails to administer a CMHC Insured Mortgage in accordance with the terms of the CMHC Mortgage Insurance, the ability to make a claim or obtain the benefit of coverage under the CMHC Mortgage Insurance may be impaired or terminated. The Trust is also reliant on the Swap Providers to provide it with the funds matching its obligations under a Term Advance and the Covered Bond Guarantee, as described in the following two risk factors. Following the Service of a Notice to Pay or a Trust Acceleration Notice on the Trust, the Trust is also reliant on the ability of the Stand-by GIC Provider to repay funds deposited with it into the Stand-by GIC Account. In particular, if a Notice to Pay has been served on the Trust, any Available Revenue Receipts and Available Principal Receipts not required to pay certain priority amounts pursuant to the *Guarantee Priority of Payments* will be deposited in the Stand-by GIC Account and holders of Covered Bonds will be dependent on the credit of the Stand-by GIC Provider for the availability of these amounts.

If a Servicer Event of Default occurs pursuant to the terms of the Servicing Agreement, then the Trust and/or the Security Trustee will be entitled to terminate the appointment of the Servicer and appoint a new servicer in its place. There can be no assurance that a substitute servicer with sufficient experience of administering mortgages and loans of the type comprising the Portfolio would be found who would be willing and able to service the Loans in the Portfolio on the terms of the Servicing Agreement. In addition, as described below, any substitute servicer would be required to be authorised under the applicable provincial mortgage broker legislation in order to administer the Loans in the Portfolio. The ability of a substitute servicer to perform fully the required services would depend on, among other things, the information, software and records available at the time of the appointment. Any delay or inability to appoint a substitute servicer may affect the realisable value of the Portfolio or any part thereof and/or the ability of the Trust to make payments under the Covered Bond Guarantee. The removal of the Servicer without the consent of CMHC may adversely affect the coverage of the CMHC Insured Mortgages under the CMHC Mortgage Insurance. Any appointment of a successor Servicer without the prior approval of CMHC may also adversely affect the coverage of CMHC Insured Mortgages under the CMHC Mortgage Insurance. Prior to terminating the Servicer, the Trust and/or the Security Trustee, as applicable, will use reasonable endeavours to obtain the consent of CMHC to a successor Servicer and take such other steps as reasonably required to avoid impairment of such CMHC Mortgage Insurance. If CMHC determines that the Servicer no longer continues to be a viable concern, CMHC may revoke the Servicer's status as a CMHC Approved Lender. If a CMHC Insured Mortgage is not being administered by a CMHC Approved Lender, the ability to make a claim or obtain the benefit of coverage under the applicable CMHC Mortgage Insurance may be adversely affected or terminated.

If a CMHC Insured Mortgage is not being administered by the Servicer, or a successor Servicer acceptable to CMHC, the ability to make a claim or obtain the benefit of coverage under the applicable CMHC Mortgage Insurance may be adversely affected or terminated. If the status of the Servicer as a CMHC Approved Lender is terminated, suspended or otherwise materially limited or restricted, the CMHC Mortgage Insurance in respect of the Loans in the Portfolio may be impaired.

The Servicer has no obligation itself to advance payments that Borrowers fail to make in a timely fashion. The Servicer will not be required to seek the consent or approval of the Covered Bondholders before taking any action under the Servicing Agreement.

Neither the Security Trustee nor the Bond Trustee is obliged in any circumstances to act as a servicer or to monitor the performance by the Servicer of its obligations.

### **Reliance on Swap Providers**

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) and CDOR, the Trust will enter into an Interest Rate Swap with the Interest Rate Swap Provider under the Interest Rate Swap Agreement. In addition, to provide a hedge against interest rate, currency and/or other risks in respect of amounts received by the Trust under the Loans in the Portfolio and the Interest Rate Swap and amounts

payable by the Trust on any Term Advance which is not denominated in Canadian Dollars and under the Covered Bond Guarantee in respect of the Covered Bonds, the Trust will, where relevant, enter into either a Non-Forward Starting Covered Bond Swap or a Forward Starting Covered Bond Swap with a Covered Bond Swap Provider in respect of a Series of Covered Bonds under the Covered Bond Swap Agreement between the Trust and that Covered Bond Swap Provider.

Where the relevant Term Advances have been made to the Trust in Canadian Dollars, the Trust will enter into a Forward Starting Covered Bond Swap with a Covered Bond Swap Provider to provide a hedge against interest rate, currency and/or other risks in respect of amounts received by the Trust under the Loans in the Portfolio and the Interest Rate Swap and amounts payable by the Trust under the Covered Bond Guarantee after service of a Notice to Pay on the Trust. Where the relevant Term Advances have been made to the Trust in a currency other than Canadian Dollars, the Trust will enter into a Non Forward Starting Covered Bond Swap to provide a hedge against interest rate, currency and/or other risks in respect of amounts received by the Trust under the Loans in the Portfolio and the Interest Rate Swap and amounts payable by the Trust in respect of on the relevant Term Advance and after service of a Notice to Pay, the Covered Bond Guarantee.

If the Trust fails to make timely payments of amounts due under any Swap Agreement, then it will have defaulted under that Swap Agreement. A Swap Provider is only obliged to make payments to the Trust as long as the Trust complies with its payment obligations under the relevant Swap Agreement. If the Swap Provider is not obliged to make payments or if it defaults on its obligations to make payments of amounts in the relevant currency equal to the full amount to be paid to the Trust on the due date for payment under the relevant Swap Agreement, the Trust 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 is entered into, the Trust may have insufficient funds to make payments under the Covered Bond Guarantee.

If a Swap Agreement terminates, then the Trust may be obliged to make a termination payment to the relevant Swap Provider. There can be no assurance that the Trust will have sufficient funds available to make a termination payment under the relevant Swap Agreement, nor can there be any assurance that the Trust will be able to enter into a replacement swap agreement, or if one is entered into, that the credit rating of the replacement swap counterparty will be sufficiently high to prevent a downgrade of the then current ratings of the Covered Bonds by the Rating Agencies.

If the Trust is obliged to pay a termination payment under any Swap Agreement, such termination payment will rank ahead of amounts due on the Covered Bonds (in respect of the Interest Rate Swaps) and *pari passu* with amounts due on the Covered Bonds (in respect of the Covered Bond Swaps), except where default by, or downgrade of, the relevant Swap Provider has caused the relevant Swap Agreement to terminate. The obligation on the Trust to make a termination payment may adversely affect the ability of the Trust to meet its obligations under the Covered Bond Guarantee.

### **Differences in timings of obligations of the Trust and the Covered Bond Swap Provider under the Covered Bond Swaps**

With respect to each of the Non-Forward Starting Covered Bond Swaps, the Trust will, on each Trust Payment Date, pay or provide for payment of an amount to each corresponding Covered Bond Swap Provider based on CDOR for the agreed period. The Covered Bond Swap Provider may not be obliged to make corresponding swap payments to the Trust under a Non-Forward Starting Covered Bond Swap until amounts are due and payable by the Trust under the Intercompany Loan Agreement or Due for Payment under the Covered Bond Guarantee. With respect to each of the Forward Starting Covered Bond Swaps, the Trust will, on each Trust Payment Date following service of a Notice to Pay on the Trust, pay or provide for payment of an amount to each corresponding Covered Bond Swap Provider based on CDOR for the agreed period. The Covered Bond Swap Provider may not be obliged to make corresponding swap payments to the Trust under a Forward Starting Covered Bond Swap until amounts are Due for Payment under the Covered Bond Guarantee. If a Covered Bond Swap Provider does not meet its payment obligations to the Trust under

the relevant Covered Bond Swap Agreement or such Covered Bond Swap Provider does not make a termination payment that has become due from it to the Trust under the Covered Bond Swap Agreement, the Trust may have a larger shortfall in funds with which to make payments under the relevant Term Advances and/or under the Covered Bond Guarantee with respect to the Covered Bonds than if the Covered Bond Swap Provider's payment obligations coincided with Trust's payment obligations under the Covered Bond Swap. Hence, the difference in timing between the obligations of the Trust and the obligations of the Covered Bond Swap Providers under the Covered Bond Swaps may affect the Trust's ability to make payments under the outstanding Term Advances which are not denominated in Canadian Dollars resulting in a reduced amount or no funds flowing back to the Issuer and, following service of a Notice to Pay on the Trust, under the Covered Bond Guarantee with respect to the Covered Bonds. Each Covered Bond Swap Provider will be required, pursuant to the terms of the relevant Covered Bond Swap Agreement, to post cash collateral with the Trust if the Trust's net exposure to the Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement exceeds a certain threshold level.

### **Funds Held In Trust**

If the Servicer in carrying out its functions as Servicer under the Servicing Agreement receives (including in its capacity as agent for the Trust) any funds whatsoever arising from the Loans and their Related Security comprised in the Portfolio, which money belongs to the Trust and is to be paid to the GIC Account (or, if applicable the Stand-by GIC Account) pursuant to the Servicing Agreement or any of the other Transaction Documents or otherwise, it will hold such moneys in trust for the Trust and shall, as soon as reasonably practicable and in any event within three Toronto Business Days of receipt of the same, pay the funds into the GIC Account (or, if applicable, the Stand-by GIC Account), regardless of any defence, set-off right or counterclaim. Until paid into the GIC Account (or, if applicable, the Stand-by GIC Account), the Servicer is entitled to commingle such funds with any other funds held by it. In the event of an insolvency of the Servicer, the ability of the Trust to trace and recover any such commingled funds may be impaired.

The proceeds from the claims under the CMHC Mortgage Insurance will be paid to the Servicer and will be held by the Servicer in trust for the Trust. In the event of an insolvency of the Servicer the ability of the Trust to trace and recover any such proceeds may be impaired.

### **Change of counterparties**

The parties to the Transaction Documents who receive and hold moneys pursuant to the terms of such documents (such as the Account Bank) are required to satisfy certain criteria in order that they can continue to receive and hold moneys.

These criteria include requirements in relation to the short-term, unguaranteed and unsecured ratings ascribed to such party by Fitch, Moody's and DBRS. If the party concerned ceases to satisfy the applicable criteria, including the ratings criteria, then the rights and obligations of that party (including the right or obligation to receive moneys on behalf of the Trust) may be required to be transferred to another entity which does satisfy the applicable criteria. In these circumstances, the terms agreed with the replacement entity may not be as favourable as those agreed with the original party pursuant to the relevant Transaction Document.

In addition, should the applicable criteria cease to be satisfied, then 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 Security Trustee and/or Bond Trustee together with Rating Agency Confirmation may be required, the consent of Covered Bondholders may not be required in relation to such amendments and/or waivers.

## **RISK FACTORS RELATING TO THE COVERED BONDS**

### **Extendable obligations under the Covered Bond Guarantee**

Following the failure by the Issuer to pay the Final Redemption Amount of a Series of Covered Bonds on their Final Maturity Date (in each case subject to the applicable grace period) and if, following service of a Notice to Pay on the Trust (by no later than the date which falls one Business Day prior to the Extension Determination Date), payment of the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of such Series of the Covered Bonds is not made in full by the Extension Determination Date, then the payment of such Guaranteed Amounts may be automatically deferred. This will occur (subject to no Trust Acceleration Notice having been served) if the Final Terms Document for a relevant Series of Covered Bonds (the **relevant Series of Covered Bonds**) provides that such Covered Bonds are subject to an Extended Due for Payment Date.

To the extent that the Trust has received a Notice to Pay by the time specified above and has sufficient moneys available under the Guarantee Priority of Payments to pay in part the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of the relevant Series of Covered Bonds, the Trust shall make partial payment of the Final Redemption Amount in accordance with the Guarantee Priority of Payments as described in Condition 6.1. Payment of the unpaid portion of the Final Redemption Amount shall be deferred automatically until the applicable Extended Due for Payment Date. The Extended Due for Payment Date will fall one year after the Final Maturity Date. The Trust shall be entitled to make payments in respect of the Final Redemption Amount on any Interest Payment Date up until the Extended Due for Payment Date. The Issuer is not required to notify Covered Bondholders of such deferral, which will occur automatically (subject to no Trust Event of Default having occurred) if the Final Terms Document for a relevant Series of Covered Bonds provides that such Covered Bonds are subject to an Extended Due for Payment Date. Interest will continue to accrue and be payable on the unpaid portion of the Final Redemption Amount in accordance with Condition 4 and the Trust will pay Guaranteed Amounts constituting Scheduled Interest on each Original Due for Payment Date and the Extended Due for Payment Date. In these circumstances, except where the Trust has failed to apply any amount in accordance with the Guarantee Priority of Payments, failure by the Trust to make payment in respect of the Final Redemption Amount on the Final Maturity Date (subject to the applicable grace period) shall not constitute a Trust Event of Default. However, failure by the Trust to pay Guaranteed Amounts corresponding to the Final Redemption Amount or the balance thereof, as the case may be, on the Extended Due for Payment Date or to pay Guaranteed Amounts constituting Scheduled Interest on any Original Due for Payment Date or the Extended Due for Payment Date (in each case subject to the applicable grace period) shall constitute a Trust Event of Default.

### **Limited description of the Portfolio**

The Portfolio consists solely of Loans that are CMHC Insured Mortgages. CMHC, Canada's national housing agency, is a Canadian federal Crown corporation, wholly owned by the Government of Canada. CMHC's obligations are those of Her Majesty The Queen in Right of Canada with full recourse to the Consolidated Revenue Fund of the Government of Canada. As a federal Crown corporation, CMHC reports to the Parliament of Canada through a Minister. CMHC derives its authorities from the *Canada Mortgage and Housing Corporation Act* (Canada), the *National Housing Act* (Canada) and, as a federal Crown corporation, the *Financial Administration Act* (Canada). CMHC insures the payment of principal and interest on first mortgage loans on private residential properties in Canada.

Covered Bondholders will not receive detailed statistics or information in relation to the Loans in the Portfolio, because it is expected that the constitution of the Portfolio will frequently change due to, for instance:

- the Seller selling New Loans and their Related Security (or New Loan Types and their Related Security) to the Trust;

- the Seller repurchasing Loans and their Related Security from the Trust in accordance with the Mortgage Sale Agreement;
- New Sellers acceding to the Transaction Documents and selling and/or repurchasing New Seller Loans and their Related Security (or New Loan Types and their Related Security) to or from the Trust;
- the Seller selling New Loan Types and their Related Security originated by other Originators to the Trust; and
- the sale of home equity lines of credit (or co-ownership interests therein) to the Trust.

There is no assurance that the characteristics of the New Loans or New Seller Loans assigned to the Trust on any Purchase Date will be the same as those Loans in the Portfolio as at that Purchase Date. However, each Loan will be required to meet the Eligibility Criteria and the Loan Representations and Warranties set out in the Mortgage Sale Agreement — see *Summary of the Principal Documents — Mortgage Sale Agreement — Sale by the Seller of the Loans and Related Security* (although the Eligibility Criteria and Loan Representations and Warranties may change in certain circumstances — see *The Bond Trustee and the Security Trustee may agree to modifications to the Transaction Documents without, respectively, the Covered Bondholders' or Secured Creditors' prior consent* below). In addition, the Asset Coverage Test is intended to ensure that the Adjusted Aggregate Loan Amount is an amount equal to or in excess of the aggregate Canadian Dollar Equivalent of the Principal Amount Outstanding of the Covered Bonds for so long as Covered Bonds remain outstanding (although there is no assurance that it will do so) and the Cash Manager will provide monthly reports that will set out certain information in relation to the Asset Coverage Test. As noted herein, however, the Asset Coverage Test and the Amortisation Test will give full or partial credit to Loans based on the long-term debt credit ratings assigned to CMHC from time to time. Any Loan in the Portfolio which does not have the benefit of CMHC Mortgage Insurance will not be included in calculating the Adjusted Aggregate Loan Amount and the Amortisation Test Aggregate Loan Amount.

### **Ratings of the Covered Bonds**

The ratings assigned to the Covered Bonds to be issued under the Programme by Fitch address the probability of default and the loss given default of the Covered Bonds, the ratings assigned to the Covered Bonds by DBRS address the risk that the Issuer will fail to satisfy its obligations in accordance with the terms of the Covered Bonds and the ratings assigned to the Covered Bonds by Moody's address the expected loss posed to investors.

The expected ratings of the Covered Bonds are set out in the relevant Final Terms Document for each Series of Covered Bonds. Any Rating Agency may lower its rating or withdraw its rating if, in the sole judgment of the Rating Agency, the credit quality of the Covered Bonds has declined or is in question.

In addition, at any time any Rating Agency may revise its relevant rating methodology with the result that, amongst other things, any rating assigned to the Covered Bonds may be lowered. If any rating assigned to the Covered Bonds is lowered or withdrawn, following any such change in methodology, the market value of the Covered Bonds may be reduced.

A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension or withdrawal (or, as noted above, revision) at any time. A credit rating may not reflect the potential impact of all of the risks related to the structure, market, additional factors discussed above and other factors that may affect the value of the Covered Bonds.

In general, European regulated investors are restricted under Regulation (EC) No. 1060/2009 (the **CRA Regulation**) from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not



been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). Certain information with respect to the credit rating agencies and ratings is set out above and will be disclosed in the Final Terms Document.

### **Rating Agency Confirmation in respect of Covered Bonds**

The terms of certain of the Transaction Documents provide that, in certain circumstances, the Issuer must, and the Bond Trustee or the Security Trustee may, obtain confirmation from the Rating Agencies that any particular action proposed to be taken by the Issuer, the Trust, the Seller, the Servicer, the Cash Manager, the Bond Trustee or the Security Trustee will not adversely affect or cause to be withdrawn the then current ratings of the Covered Bonds (a **Rating Agency Confirmation**). However, Covered Bondholders should be aware that if: (a) a confirmation or affirmation of rating or other response by a Rating Agency is a condition to any action or step under any Transaction Document; and (b) a written request for such confirmation or response is delivered to that Rating Agency by any of the Trust, the Issuer, the Seller, the Cash Manager, the Servicer the Bond Trustee and/or the Security Trustee, as applicable (each a **Requesting Party**) and either one or more of the Rating Agencies indicates that it does not consider such confirmation, affirmation or response necessary in the circumstances or no such confirmation or affirmation of rating or other response is received from one or more of the Rating Agencies within 30 days of receipt of such request (each a **Non-Responsive Rating Agency**), the Requesting Party shall be entitled to disregard the requirement for a confirmation or affirmation of rating or other response by each Non-Responsive Rating Agency and proceed on the basis of the confirmations or affirmations of rating or other responses received by each other Rating Agency on the basis that such confirmation or affirmation of rating or other response by 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 or affirmation shall 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.

By acquiring the Covered Bonds, investors will be deemed to have acknowledged and agreed that, notwithstanding the foregoing, a credit rating is an assessment of credit and does not address other matters that may be of relevance to Covered Bondholders, including, without limitation, in the case of a Rating Agency Confirmation, whether any action proposed to be taken by the Issuer, the Trust, the Seller, the Servicer, the Cash Manager, the Bond Trustee, the Security Trustee or any other party to a Transaction Document is either (i) permitted by the terms of the relevant Transaction Document, or (ii) in the best interests of, or not prejudicial to, some or all of the Covered Bondholders. In being entitled to have regard to the fact that the Rating Agencies have confirmed that the then current ratings of the Covered Bonds would not be adversely affected or withdrawn, each of the Issuer, the Trust, the Bond Trustee, the Security Trustee and the Secured Creditors (including the Covered Bondholders) is deemed to have acknowledged and agreed that the above does not impose or extend any actual or contingent liability on the Rating Agencies to the Issuer, the Trust, the Bond Trustee, the Security 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 Trust, the Bond Trustee, the Security Trustee, the Secured Creditors (including the Covered Bondholders) or any other person whether by way of contract or otherwise.

Any such Rating Agency Confirmation may or may not be given at the sole discretion of each Rating Agency. It should be noted that, 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 a Rating Agency Confirmation in the time available or at all, and the Rating Agency will not be responsible for the consequences thereof. Such confirmation, 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 securities form part since the issuance closing date. A Rating Agency Confirmation represents only a restatement of the opinions given, and is given on the basis that it will not be construed as advice for the benefit of any parties to the transaction.

### **Covered Bonds issued under the Programme**

Covered Bonds issued under the Programme will either be fungible with an existing Series of Covered Bonds or have different terms to an existing Series of Covered Bonds (in which case they will constitute a new Series). All Covered Bonds issued from time to time will rank *pari passu* with each other in all respects and will share in the security granted by the Trust under the Security Agreements.

Following the occurrence of an Issuer Event of Default and service by the Bond Trustee of an Issuer Acceleration Notice, the Covered Bonds of all outstanding Series will accelerate against the Issuer but will be subject to, and have the benefit of, payments made by the Trust under the Covered Bond Guarantee (following service of a Notice to Pay).

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

### **Further Issues**

In order to ensure that any further issue of Covered Bonds under the Programme does not adversely affect existing Covered Bondholders:

- the Issuer will be required to ensure that on each Issue Date the related Term Advance equals the Canadian Dollar Equivalent of the Covered Bonds issued on such date);
- the Asset Coverage Test will be required to be met both before and immediately after any further issue of Covered Bonds; and
- on or prior to the date of issue of any further Covered Bonds, the Issuer will be obliged to obtain written confirmation from the Rating Agencies that such further issue would not adversely affect the then current ratings of the existing Covered Bonds.

### **Obligations under the Covered Bonds**

The Covered Bonds will not represent an obligation or be the responsibility of any of the Dealers, the BMO Trustee, the Trust (until after the service on it of a Notice to Pay or a Trust Acceleration Notice), the Bond Trustee, the Security Trustee, the Independent Beneficiary or any other party to the Programme, their officers, members, directors, employees, security holders, incorporators, other than the Issuer and, after the service of a Notice to Pay or the service of a Trust Acceleration Notice, the Trust. The Issuer and the Trust will be liable solely in their corporate or trust capacity, respectively, for their obligations in respect of the Covered Bonds and such obligations will not be the obligations of their respective officers, trustees, members, directors, employees, security holders, incorporators or the Independent Beneficiary.

### **Security Trustee's powers may affect the interests of the Covered Bondholders**

In the exercise of its powers, trusts, authorities and discretions the Security Trustee shall only have regard to the interests of the Covered Bondholders, save in relation to a proposed modification to, or waiver or authorisation of any breach or proposed breach of, any provisions of the Covered Bonds of any Series or any of the Transaction Documents where it shall only have regard to the interests of the Covered Bondholders of

that Series and, provided that none of the Covered Bond Swap Providers nor the Interest Rate Swap Provider is a member of the BMO Group, the Covered Bond Swap Providers and the Interest Rate Swap Provider.

Where the Security Trustee is unable to determine whether any such modification, waiver or authorisation is materially prejudicial to any of the Covered Bond Swap Providers or the Interest Rate Swap Provider, provided that the Covered Bond Swap Provider or the Interest Rate Swap Provider (as the case may be) is not a member of the BMO Group, it shall give written notice to such Covered Bond Swap Provider or the Interest Rate Swap Provider, setting out the relevant details and requesting its consent thereto. Any such Covered Bond Swap Provider or the Interest Rate Swap Provider shall, within ten Canadian Business Days of receipt of such notice (the **Relevant Period**), notify in writing the Security Trustee of (a) its consent (such consent not to be unreasonably withheld or delayed) to such proposed modification, waiver or authorisation; or (b) subject to paragraph (a), its refusal to give such consent and reasons for such refusal (such refusal not to be unreasonable in the circumstances). Any failure by the relevant Covered Bond Swap Provider or the Interest Rate Swap Provider to notify the Security Trustee as aforesaid within the Relevant Period shall be deemed to be a consent by the relevant Covered Bond Swap Provider or the Interest Rate Swap Provider to such proposed modification, waiver or authorisation, provided that the Security Trustee shall only agree to such modification, waiver or authorisation if it is satisfied that the exercise of its powers, trusts, authorities and discretions in respect of such modification, waiver or authorisation will not be materially prejudicial to the interests of the Covered Bondholders. In the exercise of its powers, trusts, authorities and discretions, the Security Trustee may not act on behalf of the Seller.

If, in connection with the exercise of its powers, trusts, authorities or discretions, the Security 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 Security Trustee shall 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 Canadian Dollar Equivalent of the Principal Amount Outstanding of Covered Bonds of the relevant Series then outstanding.

**The Bond Trustee and the Security Trustee may agree to modifications to the Transaction Documents without, respectively, the Covered Bondholders' or Secured Creditors' prior consent**

The Conditions of the Covered Bonds contain provisions for calling meetings of Covered Bondholders to consider matters affecting their interest generally. These provisions permit defined majorities to permit modifications or waivers of certain Conditions of the Covered Bonds or covenants and agreements made by the Issuer and to bind all Covered Bondholders, even those who do not attend and vote at the relevant meeting and Covered Bondholders who voted in a manner contrary to the majority.

Pursuant to the terms of the Trust Deed and the Security Agreements, the Bond Trustee and the Security Trustee may, without the consent or sanction of any of the Covered Bondholders or any of the other Secured Creditors, concur with any person in making or sanctioning any modification to, or waive or authorise any breach or proposed breach in respect of, the Transaction Documents and the Terms and Conditions of the Covered Bonds:

- provided that (a) the Bond Trustee is of the opinion that such modification, waiver or authorisation will not be materially prejudicial to the interests of any of the Covered Bondholders, and (b) the Security Trustee is of the opinion that such modification, waiver or authorisation is not materially prejudicial to the interests of any of the Covered Bondholders or the Covered Bond Swap Providers or the Interest Rate Swap Provider, provided that the relevant Covered Bond Swap Provider or the Interest Rate Swap Provider is not a member of the BMO Group (where, if the Security Trustee is unable to determine whether any such modification, waiver or authorisation is materially prejudicial to any of the Covered Bond Swap Providers or the Interest Rate Swap Provider, the provisions referred to above under Security Trustee's powers may affect the interests of the Covered Bondholders shall apply); or

- which is in the sole opinion of the Bond Trustee or the Security Trustee (as the case may be) 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 or the Security Trustee (as the case may be), proven, or is to comply with mandatory provisions of law.

Notwithstanding the above, the Issuer, the Trust and the Principal Paying Agent may, without the consent or sanction of the Bond Trustee, the Security Trustee, the Covered Bondholders, Receiptholders or Couponholders or any of the other Secured Creditors, concur with any person in making or sanctioning any modification to the provisions of any Final Terms Document 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. Depending on the nature of the modification or waiver, the Rating Agencies will either be notified in advance of such modification or waiver occurring or be requested by the Security Trustee to provide a Rating Agency Confirmation in connection with such waiver or modification.

Notwithstanding the above, none of the Issuer, the Trust, the Seller, the Servicer, the Bond Trustee or the Security Trustee may take any action or amend any of the Transaction Documents that would result in the CMHC Mortgage Insurance relating to any Loan in the Portfolio becoming void or a material limit being placed on any claims that may be made thereunder without the prior consent or sanction of the Covered Bondholders by Extraordinary Resolution. Should Covered Bondholders consent to any action or amendment that would result in the CMHC Mortgage Insurance relating to any Loan in the Portfolio becoming void or a material limit being placed on any claims that may be made thereunder, the Issuer shall, where practicable, provide each of the Rating Agencies with written notice thereof ten Business Days prior to such action or amendment coming into effect.

#### **Certain decisions of Covered Bondholders taken at Programme level**

Any Extraordinary Resolution to direct the Bond Trustee to serve an Issuer Acceleration Notice following an Issuer Event of Default, to direct the Bond Trustee to serve a Trust Acceleration Notice following a Trust Event of Default and any direction to the Bond Trustee or Security Trustee to take any enforcement action must be passed at a single meeting of the holders of all Covered Bonds of all Series then outstanding.

#### **Realisation of Charged Property following the occurrence of a Trust Event of Default and service of a Trust Acceleration Notice**

If a Trust Event of Default occurs and a Trust Acceleration Notice is served on the Trust, then the Security Trustee will be entitled to enforce the Security created under and pursuant to the Security Agreements and the proceeds from the realisation of the Charged Property will be applied by the Security Trustee towards payment of all secured obligations in accordance with the Post-Enforcement Priority of Payments described in *Cashflows* below.

There is no guarantee that the proceeds of realisation of the Charged Property will be in an amount sufficient to repay all amounts due to the Secured Creditors (including the Covered Bondholders) under the Covered Bonds and the Transaction Documents.

If, following the occurrence of a Trust Event of Default, a Trust Acceleration Notice is served on the Trust then the Covered Bonds may be repaid sooner or later than expected or not at all.

#### **Lack of liquidity in the secondary market may adversely affect the market value of the Covered Bonds.**

The secondary markets for mortgage loans and mortgage-backed securities are currently experiencing severe difficulties resulting from reduced investor demand for mortgage loans and mortgage-backed securities and increased investor yield requirements for such loans and securities. As a result, the secondary market for

mortgage-backed securities is experiencing extremely limited liquidity. It is not known for how long these conditions will continue or whether they will worsen in the future.

Limited liquidity in the secondary market for mortgage-backed securities has had a severe adverse effect on the market value of mortgage-backed securities. The price of credit protection on mortgage-backed securities through credit derivatives has risen materially. Limited liquidity in the secondary market may continue to have a severe adverse effect on the market value of mortgage-backed securities, especially those securities that are more sensitive to prepayment, credit or interest rate risk and those securities that have been structured to meet the investment requirements of limited categories of investors. Consequently, an investor in the Covered Bonds may not be able to sell its Covered Bonds or acquire credit protection readily. The market values of the Covered Bonds are likely to fluctuate. Any of these fluctuations may be significant and could result in significant losses to such investor.

In addition, the forced sale into the market of mortgage-backed securities held by structured investment vehicles, hedge funds, issuers of collateralized debt obligations and other similar entities that are experiencing funding difficulties could adversely affect an investor's ability to sell, and/or the price an investor will be able to receive for, the Covered Bonds in the secondary market.

### **Absence of secondary market**

No assurance is provided that there is an active and liquid secondary market for the Covered Bonds, and no assurance is provided that a secondary market for the Covered Bonds will develop. None of the Covered Bonds, the Covered Bond Guarantee has been, or will be, registered under the Securities Act or any other applicable securities laws and they are subject to certain restrictions on the resale and other transfer thereof as set forth under *Subscription and Sale and Transfer and Selling Restrictions*. To the extent that 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.

### **Amendments to Covered Bonds following any covered bond legislation coming into force in Canada**

The Terms and Conditions of the Covered Bonds permit the Issuer to amend, without the consent of the Bond Trustee, the Security Trustee or the Covered Bondholders, the terms and conditions of any existing Covered Bonds then outstanding following the coming into force in Canada of any legislation similar to covered bond legislation in force in any European Union country or any rules, regulations or guidelines published by any governmental authority that provide for covered bonds issued by Canadian issuers to qualify for the same benefits available pursuant to covered bond legislation in force in any European Union country provided that, amongst other things, each of the Rating Agencies then rating the existing Covered Bonds confirms in writing that any such amended Covered Bonds will be assigned the same ratings as are then applicable to the existing Covered Bonds. Any such amended Covered Bonds will qualify as covered bonds under such new legislation, rules, regulations or guidelines and will be in identical form, amounts and denominations and will be subject to the same economic terms and conditions as the existing Covered Bonds then outstanding.

On 11 May 2011 the Canadian federal government issued a Covered Bonds Consultation Paper, which outlined the major elements of a proposed legislative covered bonds framework that may be adopted as law in Canada, and which solicited comments thereon for a comment period which ended on 10 June 2011. Since that time, the Canadian federal government has been working with relevant stakeholders to further develop such legislative framework. The Issuer anticipates that the final legislative framework may become law in late 2011 or in early 2012, and that such framework would permit the Issuer to amend existing Covered Bonds on the basis described in the preceding paragraph.

## **Covered Bonds not in physical form**

Unless the Bearer Global Covered Bonds or the Registered Global Covered Bonds are exchanged for Bearer Definitive Covered Bonds or Registered Definitive Covered Bonds, respectively, which exchange will only occur in the limited circumstances set out under *Form of the Covered Bonds — Bearer Covered Bonds and Form of the Covered Bonds — Registered Covered Bonds* below, the beneficial ownership of the Covered Bonds will be recorded in book-entry form only with Euroclear and Clearstream, Luxembourg and/or DTC. The fact that the Covered Bonds are not represented in physical form could, among other things:

- result in payment delays on the Covered Bonds because distributions on the Covered Bonds will be sent by or on behalf of the Issuer to Euroclear, Clearstream, Luxembourg or DTC instead of directly to Covered Bondholders;
- make it difficult for Covered Bondholders to pledge the Covered Bonds as security if Covered Bonds in physical form are required or necessary for such purposes; and
- hinder the ability of Covered Bondholders to resell the Covered Bonds because some investors may be unwilling to buy Covered Bonds that are not in physical form.

## **General legal investment considerations**

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 (1) Covered Bonds are legal investments for it, (2) Covered Bonds can be used as collateral for various types of borrowing and (3) 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.

## **FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE MARKET RISKS ASSOCIATED WITH COVERED BONDS ISSUED UNDER THE PROGRAMME**

### **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 Issuer believes that the factors described herein represent the principal risks inherent in investing in Covered Bonds issued under the Programme, but the Issuer may be unable to pay or deliver amounts in connection with any Covered Bonds for other reasons and the Issuer 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 or incorporated by reference in this Prospectus or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Covered Bonds and the impact the Covered Bonds will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Covered Bonds, including Covered Bonds with principal or interest payable in one or more

currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

- 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.

Some 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 effects on the value of the Covered Bonds and the impact this investment will have on the potential investor's overall investment portfolio.

### **RISKS RELATED TO THE STRUCTURE OF A PARTICULAR ISSUE OF COVERED BONDS**

A wide range of Covered Bonds may be issued under the Programme. A number of these Covered Bonds may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

#### **Covered Bonds subject to Optional Redemption by the Issuer**

An optional redemption feature of Covered Bonds is likely to limit the market value of such Covered Bonds. During any period when the Issuer may elect to redeem 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 be true prior to any redemption period.

The Issuer may be expected to redeem Covered Bonds when its cost of borrowing is lower than the interest rate on the 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 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.

#### **Index Linked Interest Covered Bonds and Dual Currency Interest Covered Bonds**

The Issuer may issue Covered Bonds with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a **Relevant Factor**). In addition, the Issuer may issue Covered Bonds with interest payable in one or more currencies which may be different from the currency in which the Covered Bonds are denominated. Potential investors should be aware that:

- the market price of such Covered Bonds may be volatile;
- they may receive no interest;
- payment of principal or interest may occur at a different time or in a different currency from that expected;
- they may lose all or a substantial portion of their principal;

- a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- if a Relevant Factor is applied to Covered Bonds in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked Interest Covered Bonds. Accordingly, an investor should consult its own financial, tax and legal advisers about the risk entailed by an investment in any Index Linked Interest Covered Bonds and the suitability of such Covered Bonds in light of their particular circumstances.

### **Partly-paid Covered Bonds**

The Issuer may issue Covered Bonds where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its investment.

### **Variable Interest Covered Bonds with a multiplier or other leverage factor**

Covered Bonds with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

### **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.

### **Fixed/Floating Rate Covered Bonds**

The Issuer may issue Covered Bonds which 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 Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Covered Bonds since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the 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 Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than the then prevailing rates on its Covered Bonds.

### **Inverse Floating Rate Covered Bonds**

Inverse Floating Rate Covered Bonds have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Covered Bonds typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Covered Bonds are more volatile because an increase in the reference rate not only decreases the interest rate of the Covered Bonds, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Covered Bonds.



## **Additional Risk Factors**

Additional risk factors in relation to specific Series of Covered Bonds may be included in the applicable Final Terms Document.

### **Covered Bonds issued at a substantial discount or premium**

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest bearing securities with comparable maturities.

### **Canadian usury laws**

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.

### **Covered Bonds in NGCB form**

The NGCB form has been introduced to allow for the possibility of Covered Bonds being issued and held in a manner which will permit them to be recognized as eligible collateral for monetary policy of the central banking system for the euro (the **Eurosystem**) and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. However, 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 the Covered Bonds meet such Eurosystem eligibility criteria.

## **GENERAL RISK FACTORS**

### **EU Savings Directive**

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange within certain other countries). A number of non-European Union countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State of the European Union which has opted for a withholding system and an amount of or in respect of tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Covered Bond as a result of the imposition of such withholding tax. The Issuer will be required to maintain a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to the Directive, provided that the Issuer shall not, under any circumstances, be obliged to maintain a Paying Agent with a specified office in such Member State unless at least one

Member State of the European Union does not require a Paying Agent making payments through a specified office in that Member State to so withhold or deduct tax.

### **U.S. Foreign Account Tax Compliance Withholding**

The Issuer or Guarantor may be required pursuant to the U.S. Foreign Account Tax Compliance Act (**FATCA**) to withhold U.S. tax on all or a portion of payments, including payments of principal, made after 31 December 2014 on Covered Bonds issued after 18 March 2012. Such withholding may be required with respect to payments to an investor that fails to provide certain information to the Issuer (or the Guarantor, if payment is required under the Guarantee), or to any investor (or other financial institution through which payment on such Covered Bonds is made) that is a non-U.S. financial institution not in compliance with FATCA. The application of the FATCA rules to interest, principal or other amounts paid on or with respect to the Covered Bonds is not clear. If an amount of, or in respect of, U.S. withholding tax were to be deducted or withheld from interest, principal or other payments on the Covered Bonds as a result of the holder's failure to comply with these rules, neither the Issuer nor the Guarantor nor the Agent nor any other person would be required to pay additional amounts as a result of the deduction or withholding of such tax. Holders of Covered Bonds should consult their own tax advisors on how the FATCA rules may apply to payments they receive under the Covered Bonds.

### **Transparency Directive — no obligation to maintain listing in certain circumstances**

The Issuer is not under any obligation to Covered Bondholders to maintain any listing of Covered Bonds and may, in certain circumstances, seek to terminate the listing of any Series of Covered Bonds. These circumstances include the implementation of (i) the Transparency Obligations Directive 2004/109/EC of the European Union and of the Council of 15 December 2004 (the **TOD**), or any law implementing or complying with, or introduced in order to conform to TOD, so as to require the Issuer (a) to prepare its financial statements in accordance with, or reconciled to, International Financial Reporting Standards (**IFRS**) or International Accounting Standards (**IAS**) or (b) to provide additional quantitative or qualitative disclosures relating to significant differences between IFRS and GAAP or any additional auditor's report relating to such disclosures or (c) to change the form of its financial reports in any other respect (other than GAAP and Canadian generally accepted auditing standards) or (d) to have its financial statements audited in accordance with ISA; or (ii) any other future law or EU Directive that imposes other requirements (including new corporate governance requirements) on the Issuer that it in good faith determines are impractical or unduly burdensome in order to maintain the continued listing of any Covered Bonds issued under the Programme on a regulated market.

In December 2006, the European Union passed Commission Regulation (EC) No. 1787/2006 and a Commission Decision (2006/891/EC) permitting non-EEA issuers, such as the Issuer, to use among others Canadian GAAP in prospectuses filed under the Prospectus Directive and financial reporting under the TOD until financial years beginning on or after 1 January 2009. On 21 December 2007 the European Commission passed Commission Regulation (EC) No. 1569/2007 pursuant to which these transitional measures may be extended until financial years beginning on or after 31 December 2011, provided that the relevant accounting standards setter in the non-EEA country (such as Canada) had before 30 June 2008 publicly committed to adopt IFRS before 31 December 2011 and taken effective measures to ensure the timely and complete transition to IFRS by that date. In June 2006, the Canadian accounting standards setter (the **AcSB**) publicly announced a proposal to adopt IFRS by 1 January 2011. In February 2008, the AcSB publicly confirmed the adoption of IFRS for financial years beginning on or after 1 January 2011.

In the circumstances noted above, the Issuer may, in its sole discretion, determine that it is unduly burdensome to maintain such listing and seek to terminate the listing of such Covered Bonds provided it uses its reasonable endeavours to seek an alternative admission to listing, trading and/or quotation of such Covered Bonds by another listing authority, securities exchange and/or system that it deems appropriate. However, if such alternative listing is not available or, in the opinion of the Issuer is impractical or unduly burdensome, an alternative listing may not be obtained.

Although there is no assurance as to the liquidity of any Covered Bonds as a result of the listing on a regulated market, delisting such Covered Bonds may have a material effect on the ability to (a) continue to hold such Covered Bonds or (b) resell the Covered Bonds in the secondary market.

### **Changes of law**

The transactions described in this Prospectus (including the issue of the Covered Bonds) and the ratings which are to be assigned to the Covered Bonds are based on the relevant law and administrative practice in effect as at the date hereof, and having regard to the expected tax treatment of all relevant entities under such law and practice. No assurance can be given as to the impact of any possible change to the law (including any change in regulation which may occur without a change in primary legislation), administrative practice or tax treatment after the date of this document or can any assurance be given as to whether any such change would adversely affect the ability of the Issuer to make payments under the Covered Bonds.

### **Implementation of and/or changes to the Basel II framework may affect the capital requirements and/or the liquidity associated with a holding of the Covered Bonds for certain investors**

In 1988, the Basel Committee on Banking Supervision (the **Basel Committee**) adopted capital guidelines that explicitly link the relationship between a bank's capital and its credit risks. In June 2006 the Basel Committee finalised and published new risk-adjusted capital guidelines (**Basel II**). Basel II includes the application of risk-weighting which depends upon, amongst other factors, the external or, in some circumstances and subject to approval of supervisory authorities, internal credit rating of the counterparty. The revised requirements also include allocation of risk capital in relation to operational risk and supervisory review of the process of evaluating risk measurement and capital ratios.

Basel II has not been fully implemented in all participating jurisdictions. The implementation of the framework in relevant jurisdictions may affect the risk-weighting of the Covered Bonds for investors who are or may become subject to capital adequacy requirements that follow the framework. The Basel II framework is implemented in the European Union by the Capital Requirements Directive. Implementation of the proposals is generally governed by the relevant banking regulators in their respective jurisdictions (by OSFI in Canada).

It should also be noted that the Basel Committee has approved significant changes to the Basel II framework (such changes being commonly referred to as **Basel III**) and on 1 June 2011 issued its final guidance, which envisages a substantial strengthening of existing capital rules, including new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards and a minimum leverage ratio for financial institutions. In particular, the changes include, amongst other things, new requirements for the capital base, measures to strengthen the capital requirements for counterparty credit exposures arising from certain transactions and the introduction of a leverage ratio as well as short-term and longer-term standards for funding liquidity (referred to as the Liquidity Coverage Ratio and the Net Stable Funding Ratio). Member countries will be required to implement the new capital standards from January 2013, the new Liquidity Coverage Ratio from January 2015 and the Net Stable Funding Ratio from January 2018. The Basel Committee is also considering introducing additional capital requirements for systemically important institutions from 2016. The changes approved by the Basel Committee may have an impact on the capital requirements in respect of the Covered Bonds and/or on incentives to hold the Covered Bonds for investors that are subject to requirements that follow the revised framework and, as a result, they may affect the liquidity and/or value of the Covered Bonds.

The European authorities support the work of the Basel Committee on the approved changes in general and, on 20 July 2011, the European Commission adopted a legislative package of proposals (known as **CRD IV**) to implement the changes through the replacement of the existing Capital Requirements Directive with a new Directive and Regulation. As with Basel III, the proposals contemplate the entry into force of the new legislation from January 2013, with full implementation by January 2019; however the proposals allow

individual Member States to implement the stricter definition and/or level of capital more quickly than is envisaged under Basel III.

In general, investors should consult their own advisers as to the regulatory capital requirements in respect of the Covered Bonds and as to the consequences for and effect on them of any changes to the Basel II framework (including the Basel III changes described above) and the relevant implementing measures. No predictions can be made as to the precise effects of such matters on any investor or otherwise.

### **Covered Bonds where denominations involve integral multiples: definitive Covered Bonds**

In relation to any issue of Covered Bonds which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Covered Bonds may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case, a Covered Bondholder who, as a result of trading such amounts, holds an amount which (after deducting integral multiples of such minimum Specified Denomination) is less than the minimum Specified Denomination in his or her account with the relevant clearing system at the relevant time may not receive a definitive Covered Bond in respect of such holding (should definitive Covered Bonds be printed) and would need to purchase a principal amount of Covered Bonds such that its holding amounts to a Specified Denomination.

If definitive Covered Bonds are issued, Covered Bondholders should be aware that definitive Covered Bonds which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

### **Exchange rate risks and exchange controls**

The Issuer will pay principal and interest on the Covered Bonds and the Trust will make any payments under the Covered Bond Guarantee in the 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 other than the Specified Currency (the **Investor's Currency**). These include the risk that exchange rates may significantly change (including changes due to devaluation of the 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 Specified Currency would decrease (1) the Investor's Currency equivalent yield on the Covered Bonds, (2) the Investor's Currency — equivalent value of the principal payable on the Covered Bonds and (3) 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.

### **Interests of the Dealers**

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

The Issuer may sell the Covered Bonds to one or more of the Dealers, including Bank of Montreal, London Branch and BMO Capital Markets Corp. Bank of Montreal, London Branch is the London branch of the Issuer and BMO Capital Markets Corp. is an affiliate of the Issuer. The terms of the Programme were negotiated at arm's length between the Issuer and the Dealers. In addition to the proceeds from any offering of Covered Bonds under the Programme being applied, directly or indirectly for the benefit of Bank of Montreal, London Branch in its capacity as a branch of the Issuer, it will also receive a portion of any fees and commissions payable in connection with any such offering of Covered Bonds in its capacity as a Dealer.

## FORM OF THE COVERED BONDS

The Covered Bonds of each Series will be in either bearer form, with or without receipts, interest coupons and/or talons attached, or registered form, without receipts, 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 may be issued both outside the United States in reliance on Regulation S and within the United States in reliance on Rule 144A or Section 4(2) 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:

- (i) if the Bearer Global Covered Bonds are intended to be issued in new global covered bond (**NGCB**) form, as stated in the applicable Final Terms Document, be delivered on or prior to the issue date of the relevant Tranche to a common safekeeper (the **Common Safekeeper**) for Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**); and
- (ii) if the Bearer Global Covered Bonds are not intended to be issued in NGCB form, be delivered on or prior to the issue date of the relevant Tranche to a common depository (the **Common Depository**) for Euroclear and Clearstream, Luxembourg.

Whilst 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 (in a form to be provided) 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, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent.

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** and, together with the Temporary Global Covered Bonds, the **Bearer Global Covered Bonds** and each a **Bearer Global Covered Bond**) of the same Series or (b) for 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 and subject, in the case of Bearer Definitive Covered Bonds, to such notice period as is specified in the applicable Final Terms Document), 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 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 either (a) provided the Covered Bonds have a minimum Specified Denomination, or integral multiples thereof, not less than 60 days' written notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Covered Bond) to the Principal Paying Agent as described therein or (b) upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (i) the Issuer 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 (ii) the Issuer 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 Issuer will promptly give notice to Covered Bondholders of each Series of Bearer Global Covered Bonds in accordance with Condition 13 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 Principal Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (ii) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

Bearer Global Covered Bonds, Bearer Definitive Covered Bonds and any Coupons, Talons or Receipts 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 Bearer Covered Bonds and on all receipts and interest coupons relating to such Bearer Covered Bonds:

"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 global covered bond in registered form (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 and may not be held otherwise than through 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 "qualified institutional buyers" within the meaning of Rule 144A under the Securities Act (**QIBs**) who agree to purchase the Covered Bonds for their own account and not with a view to the distribution thereof.

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 (i) be deposited with a custodian for DTC, and registered in the name of DTC or its nominee or (ii) be deposited with the Common Depositary for, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg, as specified in the applicable Final Terms Document. 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.

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) as the registered holder of the Registered Global Covered Bonds. None of the Issuer, the Trust, 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 Registered 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 Registered Covered Bonds in definitive form 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) 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 Issuer 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 the Common Depositary or its nominee, the Issuer 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 Issuer 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 Issuer will promptly give notice to Covered Bondholders of each Series of Registered Global Covered Bonds in accordance with Condition 13 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 Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 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.\$250,000 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 Principal Paying Agent shall 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 shall 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 shall, 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 as may otherwise be approved by the Issuer, the Principal Paying Agent and the Bond Trustee.

No Covered Bondholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer or the Trust unless the Bond Trustee or, as the case may be, the Security Trustee, having become so bound to proceed, fails so to do within a reasonable period and the failure shall be continuing.



## FORM OF FINAL TERMS DOCUMENT

*Set out below is the form of Final Terms Document which, subject to any necessary amendment, will be completed for each Tranche of Covered Bonds issued under the Programme. Text in this section appearing in italics does not form part of the Final Terms Document but denotes directions for completing the Final Terms Document.*

[Date]

**Bank of Montreal**  
**Issue of [Aggregate Nominal Amount of Tranche] [Title of Covered Bonds]**  
**irrevocably and unconditionally guaranteed as to payment of principal and interest by**  
**BMO Covered Bond Trust**  
**under the €10 billion**  
**Global Public Sector Covered Bond Programme**

[The Prospectus referred to below (as completed by this Final Terms Document) has been prepared on the basis that any offer of Covered Bonds in any Member State of the European Economic Area which has implemented the Prospectus Directive (2003/71/EC) (each, a **Relevant Member State**) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, 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 Member State of the Covered Bonds may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, 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.](1)

### PART A — CONTRACTUAL TERMS

Terms used herein shall 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 Directive (Directive 2003/71/EC) (the **Prospectus Directive**). This document constitutes the final terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Prospectus [as so supplemented]. Full information on the Issuer and the Trust and the offer of the Covered Bonds is only available on the basis of the combination of this Final Terms Document and the Prospectus. Copies of the Prospectus [and the supplemental Prospectus] are available free of charge to the public at the registered office of the Issuer and from the specified office of each of the Paying Agents.

*[The following alternative language applies if the first Tranche of an issue which is being increased was issued under a Prospectus with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the **Terms and Conditions**) set forth in the Prospectus dated [original date] [and the supplemental Prospectus dated [date]]. This document constitutes the final terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**) and must be read in conjunction with the Prospectus dated [current date] [and the supplemental Prospectus dated [date]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Terms and Conditions which are extracted from the Prospectus dated [original date] and are attached hereto. Full information on the Issuer and the Trust and the offer of the Covered Bonds is only available on the basis of the combination of this Final Terms Document and the Prospectus dated [original date] and [current date] [and the supplemental Prospectus dated [date]]. Copies of such Prospectuses are

available free of charge to the public at the registered office 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.]

[When completing any final terms or adding any other final terms or information including final terms at items 9, 10, 15, 16, 17 or 28 of Part A or in relation to disclosure relating to the interests of natural and legal persons involved in the issue/offer in Part B consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]

1. (a) Issuer: Bank of Montreal
- (b) Guarantor: BMO Covered Bond Trust
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. Issue Price: [●] per cent. of the aggregate nominal amount [plus accrued interest from [insert date] (if applicable)]
6. (a) Specified Denominations: [●]  
(in the case of Registered Covered Bonds, this means the minimum integral amount in which transfers can be made)  
*(N.B. Following the entry into force of the 2010 PD Amending Directive on 31 December 2010, Covered Bonds to be admitted to trading on a regulated market within the European Economic Area with a maturity date which will fall after the implementation date of the 2010 PD Amending Directive in the relevant European Economic Area Member State (which is due to be no later than 1 July 2012) must have a minimum denomination of €100,000 (or equivalent) in order to benefit from Transparency Directive exemptions in respect of wholesale securities. Similarly, Notes issued after the implementation of the 2010 PD Amending Directive in a Member State must have a minimum denomination of €100,000 (or equivalent) in order to benefit from the*

*wholesale exemption set out in Article 3.2(d) of the Prospectus Directive in that Member State.)*

(N.B. Where multiple denominations above €100,000 or equivalent are being used the following sample wording should be followed: €100,000 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.)

*(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 Directive, the €100,000 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, insert the highest common factor. N.B. There must be a common factor in the case of two or more Specified Denominations.)*
7. (a) Issue Date:
- (b) Interest Commencement Date:
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, in each case falling one year after the Final Maturity Date]]
9. Interest Basis:  per cent. Fixed Rate]  
 [LIBOR/EURIBOR]  per cent. Floating Rate]  
[Zero Coupon]  
[Index Linked Interest]  
[Dual Currency Interest]  
[[Credit Linked Interest]]  
[Equity Linked Interest]  
[specify other] (further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par]  
[Hard Bullet Covered Bond]  
[Partly Paid]  
[Instalment]  
[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 Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply. This pro-forma has been annotated to indicate where the key additional requirements of Annex XII are dealt with.]*

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. (a) Status of the Covered Bonds: Senior  
(b) Status of the Guarantee: Senior  
(c) [Date [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)*
14. Method of distribution: [Syndicated/Non-syndicated]

#### **PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

15. 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/semi-annually/quarterly /monthly/other (*specify*)] in arrear]
- (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**]
- (c) Business Day Convention: [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[specify other]]
- (d) Business Day(s): [●]  
Additional Business Centre(s):
- (e) Fixed Coupon Amount(s): [●] per Calculation Amount  
*(Applicable to Covered Bonds in definitive form)*
- (f) Broken Amount(s): [●] per Calculation Amount, payable on the Interest  
*(Applicable to Covered Bonds in definitive form)* Payment Date falling [in/on] [●]

- (g) Day Count Fraction: [30/360/Actual/Actual [(ICMA)/ISDA]/[specify other]]  
[adjusted/not adjusted] (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*)
- (h) Determination Date(s): [●] in each year  
  
[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)*)
- (i) Other terms relating to the method of calculating interest for Fixed Rate Covered Bonds: [Not Applicable/Give details]
16. Floating Rate Covered Bond Provisions: [Applicable/Not Applicable]  
  
(*If not applicable, delete the remaining subparagraphs of this paragraph*)
- (a) Interest Period(s): [●]
- (b) Specified Interest Payment Dates: [●]
- (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/[specify other]]
- (e) Business Day(s): [●]  
Additional Business Centre(s): [●]
- (f) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/specify other]
- (g) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Principal Paying Agent): [●]
- (h) Screen Rate Determination Reference Rate: [●] (*Either LIBOR, EURIBOR or other, although additional information is required if other — including amendment to fallback provisions in the Agency*)

*Agreement)*

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 and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)  
*N.B. Specify the Interest Determination Date(s) up to and including the Extended Due for Payment Date, if applicable*

Relevant Screen Page:   
*(In the case of EURIBOR, if not Reuters EURIBOR 01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)*

- (i) ISDA Determination:  
Floating Rate Option:   
Designated Maturity:   
Reset Date:
- (j) Margin(s):  [+/-]  per cent. per annum
- (k) Minimum Rate of Interest:  per cent. per annum
- (l) Maximum Rate of Interest:  per cent. per annum
- (m) Day Count Fraction:  [Actual/365  
Actual/365 (Fixed)  
Actual/365 (Sterling)  
Actual/360  
30/360  
30E/360  
Other]  
*(See Condition 4 for alternatives)*  
 [adjusted/not adjusted]
- (n) Fallback denominator provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Covered Bonds, if different from those set out in the Terms and Conditions:

17. Zero Coupon Covered Bond(2) Provisions:  [Applicable/Not Applicable]

*(If not applicable, delete the remaining subparagraphs of this paragraph)*

- (a) [Amortisation/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): [●]  
Additional Business Centre(s): [●]
- (f) Day Count Fraction in relation to Early Redemption Amounts and late payment: [Conditions 6.6(b) and 6.10(b) apply/specify other]
18. Variable Interest Covered Bond Provisions (other than Dual Currency Interest Covered Bonds): [Applicable/Not Applicable]  
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Index/Formula/other variable: [give or annex details]
- (b) Calculation Agent responsible for calculating the interest due: [●]
- (c) Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable: [●]
- (d) Determination Date(s): [●]
- (e) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable or otherwise disrupted: [●] (need to include a description of market disruption or settlement disruption events and adjustment provisions)
- (f) Interest or Calculation Period(s)/ Specified Interest Payment Dates: [●]  
[●]
- (g) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other]
- (h) Business Day(s): [●]  
Additional Business Centre(s): [●]

- (i) Minimum Rate of Interest:  per cent. per annum
  - (j) Maximum Rate of Interest:  per cent. per annum
  - (k) Day Count Fraction:  [adjusted/not adjusted]
19. Dual Currency Interest Covered Bond Provisions:  [Applicable/Not Applicable]
- (If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Rate of Exchange/method of calculating Rate of Exchange:  [give or annex details]
  - (b) Calculation Agent, if any, responsible for calculating the interest payable:  [●]
  - (c) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:  [need to include a description of market disruption or settlement disruption events and adjustment provisions]
  - (d) Person at whose option Specified Currency(ies) is/are payable:  [●]
  - (e) Business Day(s):  [●]  
Additional Business Centre(s):  [●]
20. Canadian non-resident withholding tax:  [Applicable/Exempt]

**PROVISIONS RELATING TO REDEMPTION**

21. 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 Dealers 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 Principal Paying Agent or Bond Trustee)*

22. Put Option: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs 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 and its fiscal agent or any trustee)*

23. Final Redemption Amount of each Covered Bond: [[●] per Calculation Amount/specify other/see Appendix]

*[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 Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply. This proforma has been annotated to indicate where the key additional requirements of Annex XII are dealt with.]*

In cases where the Final Redemption Amount is Index-Linked or other variable-linked:

(a) Index/Formula/variable: [give or annex details]

(b) Party responsible for calculating the Final Redemption Amount (if not the [Calculation Agent]): [●]

- (c) Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable: [●]
- (d) Determination Date(s): [●]
- (e) Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [●]
- (f) Payment Date: [●]
- (g) Minimum Final Redemption Amount: [●]
- (h) Maximum Final Redemption Amount: [●]
24. Early Redemption Amount of each Covered Bond payable on redemption for taxation reasons or on event of default, etc. and/or the method of calculating the same (if required or if different from that set out in Condition 6.7): [●]

---

(1) Include the legend where the minimum denomination is less than €100,000.

(2) Zero Coupon Covered Bonds may not be issued with an Extended Due for Payment Date other than with the consent of the Dealers and the Bond Trustee

## **GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS**

25. Form of Covered Bonds:

[Bearer Covered Bonds:

[Temporary Global Covered Bond exchangeable for [a Permanent Global Covered Bond which is exchangeable for Bearer Definitive Covered Bonds in the limited circumstances specified in the Permanent Global Covered Bond/Bearer Definitive Covered Bonds on 60 days' written notice from Euroclear/Clearstream, Luxembourg]]

[Permanent Global Covered Bond exchangeable for Bearer Definitive Covered Bonds/only after an Exchange Event/upon 60 days' written notice from Euroclear/Clearstream, Luxembourg]

*[Note the exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Covered bonds in paragraph 6 includes language substantially to the following effect: "€100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000."]. Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Covered Bonds which is to be represented on issue by a Temporary Global Covered Bond exchangeable for Definitive Covered Bonds]*

[Registered Covered Bonds:

Regulation S Global Covered Bond (U.S.\$[●] nominal amount) registered in the name of the common depository for [DTC or its nominee/Euroclear and Clearstream, Luxembourg]/Rule 144A Global Covered Bond (U.S.\$[●] nominal amount) registered in the name of [DTC or its nominee/the common depository for Euroclear and Clearstream, Luxembourg]

26. New Global Covered Bond:

[Yes/No]

27. Financial Centre(s) or other special provisions relating to payment dates:

[Not Applicable/give details]

*(Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which sub-paragraphs 15(d); 16(e) and 18(h) relate)*

28. Talons for future Coupons or Receipts to be attached to Bearer Definitive Covered Bonds (and dates on which such Talons mature):

[Yes/No. If yes, give details]

29. Details relating to Partly Paid Covered Bonds: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Covered Bonds and interest due on late payment:

[Not Applicable/give details.]

*N.B. a new form of Temporary Global Covered Bond and/or Permanent Global Covered Bond may be required for Partly Paid issues]*

30. Details relating to Instalment Covered Bonds:

(a) Instalment Amount(s):

[Not Applicable/give details]

(b) Instalment Date(s):

[Not Applicable/give details]

31. Redenomination, renominatisation and reconventioning provisions:

Not applicable/The provisions [in Condition 5.8 apply]

32. Other terms or special conditions: [Not Applicable/give details]  
(When adding any other final terms consideration should be given as to whether such terms constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)

## DISTRIBUTION

33. (a) If syndicated, names and addresses of Managers and underwriting commitments: [Not Applicable/give names, addresses and underwriting commitments]
- (b) Stabilising Manager (if any): [Not Applicable/give name]
34. If non-syndicated, name and address of Dealer: [Name]
35. Total commission and concession: [●] per cent. of the Aggregate Nominal Amount
36. U.S. Selling Restrictions: [Reg. S Compliance Category; TEFRA D/TEFRA not applicable]
37. Non-exempt Offer: Not Applicable
38. Additional selling restrictions: [Not Applicable/give details]
39. Additional United States Tax Considerations: [Not Applicable/give details]

## PURPOSE OF FINAL TERMS DOCUMENT

This Final Terms Document comprises the final terms required for issue and admission to trading on [specify relevant regulated market] of the Covered Bonds described herein pursuant to the €10 billion Global Public Sector Covered Bond Programme of Bank of Montreal.

## RESPONSIBILITY

Each of the Issuer and the Trust accepts responsibility for the information contained in this Final Terms Document. [[●] has been extracted from [●]. Each of the Issuer and the Trust 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].

## PART B — OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING:

- (i) Listing and admission to trading: [Application has been made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on [specify relevant regulated market, for example the Bourse de Luxembourg, the London Stock Exchange's Regulated Market or the Regulated Market of the Irish Stock Exchange) and, if relevant, admission to an official list (for example, the Official List of the U.K. Listing Authority)] 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 [specify relevant regulated market, for example the Bourse de Luxembourg, the London Stock Exchange's Regulated Market or the Regulated Market of the Irish Stock Exchange) and, if relevant, admission to an official list (for example, the Official List of the U.K. Listing Authority)] with effect from [●].] [Not Applicable.]  
*(Where documenting a fungible issue need to indicate that original Covered Bonds are already admitted to trading.)*
- (ii) Estimate of total expenses related to admission to trading: [●]

### 2. RATINGS:

Ratings: The Covered Bonds to be issued have been rated:  
[Moody's Investors Service, Inc.: [●]]  
[Fitch, Inc.: [●]]  
[DBRS Limited: [●]]  
[[Other (insert full legal name): [●]]  
*(Include a brief explanation of the meaning of the ratings if this has previously been published by the rating provider.)*  
*(The above disclosure should reflect the rating allocated to Covered Bonds of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*  
[The Covered Bonds to be issued [[have been]/[are expected to be]] rated [insert details] by [insert credit rating agency name(s)].]

[[Insert credit rating agency] is established in the European Union and has applied for registration under Regulation (EC) No. 1060/2009, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.]

[[Insert credit rating agency] is established in the

European Union and is registered under Regulation (EC) No. 1060/2009.]

[[*Insert credit rating agency*] is not established in the European Union and is not registered in accordance with Regulation (EC) No. 1060/2009.]

[[*Insert credit rating agency*]<sup>2</sup> is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009. However, the application for registration under Regulation (EC) No. 1060/2009 of [*insert the name of the relevant EU CRA affiliate that applied for registration*]<sup>3</sup>, which is established in the European Union, disclosed the intention to endorse credit ratings of [*insert credit rating agency*]<sup>4</sup>.]

[[*Insert credit rating agency*] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009. The ratings [[have been]/[are expected to be]] endorsed by [*insert the name of the relevant EU-registered credit rating agency*] in accordance with Regulation (EC) No. 1060/2009. [*Insert the name of the relevant EU-registered credit rating agency*] is established in the European Union and registered under Regulation (EC) No. 1060/2009.]

[[*Insert credit rating agency*] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009, but it is certified in accordance with such Regulation.]

### 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 Trust are aware, no person involved in the offer of the Covered Bonds has an interest material to the offer. — *Amend as appropriate if there are other interests*]

[*When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.*]

### 4. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES:

- (i) [Reasons for the offer:] [●]  
(*See "Use of Proceeds" wording in Prospectus — if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.*)

<sup>2</sup> As applicable, name of relevant Rating Agency rating the transaction to be entered: [DBRS Limited][Fitch, Inc.] [Moody's Investors Service, Inc.].

<sup>3</sup> As applicable, name of relevant Rating Agency that has applied for registration to be entered: [DBRS Ratings Limited][Fitch Ratings Limited] [Moody's Investors Service Ltd.].

<sup>4</sup> As applicable, name of relevant Rating Agency rating the transaction to be entered: [DBRS Limited] [Fitch, Inc.] [Moody's Investors Service, Inc.].

- (ii) [Estimated net proceeds:] [●]

*(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)*

- (iii) [Estimated total expenses:] [●]

*(Expenses are required to be broken down into each principal intended "use" and presented in order of priority of such "uses".) (If the Covered Bonds are derivative securities to which Annex XII of the Prospectus Directive Regulation applies it is only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.)*

**5. 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.]

**6. HISTORIC INTEREST RATES: (Floating Rate Covered Bonds only)**

Details of historic [LIBOR/EURIBOR/other] rates can be obtained from [Reuters].

**7. PERFORMANCE OF INDEX/FORMULA/OTHER VARIABLE AND OTHER INFORMATION CONCERNING THE UNDERLYING: (Index Linked or other variable-linked Covered Bonds only)**

*[Need to include details of where past and future performance and volatility of the index/formula/other variable can be obtained and a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident. Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information. Include other information concerning the underlying required by Paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.]*

*[When completing this paragraph, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]*

**8. POST ISSUANCE INFORMATION ON THE COVERED BOND PORTFOLIO**

The Issuer intends to provide monthly Investor Reports which are available online from the Issuer's website detailing, *inter alia*, compliance with the Asset Coverage Test.

To permit compliance with Rule 144A in connection with any resales or other transfers of Covered Bonds that are "restricted securities" as defined in Rule 144(a)(3) under the Securities Act, the Issuer and the Trust have covenanted in the Trust Deed to the Bond Trustee that, so long as any of the Covered Bonds remains outstanding, it will 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 or beneficial owner, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, the Issuer or the Trust is neither a reporting company under Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

**9. PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT: (Dual Currency Covered Bonds only)**

*[Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained and a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]*

*[When completing this paragraph, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]*

**10. TRADEABLE AMOUNTS:**

So long as the Covered Bonds are represented by a Global Covered Bond and [specify relevant clearing system(s)] so permit, the Global Covered Bond shall be tradeable in minimum principal amounts of [€100,000]/[specify equivalent to €100,000 if Global Covered Bond not denominated in euro] and integral multiples of [●] (the **Tradeable Amount**) in addition thereto.

[If item 24 of Part A indicates that the Global Covered Bond is exchangeable for definitive Covered Bonds at the option of the Covered Bondholders, the Covered Bonds will be tradeable only in principal amounts of at least the Specified Denomination.]

**11. OPERATIONAL INFORMATION:**

- (a) ISIN Code: [●]
- (b) Common Code: [●]
- (c) *[(insert here any other relevant codes such as CUSIP and CINS codes):]* [●]
- (d) Any clearing system(s) other than DTC, Euroclear or Clearstream, Luxembourg and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
- (e) [Delivery:] Delivery [against/free of] payment  
Name and address of Initial Paying Agent(s): [●]  
Names and addresses of additional Paying Agent(s) (if any): [●]  
Intended to be held in a manner which would allow Eurosystem eligibility]: [Yes] [No]



[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 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.] *[Include this text if "yes" selected in which case the Covered Bonds must be issued in NGCB form]*

Signed on behalf of the Issuer:

By:

*Duly authorised*

Signed on behalf of the Trust:

By:

*Duly authorised*

## 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 Final Terms Document in relation to any Tranche of 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 Covered Bonds. The applicable Final Terms Document (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 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 Bank of Montreal (the **Issuer**) constituted by a trust deed (such trust deed as modified and/or supplemented and/or restated from time to time, the **Trust Deed**) dated 20 December 2007 (the **Programme Date**) made between the Issuer, BMO Covered Bond Trust (the **Trust**) and Computershare Trust Company of Canada as bond trustee (in such capacity, the Bond Trustee, which expression shall include any successor as **Bond Trustee**) and as security trustee (in such capacity, the **Security Trustee**, which expression shall include any successor as Security Trustee).

Save as provided for in Conditions 9 and 14, references herein to the **Covered Bonds** shall be references to the Covered Bonds of this Series and shall mean:

- (a) any global 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 Definitive Covered Bonds in bearer form (**Bearer Definitive Covered Bonds**) issued in exchange for a Global Covered Bond in bearer form; and
- (d) any Definitive Covered Bonds in registered form (**Registered Definitive Covered Bonds** and, together with Bearer Definitive Covered Bonds, **Definitive Covered Bonds**) (whether or not issued in exchange for a Global Covered Bond in registered form).

The Covered Bonds, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an agency agreement (such agency agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated the Programme Date and made between the Issuer, the Trust, the Bond Trustee, the Security Trustee, HSBC Bank plc as issuing and principal paying agent and agent bank (in such capacity, the **Principal Paying Agent**, which expression shall include any successor principal paying agent and, together with the Registrar, the **Paying Agents**, which expression shall include any additional or successor paying agents) and HSBC USA, National Association and HSBC Bank plc as registrar, as applicable (the **Registrar**, which expression shall include any successor registrar, and, together with any transfer agent appointed thereunder, the **Transfer Agents**, which expression shall include any successor transfer agents) and as exchange agent (in such capacity, the **Exchange Agent**, which expression shall include any successor exchange agent, and together with the Paying Agents, the Transfer Agents and any Calculation Agent referred to below, the **Agents**). References to the **Calculation Agent** are (except where the context otherwise requires) to the person appointed as calculation agent in relation to one or more Series of Variable Interest Covered Bonds pursuant to the Agency Agreement and shall include any successor calculation agent.

Interest bearing Bearer Definitive Covered Bonds have (unless otherwise indicated in the applicable Final Terms Document) interest coupons (**Coupons**) and, if indicated in the applicable Final Terms Document, talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Bearer Definitive Covered Bonds repayable in instalments have receipts (**Receipts**) for the payment of the instalments of principal (other than the final instalment) attached on issue. Registered Covered Bonds and Global Covered Bonds do not have Receipts, Coupons or Talons attached on issue.

The Final Terms Document for the Covered Bonds (or the relevant provisions thereof) is endorsed on or attached to this Covered Bond and supplements these Terms and Conditions (the **Terms and Conditions**) and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Terms and Conditions, replace or modify the Terms and Conditions for the purposes of the Covered Bonds. References to the **applicable Final Terms Document** are to the Final Terms Document (or the relevant provisions thereof) endorsed on or attached to this 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 shall, in relation to any Covered Bonds represented by a Global Covered Bond, be construed as provided below), the holders of the Receipts (the **Receiptholders**) and the holders of the Coupons (the **Couponholders**, which expression shall, 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 Trust has, in the Trust Deed, irrevocably and unconditionally guaranteed payment of Guaranteed Amounts in respect of the Covered Bonds as and when the same shall become Due for Payment, but only after service of a Notice to Pay on the Trust following service of an Issuer Acceleration Notice on the Issuer (after the occurrence of an Issuer Event of Default) or service of a Trust Acceleration Notice on the Trust (after the occurrence of a Trust Event of Default).

The security for the obligations of the Trust 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 governed by Ontario law (such trust security agreement as amended and/or supplemented and/or restated from time to time, the **BMO Trust Security Agreement**) and a security agreement governed by English law (the **English Security Agreement**, and together with the BMO Trust Security Agreement, the **Security Agreements**) each dated the Programme Date and made between the Trust, the Bond Trustee, the Security Trustee and certain other Secured Creditors.

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

Copies of the Trust Deed, the Security Agreements, the Master Definitions and Construction Agreement (as defined below), the Agency Agreement, each of the other Transaction Documents and the CMHC Mortgage Insurance in respect of each Loan (in redacted or other general form and subject to any exclusions pursuant to applicable law, including, without limitation, privacy law, and policies of the Issuer relating to confidentiality and privacy matters) are available for inspection during normal business hours at the office for the time being of the Bond Trustee being at 100 University Avenue, 9th Floor, North Tower, Toronto, Ontario M5J 2J5 and at the specified office of each of the Paying Agents. Copies of the applicable Final Terms Document 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, the Receiptholders and the Couponholders are deemed to have notice of, are bound by, and are entitled to the benefit of, all the provisions of, and definitions contained in, the Trust Deed, the Security Agreements, the Master Definitions and Construction Agreement, the Agency Agreement, each of the other Transaction Documents, the terms and conditions of the CMHC Mortgage Insurance and the applicable Final Terms Document which are applicable to them and to have notice of each of the Final Terms Documents relating to each other Series.

Except where the context otherwise requires, capitalised terms used and not otherwise defined in these Terms and Conditions (including the preceding paragraphs) shall bear the meanings given to them in the applicable Final Terms Document and/or the master definitions and construction agreement made between the parties to the Transaction Documents on or about the Programme Date (as 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 and, in the case of Definitive Covered Bonds, serially numbered, in the Specified Currency and the Specified Denomination(s). Covered Bonds of one Specified Denomination may not be exchanged for Covered Bonds of another Specified Denomination and Bearer Covered Bonds may not be exchanged for Registered Covered Bonds and vice versa.

The Covered Bonds in this Series may be Fixed Rate Covered Bonds, Floating Rate Covered Bonds, Zero Coupon Covered Bonds, Index Linked Interest Covered Bonds, Credit Linked Interest Covered Bonds, Equity Linked Interest Covered Bonds, Dual Currency Interest Covered Bonds or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms Document. Prior to issuing this 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 Covered Bonds of this Series will have the same ratings as the ratings of the Covered Bonds of all Series then outstanding and 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.

The Issuer will not issue unlisted Covered Bonds without first agreeing certain conditions precedent to their issue with the Rating Agencies and will not issue Covered Bonds that are not principal protected.

The Covered Bonds in this Series may be Instalment Covered Bonds, Partly Paid Covered Bonds, Hard Bullet Covered Bonds or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Final Terms Document.

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.

Bearer Definitive Covered Bonds are issued with Receipts, unless they are not Instalment Covered Bonds in which case references to Receipts and Receiptholders in these Terms and Conditions are not applicable.

Subject as set out below, title to the Bearer Covered Bonds, Receipts 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 Trust, the Paying Agents, the Security Trustee and the Bond Trustee will (except as otherwise required by law) deem and treat the bearer of any Bearer Covered Bond, Receipt 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 is represented by a Global Covered Bond held on behalf of or, as the case may be, registered in the name of a common depository for, Euroclear Bank S.A./N.V. (**Euroclear**), Clearstream Banking, société anonyme (**Clearstream, Luxembourg**) or The Depository Trust Company (**DTC**) or its nominee, each person (other than Euroclear or 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 or Clearstream, Luxembourg or DTC as to the nominal amount of such Covered Bonds standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest 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'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) shall be treated by the Issuer, the Trust, the Paying Agents, the Security Trustee 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, in the case of DTC or its nominee, voting, giving consents and making requests, for which purpose the bearer of the relevant Bearer Global Covered Bond or the registered holder of the relevant Registered Global Covered Bond shall be treated by the Issuer, the Trust, any Paying Agent, the Security Trustee and the Bond Trustee as the holder of such nominal amount of such Covered Bonds in accordance with and subject to the terms of the relevant Global Covered Bond and the expressions **Covered Bondholder** and **holder of Covered Bonds** and related expressions shall 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, Clearstream, Luxembourg and DTC or any other relevant clearing system, as the case may be.

References to Euroclear, Clearstream, Luxembourg and/or DTC shall, whenever the context so permits, be deemed to include a reference to any successor operator and/or successor clearing system and/or any additional or alternative clearing system specified in the applicable Final Terms Document or as may otherwise be approved by the Issuer, the Principal Paying Agent and the Bond Trustee.

## **2. Transfers of Registered Covered Bonds**

### *2.1 Transfers of interests in Registered Global Covered Bonds*

Transfers of beneficial interests in Registered Global Covered Bonds will be effected by 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 authorised denominations set out in the applicable Final Terms Document 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 Rule 144A Global Covered Bond registered in the name of a nominee for DTC shall be limited to transfers of such Rule 144A 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, 2.4, 2.5 and 2.6, 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 authorised denominations set out in the applicable Final Terms Document. In order to effect any such transfer (a) the holder or holders must (i) surrender the Registered Covered Bond for registration of the transfer of the Registered Covered Bond (or the relevant part of the Registered 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 enquiry, be satisfied with the documents of title and the identity of the person making the request.

Any such transfer will be subject to such reasonable regulations as the 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 part only 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, the Issuer shall 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, Registrar or 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 only take delivery through a Rule 144A Covered Bond. Prior to the end 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 shall have the following meanings:

**Definitive Regulation S Covered Bond** means a Registered Covered Bond sold to non-U.S. persons outside the United States in reliance on Regulation S, which is in definitive form;

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

**Distribution Compliance Period** means the period that ends 40 days after the later of the commencement of the offering and the Issue Date;

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

**Regulation S** means Regulation S under the Securities Act;

**Regulation S Covered Bond** means a Covered Bond represented by a Regulation S Global Covered Bond or a Definitive Regulation S Covered Bond;

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

**Securities Act** means the United States Securities Act of 1933, as amended.

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

### 3.1 Status of the Covered Bonds

The Covered Bonds and any relative Receipts and Coupons constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank *pari passu* without any preference



among themselves and (save for any obligations required to be preferred by law) at least equally with all other present and future unsecured senior obligations of the Issuer from time to time outstanding. The Covered Bonds will constitute "deposits" for purposes of the Bank Act. The Covered Bonds will not be deposits insured under the *Canada Deposit Insurance Corporation Act* (Canada) or under any other governmental insurance scheme of any country.

### 3.2 *Status of the Covered Bond Guarantee*

The payment of Guaranteed Amounts in respect of the Covered Bonds when the same shall become Due for Payment has been (save as provided below) unconditionally and irrevocably guaranteed by the Trust pursuant to a guarantee (the **Covered Bond Guarantee**) in the Trust Deed. However, the Trust shall have no obligation under the Covered Bond Guarantee to pay any Guaranteed Amounts when the same shall 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 Trust (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 Trust Event of Default and service of a Trust Acceleration Notice by the Bond Trustee on the Trust. The obligations of the Trust under the Covered Bond Guarantee are, subject as aforesaid, absolute, unconditional and unsubordinated obligations of the Trust, which are secured as provided in the Security Agreements.

As security for the Trust's obligations under the Covered Bond Guarantee and the other Transaction Documents to which it is a party, the Trust has granted a security interest over all of its assets under the Security Agreements in favour of the Security Trustee (for itself 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 (as defined in Condition 4.7, but subject to Conditions 4.4 and 4.5) 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 arrear 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, the amount of interest payable on each Interest Payment Date in respect of the Interest Period (as defined in Condition 4.7) 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, amount to the Broken Amount so specified.

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, interest shall 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 (as defined in Condition 4.7), and rounding the resultant figure to the nearest sub-unit (as defined in Condition 4.7) 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 shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

## 4.2 *Interest on Floating Rate Covered Bonds and Variable Interest Covered Bonds*

### (a) Interest Payment Dates

Each Floating Rate Covered Bond and Variable Interest Covered Bond bears interest on its Principal Amount Outstanding (subject to Conditions 4.4 and 4.5) from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (i) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms Document; or
- (ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms Document, each date (each such date, together with each Specified Interest Payment Date, an **Interest Payment Date**) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms Document after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement 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 and Variable Interest Covered Bonds will be determined in the manner specified in the applicable Final Terms Document.

#### (i) *ISDA Determination for Floating Rate Covered Bonds*

Where ISDA Determination is specified in the applicable Final Terms Document 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) the 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 Principal Paying Agent or other person specified in the applicable Final Terms Document under an interest rate swap transaction if the Principal Paying Agent or that other person were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Covered Bonds (the **ISDA Definitions**), and under which:

- (A) the Floating Rate Option is as specified in the applicable Final Terms Document;
- (B) the Designated Maturity is the period specified in the applicable Final Terms Document; and
- (C) unless otherwise stated in the applicable Final Terms Document, 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*

Where Screen Rate Determination is specified in the applicable Final Terms Document as the manner in which the Rate of Interest is to be determined, 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 a.m. (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) the Margin (if any), all as determined by the Principal 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) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest pursuant to this subparagraph (ii) in the event that the Relevant Screen Page is not available or if, in the case of (A) above, no such offered quotation appears or, in the case of (B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

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

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

If the applicable Final Terms Document for a Floating Rate Covered Bond or a Variable Interest 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 shall be such Minimum Rate of Interest.

If the applicable Final Terms Document for a Floating Rate Covered Bond or a Variable Interest 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 shall be such Maximum Rate of Interest.

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

The Principal Paying Agent, in the case of Floating Rate Covered Bonds, and the Calculation Agent, in the case of Variable Interest Covered Bonds, 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. In the case of Variable Interest Covered Bonds, the Calculation Agent will notify the Principal Paying Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

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

- (i) in the case of Floating Rate Covered Bonds or Variable Interest 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, if they are Partly Paid Covered Bonds, the aggregate amount paid up); or
- (ii) in the case of Floating Rate Covered Bonds or Variable Interest 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 or a Variable Interest Covered Bond in definitive form comprises more than one Calculation Amount, the Interest Amount payable in respect of such Covered Bond shall 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 Principal 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 Trust, the Bond Trustee and to any stock exchange or other relevant competent authority or quotation system on which the relevant Floating Rate Covered Bonds or Variable Interest 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 as soon as possible after their determination but in no event later than the fourth Business Day (as defined in Condition 4.7) 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 or Variable Interest 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.

(f) Determination or Calculation by Bond Trustee

If for any reason at any relevant time after the Issue Date, the Principal Paying Agent or, as the case may be, the Calculation Agent defaults in its obligation to determine the Rate of Interest or the Principal 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, as the case may be, and in each case in accordance with paragraph (d) above, the Bond Trustee shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Final Terms Document), it shall deem fair and reasonable

in all the circumstances or, as the case may be, the Bond Trustee shall calculate the Interest Amount(s) in such manner as it shall 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 shall be an investment bank or other suitable entity of international repute). Each such determination or calculation shall be deemed to have been made by the Principal Paying Agent or the Calculation Agent, as the case may be.

(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, whether by the Principal Paying Agent, the Calculation Agent or the Bond Trustee shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Trust, the Principal Paying Agent, the Calculation Agent, the other Paying Agents, the Bond Trustee and all Covered Bondholders, Receiptholders and Couponholders and (in the absence of wilful default, negligence, bad faith or fraud) no liability to the Issuer, the Trust, the Covered Bondholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent, the Calculation 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 on Dual Currency Interest Covered Bonds*

In the case of Dual Currency Interest Covered Bonds where the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest shall be determined in the manner specified in the applicable Final Terms Document.

4.4 *Interest on Partly-Paid Covered Bonds*

In the case of Partly-Paid Covered Bonds (other than Partly-Paid Covered Bonds which are Zero Coupon Covered Bonds), interest will accrue on the paid up nominal amount of such Covered Bonds or as otherwise specified in the applicable Final Terms Document.

4.5 *Interest following a Notice to Pay*

If a Notice to Pay is served on the Trust, the Trust shall, in accordance with the terms of the Trust Deed, pay Guaranteed Amounts corresponding to the amounts of interest described under Condition 4.1, 4.2, 4.3 or 4.4 (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.

4.6 *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 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 6.11.

4.7 *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; 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 or as otherwise specified in the applicable Final Terms Document 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, which utilises a single shared platform and which was launched on 19 November 2007 (the **TARGET2 System**), is open.
- (b) If a **Business Day Convention** is specified in the applicable Final Terms Document 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 Specified Periods are specified in accordance with Condition 4.2(a)(ii), the **Floating Rate Convention**, such Interest Payment Date (1) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (II) below shall apply *mutatis mutandis*, or (2) in the case of (y) above, shall 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 shall be brought forward to the immediately preceding Business Day, and (II) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
  - (ii) the **Following Business Day Convention**, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
  - (iii) the **Modified Following Business Day Convention**, such Interest Payment Date shall 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 shall be brought forward to the immediately preceding Business Day; or
  - (iv) the **Preceding Business Day Convention**, such Interest Payment Date shall 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:
    - (A) in the case of Covered Bonds where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant

payment date (the **Accrual Period**) is equal to or shorter than the Determination Period (as defined in Condition 4.7(d)) during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Final Terms Document) that would occur in one calendar year; or

- (B) in the case of Covered Bonds where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of (I) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and (II) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year;
- (ii) if **Actual/Actual or Actual/Actual (ISDA)** is specified in the applicable Final Terms Document, 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 (i) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366, and (ii) 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, 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, 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, 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, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (i) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (ii) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month));
- (vii) if **30E/360 or Eurobond Basis** is specified in the applicable Final Terms Document, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Final Maturity Date (or, as the case may be, Extended Due for Payment Date) is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month); or

- (viii) such other Day Count Fraction as may be specified in the applicable Final Terms Document.
- (d) **Determination Period** means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date).
- (e) **Fixed Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.
- (f) **Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.
- (g) **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.
- (h) If **adjusted** is specified in the applicable Final Terms Document against the Day Count Fraction, interest in respect of the relevant Interest Period shall be payable in arrear 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 shall, where applicable, be adjusted in accordance with the Business Day Convention.
- (i) If **not adjusted** is specified in the applicable Final Terms Document against the Day Count Fraction, interest in respect of the relevant Interest Period shall be payable in arrear 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 shall not be adjusted in accordance with any Business Day Convention.
- (j) **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, 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, shall 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, 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 U.S. tax law in effect at the time of such payment without detriment to the Issuer.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment but without prejudice to the provisions of Condition 7. References to Specified Currency will include any successor currency under applicable law.

## 5.2 *Presentation of Bearer Definitive Covered Bonds, Receipts and Coupons*

Payments of principal and interest (if any) will (subject as provided below) be made in accordance with Condition 5.1 only against presentation and surrender of Bearer Definitive Covered Bonds, Receipts 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 and its possessions).

Payments of instalments (if any) of principal other than the final instalment, will (subject as provided below) be made in accordance with Condition 5.1 only against presentation and surrender (or, in the case of part of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in accordance with Condition 5.1 only against presentation or surrender (or, in the case of part of any sum due, endorsement) of the Definitive Covered Bond in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the Bearer Definitive Covered Bond to which it appertains. If any Bearer Definitive Covered Bond is redeemed or becomes repayable prior to the stated maturity thereof, principal will be payable in accordance with Condition 5.1 only against presentation and surrender (or, in the case of part payment of any sum, endorsement) of such Bearer Definitive Covered Bond together with all unmatured Receipts appertaining thereto. Receipts presented without the Bearer Definitive Covered Bond to which they appertain and unmatured Receipts do not constitute valid obligations of the Issuer or the Trust. On the date on which any Bearer Definitive Covered Bond becomes due and payable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect of them.

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 shall include Coupons falling 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 10 years after the Relevant Date (as defined in Condition 7) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 8) 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 repayable by the Issuer (in the absence of a Notice to Pay or a Trust Acceleration Notice) or by the Trust under the Covered Bond Guarantee (if a Notice to Pay or a Trust Acceleration Notice has

been served) prior to its Final Maturity Date (or, as the case may be, Extended Due for Payment Date), all unmaturing 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, Variable Interest Covered Bond or Long Maturity Covered Bond in definitive bearer form, all unmaturing Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall 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 shall 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 shall 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 or otherwise in the manner specified in the relevant Bearer Global Covered Bond, where applicable, against presentation or surrender, as the case may be, of such Bearer Global Covered Bond if the Bearer Global Covered Bond is not intended to be 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 either by the Paying Agent to which it was presented and (ii) in the case of any Global Covered Bond which is issued in NGCB form, the Paying Agent shall instruct Euroclear and Clearstream, Luxembourg, as applicable, 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 (other than instalments of principal prior to the final instalment) 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 any of the Paying Agents. Such payments will be made in accordance with Condition 5.1 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 Euroclear and Clearstream, Luxembourg 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 a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date (the **Record Date**). Notwithstanding the previous sentence, if (i) a holder does not have a Designated Account, or (ii) the principal amount of

the Covered Bonds held by a holder is less than U.S.\$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a 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, shall 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 and payments of instalments of principal (other than the final instalment) 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 (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date, and (ii) where in definitive form, 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 or an instalment of principal (other than the final instalment) 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 shall be deemed to relate to all future payments of interest (other than interest due on redemption) and instalments of principal (other than the final instalment) 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 and the final instalment of principal 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 shall be charged to such holders by the Paying Agents in respect of any payments of principal or interest in respect of the Registered Covered Bonds.

All amounts payable to DTC or its nominee as registered holder of a Registered Global Covered Bond in respect of Covered Bonds denominated in a Specified Currency other than U.S. dollars shall be paid by transfer by the Paying Agent (i) to an account specified in accordance with Condition 5.1 identified to DTC by a participant in DTC in respect of its holding of such Covered Bonds, or (ii) to an account in the relevant Specified Currency of the Exchange Agent for conversion into and payment in U.S. dollars in accordance with the provisions of the Agency Agreement.

None of the Issuer, the Trust, 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 Global 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) shall 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 Trust 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 Trust 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) shall have any claim against the Issuer or the Trust 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 Trust, adverse tax consequences to the Issuer or the Trust.

#### 5.6 *Payment Day*

If the date for payment of any amount in respect of any Covered Bond, Receipt or Coupon is not a Payment Day (as defined below), the holder thereof shall not be entitled to payment of the relevant amount due until the next following Payment Day and shall 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), **Payment Day** means any day which (subject to Condition 8) 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) in the case of Covered Bonds in definitive form only, the relevant place of presentation; and
  - (ii) any Additional Financial Centre specified in the applicable Final Terms Document; 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 or as otherwise specified in the applicable Final Terms Document or (ii) in relation to any sum payable in euro, a day on which the TARGET2 System is open; and
- (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 Date, to receive any part of such payment in U.S. dollars, a day on which

commercial banks are not authorised or required by law or regulation 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 shall be deemed to include, as applicable:

- (a) any additional amounts which may be payable with respect to principal under Condition 7 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 Covered Bonds redeemable in instalments, the Instalment Amounts;
- (f) in relation to Zero Coupon Covered Bonds, the Amortised Face Amount (as defined in Condition 6.7);
- (g) any premium and any other amounts (other than interest) which may be payable under or in respect of the Covered Bonds; and
- (h) any Excess Proceeds attributable to principal which may be payable by the Bond Trustee to the Trust in respect of the Covered Bonds.

Any reference in these Terms and Conditions to interest in respect of the Covered Bonds shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 7 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 as being applicable, the Issuer may, without the consent of the Covered Bondholders, the Receiptholders and the Couponholders, on giving prior written notice to the Bond Trustee, the Security 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, elect that, with effect from the Redenomination Date specified in the notice, the Covered Bonds shall be redenominated in euro. In relation to any Covered Bonds where the applicable Final Terms Document provides for a minimum Specified Denomination in the Specified Currency which is equivalent to at least euro 100,000 and which are admitted to trading on a regulated market in the European Economic Area, it shall be a term of any such article that the holder of any Covered Bonds held through Euroclear and/or 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 euro 100,000.

The election will have effect as follows:

- (a) the Covered Bonds and the Receipts shall be deemed to be redenominated in euro in the denomination of euro 0.01 with a nominal amount for each Covered Bond and Receipt equal to the nominal amount of that Covered Bond or Receipt 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 shall be deemed to be amended so as to comply with such market practice and the Issuer shall 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 held (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 shall be rounded down to the nearest euro 0.01;
- (c) if definitive Covered Bonds are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer in the denominations of euro 100,000 and/or such higher amounts as the Agents may determine and notify to the Covered Bondholders and any remaining amounts less than euro 100,000 shall be redeemed by the Issuer and paid to the Covered Bondholders in euro in accordance with Condition 6;
- (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, Receipts 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, Receipts and Coupons so issued will also become void on that date although those Covered Bonds, Receipts and Coupons will continue to constitute valid exchange obligations of the Issuer. New euro-denominated Covered Bonds, Receipts and Coupons will be issued in exchange for Covered Bonds, Receipts and Coupons denominated in the Specified Currency in such manner as the Agents may specify and as shall 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, the Receipts 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 subunit 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 will specify any relevant changes to the provisions relating to interest; and
- (h) such other changes shall 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, 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 Union regulations) into euro established by the Council of the European Union pursuant to Article 140 of the Treaty.

**euro** means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty.

**Rate of Interest** means the rate of interest payable from time to time in respect of Floating Rate Covered Bonds and Variable Interest Covered Bonds, which will be determined in the manner specified in the applicable Final Terms Document.

**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 paragraph (a) above and which falls on or after the date on which the country of the relevant Specified Currency first participates in the third stage of European economic and monetary union.

**Treaty** means the Treaty on the Functioning of the European Union, 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 in the relevant Specified Currency on the Final Maturity Date.

Without prejudice to Condition 9, if an Extended Due for Payment Date is specified in the applicable Final Terms Document 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 (in each case after the expiry of the grace period set out in Condition 9.1(a)) and following service of a Notice to Pay on the Trust by no later than the date falling one Business Day prior to the Extension Determination Date, the Trust has insufficient moneys available under the Guarantee Priority of Payments to pay the Guaranteed Amounts corresponding to the Final Redemption Amount in full in respect of the relevant Series of Covered Bonds on the date falling on the earlier of (a) the date which falls two Business Days after service of a Notice to Pay on the Trust or, if later, the Final Maturity Date (in each case after the expiry of the grace period set out in Condition 9.2(a)) 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 Trust under the Covered Bond Guarantee shall 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 Trust to the extent it has sufficient moneys available under the Guarantee Priority of Payments on any Interest Payment Date thereafter up to (and including) the relevant Extended Due for Payment Date.

The Trust shall notify the relevant Covered Bondholders (in accordance with Condition 13), the Rating Agencies, the Bond Trustee, the Security Trustee, the Principal Paying Agent and (in the case of Registered Covered Bonds) the Registrar as soon as reasonably practicable and in any event at least one Business Day prior to the date specified in (a) or (b) of the preceding paragraph (as appropriate) of any inability of the Trust 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 Trust to notify such parties shall not affect the validity or effectiveness of the extension nor shall any rights accrue to any of them by virtue thereof.

The Issuer shall confirm to the Principal Paying Agent as soon as reasonably practicable and in any event at least 4 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 Principal Paying Agent shall not affect the validity or effectiveness of the extension.

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

Any discharge of the obligations of the Issuer as the result of the payment of Excess Proceeds to the Bond Trustee shall be disregarded for the purposes of determining the liabilities of the Trust under the Covered Bond Guarantee in connection with this Condition 6.1.

## 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 a Variable Interest Covered Bond) or on any Interest Payment Date (if the relevant Covered Bond is a Floating Rate Covered Bond or a Variable Interest Covered Bond), on giving not less than 30 nor more than 60 days' notice to the Bond Trustee and, in accordance with Condition 13, the Covered Bondholders (which notice shall 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. Covered Bonds redeemed pursuant to this Condition 6.2 will be redeemed at their Early Redemption Amount referred to in Condition 6.7 together (if appropriate) with interest accrued to (but excluding) the date of redemption.

In determining whether the circumstances set out in Condition 7 have occurred, the Bond Trustee shall be entitled to rely on a certificate signed by two officers of the Issuer stating the circumstances



leading to such withholding or deduction and an opinion of independent legal advisers of recognised standing to the effect that the circumstances set forth in Condition 7 exist.

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

If an Issuer Call is specified in the applicable Final Terms Document, 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 to the Bond Trustee, the Principal Paying Agent, the Registrar (in the case of the redemption of Registered Covered Bonds) and, in accordance with Condition 13, the Covered Bondholders (which notice shall be irrevocable) redeem all or some only 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 together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date(s). The Issuer shall be bound to redeem the Covered Bonds on the date specified in the notice. In the event of a redemption of some only 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. 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, 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 not less than 15 days (or such shorter period as may be specified in the applicable Final Terms Document) 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 shall, 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 shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination. No exchange of the relevant Global Covered Bond will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 6.3 and notice to that effect shall be given by the Issuer to the Covered Bondholders in accordance with Condition 13 at least five days (or such shorter period as is specified in the applicable Final Terms Document) 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 (the **Investor Put**), then if and to the extent specified in the applicable Final Terms Document, upon the holder of this Covered Bond giving to the Issuer, in accordance with Condition 13, not less than 30 nor more than 60 days' notice (which notice shall 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 relevant Covered Bond Swap Provider(s), redeem subject to, and in accordance with, the terms specified in the applicable Final Terms Document 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, together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date.

If this Covered Bond is in definitive form, to exercise the right to require redemption of this Covered Bond, the holder of this Covered Bond must deliver such Covered Bond, on any Business Day (as

defined in Condition 4.7) 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 current) 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.

***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.***

#### 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 Principal Paying Agent, the Registrar and, in accordance with Condition 13, all Covered Bondholders (which notice shall 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 Term Advance made by it to the Trust under the Intercompany Loan Agreement, as a result of any change in, or amendment to, the applicable laws or regulations or any change in the application or official interpretation of such laws or regulations, which change or amendment has become or will become effective before the next such Interest Payment Date.
- (b) Covered Bonds redeemed pursuant to Condition 6.5(a) will be redeemed at their Early Redemption Amount referred to in Condition 6.7 together (if appropriate) with interest accrued to (but excluding) the date of redemption.

#### 6.6 *General*

Prior to the publication of any notice of redemption pursuant to Conditions 6.2 or 6.5(a), the Issuer shall deliver to the Bond Trustee a certificate signed by two officers 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 Conditions 6.2 or, as the case may be, 6.5(a) for such right or obligation (as applicable) of the Issuer to arise have been satisfied and the Bond Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions set out above, in which event it shall be conclusive and binding on all Covered Bondholders, Receiptholders and Couponholders.

#### 6.7 *Early Redemption Amounts*

For the purpose of Conditions 6.2 and 6.5(a) and Condition 9, each Covered Bond will be redeemed (unless otherwise stated in the applicable Final Terms Document) at its Early Redemption Amount calculated as follows:

- (a) in the case of a Covered Bond other than a Zero Coupon Covered Bond (but including an Instalment Covered Bond or a Partly Paid Covered Bond), at the amount specified in, or determined in the manner specified in, the applicable Final Terms Document or, if no such amount or manner is so specified in the applicable Final Terms Document, 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 the Covered Bonds to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Covered Bond becomes due and repayable.

Where such calculation in paragraph (b) above is to be made for a period which is not a whole number of years, it shall 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.

#### 6.8 *Instalments*

Instalment Covered Bonds will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 6.7.

#### 6.9 *Purchases*

The Issuer or any of its subsidiaries (including the Trust) may at any time purchase or otherwise acquire Covered Bonds (provided that, in the case of Bearer Definitive Covered Bonds, all unmatured Receipts, 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 Trust must immediately be surrendered to any Paying Agent and/or the Registrar for cancellation).

#### 6.10 *Cancellation*

All Covered Bonds which are redeemed will forthwith be cancelled (together with, in the case of Bearer Definitive Covered Bonds, all unmatured Receipts, 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 6.9 and cancelled (together with, in the case of Bearer Definitive Covered Bonds, all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be reissued or resold.

#### 6.11 *Late Payment*

If any amount payable in respect of any Covered Bond is improperly withheld or refused upon its becoming due and repayable or is paid after its due date, the amount due and repayable in respect of such Covered Bond (the **Late Payment**) shall 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 or a Variable Interest Covered Bond (but including an Instalment Covered Bond or a Partly Paid Covered Bond) at the rate determined in accordance with Condition 4.1 or 4.2, as the case may be;
- (b) in the case of a Zero Coupon Covered Bond, at a rate equal to the Accrual Yield; and
- (c) in the case of a Variable Interest Covered Bond, at a rate calculated by the Calculation Agent so as to compensate reasonably the holder of the Covered Bond for the cost of funding the delay in receiving the Late Payment,

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

For the purpose of this Condition 6.11, the **Late Payment Date** shall 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) that the full amount (including interest as aforesaid) in the relevant currency in respect of such Covered Bond is available for payment,

provided that in the case of both (i) and (ii), upon further presentation thereof being duly made, such payment is made.

#### 6.12 *Legislative Exchange*

If at any time after the Programme Date a Regulatory Event occurs, the Issuer may, at its option and without the consent of the Bond Trustee, the Security Trustee, the Covered Bondholders, the Receiptholders or the Couponholders, amend all (but not some only) of the Covered Bonds of all Series then outstanding (the **Existing Covered Bonds**) for amended Covered Bonds which qualify as covered bonds under circumstances described in the definition of Regulatory Event below (the **Amended Covered Bonds**) in identical form, amount and denomination as the Existing Covered Bonds and on the same economic terms and conditions as the Existing Covered Bonds (with the exception of those which are needed or convenient and useful to achieve the benefit of any Regulatory Event (the **Legislative Exchange**) if not more than 60 nor less than 30 days' notice to the Covered Bondholders (in accordance with Condition 13), the Bond Trustee, the Principal Paying Agent and the Registrar is given by the Issuer and provided that:

- (a) on the date on which such notice expires the Issuer delivers to the Bond Trustee a certificate signed by two officers of the Issuer and a certificate signed by the Administrative Agent confirming that, in the case of the Issuer, no Issuer Event of Default (as defined in Condition 9.1) or Potential Issuer Event of Default (as defined in Condition 14) and, in the case of the Trust, no Trust Event of Default (as defined in Condition 9.2) or Potential Trust Event of Default (as defined in Condition 14), shall have occurred and be continuing (disregarding for the purposes of this certificate any such event which occurs or which has occurred due to the implementation of such legislation, rules, regulations or guidelines);

- (b) each of the Rating Agencies then rating the Existing Covered Bonds has confirmed in writing that the Amended Covered Bonds will be assigned the same ratings as are then applicable to the Existing Covered Bonds; and
- (c) if the Existing Covered Bonds are listed, quoted and/or traded on or by a competent and/or relevant listing authority, stock exchange and/or quotation system on or before the date on which such notice expires the Issuer delivers to the Bond Trustee a certificate signed by two officers confirming that all applicable rules of such competent and/or relevant listing authority, stock exchange and/or quotation system have been or will be complied with (or compliance with such rules has been waived by the relevant listing authority, stock exchange and/or quotation system).

The Issuer may issue replacement evidence of indebtedness, evidencing continued indebtedness under the Covered Bonds, in which case the existing evidence of indebtedness will be cancelled concurrently with the replacement evidence of indebtedness and with effect on and from the date of amendment thereof all references herein to Covered Bonds shall be deemed to be references to the Amended Covered Bonds and the Bond Trustee and the Security Trustee may, pursuant to the provisions described in Condition 14, agree with the Issuer and the Trust such modifications to the Transaction Documents as may be necessary for the amendment of the Covered Bonds under the new legislation, rules, regulations or guidelines.

For the purpose of the Conditions, **Regulatory Event** means any addition or amendment to, clarification of, or change in, the official position or interpretation of any laws, rules, regulations, guidance or administrative or staff pronouncements of any Canadian legislative body, court, government authority or regulatory body (in each case whether or not having the force of law), irrespective of the manner in which such addition, amendment, clarification, or change is effected or made known, that provides that bonds issued to finance a Canadian chartered bank are entitled to the same or similar benefits to those provided by covered bond legislation in any European Union country.

#### 6.13 *Partly Paid Covered Bonds*

Partly Paid Covered Bonds will be redeemed at maturity in accordance with the provisions of the applicable Final Terms Document. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 6.7.

### 7. **Taxation**

All payments of principal and interest (if any) in respect of the Covered Bonds, Receipts and Coupons by or on behalf of the Issuer or the Trust, 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 charges of whatever nature imposed or levied by or on behalf of the Government of Canada or any province or territory or political division thereof or any authority or agency therein or thereof having power to tax unless such withholding or deduction of such taxes, duties, assessments or charges is required by law. In that event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Covered Bonds, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest, if any, which would otherwise have been receivable in respect of the Covered Bonds, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Covered Bond, Receipt or Coupon presented for payment:

- (i) to, or to a third party on behalf of, a Covered Bondholder, Receiptholder or Couponholder who is liable to such taxes, duties, assessments or governmental charges in respect of such

Covered Bond, Receipt or Coupon by reason of such Covered Bondholder, Receiptholder or Couponholder having some connection with Canada;

- (ii) presented for payment more than 30 days after the Relevant Date except to the extent that the holder thereof would have been entitled to such additional amount on presenting the same for payment on or before such thirtieth day;
- (iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other law implementing or complying with, or introduced in order to conform to, such Directive;
- (iv) presented for payment by or on behalf of a Covered Bondholder, Receiptholder or Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Covered Bond, Receipt or Coupon to another Paying Agent in a Member State of the European Union;
- (v) to, or to a third party on behalf of, a Covered Bondholder, Receiptholder or Couponholder in respect of whom such tax, duty, assessment or charge is required to be withheld or deducted by reason of such Covered Bondholder, Receiptholder or Couponholder being a person not dealing at arm's length (within the meaning of the *Income Tax Act* (Canada)) with the Issuer;
- (vi) to, or to a third party on behalf of, a Covered Bondholder, Receiptholder or Couponholder who is liable for such taxes, duties, assessments or other charges by reason of such Covered Bondholder, Receiptholder, 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, Receiptholder, Couponholder, 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, Receiptholder, Couponholder or, if such Covered Bondholder Receiptholder or Couponholder is not the beneficial owner of the Covered Bond, Receipt or Coupon in question, the beneficial owner of such Covered Bond, Receipt or Coupon at least 30 days' notice that such Covered Bondholder, Receiptholder, 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, Receipt or Coupon first becomes due and payable but, if the full amount of the moneys payable on such date has not been received by the Principal Paying Agent or the Bond Trustee on or prior to such date, the **Relevant Date** shall be the date on which such moneys shall have been so received and notice to that effect has been given to Covered Bondholders in accordance with Condition 13.

If any payments made by the Trust under the Covered Bond Guarantee are or become subject to any withholding or deduction on account of any taxes, duties, assessments or charges of whatever nature imposed or levied by or on behalf of Canada or any political sub-division thereof or by any authority therein or thereof having power to tax, the Trust will not be obliged to pay any additional amount as a consequence.

## 8. Prescription

The Covered Bonds (whether in bearer or registered form), Receipts and Coupons will become void unless claims in respect of principal and/or interest are made 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) therefor, subject in each case to the provisions of Condition 5.

The Issuer shall 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 despatched in the Specified Currency remains uncashed at, the end of the period of ten years from the Relevant Date for such payment.

The Issuer shall be discharged from its obligation to pay interest on a Registered Covered Bond to the extent that a cheque which has been duly despatched 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 shall 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 5 or any Talon which would be void pursuant to Condition 5.

## **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 means the Covered Bonds of this 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 shall (subject in each case to being indemnified and/or secured and/or pre-funded 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 Trust under the Covered Bond Guarantee) each Covered Bond of each Series is, and each such Covered Bond shall thereupon immediately become, due and repayable at its Early Redemption Amount together with (to the extent not included in the Early Redemption Amount) accrued interest as provided in the Trust Deed if any of the following events (each an **Issuer Event of Default**) shall occur and be continuing:

- (a) if default is made by the Issuer for a period of 30 days or more in the payment of any principal or 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 other obligations under the Covered Bonds, Receipts or Coupons of any Series or the Trust Deed or any other Transaction Documents to which the Issuer is a party (other than the Programme Agreement and any Subscription Agreement), but excluding any obligation of the Issuer to comply with the Asset Coverage Test or any representations or 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) next following the service by the Bond Trustee on the Issuer of notice requiring the same to be remedied; or
- (c) if the Issuer shall have become insolvent, or if the Superintendent of Financial Institutions (Canada) shall have taken control of the assets of the Issuer or of the Issuer itself, or if a liquidator of the Issuer, or person with similar powers, shall have been appointed pursuant to a winding-up order or otherwise; 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 Trust Payment Date

immediately following the next Calculation Date after the 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 of that Series of Hard Bullet Covered Bonds, and the Trust has not cured the breach before the earlier to occur of: (i) ten Toronto 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,

provided that the condition, event or act described in subparagraphs (b) to (e) above shall only constitute an Issuer Event of Default if the Bond Trustee shall have certified in writing to the Issuer and the Trust 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, the Bond Trustee shall forthwith serve a notice to pay (the **Notice to Pay**) on the Trust pursuant to the Covered Bond Guarantee. If a Notice to Pay has been served, the Trust shall be required to make payments of Guaranteed Amounts when the same shall become Due for Payment in accordance with the terms of the Covered Bond Guarantee.

Following service of an Issuer Acceleration Notice, the Bond Trustee may or shall take such proceedings against the Issuer in accordance with the first paragraph of Condition 9.3.

The Trust Deed provides that all moneys received by the Bond Trustee from the Issuer or any liquidator or other similar official appointed in relation to the Issuer following service of an Issuer Acceleration Notice (the **Excess Proceeds**), shall be paid by the Bond Trustee on behalf of the Covered Bondholders of the relevant Series to the Trust for its own account, as soon as practicable, and shall be held by the Trust in the GIC Account and the Excess Proceeds shall thereafter form part of the Security and shall be used by the Trust in the same manner as all other moneys from time to time standing to the credit of the GIC Account pursuant to the Security Agreements and the Declaration of Trust.

Upon the receipt by the Trust of any Excess Proceeds (any such amount, the **Excess Proceeds Amount**), the Trust will be deemed to have assumed all of the obligations of the Issuer, and be solely liable as principal obligor and not as a guarantor, in respect of the obligation to pay to the Covered Bondholders, Receiptholders and/or Couponholders the Excess Proceeds Percentage Amount in respect of any Series of Covered Bonds and the Covered Bondholders, Receiptholders and/or Couponholders in respect of any Series of Covered Bonds shall have no rights against the Issuer with respect to payment of any amount in respect of such Series of Covered Bonds in excess of the Unpaid Excess Proceeds Percentage Amount.

**Excess Proceeds Percentage** means the amount expressed as a percentage equal to the Excess Proceeds Amount received by the Trust divided by the aggregate of the Early Redemption Amount, together with (to the extent not included in the Early Redemption Amount) accrued interest thereon, up to the date of the receipt of such Excess Proceeds Amount in respect of each Series of Covered Bonds.

**Excess Proceeds Percentage Amount** means an amount in respect of each Series of Covered Bonds, equal to the Early Redemption Amount in respect of such Series of Covered Bonds (as at the date of service of an Issuer Acceleration Notice), together with (to the extent not included in the Early Redemption Amount) accrued interest thereon up to the date of the receipt of such Excess Proceeds Amount multiplied by the Excess Proceeds Percentage.



**Unpaid Excess Proceeds Percentage Amount** means in respect of each Series of Covered Bonds, an amount equal to the Early Redemption Amount in respect of such Series of Covered Bonds (as at the date of service of an Issuer Acceleration Notice), together with (to the extent not included in the Early Redemption Amount) accrued interest thereon up to the date of the receipt of such Excess Proceeds Amount minus the Excess Proceeds Percentage Amount received by the Trust in respect of such Series of Covered Bonds.

## 9.2 *Trust 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 means the Covered Bonds of this 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 shall (subject in each case to being indemnified and/or secured and/or pre-funded to its satisfaction), give notice (the **Trust Acceleration Notice**) in writing to the Issuer and the Trust, that (i) each Covered Bond of each Series is, and each Covered Bond of each Series shall as against the Issuer (if not already due and repayable against the Issuer following service of an Issuer Acceleration Notice), thereupon immediately become, due and repayable at its Early Redemption Amount together with (to the extent not already included in the Early Redemption Amount) accrued interest, and (ii) all amounts payable by the Trust under the Covered Bond Guarantee shall thereupon immediately become due and payable at the Guaranteed Amount corresponding to the Early Redemption Amount for each Covered Bond of each Series together with (to the extent not already included in the Early Redemption Amount) accrued interest, in each case as provided in the Trust Deed and thereafter the Security shall become enforceable if any of the following events (each a **Trust Event of Default**) shall occur and be continuing:

- (a) if default is made by the Trust for a period of seven days or more in the payment of any Guaranteed Amounts which are Due for Payment on the relevant Guaranteed Amounts Due Date in respect of the Covered Bonds of any Series except in the case of the payments of a Guaranteed Amount which is Due for Payment under Condition 6.1 when the Trust shall 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 Trust 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 a failure to repay amounts due under the Intercompany Loan) under the Trust Deed, the Security Agreements or any other Transaction Document (other than the obligation to satisfy the Amortisation Test in accordance with Section 8.1 of the Declaration of Trust) to which the Trust is a party 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 Trust requiring the same to be remedied; or
- (c) if the Trust becomes subject to any bankruptcy, reorganization, arrangement, insolvency, liquidation or other similar proceeding; or
- (d) if there is a failure to satisfy the Amortisation Test (as set out in the Declaration of Trust) as of any Calculation Date following service of a Notice to Pay; or

- (e) the Covered Bond Guarantee is not, or is claimed by the Trust not to be, in full force and effect,

provided that the condition, event or act described in subparagraphs (b) to (e) above shall only constitute a Trust Event of Default if the Bond Trustee shall have certified in writing to the Issuer and the Trust that such condition, event or act is, in its opinion, materially prejudicial to the interests of the Covered Bondholders of any Series.

Following service of a Trust Acceleration Notice, each of the Bond Trustee and the Security Trustee may or shall take such proceedings or steps in accordance with the first and second paragraphs, respectively, of Condition 9.3.

Upon service of a Trust Acceleration Notice, the Covered Bondholders shall have a claim against the Trust, 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 interest and any other amount due under such Covered Bonds (other than additional amounts payable under Condition 7) 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 Trust, 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 Receipts, the Coupons or any other Transaction Document, but it shall not be bound to take any such enforcement proceedings in relation to the Trust Deed, the Covered Bonds, the Receipts, the Coupons or any other Transaction Document unless (i) it shall have 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 shall have been indemnified and/or secured and/or pre-funded to its satisfaction.

In exercising any of its powers, trusts, authorities and discretions the Bond Trustee shall only have regard to the interests of the Covered Bondholders of all Series and shall not have regard to the interests of any other Secured Creditors.

The Security Trustee may at any time, at its discretion and without further notice but subject to applicable law, take such proceedings against the Trust and/or any other person as it may think fit to enforce the provisions of the Security Agreements 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 shall not be bound to take any such proceedings or steps unless (i) it shall have 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 shall have been indemnified and/or secured to its satisfaction. In exercising any of its powers, trusts, authorities and discretions under this paragraph the Security Trustee shall only have regard to the interests of the Covered Bondholders of all Series and shall not have regard to the interests of any other Secured Creditors.

No Covered Bondholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer or the Trust or to take any action with respect to the Trust Deed, any other Transaction Document, the Covered Bonds, the Receipts, the Coupons, or the Security unless the Bond Trustee

or the Security Trustee, as applicable, having become bound so to proceed, fails so to do within a reasonable period and such failure shall be continuing.

**10. Replacement of Covered Bonds, Receipts, Coupons and Talons**

If any Covered Bond, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent in London (in the case of Bearer Covered Bonds, Receipts or Coupons) or the Registrar (in the case of Registered Covered Bonds), or any other place approved by the Bond Trustee of which notice shall have been given to the Covered Bondholders in accordance with Condition 13 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, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

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

The names of the initial Principal Paying Agent, the initial Registrar, the initial Exchange Agent and their initial specified offices are set out below.

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 Principal 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 Principal Paying Agent) having a specified office in a city approved by the Bond Trustee in Europe;
- (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;
- (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; and
- (e) the Issuer will ensure that it maintains a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any other Directive implementing the conclusions of the ECOFIN Council Meeting of 26 to 27 November 2000 or any law implementing or complying with, or introduced in order to conform to any such Directive, provided that the Issuer shall not, under any circumstances, be obliged to maintain a Paying Agent with a specified office in such Member State unless at least one European Member State does not require a Paying Agent making payments through a specified office in that Member State to so withhold or deduct tax.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in the United States in the circumstances described in Condition 5.5. 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.

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and the Trust 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, Receiptholders 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 Principal 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.

## **13. Notices**

Any notice regarding Bearer Covered Bonds shall be deemed to have been duly given to the relevant Covered Bondholders if sent to DTC, Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Covered Bonds and shall 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 of the UK Listing Authority) any notice shall also be published in accordance with the relevant listing rules (which includes publication in a national newspaper in the United Kingdom). 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 shall give two copies of each notice in accordance with this Condition 13 to the UK Financial Services Authority.

The Bond Trustee shall 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 shall require.

Notices to be given by any Covered Bondholder shall 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 Principal Paying Agent (in the case of Bearer Covered Bonds) or the Registrar (in the case of Registered Covered Bonds). Whilst any of the Covered Bonds are represented by a Global Covered Bond, such notice may be given by any holder of a Covered Bond to the Principal Paying Agent or the Registrar through DTC, Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Principal Paying Agent, the Registrar and DTC and/or 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, Receiptholders, Couponholders and other Secured Parties should note that the Issuer, the Trust and the Principal Paying Agent may without their consent or the**

**consent of the Bond Trustee or the Security Trustee agree to modify any provision of any Final Terms Document 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 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 Trust or the Bond Trustee and shall be convened by the Issuer at the request in writing of Covered Bondholders holding not less than 10 per cent. of the Principal Amount Outstanding of the Covered Bonds 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 shall 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 shall, 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 Receiptholders and Couponholders in respect of such Series of Covered Bonds. Pursuant to the Trust Deed, the Bond Trustee may convene a single meeting of the holders of Covered Bonds 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 shall 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 or to direct the Bond Trustee or the Security Trustee to take any enforcement action pursuant to Condition 9 (each a **Programme Resolution**) shall 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 Programme Resolution may be convened by the Issuer, the Trust or the Bond Trustee or by Covered Bondholders, in the case of a direction to accelerate the Covered Bonds pursuant to Conditions 9.1 and 9.2 or to take enforcement action pursuant to Condition 9.3, holding at least 25 per cent. of the Principal Amount Outstanding of the Covered Bonds of all Series then outstanding. The quorum at any such meeting for passing a Programme 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 Programme Resolution passed at any meeting of the Covered Bondholders of all Series shall be binding on all Covered Bondholders of all Series, whether or not they are present at the meeting, and on all related Receiptholders and Couponholders in respect of such Covered Bonds.

In connection with any meeting of the holders of Covered Bonds 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 shall be converted into Canadian Dollars at the relevant Covered Bond Swap Rate.

The Bond Trustee, the Security Trustee, the Trust and the Issuer may also agree, without the consent of the Covered Bondholders, Receiptholders or Couponholders of any Series and without the consent

of the other Secured Creditors (and for this purpose the Bond Trustee and the Security 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 Receipts and/or Coupons or any Transaction Document provided that (i) 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, and (ii) in the sole opinion of the Security Trustee such modification is not materially prejudicial to the interests of any of the Covered Bondholders of any Series or the Covered Bond Swap Providers or the Interest Rate Swap Provider, provided that the relevant Covered Bond Swap Provider or the Interest Rate Swap Provider is not a member of the BMO Group; or
- (b) any modification of the terms and conditions applying to Covered Bonds of any one or more Series (including these Terms and Conditions), the related Receipts and/or Coupons or any Transaction Document which is in the sole opinion of the Bond Trustee or the Security Trustee (as the case may be) 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 or the Security Trustee (as the case may be), proven, or is to comply with mandatory provisions of law.

Notwithstanding the above, the Issuer, the Trust and the Principal Paying Agent may agree, without the consent of the Bond Trustee, the Security Trustee, the Covered Bondholders, Receiptholders or Couponholders or any of the other Secured Creditors, to any modification of any of the provisions of any Final Terms Document 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, the related Receiptholders and/or 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 Trust Event of Default or Potential Issuer Event of Default or Potential Trust Event of Default shall 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 Security Trustee may also agree, without the consent of the Covered Bondholders of any Series, the related Receiptholders and/or 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 Security Trustee, materially prejudicial to the interests of any of the Covered Bondholders of any Series, or the Covered Bond Swap Providers or the Interest Rate Swap Provider, provided that the relevant Covered Bond Swap Provider or the Interest Rate Swap Provider is not a member of the BMO Group.

Notwithstanding the above, none of the Issuer, the Trust, the Bond Trustee or the Security Trustee, without the prior consent or sanction of the Covered Bondholders by Extraordinary Resolution, may take any action or amend any of the Transaction Documents that would result in the CMHC Mortgage Insurance relating to any Loan in the Portfolio becoming void or a material limit being placed on any claims that may be made thereunder. In the event that Covered Bondholders consent to any action or amendment that would result in the CMHC Mortgage Insurance relating to any Loan in the Portfolio becoming void or a material limit being placed on any claims that may be made thereunder, the Issuer shall, where practicable, provide each of the Rating Agencies with written notice thereof ten Business Days prior to such action or amendment coming into effect.

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

- (i) its consent (such consent not to be unreasonably withheld or delayed) to such proposed modification, waiver or authorisation; or
- (ii) subject to paragraph (i), its refusal to give such consent and reasons for such refusal (such refusal not to be unreasonable in the circumstances).

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

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

Any such modification, waiver, authorisation or determination shall be binding on all Covered Bondholders of all Series of Covered Bonds, the related Receiptholders and the Couponholders and the other Secured Creditors, and unless the Security Trustee and the Bond Trustee otherwise agree, any such modification shall 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 and (where it is required to have regard to the interests of the Covered Bondholders) the Security Trustee shall have regard to the general interests of the Covered Bondholders of each Series as a class (but shall not have regard to any interests arising from circumstances particular to individual Covered Bondholders, Receiptholders or Couponholders whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Covered Bondholders, the related Receiptholders, 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 and the Security Trustee shall not be entitled to require, nor shall any Covered Bondholder, Receiptholder or Couponholder be entitled to claim, from the Issuer, the Trust, the Bond Trustee, the Security 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, Receiptholders and/or Couponholders, except to the extent already provided for in Condition 7 and/or in any undertaking or covenant given in addition to, or in substitution for, Condition 7 pursuant to the Trust Deed.

Provided that the Bond Trustee and the Security Trustee shall have received a certificate signed by two officers of the Issuer and a certificate from the Administrative Agent stating that immediately after giving effect to the matters set out in this paragraph below, no Issuer Event of Default or Potential Issuer Event of Default (in respect of the Issuer) or Trust Event of Default or Potential Trust Event of Default (in respect of the Trust), respectively, shall have occurred and be continuing and certain other conditions as are specified in the Trust Deed are satisfied, but without the consent of the holders of Covered Bonds of any Series, the Coupons and Receipts 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 shall be notified to the holders of all Series of Covered Bonds (in accordance with the relevant terms and conditions of such Covered Bonds).

The Trust Deed provides that any such assumption shall be notified to the holders of such Covered Bonds (in accordance with the relevant terms and conditions of such Covered Bonds).

The Issuer may, without the consent of the holders of the Covered Bonds of any Series or any Receipts or Coupons relating thereto, or any other Secured Creditor consolidate with, merge or amalgamate into or transfer its assets substantially as an entirety to, any corporation organised under the laws of Canada, or any political subdivision thereof, provided that:

- (i) a certificate of two officers of the Issuer and a certificate of the Administrative Agent is delivered to the Bond Trustee and the Security Trustee to the effect that immediately after giving effect to such transaction no Issuer Event of Default or Potential Issuer Event of Default (in respect of the Issuer) and no Trust Event of Default or Potential Trust Event of Default (in respect of the Trust), respectively, shall have occurred and be continuing and the CMHC Mortgage Insurance relating to the Loans in the Portfolio will not be void and no material limit will be placed on any claims that may be made thereunder as a result of such consolidation, merger, amalgamation or transfer;
- (ii) unless the Issuer is the surviving entity, the Issuer shall procure that the surviving or transferee company assumes its obligations as Issuer under the Trust Deed, each other relevant Transaction Document and all of the outstanding Covered Bonds of all Series, in place of the Issuer;
- (iii) in the case of an assumption of the obligations of the Issuer by a successor or transferee company, the guarantee of the Trust remain fully effective on the same basis in relation to the obligations of such successor or transferee company; and
- (iv) certain other conditions set out in the Trust Deed are met.

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



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 Trust 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 Trust Event of Default.

**15. Indemnification of the Bond Trustee and/or Security Trustee and Bond Trustee and/or Security Trustee Contracting with the Issuer and/or the Trust**

If, in connection with the exercise of its powers, trusts, authorities or discretions the Bond Trustee or the Security 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 or the Security Trustee, as the case may be, shall 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 Principal Amount Outstanding of Covered Bonds of the relevant Series then outstanding.

The Trust Deed and the Security Agreements contain provisions for the indemnification of the Bond Trustee and the Security Trustee and for their relief from responsibility, including provisions relieving them from taking any action unless indemnified and/or secured and/or pre-funded to their satisfaction.

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

Neither the Bond Trustee nor the Security Trustee will be responsible for any loss, expense or liability, which may be suffered as a result of any Loans or 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 and/or the Security Trustee. Neither the Bond Trustee nor the Security Trustee will be responsible for (i) supervising the performance by the Issuer, the Trust or any other party to the Transaction Documents of their respective obligations under the Transaction Documents and the Bond Trustee and the Security Trustee will be entitled to assume, until they each have 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 Trust 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, the Amortisation Test or the Pre-Maturity Test, or (iv) monitoring whether Loans and Related Security satisfy the Eligibility Criteria. Neither the Bond Trustee nor the Security Trustee will be liable to any Covered Bondholder or other Secured Creditor for any failure to make or to cause to be

made on their behalf the searches, investigations and enquiries which would normally be made by a prudent chargee in relation to the Security and have no responsibility in relation to the legality, validity, sufficiency and enforceability of the Security and the Transaction Documents.

## 16. Further Issues

The Issuer shall be at liberty from time to time without the consent of the Covered Bondholders, the Receiptholders or the Couponholders or any Secured Creditors to create and issue further bonds having terms and conditions the same as the Covered Bonds of any Series or the same in all respects and guaranteed by the Trust save for the amount and date of the first payment of interest thereon, issue date and/or issue price and so that the same shall be consolidated and form a single Series with the outstanding Covered Bonds of such Series.

## 17. Ratings Confirmations

- 17.1 By subscribing for or purchasing Covered Bond(s), each Covered Bondholder shall 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 a confirmation by a Rating Agency that any action proposed to be taken by the Issuer, the Trust, the Seller, the Servicer, the Cash Manager, the Bond Trustee, the Security Trustee or any other party to a Transaction Document will not have an adverse effect on the then current rating of the Covered Bonds or cause such rating to be withdrawn (a **Rating Agency Confirmation**), whether such action 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.
- 17.2 In being entitled to have regard to the fact that a Rating Agency has confirmed that the then current rating of the relevant Series of Covered Bonds would not be downgraded or withdrawn, each of the Issuer, the Trust, the Bond Trustee, the Security Trustee and the Secured Creditors (including the Covered Bondholders) is deemed to have acknowledged and agreed that a Rating Agency Confirmation does not impose or extend any actual or contingent liability on the Rating Agencies to the Issuer, the Trust, the Bond Trustee, the Security 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 Trust, the Bond Trustee, the Security Trustee, the Secured Creditors (including the Covered Bondholders) or any other person whether by way of contract or otherwise.
- 17.3 By subscribing for or purchasing Covered Bond(s) each Covered Bondholder shall be deemed to have acknowledged and agreed that:
- (a) a Rating Agency Confirmation 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 a Rating Agency Confirmation in the time available, or at all, and the Rating Agency shall not be responsible for the consequences thereof;
  - (c) a Rating Agency Confirmation, 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 forms a part; and
  - (d) a Rating Agency Confirmation represents only a restatement of the opinions given, and shall not be construed as advice for the benefit of any Covered Bondholder or any other party.

17.4 If:

- (a) a confirmation or affirmation of rating or other response by a Rating Agency is a condition to any action or step under any Transaction Document; and
- (b) a written request for such confirmation or response is delivered to that Rating Agency by any of the Trust, the Issuer, the Seller, the Cash Manager, the Servicer, the Bond Trustee and/or the Security Trustee, as applicable (each a **Requesting Party**) and either one or more of the Rating Agencies indicates that it does not consider such confirmation, affirmation or response necessary in the circumstances or no such confirmation or affirmation of rating or other response is received from one or more of the Rating Agencies within 30 days of receipt of such request (each a **Non-Responsive Rating Agency**),

the Requesting Party shall be entitled to disregard the requirement for a confirmation or affirmation of rating or other response by each Non-Responsive Rating Agency and proceed on the basis of the confirmations or affirmations of rating or other responses received by each other Rating Agency on the basis that such confirmation or affirmation of rating or other response by 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 or affirmation shall 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. Contracts (Rights of Third Parties) Act 1999**

No person (other than the Rating Agencies in respect of Condition 17) shall have any right to enforce any term or condition of this Covered Bond under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

## **19. Governing Law**

The Trust Deed (other than provisions relating to the Covered Bond Guarantee), the Agency Agreement, the Covered Bonds, the Receipts, the Coupons, the Interest Rate Swap Agreement, the Covered Bond Swap Agreements, the Programme Agreement and the English Security Agreement are governed by, and shall be construed in accordance with, English law unless specifically stated to the contrary. Any non-contractual matter, claim or dispute arising out of or in connection with the Trust Deed, the Covered Bonds, the Receipts, the Coupons and the Programme Agreement is governed by, and shall be determined in accordance with, English law unless specifically stated to the contrary. The Mortgage Sale Agreement, the Servicing Agreement, the Declaration of Trust, the Intercompany Loan Agreement, the Cash Management Agreement, the Asset Monitor Agreement, the BMO Trust Security Agreement, the Bank Account Agreement, the Stand-by Bank Account Agreement, the Guaranteed Investment Contract, the Stand-by Guaranteed Investment Contract, the Subordinated Loan Agreement and the Administration Agreement and, to the extent it relates to the Covered Bond Guarantee, the Trust Deed shall be governed by and construed in accordance with, the laws of the Province of Ontario and the federal laws of Canada applicable therein.

## **USE OF PROCEEDS**

The net proceeds of the issue of each Tranche of Covered Bonds will be added to the general funds of the Issuer.

## **BANK OF MONTREAL**

The Issuer provides a broad range of credit and non-credit products and services directly and through Canadian and non-Canadian subsidiaries, offices and branches. As at 31 July 2011, the Issuer had approximately 47,000 full-time equivalent employees, maintained approximately 1,600 bank branches in Canada and the United States and operated internationally in major financial markets and trading areas through its offices in eight other countries, including the United States. BMO Financial Corp. (formerly Harris Financial Corp.) (**BMO Harris**), based in Chicago and wholly-owned by the Issuer, operates primarily through its indirect subsidiary BMO Harris N.A., which provides banking, financing, investing and cash management services in select markets in the U.S. Midwest. The Issuer provides a full range of investment dealer services through the BMO Nesbitt Burns group of companies, which include BMO Nesbitt Burns Inc., a major fully-integrated Canadian investment dealer in which the Issuer owns 100 per cent. of the voting shares, and BMO Capital Markets Corp., the Issuer's wholly-owned registered securities dealer in the United States.

The Issuer operates through three operating groups: Personal and Commercial Banking (**P&C**) comprised of P&C Canada and P&C U.S.; Private Client Group (**PCG**); and BMO Capital Markets. P&C Canada operates across Canada, offering banking, financing and investing solutions as well as card and payment services. Operating predominately in the U.S. Midwest under the BMO Harris brand, P&C U.S. provides personal and business clients with banking, lending, investing and financial planning services. PCG offers wealth management products and solutions across North America, including full-service investing, private banking, online brokerage and investment management services through BMO Bank of Montreal, BMO Nesbitt Burns®, BMO InvestorLine®, BMO Guardian, Jones Heward Investment Counsel, HIM Money®, BMO Harris Private Banking, Harris Private Bank, Harris Investment Management, and Pymford International, based in the United Kingdom, as well as insurance products and solutions through BMO Life Insurance and BMO Life Assurance in Canada. BMO Capital Markets, the Issuer's investment and corporate banking group, provides a broad range of capital markets solutions to corporate, institutional and government clients in Canada, the United States, Europe, Asia and Australia. The Issuer's Corporate Services group, which includes Technology and Operations, provides risk management, information technology and other corporate services to the three operating groups.

### ***General Bank Matters***

#### *Competition*

Canada's financial services industry is highly competitive. It includes 21 domestic banks and over 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 mono-line financial institutions among others. The Issuer competes with most of these companies in some form in its different businesses. However, its range of services is comparable to those of the other four major Canadian banks and they are its direct competitors in almost all its businesses and markets in Canada. The Issuer was the fourth largest chartered bank in Canada in terms of assets, equity and market capitalisation as of 31 July 2011 as well as in terms of revenue for the twelve months ended 31 July 2011. The Issuer was also among the largest banks in Canada and the United States, ranking eighth by total assets, ninth by market capitalisation, twelfth by total equity and twelfth by revenue (based on Canadian data as at or for the twelve months ended 31 July 2011 and U.S. data as at or for the twelve months ended 30 June 2011).

The five major banks play a prominent role in the Canadian banking system, each maintaining an extensive branch network, augmented with Automated Banking Machines, and telephone and internet banking facilities. Although products and services offered by the major banks are reasonably similar, competition occurs not only in the suite of products and services offered and the different pricing and service models adopted, but in the use of leading edge technology to gain strategic advantage, as well as the partnerships and

alliances entered into by the various institutions to better serve their customers. Increased competition is also evident in the drive for scale and other operating efficiencies, and the greater willingness by all participants to divest low-return businesses. The industry is considered mature but still growing, supported by immigration and growth in the economy. In recent years, competition has escalated because of the rise of mono-line competitors, and internet and other niche banks. In addition, Canada's banks have become increasingly focused on their retail and commercial banking businesses.

The competitive landscape in the United States is significantly more complex than in Canada, given the overall size and activity level of the market and the presence of community banks, regional and national competitors for many businesses such as personal and commercial banking as well as other financial service providers. With the completion of the acquisition of M&I in July 2011, P&C U.S. now has a significant footprint in six contiguous U.S. Midwest states (Illinois, Wisconsin, Indiana, Minnesota, Missouri and Kansas), where there are approximately 3,100 deposit-taking institutions. There has been substantial consolidation in the marketplace over the past number of years; the five largest banks held only 21 per cent. of the personal and commercial deposits market in this six-state area in 1998, but by 2010, the five largest, adjusted to reflect the combination of Harris and M&I as BMO Harris Bank, held 34 per cent. of the market. With a GDP and population comparable to Canada's, this U.S. Midwest area remains highly contested because of the growth opportunities presented by the fragmentation in the market. Competitors are attempting to capture market share through acquisitions, aggressive pricing and continuous investment in their brands. Driven by the ongoing integration of the Canadian and American economies, consolidation has been underway in the financial services industry in Canada and the United States in recent years. This has affected trust companies, mutual fund managers, life insurers and credit unions. Canadian federal government policy has been to discourage 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. It is anticipated that this consolidation could significantly re-configure the North American financial services landscape in the future by widening the distinctions between various tiers of players.

### *Legislation and Supervision*

The Issuer's activities in Canada are governed by the *Bank Act* (Canada) (the **Bank Act**), which is one of four main federal statutes governing the financial services industry in Canada. The other three statutes cover trust and loan companies, insurance companies and cooperative credit associations.

In accordance with the *Bank Act*, the Issuer may engage in and carry on the business of banking and such business generally as pertains to the business of banking. The *Bank Act* grants Canadian chartered banks broad powers of investment in the securities of other corporations and entities, but imposes limits upon substantial investments. Under the *Bank Act*, generally a bank has a substantial investment in a body corporate when (1) the voting shares beneficially owned by the bank and by entities controlled by the bank exceed 10 per cent. of the outstanding voting shares of the body corporate; or (2) the total of the shares of the body corporate that are beneficially owned by the bank and entities controlled by the bank represent more than 25 per cent. of the total shareholders' equity of the body corporate. A Canadian chartered bank is permitted to have a substantial investment in entities whose activities are consistent with those of certain prescribed permitted substantial investments. In general, a bank will be permitted to invest in an entity that carries on any financial service activity whether that entity is regulated or not. Further, a bank may invest in entities that carry on commercial activities that are related to the promotion, sale, delivery or distribution of a financial product or service, or that relate to certain information services. A bank may also invest in entities that invest in real property, act as mutual funds or mutual fund distributors or that service financial institutions and a bank may have downstream holding companies to hold these investments. In certain cases, the approval of the Minister of Finance or the Superintendent of Financial Institutions (Canada) (the **Superintendent**) is required prior to making the investment and/or the bank is required to control the entity. Other than for authorised types of insurance, chartered banks may offer insurance products only through their subsidiaries and not through their branch systems. Banks may offer insurance products through their credit card systems but are prohibited from target-marketing these products to selected cardholders.

Without Minister of Finance approval, no person or group of associated persons may own more than 10 per cent. of any class of shares of the Issuer. With Minister of Finance approval, a person or group of associated persons may own up to 20 per cent. of any class of voting shares and up to 30 per cent. of any class of non-voting shares of the Issuer. The Bank Act permits, by order of the Governor in Council, the Canadian federal government to acquire shares of a bank, including the Issuer, if the Minister of Finance and Governor in Council were to conclude that to do so was necessary to promote the stability of the financial system in Canada (a **Ministry Ownership Order**). Ownership of the Issuer's shares by Canadian or foreign governments is otherwise prohibited under the Bank Act.

The Superintendent is responsible to the Minister of Finance for the administration of the Bank Act. The Superintendent provides guidelines for disclosure of a bank's financial information. The Superintendent is also required to make an annual examination of each bank to ensure compliance with the Bank Act and to ensure that each bank is in sound financial condition. The report of the Superintendent's examination is submitted to the Minister of Finance. In addition to the Bank Act, outside Canada each of the Issuer's branches, agencies and subsidiaries is also subject to the regulatory requirements of the country in which it conducts its business.

#### *Supervision and Regulation in the United States*

The activities of the Issuer and its subsidiaries in the United States are subject to federal and state supervision, regulation and examination by bank regulatory and other governmental agencies. As a foreign bank, the Issuer is subject to various laws and regulations of the United States, 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 **Fed Board**), and state banking regulators oversee the operation of the Issuer's branches and offices in the United States.

Being "well capitalized" and "well managed" under applicable Fed Board standards, the Issuer and its bank holding companies in the United States were designated as financial holding companies on 10 April 2000. This status allows a broader range of financial, non-banking and merchant banking activities to be undertaken. The Issuer and its subsidiaries own three FDIC insured depository institutions in the United States that are engaged in cash management, fiduciary activities, and commercial and retail banking and are subject to various laws and regulations and examination by, in the case of two of the institutions, the Office of the Comptroller of the Currency, and in the case of the third institution, the Fed Board and the Wisconsin Department of Financial Institutions, among others. Fed Board approval is generally required for acquiring voting shares in excess of specified thresholds, control or all or substantially all of the assets of a bank holding company, bank or savings association.

The Issuer and its subsidiaries are engaged in a number of financial activities and businesses in the United States, many of which are subject to regulation by the Fed Board and other applicable federal and state agencies. The 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. Insurance agency businesses are regulated by state insurance regulators. Provisions of the United States Federal Reserve Act place certain limitations and restrictions on the transactions between the Issuer-owned insured depository institutions and the Issuer and its affiliates.

On 21 July 2010, the President of the United States signed into law the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (the **Dodd-Frank Act**). The Dodd-Frank Act is broad in scope and the Issuer is assessing the impact of the legislation on it. The reforms include heightened consumer protection, regulation of the Over-the-Counter (**OTC**) derivatives markets, restrictions on proprietary trading by banks (referred to as the Volcker Rule), imposition of heightened prudential standards and broader application of leverage and risk-based capital requirements, greater supervision of systemically significant payment, clearing or settlement systems, restrictions on interchange fees, and the creation of a new financial stability

oversight council of regulators with the objective of increasing stability by monitoring systemic risks posed by financial services companies and their activities. Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate at this time the overall impact on the Issuer or the financial industry more generally. The change to overdraft fees as a result of the Regulation E came into effect in the summer of 2010, and is now included in the results of the Issuer. The reductions to interchange fees under Dodd-Frank will be effective on 1 October 2011. The Issuer anticipates an increase in compliance costs and regulatory enforcement, and will be focused on managing the impact, particularly on its U.S. business, of regulatory changes given their complexity and breadth.

The Financial Crisis Responsibility Fee that the Obama Administration has proposed levying on U.S. financial institutions that have assets exceeding a certain threshold was re-proposed in the Administration's 2012 budget. Although the details of the proposed fee have not been fully released, the proposed fee, if implemented could apply to some or all of the Issuer's U.S. operations. The proposed fee will not become law unless approved by the president and the United States Congress.

### *International Supervision and Regulation*

In December 2009, the Basel Committee published two consultative reform documents entitled "Strengthening the resilience of the banking sector" and "International framework for liquidity risk, measurement, standards and monitoring", and released additional guidance in July and September 2010. The goal of these reforms is to strengthen the banking sector capital and liquidity frameworks and to raise the resilience of individual banking institutions in periods of stress. Collectively, these new global standards have been referred to as "Basel III". Additional information on Basel III is provided under the heading "Enterprise-Wide Capital Management - Potential Impact of Proposed Regulatory Capital Changes and Conversion to IFRS" on pages 61 and 62 of the 2010 MD&A and under the heading "Potential Impact of Proposed Regulatory Capital Charges and Conversion to IFRS" on pages 14 and 15 of the Third Quarter 2011 Report to Shareholders.

### *Organisational Structure*

The following is a list of the Issuer's principal subsidiaries as at 31 October 2010. Please note that this list does not reflect the Issuer's recent acquisitions of M&I or Lloyd George Management. The book value of subsidiaries represents the total common and preferred equity value of the Issuer's holdings or its partnership interest where appropriate. The Issuer directly or indirectly owns 100 per cent. of the outstanding voting shares of such subsidiaries.

<b>Entities in which the Issuer owns more than 50% of the issued and outstanding voting shares</b>	<b>Head or principal office</b>	<b>Book value of shares owned by the Issuer (Canadian \$ in millions)</b>
Bank of Montreal Assessoria e Serviços Ltda.....	Rio de Janeiro, Brazil	-
Bank of Montreal Capital Markets (Holdings) Limited.....	London, England	148
BMO Capital Markets Limited .....	London, England	
Pyrford International Limited .....	London, England	
Bank of Montreal (China) Co. Ltd.	Beijing, China	256
Bank of Montreal Finance Ltd. ....	Toronto, Canada	27
Bank of Montreal Holding Inc. ....	Calgary, Canada	19,950
Bank of Montreal Holding Enterprise Inc. ....	Calgary, Canada	
Bank of Montreal Holding Investments Inc. ....	Calgary, Canada	
Bank of Montreal Securities Canada Limited...	Toronto, Canada	
BMO Nesbitt Burns Corporation Limited .....	Montreal, Canada	



BMO Nesbitt Burns Inc. and subsidiaries.....	Toronto, Canada	
BMO Group Retirement Services Inc.	Toronto, Canada	
BMO Holding Finance, LLC .....	Wilmington, United States	
BMO Investments Inc. and subsidiaries .....	Toronto, Canada	
BMO Investments Limited .....	Hamilton, Bermuda	
Bank of Montreal (Barbados) Limited ...	St. Michael, Barbados	
Bank of Montreal Insurance (Barbados) Limited .....	St. Michael, Barbados	
BMO InvestorLine Inc. ....	Toronto, Canada	
BMO Nesbitt Burns Trading Corp. S.A. ....	Münsbach, Luxembourg	
BMO Service Inc. ....	Calgary, Canada	
Bank of Montreal Ireland plc .....	Dublin, Ireland	1,537
Bank of Montreal Mortgage Corporation .....	Calgary, Canada	1,832
BMO Mortgage Corp. ....	Vancouver, Canada	
BMRI Realty Investments .....	Toronto, Canada	
Bay Street Holdings LLC.....	Chicago, United States	-
BMO Capital Corporation.....	Toronto, Canada	97
BMO Funding, L.P. ....	Chicago, United States	171
BMO GP Inc. ....	Toronto, Canada	-
BMO Ireland Finance Company .....	Dublin, Ireland	523
BMO Life Insurance Company .....	Toronto, Canada	479
BMO Life Holdings (Canada), ULC	Halifax, Canada	
BMO Life Assurance Company	Toronto, Canada	
BMO Nevada LP .....	Chicago, United States	190
BMO (NS) Capital Funding Company and subsidiary .....	Halifax, Canada	
BMO Private Equity (Canada) Inc. ....	Toronto, Canada	118
BMO Nesbitt Burns Employee Co-Investment Fund I Management (Canada) Inc. and subsidiaries .....	Toronto, Canada	
BMO Trust Company .....	Toronto, Canada	836
BMO (US) Credit Corp.	Chicago, United States	12
Clark Street Holdings, LLC	Chicago, United States	
BMO (US) Lending, LLC .....	Chicago, United States	285
Harris Financial Corp <sup>1</sup> .....	Chicago, United States	6,201
BMO Capital Markets Corp.....	New York, United States	
BMO Capital Markets Equity Group (U.S.), Inc. and subsidiaries .....	Chicago, United States	
BMO Capital Markets GKST Inc	Chicago, United States	
BMO Financial, Inc. ....	Wilmington, United States	
BMO Financial Products Corp.....	Wilmington, United States	
BMO Global Capital Solutions, Inc. ....	Chicago, United States	
BMO Harris Financing, Inc. and subsidiary	Chicago, United States	
Harris Bancorp Insurance Services, Inc. ....	Chicago, United States	
Harris Bankcorp, Inc. ....	Chicago, United States	
Harris Central N.A. ....	Roselle, United States	
Harris Investment Management, Inc. and subsidiary.....	Chicago, United States	
Harris Investor Services, Inc.....	Chicago, United States	
Harris Life Insurance Company.....	Scottsdale, United States	
Harris National Association <sup>2</sup> and	Chicago, United States	

subsidiaries Harris Trade Services Limited.....	Hong Kong, China	
The Harris Bank N.A. ....	Scottsdale, United States	
Harris RIA Holdings, Inc. and subsidiaries .....	Wilmington, United States	
psps Holdings, LLC and subsidiary .....	Chicago, United States	
Stoker Ostler Wealth Advisors, Inc.....	Scottsdale, United States	

1 Following the M&I acquisition, Harris Financial Corp. changed its name to BMO Financial Corp.

2 Following the M&I acquisition, Harris National Association changed its name to BMO Harris National Association.

## Financial Summary

The information in the tables below has been extracted from the Issuer's latest interim unaudited consolidated financial statements for the periods ended 31 July 2011 and 31 July 2010, each prepared in accordance with Canadian GAAP and which are incorporated herein by reference.

An audit comprises audit tests and procedures deemed necessary for the purpose of expressing an opinion on financial statements taken as a whole. An audit opinion has not been expressed on individual balances of accounts or summaries of selected transactions in the tables below and such data is derived from unaudited statements.

### Condensed Consolidated Balance Sheet

	For the three months ended				
	<b>31 July 2011</b>	<b>30 April 2011</b>	<b>31 January 2011</b>	<b>31 October 2010</b>	<b>31 July 2010</b>
	(in millions of Canadian dollars)				
Cash and Cash Equivalents.....	33,026	24,415	20,717	17,368	15,083
...					
Interest Bearing Deposits with Banks.....	5,035	3,336	3,522	3,186	3,121
Securities.....	126,915	120,584	122,881	123,399	119,350
Securities Borrowed or Purchased under Resale Agreements.....					
...	38,301	33,040	35,887	28,102	24,317
Total Loans, including customers' liability under acceptances and net of allowance for credit losses <sup>1</sup> .....	205,441	174,696	176,914	176,643	173,555
Other Assets .....	67,839	57,157	53,323	62,942	61,960
Total Assets.....	476,557	413,228	413,244	411,640	397,386
Deposits <sup>2</sup> .....	291,412	253,387	251,600	249,251	242,791
Other Liabilities.....	152,452	131,878	135,538	135,933	128,831
Subordinated Debt .....	5,284	5,208	3,713	3,776	3,747
Capital Trust Securities, Series A <sup>3</sup> , B <sup>3</sup> and C.....	400	400	400	800	800
Total Shareholders' Equity .....	27,009	22,355	21,993	21,880	21,217

1. The allowance for credit losses recorded in the Issuers Consolidated Balance Sheet is maintained at a level that it considers adequate to absorb credit-related losses on its loans, customers' liability under acceptances and other credit instruments. The portion related to other credit institutions is recorded in other liabilities in the Issuers Consolidated Balance Sheet. As at 31 July 2011, there was a \$42 million (\$nil as at 31 July 2010) allowance for credit losses related to other credit instruments included in other liabilities.

2. During the quarter ended 31 January 2011, the Issuer issued US\$1.5 billion Covered Bonds – Series 3. This deposit pays interest of 2.625% and matures on 25 January 2016.
3. During the quarter ended 31 January 2011, the Issuer redeemed all of its BMO Capital Trust Securities – Series B at a redemption amount equal to \$1,000, for an aggregate redemption of \$400 million, plus unpaid distributions. During the quarter ended 31 July 2010, the Issuer redeemed all its Capital Trust Securities – Series A at a redemption amount equal to \$1,000 plus unpaid distributions, representing an aggregate redemption of \$350 million.

### Condensed Consolidated Statement of Income

	For the three months ended				
	<b>31 July 2011</b>	<b>30 April 2011</b>	<b>31 January 2011</b>	<b>31 October 2010</b>	<b>31 July 2010</b>
	(in millions of Canadian dollars, except per share amounts)				
Net Interest Income After Provision for Credit Losses .....	1,518	1,475	1,379	1,357	1,357
Non-Interest Revenue .....	1,582	1,597	1,719	1,619	1,336
Net Interest Income and Non-Interest Revenue .....	3,100	3,072	3,098	2,976	2,693
Non-Interest Expense.....	2,111	2,023	2,046	2,023	1,898
Net Income.....	793	800	776	739	669
Earnings per Share (Canadian \$)					
- Basic .....	1.28	1.35	1.31	1.25	1.13
- Diluted.....	1.27	1.34	1.30	1.24	1.13

### Trend Information (as at July 2011)

Economic activity in Canada is expected to improve moderately in the second half of 2011 in response to a recovery in auto production and firmer U.S. demand. Business investment is projected to remain healthy due to strong demand for resources from emerging-market economies, supporting commercial loan growth. After expanding 3.2 per cent. in 2010, the Canadian economy is expected to grow at more modest rates of 2.2 per cent. in both 2011 and 2012, held back by the impact of a strong Canadian dollar and more restrictive fiscal policies. The Bank of Canada will likely refrain from raising interest rates until mid-2012 due to the uncertain global economic environment. The Canadian dollar should continue to trade above parity with the U.S. dollar in 2012, benefiting from firm commodity prices and Canada's relatively healthy fiscal standing among advanced economies. Home sales should remain healthy in response to low borrowing costs, supporting residential mortgage demand. After climbing sharply in the past year, existing house prices are expected to stabilize in 2012.

Economic growth in the U.S. is projected to improve only modestly in the second half of 2011 as a result of an upturn in motor vehicle production, lower oil prices, a weak U.S. dollar and strong demand from emerging-market economies. Business investment should remain healthy, benefiting from tax incentives and the solid earnings growth of U.S. multinational corporations. However, restrictive fiscal policy will continue to temper the expansion. After expanding 3.0 per cent. in 2010, the U.S. economy is expected to grow 1.5 per cent. in 2011 and 2.5 per cent. in 2012. Inflation should decline due to steadier commodity prices and subdued wage growth. The Federal Reserve is projected to maintain its low-interest rate policy well into 2013 to address high unemployment. Continued low interest rates should support capital markets activity this year, but the uncertain economic outlook and volatile equity markets will temper the benefit.

In 2012, the Midwest economy should benefit from stronger automobile production, continued strength in exports and high agricultural prices. Growth is expected to improve modestly, consistent with the overall U.S. economy, supporting personal and business loan demand. Firmer job growth should support home sales and residential mortgage demand.

The preceding paragraphs contain certain forward-looking statements. By their very nature, forward-looking statements require the Issuer to make assumptions and are subject to inherent risks and uncertainties. In determining the Issuer's expectations for economic growth, both broadly and in the financial services sector, the Issuer primarily considered historical economic data provided by the Canadian and U.S. governments and their agencies. Please refer to the Caution Regarding Forward Looking Statements on page 29 of the Issuer's 2010 MD&A and page 5 of the Third Quarter 2011 Report to Shareholders for a discussion of such risks and uncertainties and the material factors and assumptions that were made with respect to the statements above.

Since 31 July 2011, the last day of the financial period in respect of which the most recent interim unaudited published consolidated financial statements of the Issuer have been prepared, there has been no material adverse change in the prospects of the Issuer and its subsidiaries taken as a whole.

#### *Directors*

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

<b>Name and Municipality of Residence</b>	<b>Principal Activities</b>
ROBERT M. ASTLEY Waterloo, Ontario	Corporate Director and former President and Chief Executive Officer, Clarica Life Insurance Company and former President, Sun Life Financial Canada
DAVID R. BEATTY, O.B.E. Toronto, Ontario	Chairman and Chief Executive Officer, Beatinvest Limited (Holding Company)
SOPHIE BROCHU Bromont, Québec	President and Chief Executive Officer of Gaz Métro
ROBERT CHEVRIER, F.C.A. Montréal, Québec	President, Société de gestion Roche Inc. (Management and Investment Company)
GEORGE A. COPE Toronto, Ontario	President and Chief Executive Officer, BCE and Bell Canada
WILLIAM A. DOWNE Toronto, Ontario	President and Chief Executive Officer, BMO Financial Group
CHRISTINE A. EDWARDS Chicago, Illinois	Capital Partner, Winston & Strawn LLP
RONALD H. FARMER Toronto, Ontario	Managing Director, Mosaic Capital Partners (Private Equity Firm)
DAVID A. GALLOWAY Toronto, Ontario	Chairman of the Board, Bank of Montreal
HAROLD N. KVISLE Calgary, Alberta	Corporate Director and former President and Chief Executive Officer, TransCanada Corporation
BRUCE H. MITCHELL Toronto, Ontario	President and Chief Executive Officer, Permian Industries Limited (Management and Holding Company)
PHILIP S. ORSINO, O.C., F.C.A. Toronto, Ontario	Corporate Director and former President and Chief Executive Officer of Masonite International Corporation
DR. MARTHA C. PIPER, O.C., O.B.C. Vancouver, British Columbia	Corporate Director and former President and Vice-Chancellor, University of British Columbia
J. ROBERT S. PRICHARD, O.C., O.ONT. Toronto, Ontario	Chair, Torys LLP

<b>Name and Municipality of Residence</b>	<b>Principal Activities</b>
GUYLAINE SAUCIER, C.M., F.C.A. Montréal, Québec	Corporate Director and former Chairman of the Board of Directors of the Canadian Broadcasting Corporation
DON M. WILSON III Greenwich, Connecticut	Corporate Director and former Chief Risk Officer, J.P. Morgan Chase & Co.

The business address of all of the Directors is the executive offices of the Issuer, 100 King Street West, 1 First Canadian Place, 24th Floor, Toronto, Ontario, Canada, M5X 1A1. No directors hold executive positions with the Issuer 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 Issuer 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 Issuer, the Issuer is not directly or indirectly owned or controlled by any person. As mentioned above, the Bank Act prohibits any person from having a "significant interest" in any class of shares of the Issuer, that is, from beneficially owning more than 10 per cent. of the outstanding shares of the class either directly or through controlled entities, without the approval of the Minister of Finance of Canada, except in the case of a Ministry Ownership Order. A person may, with the approval of the Minister of Finance, beneficially own up to 20 per cent. of a class of voting shares and up to 30 per cent. of a class of non-voting shares of the Issuer, subject to a "fit and proper" test based on the character and integrity of the applicant. In addition, the holder of such a significant interest could not have "control in fact" of the Issuer.

#### **Recent Developments**

On 5 July 2011 the Issuer completed the acquisition of M&I, a Wisconsin-based bank holding company, for consideration of approximately \$4.0 billion in the form of 66,519,673 common shares of the Issuer issued to M&I shareholders. In addition, immediately prior to the closing of the transaction, a subsidiary of the Issuer purchased from the U.S. Treasury all of M&I's outstanding Troubled Asset Relief Program (TARP) preferred shares and warrants for cash consideration of approximately US\$1.7 billion.

The acquisition of M&I adds \$29 billion of loans, after adjustment for future expected losses, and \$34 billion of deposits. The allocation of the purchase price is subject to refinement as the Issuer completes the valuation of the assets acquired and liabilities assumed. M&I's primary banking subsidiary, M&I Marshall & Ilsley Bank, was combined with Harris Bank to form BMO Harris Bank which opened for business on 6 July 2011. The acquisition together with the Issuer's existing U.S. operations more than doubles the Issuer's U.S. branch count to 688, adds approximately two million customers and increases the Issuer's total assets under management and administration to over US\$530 billion. The Issuer's combined U.S. business is the 12th largest commercial bank in the United States as ranked by assets.

The Issuer expects that annual cost savings from the integration of M&I and the Issuer to exceed US\$300 million. Integration and restructuring costs are included in non-interest expense in the Corporate Services segment and are expected to approximate a total of US\$600 million over the next few years. The Issuer recorded \$53 million of such expenses in its third quarter and \$25 million in the immediately preceding quarter. These costs include amounts related to system conversions, severance and other employee related charges and other integration amounts such as consulting fees and marketing costs in connection with customer communications and rebranding activities.

M&I's activities are primarily reflected in the Issuer's P&C U.S., PCG and Corporate Services segments, with a small amount included in BMO Capital Markets.

## **BMO COVERED BOND TRUST**

BMO Covered Bond Trust (the **Trust**) is a special purpose trust established by the BMO Trustee pursuant to the laws of the Province of Ontario on 20 December 2007.

The Trust's principal office is at 100 King Street, 1 First Canadian Place, 18th Floor, Toronto, Ontario, Canada M5X 1A1. The telephone number of the Trust's principal office is +(416) 867-2771.

The Trust is dependent on the Administrative Agent to provide certain management and administrative services to it including all services required in connection with the financing, acquisition, ownership, holding, collection, disposition, reinvestment, administration and management of the Trust's assets and, to the extent permitted by law, taking any action as may reasonably be required to maintain the existence of the Trust, on the terms of the Declaration of Trust and the other Transaction Documents.

The principal activities of the Trust are set out in the Declaration of Trust and include, *inter alia*, the ability to acquire the Loans and their Related Security pursuant to the terms of the Mortgage Sale Agreement, to borrow money, to provide a guarantee of the obligations of the Issuer in respect of the Covered Bonds and to do all such things as are incidental or conducive to the carrying on of that activity.

The Trust has not engaged since its establishment, and will not engage whilst the Covered Bonds or the Term Loan remains outstanding, in any material activities other than activities incidental to its establishment, activities contemplated under the Transaction Documents to which it is or will be a party and other matters which are incidental or ancillary to the foregoing.

The Trust has no employees.

The Trust will not produce audited accounts.

### **Beneficiaries**

The Beneficiaries of the Trust as at the date of this Prospectus are the Bank of Montreal and the Independent Beneficiary.

### **Administrative Agent**

At the date of this Prospectus, the Administrative Agent is BMO. The business address of the Administrative Agent is 100 King Street West, 1 First Canadian Place, 18th Floor, Toronto, Ontario, Canada, M5X 1A1.

The officers of the Administration Agent acting on behalf of the Trust as at the date of this Prospectus are: Cathryn E. Cranston — Senior Vice President Financial Strategy and Treasurer of the Issuer and Caroline J. Hunt — Senior Vice President Finance of the Issuer. Their business address is 100 King Street West, 1 First Canadian Place, 18th Floor, Toronto, Ontario, Canada, M5X 1X1.

All of the officers of the Administration Agent are officers or employees of the Issuer; however, the Issuer and the Trust believe that no potential conflict of interest exists between the duties of these individuals acting as Administrative Agent on behalf of the Trust and their private interests or other duties.

Pursuant to the Administration Agreement, the Administrative Agent will act as administrator of the Trust and will provide certain management and administrative services required by the Trust pursuant to the Transaction Documents. As compensation for the performance of the Administrative Agent's obligations under the Administration Agreement and as reimbursement for its related expenses, the Administrative Agent will be entitled to a monthly administration fee which will be paid in accordance with the applicable Priority of Payments.

## SUMMARY OF THE PRINCIPAL DOCUMENTS

### Trust Deed

The Trust Deed, made between the Issuer, the Trust, the Bond Trustee and the Security Trustee is the principal agreement governing the Covered Bonds. The Trust Deed contains provisions relating to, *inter alia*:

- the constitution of the Covered Bonds and the terms and conditions of the Covered Bonds (as more fully set out under *Terms and Conditions of the Covered Bonds* above);
- the covenants of the Issuer and the Trust 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.

### *Covered Bond Guarantee*

Under the terms of the Covered Bond Guarantee, if the Issuer defaults in the payment on the due date of any moneys due and payable under or pursuant to the Trust Deed or the Covered Bonds or any Receipts or Coupons, 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 Trust 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 shall 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 Issuer. Payment by the Trust of the Guaranteed Amounts pursuant to the Covered Bond Guarantee will be made on the later of (a) the day which is two Business Days following service of a Notice to Pay on the Trust and (b) the day on which the Guaranteed Amounts are otherwise Due for Payment (the **Guaranteed Amounts Due Date**). In addition, the Trust shall, 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 become due and payable on any earlier date on which, following the occurrence of a Trust Event of Default, a Trust Acceleration Notice is served in accordance with Condition 9.2. Following service of a Trust Acceleration Notice, the Covered Bonds will (if an Issuer Acceleration Notice has not already been served) become immediately due and payable as against the Issuer and the obligations of the Trust under the Covered Bond Guarantee will be accelerated.

All payments of Guaranteed Amounts by or on behalf of the Trust 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, imposed or levied by or on behalf of Canada or any province or territory thereof, 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 Trust will pay the Guaranteed Amounts net of such withholding or deduction and shall account to the appropriate tax authority for the amount required to be withheld or deducted. The Trust will not be obliged to pay any amount to the Bond Trustee or any holder of Covered Bonds in respect of the amount of such withholding or

deduction. See further, *Taxation — Canadian Taxation — Payments by the Trust Under the Covered Bond Guarantee*.

Under the terms of the Covered Bond Guarantee, the Trust has agreed that its obligations under the Covered Bond Guarantee shall be as guarantor and shall be absolute and unconditional (subject to Notice to Pay being given), irrespective of, and unaffected by, any invalidity, irregularity or unenforceability of, or defect in, any provisions of the Trust Deed or the Covered Bonds or Receipts 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, Receiptholders or Couponholders in respect of any provisions of the same or the obtaining of any judgment or decree against the Issuer 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 Trust will be entitled to receive guarantee fees from the Issuer in accordance with the Trust Deed. Any failure on the part of the Issuer to pay all or any part of the guarantee fees will not affect the obligations of the Trust under the Covered Bond Guarantee.

Subject to the grace period specified in Condition 9.2(a), failure by the Trust to pay the Guaranteed Amounts which are Due for Payment on the relevant Guaranteed Amounts Due Date will result in a Trust Event of Default.

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

By subscribing for or purchasing Covered Bond(s), each Covered Bondholder shall be deemed to have irrevocably directed the Bond Trustee to pay the Excess Proceeds to the Trust in the manner as described above.

The Trust Deed is governed by English law other than the provisions of the Covered Bond Guarantee which is governed by the laws of the Province of Ontario and federal laws of Canada applicable therein.

### **Intercompany Loan Agreement**

Under the terms of the Intercompany Loan Agreement the Issuer will lend to the Trust an interest bearing Intercompany Loan, comprised of the Term Loan and the Demand Loan. The Term Loan will be a multicurrency facility. The Demand Loan will be denominated in Canadian Dollars. The interest rate on the Demand Loan and any portion of the Term Loan denominated in Canadian Dollars will be determined by the Issuer from time to time, based on CDOR plus a spread. The interest rate on the Term Advances which are not denominated in Canadian Dollars will match the rate of interest charged on the Series or Tranche of Covered Bonds corresponding to such Term Advance plus a spread. The initial advance under the Intercompany Loan comprised cash and Loans and their Related Security. The Term Loan will be in an amount equal to the Canadian Dollar Equivalent of the aggregate amount of outstanding Covered Bonds at the date such Covered Bonds are issued. The Demand Loan will be a revolving credit facility. The balance of the Term Loan and the Demand Loan will fluctuate with repayments of the Term Loan and the Demand Loan and the issuances and redemptions of the Covered Bonds. The balance of the Demand Loan will also fluctuate with the requirements of the Asset Coverage Test and the Pre-Maturity Test.

The Trust may repay the principal on the Demand Loan in accordance with the relevant Priority of Payments and the terms of the Intercompany Loan Agreement, using (i) funds in the Trust Accounts; and/or, (ii) proceeds from the sale of Substitute Assets and/or Authorised Investments; and/or (iii) proceeds from the sale, pursuant to the Declaration of Trust, of Loans and their Related Security to the Seller or to another person subject (in certain circumstances) to a right of pre-emption on the part of the Seller. See *Cashflows*.



Subject to the Asset Coverage Test being met, the Trust will repay the Demand Loan from Available Principal Receipts on each Trust Payment Date in accordance with the Priorities of Payment.

At any time prior to a Demand Loan Repayment Event, the Trust may re-borrow any amount repaid by the Trust under the Demand Loan for a permitted purpose. Unless otherwise agreed by the Issuer, no further advances will be made to the Trust under the Intercompany Loan following the occurrence of a Demand Loan Repayment Event.

The Trust used the initial advance under the Intercompany Loan towards the purchase price of the Initial Portfolio consisting of Loans and their Related Security in accordance with the terms of the Mortgage Sale Agreement and may use additional advances (i) to purchase Loans and their Related Security pursuant to the terms of the Mortgage Sale Agreement; and/or (ii) subject to the Asset Coverage Test being met following such repayment, to pay all or a portion of the Demand Loans; and/or (iii) to invest in Substitute Assets in an amount not exceeding the prescribed limit; and/or (iv) to make deposits of the proceeds in the Trust Accounts (including, without limitation to facilitate compliance with the Asset Coverage Test) and make investments in Authorised Investments; and/or (v) to refinance or repay existing Advances; and/or (vi) following a breach of the Pre-Maturity Test to fund the Pre-Maturity Liquidity Ledger; and/or (vii) to make any payment required to be made to CMHC, if any, to ensure that the CMHC Mortgage Insurance in respect of each Loan in the Portfolio remains in full force and effect.

On each Issue Date, the Issuer will lend or will be deemed to lend either an amount equal to (i) the gross proceeds of the issue of the related Covered Bonds in the Specified Currency of the relevant Series or Tranche, as applicable, of Covered Bonds (if the Specified Currency is not Canadian Dollars) or (ii) the Canadian Dollar Equivalent of the gross proceeds of the issue of the related Covered Bonds to the Trust by way of a Term Advance pursuant to the Intercompany Loan Agreement. Each Term Advance made in the Specified Currency of the relevant Series or Tranche, as applicable, of the Covered Bonds, as set out in the applicable Final Terms Document, will be exchanged, by the Trust into Canadian Dollars pursuant to the relevant Covered Bond Swap Agreement. Each Term Advance or the Canadian Dollar Equivalent thereof will be used by the Trust for the purposes set out above or to repay a portion of the Demand Loan.

The balance of the Demand Loan (in excess of any amounts required to meet the Asset Coverage Test on such date taking into account amounts that will be paid or provided for on the next following Trust Payment Date in accordance with the relevant Priority of Payments) or any portion of which has been demanded will become due and repayable within 60 days of a demand therefor being served on the Trust, subject to the Asset Coverage Test being met on the date of repayment after giving effect to such repayment and taking into account all other amounts that will be paid or provided for on the next following Trust Payment Date.

If (i) the Issuer is required to assign the Interest Rate Swap Agreement to a third party; or (ii) a Notice to Pay has been served on the Trust; or (iii) if the Issuer ceases to be assigned either a long-term, unsecured, unsubordinated unguaranteed debt rating of at least BBB+ or a short-term, unsecured, unsubordinated unguaranteed debt rating of at least F2, in each case by Fitch (each of (i), (ii) and (iii) above a **Demand Loan Repayment Event**), the Trust will be required to repay the balance of the Demand Loan (in excess of any amounts required to meet the Asset Coverage Test on such date taking into account amounts that will be paid or provided for on the next following Trust Payment Date) within 60 days of the occurrence of such Demand Loan Repayment Event. For greater certainty, following an Issuer Event of Default the Asset Coverage Test will be conducted and the Asset Percentage calculated, solely for the purpose of determining the amount of the Demand Loan repayable on the relevant repayment date and that the Asset Coverage Test will be met after giving effect to any such repayment taking into account amounts that will be paid or provided for on that date.

The Issuer (in its capacity as Seller), may, but is not obliged to, repurchase sufficient Loans and their Related Security from the Trust to put the Trust in funds to repay a Term Advance on the date on which the Covered Bonds corresponding to such Term Advance mature. In addition, the Trust may, and if, (i) a Non Forward Starting Swap has been entered into with respect to a Term Advance, (ii) the Issuer has not repurchased

sufficient Loans and their Related Security to put the Trust in funds to repay a Term Advance on the date on which the Covered Bonds corresponding to such Term Advance mature and (iii) the Trust does not otherwise have funds available to it to make such repayment, must, request a cash advance under the Demand Loan in an amount sufficient to put the Trust in funds to repay a Term Advance on the date on which the Covered Bonds corresponding to such Term Advance mature. In each case, subject to the Asset Coverage Test being met on the date of such repayment after giving effect to the repayment (taking into account amounts that will be paid or provided for on the next following Trust Payment Date in accordance with the relevant Priority of Payments), amounts received by the Trust from the Seller or the Issuer to facilitate the repayment of a Term Advance will not be applied in accordance with the Priorities of Payment and will instead be applied (after being swapped as necessary in accordance with the relevant Covered Bond Swap) by the Trust in repayment of the relevant Term Advance.

The Issuer will not be relying on repayment of any Term Advance made under the Intercompany Loan in order to meet its repayment obligations under the Covered Bonds. The Trust will (except as specified above) pay amounts due in respect of the Intercompany Loan in accordance with the relevant Priorities of Payments. Prior to service of an Asset Coverage Test Breach Notice or a Notice to Pay on the Trust, amounts due in respect of each Term Advance will be paid by the Trust to, or as directed by, the Issuer on each Interest Payment Date, subject, except as specified above, to paying all higher ranking amounts in the Pre-Acceleration Revenue Priority of Payments or, as applicable, the Pre-Acceleration Principal Priority of Payments (including the Demand Loan). The Issuer may (but is not required to) use the proceeds of the Term Advances to pay amounts due on the Covered Bonds; any failure by the Trust to pay any amounts due on the Term Advances, however, will not affect the liability of the Issuer to pay the relevant amount due on the Covered Bonds.

The Trust will be entitled to set off the Canadian Dollar Equivalent of amounts paid by the Trust under the Covered Bond Guarantee first against interest on the outstanding principal balance of the Intercompany Loan and then against the principal balance owing on the Intercompany Loan.

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 Trust from time to time on a fully serviced basis and with the benefit of CMHC Mortgage Insurance pursuant to the terms of the Mortgage Sale Agreement between BMO (in its capacity as Seller), the Trust and the Security Trustee.

### *Sale by the Seller of the Loans and Related Security*

The Portfolio will consist solely of Loans which are CMHC Insured Mortgages. The Portfolio will consist of the Loans, their Related Security and the other assets sold from time to time by the Seller to the Trust in accordance with the terms of the Mortgage Sale Agreement. The types of Loans forming the Portfolio will vary over time provided that the Eligibility Criteria (as described below) in respect of such Loans and 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.

Prior to the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice or a Trust Event of Default and service of a Trust Acceleration Notice, the Trust will acquire the Loans and their Related Security from the Seller in certain circumstances, including the three circumstances described below.

- (a) *First*, in relation to the issue of Covered Bonds from time to time in accordance with the Programme, the Issuer will make the related Term Advance to the Trust, the proceeds of which may be applied in whole or in part by the Trust to acquire Loans and their Related Security from the Seller.
- (b) *Second*, the Trust will, in certain circumstances, use the Available Principal Receipts to acquire New Loans and their Related Security from the Seller and/or Substitution Assets (in respect of any Substitution Assets up to the prescribed limit) on each Trust Payment Date.
- (c) *Third*, the Trust is required in the Declaration of Trust to ensure that the Portfolio is maintained at all times in compliance with the Asset Coverage Test (as determined by the Cash Manager as of each Calculation Date). If as of any Calculation Date there is a breach of the Asset Coverage Test, the Trust is required to use all reasonable endeavours to purchase New Loans and their Related Security from the Seller or request a further advance under the Demand Loan, in each case, on or before the next Calculation Date to ensure compliance with the Asset Coverage Test as at the next Calculation Date.

In exchange for the sale of the Loans and their Related Security to the Trust, the Seller will receive an amount equal to the fair market value of those Loans sold by it as at the Purchase Date, which will be satisfied by a combination of:

- (i) a cash payment to be made by the Trust from the Canadian Dollar Equivalent of the proceeds of a Term Advance and/or from Available Principal Receipts; and
- (ii) Deferred Consideration, which shall be paid by the Trust on the Trust Payment Dates (provided that there are available funds and after the making of any provisions in accordance with normal accounting practice) in accordance with the applicable Priorities of Payments.

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

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

The Seller will not cancel the CMHC Mortgage Insurance relating to any Loan which comprises part of the Portfolio without the consent or sanction of the Covered Bondholders by Extraordinary Resolution.

#### *CMHC Mortgage Insurance*

CMHC insures the payment of principal and interest on first mortgage loans on private residential properties in Canada. CMHC is Canada's national housing agency and is a Canadian federal Crown corporation, wholly owned by the Government of Canada. CMHC's obligations are those of Her Majesty The Queen in Right of Canada with full recourse to the Consolidated Revenue Fund of the Government of Canada. As a federal Crown corporation, CMHC reports to the Parliament of Canada through a Minister. CMHC derives its authorities from the *Canada Mortgage and Housing Corporation Act* (Canada), the *National Housing Act* (Canada) and, as a federal Crown corporation, the *Financial Administration Act* (Canada). As at the date of this Prospectus, CMHC Insured Mortgages are considered zero per cent. credit risk weighted by the Canadian banking regulator, OSFI. The CMHC Mortgage Insurance in respect of each Loan is available, in

redacted or other general form, upon request from the Issuer, subject to any exclusions pursuant to applicable law, including, without limitation, privacy law, and policies of the Issuer relating to confidentiality and privacy matters.

#### *CMHC Approved Lender*

CMHC has designated certain mortgage lenders as CMHC Approved Lenders in respect of the origination and administration of CMHC Insured Mortgages. As at the date of this Prospectus, BMO as Servicer is, and any successor Servicer will be required to be, a CMHC Approved Lender. A CMHC Approved Lender is required to exercise reasonable care and prudence in the making of CMHC Insured Mortgages, in the administration of CMHC Insured Mortgages (including the filing of any claims under the applicable CMHC Mortgage Insurance), in the collection of repayments under CMHC Insured Mortgages and in the protection of the security for CMHC Insured Mortgages, in addition to complying with all applicable eligibility, origination, servicing, realisation and other relevant criteria and servicing standards of CMHC.

The obligations of a CMHC Approved Lender include the following:

- (a) CMHC Approved Lenders must comply with the *National Housing Act* (Canada), the National Housing Loan Regulations and CMHC's policies and procedures;
- (b) CMHC Approved Lenders must be able to demonstrate, on an ongoing basis, an acceptable level of mortgage administration and servicing expertise; and
- (c) minimum capitalisation requirements must be maintained by CMHC Approved Lenders.

The retention of CMHC Approved Lender designation is conditional upon the CMHC Approved Lender continuing to meet the requirements, criteria and policies as established in the original designation or previous renewal granted by CMHC, including, without limitation, continuing to be a viable concern at all times, acting in a prudent manner at all times and demonstrating a continuing satisfactory overall performance in the underwriting or administration of Loans.

CMHC Approved Lenders who do not abide by the applicable policies and regulations in respect of retention of an CMHC Approved Lender designation may be:

- (a) suspended from initiating and administering CMHC insured loans;
- (b) suspended from initiating further CMHC insured loans but allowed to administer their current portfolio; or
- (c) subject to lending restrictions.

Pursuant to CMHC Mortgage Insurance, the Seller as Servicer, or a successor Servicer approved by CMHC, is to service such CMHC Insured Mortgages, unless otherwise agreed to by CMHC.

#### *Amount Payable Under CMHC Mortgage Insurance*

With respect to any CMHC Insured Mortgage, the amount payable by CMHC to the insured under the applicable CMHC Mortgage Insurance is generally equal to:

- (a) the aggregate of:
  - (i) the outstanding principal amount of the Loan;
  - (ii) specified charges advanced by approved mortgage lenders or the holder of a Loan in order to safeguard the interest of such mortgage lender, Loan holder or of CMHC;

- (iii) such reasonable amount on account of legal costs as is approved by CMHC; and
  - (iv) unpaid interest accruing under the Loan for a period of 12 months and such additional periods as determined in accordance with the policy, including additional periods relating to enforcement of rights or remedies with respect to the Loan (the rate at which interest is payable under the CMHC Mortgage Insurance will generally be at the mortgage rate stated in the Loan documents); less,
- (b) the aggregate of the amount of any loss or damage:
- (i) that results from a failure to exercise reasonable care and prudence in the making or administration of the Loan, in the collection of the repayment thereof or in the protection of or realization on security for the Loan;
  - (ii) that results from a contravention of or failure to comply with the regulations under the *National Housing Act* (Canada) applicable to the policy or a condition on which the Loan was insured; or
  - (iii) that CMHC is satisfied, on reasonable grounds, results from a contravention of or failure to comply with a requirement of CMHC to refrain from exercising such of its remedies in respect of the default as CMHC may specify.

Notwithstanding the above, CHMC shall not be required to pay the amounts described in (a) above if:

- (a) the relevant Loan and its Related Security is unenforceable against the Borrower's Property;
- (b) good and marketable title to the Borrower's Property cannot be conveyed to CMHC or an arms-length purchaser;
- (c) the CMHC Approved Lender or its directors, officers, agents or employees committed fraudulent acts in the granting, insuring or servicing of the Loan; or
- (d) losses and costs incurred by the CMHC Approved Lender are recoverable by the CMHC Approved Lender or Borrower(s) out of any amount payable under any other insurance policy or under an assurance or government compensation fund that was in effect at the time of default (such as fire and standard perils insurance, a guaranteed valuation service or title insurance, title assurance funds, lawyer's or other professional's Errors and Omissions insurance, mortgage impairment insurance or mortgage life insurance).

If a CMHC Insured Mortgage is not being administered by BMO as Servicer, or a successor Servicer approved by CMHC, the ability to make a claim or obtain the benefit of coverage under the applicable CMHC Mortgage Insurance may be adversely affected or terminated. Further, the filing of a claim under CMHC Mortgage Insurance in respect of any Loan is not complete unless the insured delivers to CMHC all documentation and evidence required by CMHC within the prescribed time limits.

CMHC Mortgage Insurance will cease to be in force if:

- (a) it has been obtained by fraud or fraudulent misrepresentation on the part of the insured party;
- (b) the insured Loan is sold to a person other than a CMHC Approved Lender unless the Loan continues to be administered by CMHC or a CMHC Approved Lender (as at the date of this Prospectus, BMO as Servicer is a CMHC Approved Lender for the purposes of CMHC Mortgage Insurance); or

- (c) the right of recovery under the mortgage securing the insured Loan has ceased to exist (which, for greater certainty, would include valid security was not initially created or the security has been discharged), other than by reason of the acquisition by the insured party of the mortgaged property after default.

*Transaction Document Provisions Regarding CMHC Mortgage Insurance*

Transaction Document provisions in respect of CMHC Mortgage Insurance include the following:

- (a) the Seller will pursuant to the Mortgage Sale Agreement sell the Loans and their Related Security to the Trust. The Related Security in respect of a Loan will include the benefit of CMHC Mortgage Insurance relating to such Loan;
- (b) the Seller as Servicer, or a successor Servicer approved by CMHC, will declare that it holds its rights under such CMHC Mortgage Insurance in trust for the Trust and the Security Trustee and free and clear of any adverse claims, and agrees that it shall not amend, modify or terminate such rights to the extent that it would materially affect the interest of the Trust in such rights;
- (c) the Seller as Servicer, or a successor Servicer approved by CMHC, will agree to hold the proceeds of any claims made under such CMHC Mortgage Insurance in trust for the benefit of the Trust and the Security Trustee prior to such amounts being remitted to the Trust and the Security Trustee, as applicable, in accordance with the terms of the Servicing Agreement, and free and clear of any adverse claims;
- (d) in the event of a downgrade in the rating of the Servicer's, or its guarantor's, if applicable, unsecured, unguaranteed and unsubordinated debt obligations below a level specified in the Servicing Agreement, the Servicer will agree to (i) keep the proceeds of any claims made under the CMHC Mortgage Insurance relating to Loans in the Portfolio separate and apart from its other assets and free and clear of any adverse claims, (ii) within 30 calendar days of such downgrade, establish and maintain a bank account at any Canadian Schedule I bank, other than the Servicer, whose unsecured, unguaranteed and unsubordinated debt obligations, or if applicable, those of its guarantor, are rated at least at the levels specified in the Servicing Agreement, and (iii) after such bank account is established, hold such proceeds in such bank account prior to such amounts being remitted to Trust and the Security Trustee, as applicable, in accordance with the terms of the Servicing Agreement;
- (e) the Servicer shall maintain the CMHC Mortgage Insurance in respect of each Loan in the Portfolio in full force and effect at all times and will perform and observe all of its obligations thereunder when due, including the applicable premium payment and indemnity obligations thereunder;
- (f) the Servicer shall take all necessary steps to administer and service the Loans in the Portfolio in accordance with the applicable CMHC Mortgage Insurance;
- (g) the Servicer will do all things necessary to maintain its status as a CMHC Approved Lender in good standing at all times with a "full designation" for loan underwriting and administration in each province and territory of Canada without any material restriction, limitation or condition of any kind;
- (h) the Servicer will comply with the *National Housing Act* (Canada), the National Housing Loan Regulations and CMHC's policies and procedures from time to time in servicing the Loans in the Portfolio;
- (i) neither the Seller nor the Servicer will, without the consent or sanction of the Covered Bondholders by Extraordinary Resolution, cancel the CMHC Mortgage Insurance relating to any Loan in the Portfolio;

- (j) none of the Seller, the Servicer, the Issuer, the Trust, the Bond Trustee or the Security Trustee, without the consent or sanction of the Covered Bondholders by Extraordinary Resolution, may take any action or amend any of the Transaction Documents that would result in the CMHC Mortgage Insurance relating to any Loan in the Portfolio becoming void or a material limit being placed on any claims that may be made thereunder;
- (k) prior to terminating the Servicer, the Trust and/or the Security Trustee, as applicable, will use reasonable endeavours to obtain the consent of CMHC to any successor Servicer and take such other steps reasonably required to avoid impairment of CMHC Mortgage Insurance;
- (l) the Servicer will notify the Rating Agencies, the Trust and the Security Trustee upon a material change to the terms of CMHC Mortgage Insurance or a material change to CMHC's published guidelines relating to residential mortgage insurance;
- (m) the Servicer will notify the Trust, the Security Trustee and the Rating Agencies upon receipt of a letter from CMHC advising the Servicer of the termination, suspension, revocation or other material limitation or restriction of its status as a CMHC Approved Lender in its administration of the Loans in the Portfolio; and
- (n) the Seller, the Servicer, the Trust, the Security Trustee will amend any of the Transaction Documents to the extent necessary to comply with the CMHC Mortgage Insurance in respect of the Loans in the Portfolio, provided that no such amendment will result in the downgrade or withdrawal of any rating of the Covered Bonds by a Rating Agency.

See *Loan Representations and Warranties* below for Loan Representations and Warranties relating to CMHC Mortgage Insurance and *Servicing Agreement – Undertakings of the Servicer* below regarding undertakings of the Servicers in respect of the Loans comprised in the Portfolio.

#### *Eligibility Criteria*

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

- (a) there shall have been neither an Issuer Event of Default and service of an Issuer Acceleration Notice nor a Trust Event of Default and service of a Trust Acceleration Notice as at the relevant Purchase Date;
- (b) the Trust, 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 Trust of the Loans and their Related Security on the relevant Purchase Date would not result in the downgrade or withdrawal of the then current ratings by Moody's, Fitch or DBRS of the Covered Bonds;
- (c) no Loan is without the benefit of CMHC Mortgage Insurance; and
- (d) if the Loans that are proposed to be sold to the Trust on the relevant Purchase Date constitute a New Loan Type, such Loans have the benefit of CMHC Mortgage Insurance and Rating Agency Confirmation has been received by the Bond Trustee in accordance with the terms of the Mortgage Sale Agreement that such Loans may be sold to the Trust and that the sale of the New Loan Types to the Trust would result in the downgrade or withdrawal of the then current ratings by the Rating Agencies of the Covered Bonds.

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 Trust.

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 shall 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 Trust*

All right, title and interest of the Seller in the Loans and Related Security, including the Customer Files for each Loan, will be transferred and assigned by the Seller to the Trust pursuant to the Mortgage Sale Agreement (excluding registered or recorded title to the Loan which will continue to be held by the Seller, or, as applicable, the relevant Originator, as described below).

On each Purchase Date, the Seller or the relevant Originator will agree to:

- (i) hold registered title to the related Loans and Related Security as agent, bare trustee and nominee in trust for and on behalf of the Trust; and
- (ii) deliver such agreements and take all actions with respect to the Loans and Related Security as the Trust may direct in accordance with the Mortgage Sale Agreement and the Servicing Agreement.

On the Programme Date, the Seller delivered registrable powers of attorney appointing the Trust and the Security Trustee as its true and lawful attorney and agent, with full power of substitution, to execute and deliver, in the name of the Seller all assignments, transfers, documents and instruments necessary to record the assignment and transfer to the Trust of all Loans and Related Security (including all documents comprising the Customer Files) in all applicable land registry or land title offices, including directions to Borrowers directing them to remit all payments under their related Loans to the Trust (or as the Trust may otherwise direct), and to register and record all such assignments, transfers, documents and instruments in such land registry or land title offices. The powers of attorney will not be exercisable by the Trust until the occurrence of a Trigger Event. Upon the occurrence of a Trigger Event, the Seller will deliver or procure the relevant Originator (if applicable) to deliver all agreements comprising part of the Customer Files to the Trust and will be obligated to transfer registered or recorded title to the Loans and any Related Security into the name of the Trust and name the Trust (or as the Trust may otherwise direct) as loss payee on any applicable related insurance policies maintained by the Seller in respect of the Loans assigned to the Trust. If the Seller fails to do so, the Trust will use the powers of attorney to transfer registered or recorded title to the Loans and any Related Security in the Seller's name. In addition, the Trust will, within 20 Business Days of a Trigger Event, direct the Borrowers that payment of all amounts payable under any related Loan be made directly to the Trust or its designee.

Legal assignment of the Loans and Related Security will be completed on or before the 60th day after the earliest of the following:

- (a) service of a Notice to Pay (unless the Seller has notified the Trust that it will accept the offer set out in the Selected Loan Offer Notice within the prescribed time) or a Trust Acceleration Notice;
- (b) in respect of Selected Loans only, at the request of the Trust following the acceptance of any offer to sell the Selected Loans and their Related Security to any person who is not the Seller;
- (c) the Seller and/or an Originator and/or the Trust being required, by an order of a court of competent jurisdiction, or by a regulatory authority to which the Seller is subject or any organisation whose members comprise, but are not necessarily limited to, mortgage lenders with whose instructions it is customary for the Seller to comply, to transfer registered or recorded title to the Loans and their Related Security;
- (d) it being rendered necessary by law to take such actions;



- (e) the Security under the Security Agreements or any material part of that Security being in jeopardy and the Security Trustee certifying that, in its reasonable opinion, such action is necessary in order to materially reduce such jeopardy;
- (f) unless otherwise agreed in writing by the Security Trustee (with the Rating Agencies having confirmed it would not result in the downgrade or withdrawal of the then current ratings of the Covered Bonds), the termination of the Seller's role as Servicer under the Servicing Agreement unless the substitute servicer, if any, is a member of the BMO Group;
- (g) the Seller or any Originator calling for legal assignment or assignation (as appropriate) by giving notice in writing to the Trust and the Security Trustee;
- (h) the date on which the Seller ceases to be assigned a long-term, unsecured, unsubordinated unguaranteed debt obligation rating by Moody's of at least Baa3 or by Fitch of at least BBB- or by DBRS of at least A (low);
- (i) the occurrence of an Insolvency Event in relation to the Seller or any Originator; and
- (j) CMHC informs the Servicer that the transfer of registered or recorded title to all the Loans in the Portfolio is required for the CMHC Mortgage Insurance relating to such Loans to remain valid and in full force and effect.

each a **Trigger Event** and together, the **Trigger Events**.

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

#### *Loan Representations and Warranties*

None of the Trust, the Security Trustee or 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 Trust. 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 Security Trustee (which consent will only be given if Rating Agency Confirmation has been obtained by the Security Trustee in respect of the proposed amendments), amend or waive the Loan Representations and Warranties in the Mortgage Sale Agreement. The material Loan Representations and Warranties as of the date of this Prospectus are as follows and are given on the relevant Purchase Date in respect of the Loans and Related Security to be sold to the Trust only on that date:

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

- there is not any amount due and owing in respect of principal or interest under the Loan that is unpaid for a period greater than 30 days;
- the Loan is payable in Canada only and is denominated in Canadian dollars;
- the first payment due in respect of the Loan has been made by the relevant Borrower;
- the Loan has a remaining amortisation period of less than 50 years as of the relevant Purchase Date;
- the Loan contains standard terms and conditions generally contained in conventional and insured 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 Seller or the relevant Originator approved the extension of credit to the Borrower under the Loan, and the Seller has underwritten or purchased the Loan and has administered the Loan, all in accordance with its customary credit and collection policies and procedures relating to the granting of credit on the security of first residential mortgages;
- 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 with residential use being permitted pursuant to such zoning, and in each case on which, at the time the Loan was underwritten or purchased by the Seller, 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 relevant Originator in the appropriate land titles or land registry office or similar place of public registration for the province or territory in which the related Property is located;
- the related Mortgage constitutes a valid first charge, mortgage or hypothec in favour of the Seller or the relevant Originator free and clear of any Adverse Claims;
- 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 related 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 valid first charge, mortgage or hypothec against, such Property, subject only to Adverse Claims which, in the reasonable opinion of the Seller, do not in the aggregate materially impair the marketability of the title to such property or, if no such report on title was obtained, the Loan is accompanied by a policy of title insurance to the same effect from a provider acceptable to a Reasonable Prudent Mortgage Lender;
- the Loan has been duly authorized, executed and delivered by the Seller or, as applicable, the relevant 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 thereof enforceable against such Borrower in accordance with its terms, subject to applicable bankruptcy, reorganization, insolvency, moratorium or similar laws affecting creditors' rights generally and to equitable principles of general application (regardless of whether endorsements is sought in a proceeding at law or in equity);
- the Loan or applicable law permits realization by the Seller and its 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, as applicable,

the relevant Originator and its assigns, in accordance with the scheduled payments set forth therein, the amounts owing thereunder;

- the Loan was, when underwritten or purchased by the Seller, and is, on the date of transfer to the Trust, 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 or, as applicable, the relevant Originator, has, in accordance with its customary servicing procedures, ensured that policies of insurance satisfying the requirements set forth in the Mortgage Sale Agreement are procured and 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 (i) is not subject to any dispute, contractual set-off, counterclaim or defence, whatsoever and (ii) is free of any Adverse Claim;
- the Loan has not been satisfied or rescinded, no rights of the mortgagee thereunder have been postponed or subordinated, nor has any Property been discharged, reconveyed or released from the charge created by the related Mortgage in whole or in part except in accordance with the Seller or the relevant Originator's Credit and Collection Policy;
- no provision of the Loan has been waived, altered or modified in any respect, except (i) as permitted pursuant to the Seller or the relevant Originator's Lending Criteria, and (ii) pursuant to a document, instrument or writing included in the related Mortgage File;
- 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 Trust is unlawful, void or voidable;
- the Outstanding Balance of such Loan does not exceed Cdn\$5,000,000; and
- each Loan has, and immediately following the relevant Purchase Date, will continue to have, the benefit of CMHC Mortgage Insurance and (A) the CMHC Mortgage Insurance connected to the Loan (i) insures the outstanding principal balance of the Loan and any accrued and unpaid interest subject to the terms and conditions of the applicable CMHC Mortgage Insurance, (ii) constitutes legal, valid and binding obligations of CMHC, enforceable in accordance with their terms, (iii) all material terms and conditions applicable to the CMHC Mortgage Insurance at the time of origination of the Loan were complied with by the Seller or the Originator, as applicable, and (B) the Seller is not aware of any reason why any claim made in accordance with the requirements pertaining thereto under the CMHC Mortgage Insurance in respect of a Loan should not be met in full and in a timely manner and has made all insurance premium payments in respect of the applicable CMHC Mortgage Insurance.

If New Loan Types are proposed to be sold to the Trust, then the Loan Representations and Warranties and Eligibility Criteria in the Mortgage Sale Agreement may be modified as required, with the prior consent of the Security Trustee (which consent will only be given if Rating Agency Confirmation has been obtained), to accommodate these New Loan Types. All Loans constituting a New Loan Type will have the benefit of CMHC Mortgage Insurance. 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 Trust 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 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 such Loan is an amount (not less than zero) equal to the Outstanding Principal Balance thereof and all Arrears of Interest and Accrued Interest relating thereto in accordance with the Mortgage Sale Agreement as at the relevant repurchase date. The repurchase proceeds received by the Trust 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 a Term Advance) in accordance with the Pre-Acceleration Principal Priority of Payments (see *Cashflows* below).

### *General ability to repurchase*

Prior to the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice or a Trust Event of Default and service of a Trust Acceleration Notice, the Seller may from time to time offer to repurchase a Loan and its Related Security from the Trust for a 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. The Trust may accept such offer at its sole discretion, provided such repurchase will be subject to the Asset Coverage Test being met on the date of such repurchase, after giving effect thereto. If an Issuer Event of Default has occurred but no liquidator has been appointed to the Seller, the Seller's right to request the repurchase of Loans and their Related Security will be conditional upon the delivery by the Seller of a solvency certificate to the Trust and the Security Trustee. Amounts paid by the Seller pursuant to such option will be deposited into the GIC Account or (subject to the Asset Coverage Test being met) be applied in repaying a maturing Term Advance on the date on which the Covered Bonds corresponding to such Term Advance mature.

### *Defaulted Loans*

Defaulted Loans may be attributed a reduced weighting (see *Declaration of Trust* below) in the calculation of the Asset Coverage Test and the Amortisation Test as of the relevant Calculation Date. Prior to the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice or a Trust Event of Default and service of a Trust Acceleration Notice, the Seller may, at its option, offer to repurchase a Defaulted Loan and its Related Security from the Trust for an amount equal to its aggregate Outstanding Principal Balance and all Arrears of Interest and Accrued Interest relating thereto in accordance with the Mortgage Sale Agreement as at the date of repurchase. The Trust may accept such offer at its sole discretion. 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 Defaulted Loans and their Related Security will be conditional upon the delivery by the Seller of a solvency certificate to the Trust and the Security Trustee. Amounts paid by the Seller pursuant to such option will be deposited into the GIC Account.

### *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 Trust on or before the required date a written notice specifying the Loans in respect of which it will not exercise such option, the Seller shall be deemed to have

irrevocably exercised its option to repurchase and will repurchase each such Loan on the Calculation Date next following the applicable maturity date of such Loan; provided, that the Seller will not be required to repurchase any Loan which (i) is or becomes a Defaulted Loan on its maturity date, or (ii) is repaid in full on its maturity date from funding provided to the Borrower under such Loan by a person other than the Seller. Amounts paid by the Seller pursuant to such option will be deposited into the GIC Account.

#### *Right of Pre-emption*

Under the terms of the Mortgage Sale Agreement, the Seller has a right of pre-emption in respect of any sale, in whole or in part, of Selected Loans and their Related Security; 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.

In connection with any sale of Loans and their Related Security, except where such Loans and their Related Security are being sold to the Seller pursuant to an offer by the Seller, the Trust will serve on the Seller a Selected Loan Offer Notice offering to sell those Selected Loans and their Related Security for an offer price at least equal to the greater of the then Outstanding Principal Balance of the Selected Loans and all Arrears of Interest and Accrued Interest relating thereto and the Adjusted Required Redemption Amount, in each case subject to the offer being accepted by the Seller within 10 Business Days. If an Issuer Event of Default has occurred but no liquidator has been appointed to the Seller, the Seller's right to accept the offer (and therefore its right of pre-emption) will be conditional upon the delivery by the Seller of a solvency certificate to the Trust and the Security Trustee. If the Seller rejects the Trust's offer or fails to accept it in accordance with the foregoing, the Trust will offer to sell the Selected Loans and their Related Security to other Purchasers (as described under — Declaration of Trust — *Sale of Selected Loans in the Portfolio following the service of a Notice to Pay below*).

At any time there is no Asset Coverage Test Breach Notice outstanding and no Notice to Pay or Trust Acceleration Notice has been served on the Trust, it will be a condition to the Trust'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 Trust Payment Date in accordance with the Priority of Payments.

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

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

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

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

- any variation imposed by statute;
- any change in the repayment method of the Loan; or
- any change to a Borrower under the Loan or the addition of a new Borrower under a Loan.

#### *New Sellers*

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

- each New Seller enters into a New Mortgage Sale Agreement with the Trust and the Security Trustee, in each case so that it has, in relation to those New Seller Loans and their Related Security to be sold by the relevant New Seller, subject to the requirements of the related CMHC Mortgage Insurance, substantially the same rights and obligations as the Seller had in relation to those Loans and their Related Security comprised in the Initial Portfolio under the Mortgage Sale Agreement between the Seller, the Trust and the Security Trustee;
- each New Seller accedes to such Transaction Documents and enters into such other documents as may be required by the Security Trustee, the Bond Trustee, the Trust and/or the Cash Manager (in each case acting reasonably) to give effect to the addition of a New Seller to the transactions contemplated under the Programme;
- any New Seller Loans and their Related Security sold by a New Seller to the Trust comply with the Eligibility Criteria set out in the New Mortgage Sale Agreement;
- either the Servicer services the New Seller Loans and their Related Security sold by a New Seller on the terms set out in the Servicing Agreement (with such subsequent amendments as may be agreed by the parties thereto) and CMHC approves such servicing or the New Seller (or its nominee) is a CMHC Approved Lender and enters into a servicing agreement with the Trust and the Security Trustee which sets out the servicing obligations of the New Seller (or its nominee) in relation to the New Seller Loans and their Related Security and which is on terms substantially similar to the terms set out in the Servicing Agreement (provided that the fees payable to the Servicer or the New Seller (or its nominee) acting as servicer of such New Seller Loans and their Related Security would be determined on or around the date of the accession of the New Seller to the Programme) but in such case, such New Seller and the servicing must comply with the requirements of the applicable CMHC Mortgage Insurance;
- the Security Trustee is satisfied that any accession of a New Seller to the Programme will not prejudice the Asset Coverage Test; and
- the Security Trustee is satisfied that any modifications to the Transaction Documents in order to accommodate the accession of a New Seller to the Programme will not be materially prejudicial to the interests of any of the Covered Bondholders and has received a Rating Agency Confirmation in relation thereto.

If the above conditions are met, the consent of Covered Bondholders will not be required in relation to the accession of a New Seller to the Programme.

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

### **Servicing Agreement**

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

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

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

The Servicer's actions in servicing the Loans in accordance with its procedures will be binding on the Trust, 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 Trust 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*

The Servicer may from time to time sub-contract or delegate the performance of its duties under the Servicing Agreement, provided that (i) such sub-contracting or delegation is in compliance with the terms and conditions of CMHC Mortgage Insurance and (ii) it will nevertheless remain responsible for the performance of those duties to the Trust and the Security 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 Rating Agency Confirmation.

#### *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 and in each case subject to the terms and conditions of the applicable CMHC Mortgage Insurance, *inter alia*, to:

- keep records and books of account on behalf of the Trust 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 Trust and the Security Trustee with access to the Customer Files and other records relating to the administration of the Loans and their Related Security in its possession;
- keep and maintain records in respect of the Portfolio for the purposes of identifying amounts paid by each Borrower, any amount due from a Borrower and the Outstanding Principal Balance of each Loan and such other records as would be kept by a Reasonable Prudent Mortgage Lender;

- provide to the Trust, the Security Trustee and the Rating Agencies a report on a monthly basis containing information about the Loans and their Related Security comprised in the Portfolio, and a report on a quarterly basis, in a form agreed with the Trust, the Security Trustee and the Rating Agencies, containing certain information about the individual Loans in the Portfolio;
- provide to each beneficial owner of any Covered Bonds issued under the Programme a monthly report in the same form as that provided above to the Trust, the Security Trustee and the Rating Agencies;
- assist the Cash Manager in the preparation of a Monthly Asset Coverage Report in accordance with the Cash Management Agreement;
- take all reasonable steps to recover all sums due to the Trust, including instituting proceedings and enforcing any relevant Loan or its Related Security using the discretion of a Reasonable Prudent Mortgage Lender in applying the enforcement procedures forming part of the Seller's policy;
- hold as trust property for and on behalf of the Trust, free of any Adverse Claim, the insurance rights arising under the CMHC Mortgage Insurance in respect of the Loans and their Related Security in the Portfolio and the proceeds of any claims made in respect thereof;
- enforce any Loan which is in default in accordance with the Seller's or, as applicable, an Originator's enforcement procedures or, to the extent that such enforcement procedures are not applicable having regard to the nature of the default in question, with the procedures that would be undertaken by a Reasonable Prudent Mortgage Lender on behalf of the Trust;
- maintain the CMHC Mortgage Insurance in respect of each Loan in the Portfolio in full force and effect at all times and perform and observe all of its obligations thereunder when due including the applicable premium payment and indemnity obligations thereunder;
- take all necessary steps to administer and service the Loans in the Portfolio in accordance with the applicable CMHC Mortgage Insurance;
- do all things necessary to maintain its status as a CMHC Approved Lender in good standing at all times with a "full designation" for loan underwriting and administration in each province and territory of Canada without any material restriction, limitation or condition of any kind;
- comply with the *National Housing Act* (Canada), the National Housing Loan Regulations and CMHC's policies and procedures from time to time in servicing the Loans in the Portfolio;
- not, without the consent or sanction of the Covered Bondholders by Extraordinary Resolution, cancel the CMHC Mortgage Insurance relating to any Loan in the Portfolio;
- not, without the consent or sanction of the Covered Bondholders by Extraordinary Resolution, take any action or amend any of the Transaction Documents that would result in the CMHC Mortgage Insurance relating to any Loan in the Portfolio becoming void or a material limit being placed on any claims that may be made thereunder;
- notify the Rating Agencies upon a material change to the terms of CMHC Mortgage Insurance or a material change to CMHC's published guidelines relating to residential mortgage insurance; and
- notify the Trust, the Security Trustee and the Rating Agencies upon receipt of a letter from CMHC advising the Servicer of the termination, suspension, revocation or other material limitation or restriction of its status as a CMHC Approved Lender in its administration of the Loans in the Portfolio; and



- comply with all applicable eligibility, origination, servicing, realisation and other relevant criteria of CMHC with respect to the CMHC Mortgage Insurance.

#### *Remuneration*

Pursuant to the Mortgage Sale Agreement, the Seller will sell Loans and their Related Security to the Trust 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 Trust shall pay to the Servicer a servicing fee (inclusive of applicable taxes) for its services agreed upon by the Trust and the Servicer. Such fee will be calculated in relation to each Calculation Period and shall be payable to the Servicer in arrear on each Trust Payment Date in accordance with the applicable Priority of Payments.

#### *Removal or resignation of the Servicer*

The Trust and the Security Trustee may, upon written notice to the Servicer, terminate the Servicer's appointment under the Servicing Agreement if any of the following events (each a **Servicer Termination Event** and, each of the first three events set out below, a **Servicer Event of Default**) occurs and while such event continues:

- the Servicer defaults in the payment on the due date of any amount due and payable by it under the Servicing Agreement and does not remedy that default for a period of three Canadian Business Days after the earlier of the Servicer becoming aware of the default or receipt by the Servicer of written notice from the Security Trustee or the Trust requiring the default to be remedied;
- the Servicer defaults in the performance or observation of any of its other covenants and obligations under the Servicing Agreement (including the obligation of the Servicer to comply with the requirement for it or its sub-Servicer(s) to maintain its status as a CMHC Approved Lender), which default in the reasonable opinion of the Security Trustee is materially prejudicial to the interests of the Covered Bondholders, and does not remedy that default within 20 Business Days after the earlier of the Servicer becoming aware of the default or receipt by the Servicer of written notice from the Trust and the Security Trustee requiring the default to be remedied, provided however that, where the relevant default occurs as a result of a default by any person to whom the Servicer has sub-contracted or delegated part of its obligations under the Servicing Agreement, such default shall not constitute a Servicer Termination Event if, within such period of 20 Business Days of receipt of such notice from the Trust and the Security Trustee, the Servicer terminates the relevant sub-contracting or delegation arrangements and takes such steps as the Trust and the Security Trustee may specify to remedy such default or to indemnify the Trust against the consequences of such default;
- an Insolvency Event occurs in relation to the Servicer;
- an Insolvency Event occurs in relation to any person to whom the Servicer has sub-contracted or delegated part of its obligations and the Servicer has not subsequently terminated such sub-contracting or delegation; or
- the Servicer's unsecured, unguaranteed and unsubordinated long-term debt obligations are assigned a rating from the Rating Agencies below the ratings specified in the Servicing Agreement and the Servicer does not obtain a Rating Agency Confirmation by, for example, taking certain remedial measures which may include providing collateral for or arranging for its obligations under the Servicing Agreement to be guaranteed by an entity with rating(s) required by the relevant Rating Agencies, or taking such other action as it may agree with the relevant Rating Agencies.

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. Any such appointment of a successor Servicer without the prior approval of CMHC

may adversely affect the coverage under CMHC Mortgage Insurance for a CMHC Insured Mortgage. Prior to terminating the Servicer, the Trust and/or the Security Trustee, as applicable, will use reasonable endeavours to obtain the consent of CMHC to any successor Servicer and take such other steps reasonably required to avoid impairment of such CMHC Mortgage Insurance.

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 Security Trustee, the Trust and each Rating Agency provided that a CMHC approved substitute 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 Trust substantially on the same terms as the Servicing Agreement and Rating Agency Confirmation has been received in respect of such appointment. The resignation of the Servicer is conditional on the resignation having no adverse effect on the then current ratings of the Covered Bonds unless the Covered Bondholders agree otherwise by Extraordinary Resolution.

If the appointment of the Servicer is terminated, the Servicer must promptly deliver the Customer Files relating to the Loans comprised in the Portfolio in its possession to, or at the direction of, the Trust. Any successor Servicer (or sub-Servicer) shall be a CMHC Approved Lender. The Servicing Agreement will terminate at such time as the Trust 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.

Neither the Bond Trustee nor the Security Trustee is 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.

### **Asset Monitor Agreement**

Under the terms of the Asset Monitor Agreement between the Asset Monitor, the Trust, the Cash Manager, the Security Trustee and the Bond Trustee, the Asset Monitor has agreed, subject to due receipt of the information to be provided by the Cash Manager to the Asset Monitor, to conduct tests in respect of the arithmetical accuracy of the calculations performed by the Cash Manager, prior to service of a Notice to Pay or a Trust Acceleration Notice, in respect of the Calculation Date immediately prior to each anniversary of the Programme Date with a view to confirmation of compliance by the Trust with the Asset Coverage Test as of that Calculation Date. The Asset Monitor will perform such test as soon as reasonably practicable (and in any event within 10 Canadian Business Days following the receipt of the relevant information from the Cash Manager). If and for so long as the long-term ratings of the Cash Manager or the Issuer) fall below the ratings specified in the Asset Monitor Agreement or following the service of an Asset Coverage Test Breach Notice (which has not been revoked), the Asset Monitor will, subject to receipt of the relevant information from the Cash Manager, be required to conduct such tests following each Calculation Date. Following service of a Notice to Pay (but prior to service of a Trust Acceleration Notice), the Asset Monitor will also be required to test the arithmetical accuracy of the calculations performed by the Cash Manager in respect of the Amortisation Test.

Following a determination by the Asset Monitor of any errors in the arithmetical accuracy of the calculations performed by the Cash Manager such that the Asset Coverage Test or the Amortisation Test has been failed as of the applicable Calculation Date (where the Cash Manager had recorded it as being satisfied) or the Adjusted Aggregate Loan Amount or the Amortisation Test Aggregate Loan Amount is mis-stated by an amount exceeding one per cent. of the Adjusted Aggregate Loan Amount or the Amortisation Test Aggregate Loan Amount, as applicable (as at the date of the relevant Asset Coverage Test or the relevant Amortisation Test), the Asset Monitor will be required to conduct such tests following each Calculation Date for a period of six months thereafter.

The Asset Monitor is entitled, except in certain limited circumstances, to assume that all information provided to it by the Cash Manager for the purpose of conducting such tests is true and correct and not misleading, and is not required to conduct a test or otherwise take steps to verify the accuracy of any such information. The Asset Monitor Report will be delivered to the Cash Manager, the Trust, the Issuer, the Bond Trustee and the Security Trustee.

As at the Programme Date, the Trust will pay to the Asset Monitor a fee per report (exclusive of applicable taxes) equal to the amount set out in the Asset Monitor Agreement from time to time for the tests to be performed by the Asset Monitor in accordance with the applicable Priority of Payments.

The Trust may, at any time, but subject to the prior written consent of the Security Trustee, terminate the appointment of the Asset Monitor by giving at least 60 days' prior written notice to the Asset Monitor, provided that such termination may not be effected unless and until a replacement asset monitor has been appointed by the Trust (such replacement to be approved by the Security Trustee (such approval to be given if the replacement is an accountancy firm of national standing)) which agrees to perform the duties of the Asset Monitor set out in the Asset Monitor Agreement (or substantially similar duties).

The Asset Monitor may, at any time, resign by giving at least 60 days' prior written notice to the Trust and the Security Trustee, and may resign by giving immediate notice in the event of a professional conflict of interest caused by the action of any recipient of its reports.

Upon the Asset Monitor giving notice of resignation, the Trust shall immediately use all reasonable endeavours to appoint a replacement (such replacement to be approved by the Security Trustee) which agrees to perform the duties of the Asset Monitor set out in the Asset Monitor Agreement. If a replacement is not appointed 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 Asset Monitor Agreement, then the Trust shall use all reasonable endeavours to appoint an accountancy firm of national standing to carry out the relevant tests on a one-off basis, provided that such appointment is approved by the Security Trustee, acting reasonably.

Neither the Bond Trustee nor the Security Trustee will be obliged to act as Asset Monitor in any circumstances.

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

### **Declaration of Trust**

Pursuant to the Declaration of Trust, the principal activities of the Trust include the ability to acquire the Loans and Related Security from the Seller, borrow amounts under the Intercompany Loan Agreement and the Subordinated Loan Agreement, and provide the Covered Bond Guarantee for the benefit of the Covered Bondholders, in each case pursuant to and in accordance with the terms of the Declaration of Trust and the other Transaction Documents. The Administrative Agent, being as at the date of this Prospectus BMO, will manage and conduct the activities of the Trust and will have all the rights, power and authority to act at all times for and on behalf of the Trust.

### *Beneficiaries*

The Beneficiaries of the Trust are BMO and the Independent Beneficiary. Pursuant to the Declaration of Trust, the Beneficiaries are entitled to an annual distribution equal to the net income, if any, of the Trust for such fiscal year, which income shall be distributed to BMO and the other Beneficiary on a 90 per cent./10 per cent. basis, respectively.

### *Asset Coverage Test*

Under the terms of the Declaration of Trust, the Trust is required to ensure that, as of each Calculation Date, the Adjusted Aggregate Loan Amount is in an amount at least equal to the aggregate Canadian Dollar Equivalent of the Principal Amount Outstanding of the Covered Bonds as calculated as of the relevant Calculation Date.

If as of any Calculation Date the Adjusted Aggregate Loan Amount is less than the aggregate Canadian Dollar Equivalent of the Principal Amount Outstanding of all Covered Bonds as calculated as of the relevant Calculation Date, then the Administrative Agent (or the Cash Manager on its behalf) will notify the Bond Trustee, the Seller and the Security Trustee thereof and the Trust will use all reasonable endeavours to purchase sufficient further Loans and their Related Security from the Seller in accordance with the Mortgage Sale Agreement (see *Summary of the Principal Documents — Mortgage Sale Agreement — Sale by Seller of Loans and their Related Security*), or the Trust will request a further advance under the Demand Loan to ensure that the Asset Coverage Test is met as of the next following Calculation Date. If the Adjusted Aggregate Loan Amount is less than the aggregate Canadian Dollar Equivalent of the Principal Amount Outstanding of all Covered Bonds as of the next following Calculation Date, the Asset Coverage Test will be breached and the Bond Trustee will serve an Asset Coverage Test Breach Notice on the Trust in accordance with the Trust Deed. Under the Trust Deed, the Bond Trustee shall revoke an Asset Coverage Test Breach Notice if, as of any Calculation Date falling on or prior to the Trust 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 Trust Acceleration Notice has been served.

Following service of an Asset Coverage Test Breach Notice (which has not been revoked):

- (a) the Trust may be required to sell Selected Loans (as described further under Declaration of Trust — Sale of Selected Loans and their Related Security following service of an Asset Coverage Test Breach Notice);
- (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 Trust Event of Default and service of a Trust Acceleration Notice, the Pre-Acceleration Revenue Priority of Payments and the Pre-Acceleration Principal Priority of Payments will be modified as more particularly described in *Allocation and distribution of Available Revenue Receipts and Available Principal Receipts following service of an Asset Coverage Test Breach Notice* below; and
- (c) the Issuer will not be permitted to make any further issuances of Covered Bonds.

If an Asset Coverage Test Breach Notice has been served and not revoked on or before the Trust Payment Date immediately following the Calculation Date after service of such Asset Coverage Test Breach Notice, then an Issuer Event of Default shall occur and the Bond Trustee shall 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 Trust.

For the purposes hereof:

**Adjusted Aggregate Loan Amount** in respect of a Calculation Date means:

$$A + B + C + D + E - Z$$

where,

A = the lower of (a) and (b), where:

- (a) = the sum of the **Adjusted Outstanding Principal Balance** of each Loan in the Portfolio as at the relevant Calculation Date, which shall be the lower of:

- (i) the actual Outstanding Principal Balance of the relevant Loan in the Portfolio as calculated as of the relevant Calculation Date; and
- (ii) the Latest Valuation relating to that Loan, in each case multiplied by M,

**M** means:

- (a) 90 per cent. for all Loans (including Defaulted Loans) on any day that the long-term debt credit rating assigned to CMHC is not below the ratings specified in the Declaration of Trust;
- (b) 80 per cent. for all Loans that are not Defaulted Loans on any day that a long-term debt credit rating assigned to CMHC is below the ratings specified in the Declaration of Trust; or
- (c) 0 per cent. for all Loans that are Defaulted Loans on any day that a long-term debt credit rating assigned to CMHC is below the ratings specified in the Declaration of Trust;

provided that, notwithstanding the foregoing, with respect to all Loans in the Portfolio which do not have the benefit of CMHC Mortgage Insurance which is in full force and effect, **M** means 0 per cent.;

minus

the aggregate sum of the following deemed reductions to the aggregate Adjusted Outstanding Principal Balance of the Loans in the Portfolio if either of the following occurred during the Calculation Period ending on such Calculation Date:

- (1) a Loan or its Related Security was, during such 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 Adjusted Outstanding Principal Balance of the Loans in the Portfolio (as calculated as of the relevant Calculation Date) will be deemed to be reduced by an amount equal to the Adjusted Outstanding Principal Balance of the relevant Loan or Loans (as calculated as of the relevant Calculation Date) of the relevant Borrower; and/or
- (2) the Seller was, in such Calculation Period or any preceding Calculation Period, in breach of any other material warranty under the Mortgage Sale Agreement and/or the Servicer was, in such Calculation Period, in breach of a material term of the Servicing Agreement. In this event, the aggregate Adjusted Outstanding Principal Balance of the Loans in the Portfolio (as calculated as of the relevant Calculation Date) will be deemed to be reduced by an amount equal to the resulting financial loss incurred by the Trust during such Calculation Period (such financial loss to be calculated by the Cash Manager without double counting (including in respect of amounts under (1) above) and net of any amount paid (in cash or in kind) to the Trust by the Seller to indemnify the Trust for such financial loss);

AND

- (b) = the sum of the **Asset Percentage Adjusted Outstanding Principal Balance** of each Loan in the Portfolio as at the relevant Calculation Date which shall be the lower of:

- (i) the actual Outstanding Principal Balance of the relevant Loan in the Portfolio as calculated as of the relevant Calculation Date; and
- (ii) the Latest Valuation relating to that Loan, in each case multiplied by N;

N means:

- (a) 100 per cent. for all Loans that are not Defaulted Loans on any day that the long-term debt credit rating assigned to CMHC is not below the ratings specified in the Declaration of Trust;
- (b) 90 per cent. for all Loans that are Defaulted Loans on any day that the long-term debt credit rating assigned to CMHC is not below the ratings specified in the Declaration of Trust;
- (c) 80 per cent. for all Loans that are not Defaulted Loans on any day that a long-term debt credit rating assigned to CMHC is below the ratings specified in the Declaration of Trust; or
- (d) 0 per cent. for all Loans that are Defaulted Loans on any day that a long-term debt credit rating assigned to CMHC is below the ratings specified in the Declaration of Trust;

provided that, notwithstanding the foregoing, with respect to all Loans in the Portfolio which do not have the benefit of CMHC Mortgage Insurance which is in full force and effect, N means 0 per cent.;

minus

the aggregate sum of the following deemed reductions to the aggregate Asset Percentage Adjusted Outstanding Principal Balance of the Loans in the Portfolio if either of the following occurred during the Calculation Period ending on such Calculation Date:

- (1) a Loan or its Related Security during such Calculation Period, was 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 Asset Percentage Adjusted Outstanding Principal Balance of the Loans in the Portfolio (as calculated as of the relevant Calculation Date) will be deemed to be reduced by an amount equal to the Asset Percentage Adjusted Outstanding Principal Balance of the relevant Loan or Loans (as calculated as of the relevant Calculation Date) of the relevant Borrower; and/or
- (2) the Seller was, in such Calculation Period or any preceding Calculation Period, in breach of any other material warranty under the Mortgage Sale Agreement and/or the Servicer, in such Calculation Period, in breach of a material term of the Servicing Agreement. In this event, the aggregate Asset Percentage Adjusted Outstanding Principal Balance of the Loans in the Portfolio (as calculated as of the relevant Calculation Date) will be deemed to be reduced by an amount equal to the resulting financial loss incurred by the Trust in such Calculation Period (such financial loss to be calculated by the Cash Manager without double counting (including in respect of amounts under (1) above) and net of any amount paid (in cash or in kind) to the Trust by the Seller to indemnify the Trust for such financial loss),

***the result of the calculation in this paragraph (b) being multiplied by the Asset Percentage (as defined below);***

- B = the aggregate amount of any Principal Receipts on the Loans in the Portfolio up to the end of the Calculation Period ending on such Calculation Date (as recorded in the Principal Ledger) which have not been applied as of the relevant Calculation Date to acquire further Loans and their Related Security or otherwise applied in accordance with the Declaration of Trust and/or the other Transaction Documents (including, for the avoidance of doubt, any amount then standing to the credit of the GIC Account and any Authorised Investments (but without double counting));
- C = the aggregate Canadian Dollar Equivalent of the proceeds of the Intercompany Loan which have not been applied as of the relevant Calculation Date to acquire further Loans and their Related Security or otherwise applied in accordance with the Declaration of Trust and/or the other Transaction Documents;
- D = the aggregate Canadian Dollar Equivalent of the principal amount of any Substitution Assets as of the relevant Calculation Date;
- E = the aggregate amount of the proceeds from any sale of Selected Loans standing to the credit of the GIC Account and recorded on the Pre-Maturity Liquidity Ledger (but without double counting); and
- Z = the weighted average remaining maturity of all Covered Bonds (expressed in years) then outstanding *multiplied by* the aggregate Canadian Dollar Equivalent of the Principal Amount Outstanding of all Covered Bonds *multiplied by* the Negative Carry Factor where the **Negative Carry Factor** is (i) 0.5 per cent. if the weighted average margin of the interest rate payable on the Covered Bonds is less than or equal to 0.1 per cent. per annum or (ii) 0.5 per cent. plus that margin minus 0.1 per cent., if that margin is greater than 0.1 per cent. per annum (provided that if the weighted average remaining maturity is less than one, the weighted average shall be deemed, for the purposes of this calculation, to be one).

**Asset Percentage** means 97 per cent. or such lesser percentage figure as determined from time to time in accordance with the terms of the Declaration of Trust, provided that the Asset Percentage shall not be less than 90 per cent. unless otherwise agreed by the Issuer (and following an Issuer Event of Default, the Trust for the purposes of making certain determinations in respect of the Intercompany Loan). Prior to the Trust Payment Date immediately following the Calculation Date falling in January, April, July and October of each year and on such other date as the Issuer may request following the date on which the Issuer is required to assign the Interest Rate Swap Agreement to a third party, the Trust (or the Cash Manager on its behalf) will calculate, or procure the calculation of, the WAFF and the WALs (and/or such figures calculated in accordance with such alternative methodologies as the Cash Manager may determine and with respect to which each Rating Agency has confirmed that the use of such alternative methodologies shall not result in an adverse effect on its then current rating of any Series of Covered Bonds) for the Portfolio based on the value of the Loans as of the Calculation Date (being such values for the Loans as of the Calculation Date in January, April, July or October, as applicable) as a whole or on the basis of a sample of Loans in the Portfolio selected on a random basis, such calculations to be made on the same basis throughout unless Rating Agency Confirmation has been received in respect of a change in such Calculation Method.

The WAFF and WALs (or other relevant figures) so calculated will be input into one or more cashflow models as the Cash Manager may determine and with respect to which each Rating Agency has confirmed that the use of such cashflow models shall not result in an adverse effect on its then current rating of any Series of Covered Bonds. Such models, which test the credit enhancement required in various cashflow scenarios, will indicate, on the basis of the latest WAFF and WALs figures (or other relevant figures), the Asset Percentage needed in order to provide credit enhancement to cover all such cashflow scenarios.

### *Amortisation Test*

The Trust must ensure that as of each Calculation Date following service of a Notice to Pay on the Trust (but prior to service of a Trust Acceleration Notice) the Amortisation Test Aggregate Loan Amount will be in an amount at least equal to the aggregate Canadian Dollar Equivalent of the Principal Amount Outstanding of the Covered Bonds as calculated as of the relevant Calculation Date.

If on any Calculation Date following service of a Notice to Pay, the Amortisation Test Aggregate Loan Amount is less than the aggregate Canadian Dollar Equivalent of the Principal Amount Outstanding of the Covered Bonds as calculated as of the relevant Calculation Date, then the Amortisation Test will be deemed to be breached and a Trust Event of Default will occur. The Trust or the Cash Manager, as the case may be, will immediately notify the Beneficiaries and, whilst Covered Bonds are outstanding, the Security Trustee and the Bond Trustee of any breach of the Amortisation Test.

The **Amortisation Test Aggregate Loan Amount** in respect of a Calculation Date means:

$$A + B + C + D - Z$$

where,

A = the sum of the **Amortisation Test Outstanding Principal Balance** of each Loan, which shall be the lower of:

- (a) the actual Outstanding Principal Balance of the relevant Loan, as calculated as of the relevant Calculation Date multiplied by M; and
- (b) 100 per cent. of the Latest Valuation relating to that Loan multiplied by M,

**M** means:

- (a) 100 per cent. for all Loans that are not Defaulted Loans;
- (b) 90 per cent. for all Loans that are Defaulted Loans on any day that a long-term debt credit rating assigned to CMHC is not below the ratings specified in the Declaration of Trust; or
- (c) 0 per cent. for all Loans that are Defaulted Loans on any day that a long-term debt credit rating assigned to CMHC is below the ratings specified in the Declaration of Trust;

B = the Canadian Dollar Equivalent of the sum of the (i) amount of any cash standing to the credit of the GIC Account and (ii) the principal amount of any Authorised Investments (excluding any Revenue Receipts received in the Calculation Period ending on such Calculation Date);

C = the Canadian Dollar Equivalent of the aggregate outstanding principal balance of any Substitution Assets;

D = the aggregate amount of the proceeds from any sale of Selected Loans standing to the credit of the GIC Account and recorded on the Pre-Maturity Liquidity Ledger (but without double counting); and

Z = the weighted average remaining maturity of all Covered Bonds (expressed in years) then outstanding **multiplied by** the aggregate Canadian Dollar Equivalent of the Principal Amount Outstanding of the Covered Bonds **multiplied by** the Negative Carry Factor.



### *Sales of Selected Loans following a breach of the Pre-Maturity Test*

The Pre-Maturity Test will be breached if the ratings of the Issuer's unsecured, unsubordinated and unguaranteed debt obligations fall below the Pre-Maturity Minimum Ratings and a Hard Bullet Covered Bond is due for repayment within a specified period of time thereafter. See *Credit Structure— Pre-Maturity Liquidity*. If the Pre-Maturity Test is breached, the Trust may offer to sell Selected Loans pursuant to the terms of the Declaration of Trust (see *Method of sale of Loans and their Related Security* below), subject to any right of pre-emption of the Seller pursuant to the terms of the Mortgage Sale Agreement.

If the Issuer 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 Trust, the proceeds from any sale of Selected Loans standing to the credit of the GIC Account and recorded on the Pre-Maturity Liquidity Ledger (along with any other amounts standing to the credit of the GIC Account and recorded on the Pre-Maturity Liquidity Ledger) will be applied to repay the relevant Series of Hard Bullet Covered Bonds. Otherwise, the proceeds will be applied as set out in *Credit Structure— Pre-Maturity Liquidity* below.

### *Sale of Selected Loans and their Related Security following service of an Asset Coverage Test Breach Notice*

After service of an Asset Coverage Test Breach Notice (which has not been revoked) but prior to service of a Notice to Pay, the Trust may be obliged to sell Selected Loans and their Related Security in the Portfolio in accordance with the Declaration of Trust (as described below), subject to the rights of pre-emption in favour of the Seller to buy the Selected Loans and their Related Security pursuant to the Mortgage Sale Agreement subject to any further advances having been made under the Intercompany Loan. The proceeds from any such sale will be credited to the GIC Account and applied as set out in *Allocation and distribution of Available Revenue Receipts and Available Principal Receipts following service of an Asset Coverage Test Breach Notice* below.

### *Sale of Selected Loans and their Related Security following service of a Notice to Pay*

After service of a Notice to Pay on the Trust, but prior to service of a Trust Acceleration Notice, the Trust will be obliged to sell Selected Loans and their Related Security in the Portfolio in accordance with the Declaration of Trust (as described below), subject to the rights of pre-emption in favour of the Seller to buy the Selected Loans and their Related Security pursuant to the Mortgage Sale Agreement. The proceeds from any such sale will be credited to the GIC Account and applied as set out in the Guarantee Priority of Payments.

### *Sale of Selected Loans after a Demand Loan Repayment Event has occurred or the Issuer 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 Seller has demanded that the Demand Loan be repaid, the Trust will be obliged to sell Selected Loans and their Related Security in the Portfolio in accordance with the Declaration of Trust (as described below), subject to the rights of pre-emption in favour of the Seller to buy the Selected Loans and their Related Security pursuant to the Mortgage Sale Agreement. Any such sale will be subject to the condition that the Asset Coverage Test is satisfied after receipt of the proceeds of such sale and repayment, after giving effect to such repayment.

### *Method of Sale of Selected Loans*

If the Trust is required to sell Selected Loans and their Related Security to Purchasers following a Demand Loan Repayment Event, or following the Demand Loan being demanded by the Seller, but prior to the service of an Asset Coverage Test Breach Notice or a Notice to Pay, the Trust will be required to sell the

Selected Loans and their Related Security for the best price possible taking into account market conditions at that time.

If the Trust is required to sell Selected Loans and their Related Security to Purchasers following either the service of an Asset Coverage Test Breach Notice (if not revoked) or a Notice to Pay or a breach of the Pre-Maturity Test, the Trust will be required to ensure that before offering Selected Loans for sale the Selected Loans have an aggregate Outstanding Principal Balance in an amount (the **Required Outstanding Principal Balance Amount**) which is as close as possible to the amount calculated as follows:

- (i) following the service of an Asset Coverage Test Breach Notice (but prior to service of a Notice to Pay), such amount that would ensure that, if the Selected Loans were sold at their Outstanding Principal Balance plus the Arrears of Interest and Accrued Interest thereon, the Asset Coverage Test would be satisfied on the next Calculation Date taking into account the payment obligations of the Trust on the Trust Payment Date following that Calculation Date (including the Trust's obligation to pay interest on the Demand Loan (if applicable)) (assuming for this purpose that the Asset Coverage Test Breach Notice is not revoked on the next Calculation Date); or
- (ii) following service of a Notice to Pay or a breach of the Pre-Maturity Test the sum of:
  - (A) 
$$N \times \frac{\text{Outstanding Principal Balance of all Loans in the Portfolio}}{\text{the Canadian Dollar Equivalent of the Required Redemption Amount in respect of each Series of Covered Bonds then outstanding}}$$

where N is an amount equal to:

- (x) in respect of Selected Loans being sold following a breach of the Pre-Maturity Test, the Canadian Dollar Equivalent of the Required Redemption Amount of the relevant Series of Hard Bullet Covered Bonds less amounts standing to the credit of the GIC Account and recorded on 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; 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 GIC Account and the principal amount of the Canadian Dollar Equivalent of any Substitution Assets or Authorised Investments (excluding all amounts to be applied on the next following Trust Payment Date to repay higher ranking amounts in the Guarantee Priority of Payments (including the Demand Loan) or amounts ranking *pari passu* with the Covered Bonds and those amounts that are required to repay any Series of Covered Bonds which have a Final Maturity Date prior to or on the same date as the relevant Series of Covered Bonds).

For the purposes hereof:

**Required Redemption Amount** means, in respect of any relevant Series of Covered Bonds, the amount calculated as follows:

the Principal Amount Outstanding of the relevant Series of Covered Bonds  $\times$  [1 + Negative Carry Factor  $\times$  (days to maturity of the relevant Series of Covered Bonds/365)]

and

- (B) the amount (if any) that would ensure that, if the Selected Loans were sold at the best price possible, the balance of the Demand Loan, or that portion of it not required to meet the Asset Coverage Test, was repaid in full on the date falling within 60 days of demand thereof (the **Demand Loan Required Amount**).

In connection with (i) and (ii) above, the Trust will offer the Selected Loans and their Related Security for sale to Purchasers for the best price reasonably available but in any event:

- (i) following (i) a Demand Loan Repayment Event, the Demand Loan being demanded by the Issuer or (ii) the service of an Asset Coverage Test Breach Notice (but prior to service of a Notice to Pay), for an amount not less than the Outstanding Principal Balance of the Selected Loans plus the Arrears of Interest and Accrued Interest thereon; and
- (ii) following service of a Notice to Pay or a breach of the Pre-Maturity Test, for an amount not less than the Adjusted Required Redemption Amount and the Demand Loan Required Amount (if any).

Following service of the Notice to Pay and repayment of the Demand Loan Required Amount, if the Selected Loans have not been sold (in whole or in part) in an aggregate amount equal to the Adjusted Required Redemption Amount by the date which is six months prior to, as applicable, if the Earliest Maturing Covered Bonds are not subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the Final Maturity Date of the Earliest Maturing Covered Bonds or, if the Earliest Maturing 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 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 Trust will offer the Selected Loans for sale for the best price reasonably available notwithstanding that the aggregate proceeds from the sale of such Selected Loans may be less than the Adjusted Required Redemption Amount.

Following service of a Notice to Pay, in addition to offering Selected Loans for sale to Purchasers in respect of the Earliest Maturing Covered Bonds, the Trust (subject to the rights of pre-emption enjoyed by the Seller pursuant to the Mortgage Sale Agreement unless no longer applicable) is permitted to offer for sale a portfolio of Selected Loans, in accordance with the provisions summarised above, in respect of other Series of Covered Bonds.

The Trust is also permitted to offer for sale to Purchasers a Partial Portfolio. Where a Notice to Pay has been served, except in circumstances where the portfolio of Selected Loans is being sold within six months of, as applicable, the Final Maturity Date of the Earliest Maturing Covered Bonds or, if the Earliest Maturing 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, the sale price of the Partial Portfolio (as a proportion of the Adjusted Required Redemption Amount) shall be at least equal to the proportion that the Partial Portfolio bears to the relevant portfolio of Selected Loans.

The Trust 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 Selected Loans (if such terms are commercially available in the market) and to advise it in relation to the sale of the Selected Loans to Purchasers (except where the Seller is buying the Selected Loans 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 shall be approved by the Security Trustee.

In respect of any sale of Selected Loans and their Related Security following service of an Asset Coverage Test Breach Notice (if not revoked) or a Notice to Pay or Demand Loan Repayment Event or a breach of the Pre-Maturity Test, or if the Issuer demands repayment of the Demand Loan in any other circumstances, the Trust will instruct the portfolio manager to use all reasonable endeavours to procure that Selected Loans are

sold as quickly as reasonably practicable (in accordance with the recommendations of the portfolio manager) taking into account the market conditions at that time and, where relevant, the scheduled repayment dates of the Covered Bonds and the terms of the Declaration of Trust.

The terms of any sale and purchase agreement with respect to the sale of Selected Loans (which shall give effect to the recommendations of the portfolio manager) will be subject to the prior written approval of the Security Trustee. The Security Trustee will not be required to release the Selected Loans from the Security unless the conditions relating to the release of the Security (as described under — *BMO Trust Security Agreement — Release of Security* below) are satisfied.

Following service of a Notice to Pay, if Purchasers accept the offer or offers from the Trust so that some or all of the Selected Loans and their Related Security shall be sold prior to the Final Maturity Date of the Earliest Maturing Covered Bonds or, if the Earliest Maturing 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, then the Trust will, subject to the foregoing paragraph, enter into a sale and purchase agreement with the relevant Purchasers which will require *inter alia* a cash payment from the relevant Purchasers in immediately available funds on or prior to the relevant date. Any such sale will not include any representations and warranties from the Trust or the Seller in respect of the Loans and their Related Security unless expressly agreed by the Security Trustee or otherwise agreed with the Trust and the Seller.

#### *Limit on Investing in Substitution Assets and Authorised Investments*

Prior to service of an Asset Coverage Test Breach Notice (if not revoked) or a Notice to Pay on the Trust or a breach of the Pre-Maturity Test, the Trust will be permitted to invest Available Revenue Receipts, Available Principal Receipts and the proceeds of the Intercompany Loan in Substitution Assets, provided that the aggregate amount so invested in such Substitution Assets does not exceed 10 per cent. of the total assets of the Trust at any one time and provided that such investments are made in accordance with the terms of the Cash Management Agreement. Placing such amounts in any Trust Account will not constitute an investment in Substitution Assets for these purposes.

Following service of an Asset Coverage Test Breach Notice (if not revoked) or a Notice to Pay on the Trust or a breach of the Pre-Maturity Test, all Substitution Assets may be sold by the Trust (or the Cash Manager on its behalf) for the best price possible taking into account market conditions at that time and the nature of the Substitution Assets held by the Trust and the proceeds credited to the GIC Account and the Trust will be permitted to invest all available moneys in Authorised Investments, provided that such investments are made in accordance with the terms of the Cash Management Agreement.

There is no limit on the amounts that the Trust shall be entitled to invest in Authorised Investments.

#### *Other Provisions*

The allocation and distribution of Revenue Receipts, Principal Receipts and all other amounts received by the Trust is described under *Cashflows* below.

The Declaration of Trust is governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein.

#### **Subordinated Loan Agreement**

From time to time the Subordinated Loan Provider will make Subordinated Advances to the Trust. Subordinated Advances may be made (and the balance of the Subordinated Loan increased) by way of set-off against Deferred Consideration which exceeds the monies available to the Trust for payment of Deferred Consideration to the Seller pursuant to the applicable Priority of Payments, including where Available

Revenue Receipts that would otherwise be applied to pay Deferred Consideration owing to the Seller are applied to fund the Reserve Fund.

The Subordinated Loan Agreement does not impose any limit on the amount of Subordinated Advances the Subordinated Loan Provider may make to the Trust from time to time.

The Subordinated Loan will bear interest based on CDOR plus a spread as set out in the Subordinated Loan Agreement.

The outstanding principal amount of the Subordinated Loan at any time will equal the aggregate amount of any Subordinated Advances, by the Subordinated Loan Provider to the Trust minus the sum of any Subordinated Repayments. Subordinated Repayments shall only be paid to the Seller, subject to compliance with the Asset Coverage Test and after the Trust has paid or, as applicable, provided for all higher ranking amounts in the relevant Priority of Payments.

The Subordinated Loan 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 will provide certain cash management services to the Trust pursuant to the terms of the Cash Management Agreement between the Trust, BMO in its capacity as the Cash Manager and the Security Trustee.

The Cash Manager's services include but are not limited to:

- (a) maintaining the Ledgers on behalf of the Trust;
- (b) distributing the Revenue Receipts and the Principal Receipts in accordance with the Priorities of Payment described under *Cashflows* below;
- (c) determining whether the Asset Coverage Test is satisfied as of each Calculation Date in accordance with the Declaration of Trust, as more fully described under *Credit Structure — Asset Coverage Test* below;
- (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 Declaration of Trust, as more fully described under *Credit Structure — Amortisation Test* below;
- (e) preparation of Investor Reports for the Covered Bondholders, the Rating Agencies and the Bond Trustee; and
- (f) on each Toronto 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 Liquidity* below.

In the event of a downgrade in the ratings of the unsecured, unsubordinated and unguaranteed debt obligations of the Cash Manager by the Rating Agencies below a level specified in the Cash Management Agreement, the Cash Manager will be required to direct the Servicer to deposit all Revenue Receipts and Principal Receipts received by the Servicer directly in the GIC Account.

In the event of a further downgrade in the ratings of the unsecured, unsubordinated and unguaranteed debt obligations of the Cash Manager by any of the Rating Agencies below the levels specified in the Cash Management Agreement, the Cash Manager will be required to assign the Cash Management Agreement to a

third party service provider acceptable to the Security Trustee and for which Rating Agency Confirmation has been received. In addition to the foregoing, the Trust and the Security Trustee will, in certain circumstances, each have the right to terminate the appointment of the Cash Manager in which event the Trust will appoint a substitute cash manager (the identity of which will be subject to the Security Trustee's prior 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).

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**

Some of the Loans in the Portfolio from time to time will pay a variable rate of interest equal to or linked to the BMO Prime Rate. Other Loans will pay a fixed rate of interest for a period of time. However, the Canadian Dollar payments to be made by the Trust under each of the Covered Bond Swaps and/or the Intercompany Loan will be based on CDOR and, in addition (following service on the Trust of a Notice to Pay), the Trust's obligations to make interest payments under the Covered Bond Guarantee, may be based on CDOR. To provide a hedge against the possible variance between:

- (a) the rates of interest payable on the Loans in the Portfolio; and
- (b) CDOR,

the Trust and the Interest Rate Swap Provider will enter into an Interest Rate Swap under the Interest Rate Swap Agreement.

The Interest Rate Swap will terminate on the date on which the notional amount of the Interest Rate Swap reduces to zero.

Under the Interest Rate Swap, in the event that the relevant rating of the Interest Rate Swap Provider (or for such time as the Interest Rate Swap Provider is not independently rated, the relevant rating of the guarantor of the Interest Rate Swap Provider's obligations) is downgraded by a Rating Agency below the rating specified in the Interest Rate Swap Agreement for the Interest Rate Swap Provider (or for such time as the Interest Rate Swap Provider is not independently rated, the guarantor of the Interest Rate Swap Provider's obligations), and, as a result of the downgrade, the then current ratings of the Covered Bonds would or may, as applicable, be adversely affected, the Interest Rate Swap Provider will, in accordance with the Interest Rate Swap Agreement, be required to take certain remedial measures which may include providing collateral for its obligations under the Interest Rate Swap pursuant to the Interest Rate Swap Agreement, arranging for its obligations under the Interest Rate Swap to be transferred to an entity with the necessary ratings required to ensure that there will be no downgrade or withdrawal of the then current ratings of the Covered Bonds, procuring another entity with the necessary ratings required to ensure that there will be no downgrade or withdrawal of the then current ratings of the Covered Bonds to become co-obligor or guarantor in respect of its obligations under the Interest Rate Swap, and/or taking such other action as it may agree with the relevant Rating Agency. A failure to take such steps will, subject to certain conditions, allow the Trust to terminate the Interest Rate Swap Agreement.

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 (provided, however, no such failure to pay by the Trust 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 Trust being insufficient to make the required payment in full); and

- upon the occurrence of the insolvency of the Interest Rate Swap Provider or any guarantor of the Interest Rate Swap Provider's obligations, or the merger of the Interest Rate Swap Provider without an assumption of its obligations under the Interest Rate Swap Agreement.

Upon the termination of an Interest Rate Swap pursuant to an Interest Rate Swap Early Termination Event, the Trust 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.

If withholding taxes are imposed on payments made by the Interest Rate Swap Provider to the Trust under the Interest Rate Swap, the Interest Rate Swap Provider shall always be obliged to gross up those payments. If withholding taxes are imposed on payments made by the Trust to the Interest Rate Swap Provider under the Interest Rate Swap, the Trust shall not be obliged to gross up those payments.

The Interest Rate Swap Agreement is governed by English law.

### **Covered Bond Swap Agreements**

The Trust will enter into one or more Covered Bond Swaps with one or more Covered Bond Swap Providers. Each Covered Bond Swap may be either a **Forward Starting Covered Bond Swap** or a **Non-Forward Starting Covered Bond Swap**. Where the Trust enters into a Forward Starting Covered Bond Swap, the Term Advances made under the Intercompany Loan will be made in Canadian Dollars, regardless of the currency of the relevant Series or Tranche, as applicable, of Covered Bonds.

Each Forward Starting Covered Bond Swap will (after service on the Trust of a Notice to Pay) provide a hedge against certain interest rate, currency and/or other risks in respect of amounts received by the Trust under the Loans and the Interest Rate Swap and amounts payable by the Trust under the Covered Bond Guarantee in respect of the Covered Bonds.

Each Non-Forward Starting Covered Bond Swap will provide a hedge against certain interest rate, currency and/or other risks in respect of amounts received by the Trust under the Loans and the Interest Rate Swap and amounts payable by the Trust under the Intercompany Loan Agreement (prior to service of a Notice to Pay on the Trust) and under the Covered Bond Guarantee in respect of the Covered Bonds (after service of a Notice to Pay on the Trust).

Where required to hedge such risks, there will be one (or more) Covered Bond Swap Agreement(s) and Covered Bond Swap(s) in relation to each Series or Tranche, as applicable, of Covered Bonds.

Under the Forward Starting Covered Bond Swaps, the Covered Bond Swap Provider will pay to the Trust on each Interest Payment Date, after service of a Notice to Pay on the Trust, an amount equal to the relevant portion of the amounts of interest and principal payable under the relevant Series or Tranche of Covered Bonds. In return, the Trust will pay to the Covered Bond Swap Provider on each Trust Payment Date an amount in Canadian Dollars calculated by reference to CDOR plus a spread and the Canadian Dollar Equivalent of the relevant portion of any principal due to be repaid on the Series or Tranche of Covered Bonds to which such Covered Bond Swap relates.

Under the Non-Forward Starting Covered Bond Swaps on the relevant Issue Date, the Trust will pay to the Covered Bond Swap Provider an amount equal to the relevant portion of the amount received by the Trust under the applicable Term Advance (being the aggregate nominal amount of such Series or Tranche, as applicable, of Covered Bonds) and in return the Covered Bond Swap Provider will pay to the Trust the Canadian Dollar Equivalent of the first mentioned amount. Thereafter, the Covered Bond Swap Provider will pay to the Trust on each Interest Payment Date an amount equal to the relevant portion of the amounts that would be payable by the Trust under either the applicable Term Advance in accordance with the terms of the Intercompany Loan Agreement or the Covered Bond Guarantee in respect of interest and principal payable under the relevant Series or Tranche of Covered Bonds. In return, the Trust will pay to the Covered

Bond Swap Provider on each Trust Payment Date an amount in Canadian Dollars calculated by reference to CDOR plus a spread and the Canadian Dollar Equivalent of the relevant portion of any principal due to be repaid in respect of the relevant Term Advance in accordance with the Intercompany Loan Agreement.

If prior to the Final Maturity Date in respect of the relevant Series or Tranche of Covered Bonds or (if an Extended Due for Payment Date is specified as applicable in the Final Terms Document for a Series of Covered Bonds and the payment of the amount corresponding to the Final Redemption Amount or any part of it by the Trust under the Covered Bond Guarantee is deferred until the relevant Extended Due for Payment Date pursuant to Condition 6.1) any Interest Payment Date thereafter up to (and including) the relevant Extended Due for Payment Date, the Trust notifies (pursuant to the terms of the relevant Covered Bond Swap) the Covered Bond Swap Provider 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 (such amount being equal the Final Redemption Amount or the relevant portion thereof payable by the Trust 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), the Covered Bond Swap Provider will pay the Trust such amount and the Trust will pay the Covered Bond Swap Provider the Canadian Dollar Equivalent of such amount.

Each Covered Bond Swap will terminate on the earlier of:

- (a) the Final Maturity Date of the relevant Series or Tranche of Covered Bonds or, if the Trust notifies the Covered Bond Swap Provider, prior to the Final Maturity Date, of the inability of the Trust to pay in full or in part Guaranteed Amounts corresponding to the Final Redemption Amount in respect of such Series or Tranche of Covered Bonds, the final Interest Payment Date on which an amount representing any or all of the Final Redemption Amount is paid (but in any event not later than the Extended Due for Payment Date); and
- (b) the final date on which the Security Trustee distributes the proceeds of the Security in accordance with the Post Enforcement Priority of Payments following the enforcement of the Security pursuant to Condition 9.3.

Under the terms of each Forward Starting Covered Bond Swap and each Non-Forward Starting Covered Bond Swap, in the event that the relevant rating of the Covered Bond Swap Provider (or for such time as the Covered Bond Swap Provider is not independently rated, the relevant rating of the guarantor of the Covered Bond Swap Provider) is downgraded by a Rating Agency below the rating specified in the relevant Covered Bond Swap Agreement for the Covered Bond Swap Provider (or for such time as the Covered Bond Swap Provider is not independently rated, the relevant rating of the guarantor of the Covered Bond Swap Provider), and as a result of the downgrade, the then current ratings of the Covered Bonds would or may, as applicable, be adversely affected, the Covered Bond Swap Provider will, in accordance with the relevant Covered Bond Swap Agreement, be required to take certain remedial measures which may include providing collateral for its obligations under the Covered Bond Swap pursuant to the Covered Bond Swap Agreement, arranging for its obligations under the Covered Bond Swap to be transferred to an entity with the necessary ratings required to ensure that there will be no downgrade or withdrawal of the then current ratings of the Covered Bonds, procuring another entity with the necessary ratings required to ensure that there will be no downgrade or withdrawal of the then current ratings of the Covered Bonds to become co-obligor or guarantor in respect of its obligations under the Covered Bond Swap Agreement, and/or taking such other action as it may agree with the relevant Rating Agency. A failure to take such steps will, subject to certain conditions, allow the Trust to terminate the Covered Bond Swap.

A 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 such Covered Bond Swap Agreement (provided, however, no such failure to pay by the Trust 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 Trust being insufficient to make the required payment in full); and

- upon the occurrence of an insolvency of the Covered Bond Swap Provider or any guarantor of the Covered Bond Swap Provider's obligations, or the merger of the Covered Bond Swap Provider without an assumption of its obligations under the relevant Covered Bond Swap Agreement.

Upon the termination of a Covered Bond Swap, the Trust or the Covered Bond Swap Provider may be liable to make a termination payment to the other in accordance with the provisions of the relevant Covered Bond Swap Agreement. Any termination payment made by the Covered Bond Swap Provider to the Trust in respect of a Covered Bond Swap will first be used (prior to the occurrence of a Trust Event of Default and service of a Trust Acceleration Notice) to pay a replacement Covered Bond Swap Provider to enter into a replacement Covered Bond Swap with the Trust, unless a replacement Covered Bond Swap has already been entered into on behalf of the Trust. Any premium received by the Trust from a replacement Covered Bond Swap Provider in respect of a replacement Covered Bond Swap will first be used to make any termination payment due and payable by the Trust with respect to the previous Covered Bond Swap, unless such termination payment has already been made on behalf of the Trust.

Any Swap Collateral Excluded Amounts will be paid to the Covered Bond Swap Provider directly and not via the Priorities of Payments.

If withholding taxes are imposed on payments made by the Covered Bond Swap Provider to the Trust under a Covered Bond Swap, the Covered Bond Swap Provider shall always be obliged to gross up those payments. If withholding taxes are imposed on payments made by the Trust to the Covered Bond Swap Provider under a Covered Bond Swap, the Trust shall not be obliged to gross up those payments.

The Covered Bond Swap Provider may transfer all its interest and obligations in and under the relevant Covered Bond Swap Agreement to a transferee, without any prior written consent of the Security Trustee, subject to certain conditions, including, confirmation from the Rating Agencies that the then current ratings of the relevant Series of the Covered Bonds will not be adversely affected.

In the event that the Covered Bonds are redeemed and/or cancelled in accordance with the Terms and Conditions, the notional amount of the Covered Bond Swap(s) in connection with such Covered Bonds will reduce accordingly.

The Covered Bond Swap Agreements are (and each Covered Bond Swap thereunder, will be) governed by English law.

### **Bank Account Agreement**

Pursuant to the terms of the Bank Account Agreement between the Trust, the Account Bank, the Cash Manager and the Security Trustee, the Trust will maintain with the Account Bank the GIC Account described below together with the Swap Payments Accounts and the Swap Collateral Accounts, which will be operated in accordance with the Cash Management Agreement, the Declaration of Trust, the BMO Trust Security Agreement and the relevant Swap Agreements.

All amounts received from Borrowers in respect of Loans in the Portfolio will be deposited into the GIC Account on a daily basis and recorded on the Revenue Ledger or the Principal Ledger, as the case may be. On each Trust Payment Date, as applicable, amounts required to meet the claims of the Trust's various creditors and amounts to be distributed to the Beneficiaries under the Declaration of Trust will be transferred from the Revenue Ledger, the Reserve Ledger or the Principal Ledger, as applicable, to the Payment Ledger on the GIC Account and applied by the Cash Manager in accordance with the Priorities of Payments described below under *Cashflows*.

The GIC Account, the Swap Payments Accounts and the Swap Collateral Accounts may be required to be transferred to an alternative bank in certain circumstances, including if the ratings assigned to the short-term, unsecured, unsubordinated and unguaranteed debt obligations of the relevant Account Bank fall below F1 by Fitch, P-1 by Moody's or R-1 (middle) by DBRS or the ratings assigned to the long-term, unsecured, unsubordinated and unguaranteed debt obligations of the relevant Account Bank fall below A by Fitch or A (low) by DBRS.

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 entered into on the Programme Date between the Trust, Royal Bank of Canada (the **Stand-by Account Bank**), the Cash Manager and the Security Trustee (as amended and/or supplemented and/or restated from time to time, the **Stand-by Bank Account Agreement**), the Trust will open with the Stand-by Account Bank a stand-by GIC account (the **Stand-by GIC Account**) and a stand-by transaction account (the **Stand-by Transaction Account**) or a stand-by swap payments account and/or a stand-by swap collateral account (each a **Stand-by Swap Account**), as the case may be, if the Trust cannot find a replacement account bank in accordance with the terms of the Bank Account Agreement or the relevant Account Bank cannot obtain a guarantee of its obligations, in each case if the ratings assigned to the short-term, unsecured, unsubordinated and unguaranteed debt obligations of the relevant Account Bank fall below P-1 by Moody's or F1 by Fitch or R-1 (middle) by DBRS, or the ratings assigned to the long-term, unsecured, unsubordinated and unguaranteed debt obligations of the relevant Account Bank fall below A by Fitch or A (low) by DBRS and the Bank Account Agreement is subsequently terminated or if the Bank Account Agreement is terminated for other reasons. The Stand-by GIC Account, the Stand-by Transaction Account and any Stand-by Swap Account will be operated in accordance with the Stand-by Bank Account Agreement, the Cash Management Agreement, the Declaration of Trust, the BMO Trust Security Agreement and the relevant Swap Agreements. Any Stand-by Transaction Account opened pursuant to the Stand-by Bank Account Agreement will have the same function as the Payment Ledger on the GIC Account.

If the ratings assigned to the short-term, unsecured, unsubordinated and unguaranteed debt obligations of the Stand-by Account Bank fall below P-1 by Moody's or F1 by Fitch or R-1 (middle) by DBRS, or the ratings assigned to the long-term, unsecured, unsubordinated and unguaranteed debt obligations of the relevant Account Bank fall below A by Fitch or A (low) by DBRS, there will be a requirement that the Stand-by Account Bank either be replaced by, or have its obligations guaranteed by, a satisfactorily rated financial institution.

References in this Prospectus to the GIC Account include references to the Stand-by GIC Account when the Stand-by GIC Account becomes operative. References in this Prospectus to the Payment Ledger on the GIC Account include references to the Stand-by Transaction Account when the Stand-by Transaction Account becomes operative. References in this Prospectus to the Swap Payments Accounts and the Swap Collateral Accounts include references to any Stand-by Swap Account when such Stand-by Swap Account becomes 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 Investment Contract**

The Trust has entered into a Guaranteed Investment Contract (or **GIC**) with the GIC Provider, the Cash Manager and the Security Trustee pursuant to which the GIC Provider has agreed to pay interest on the moneys standing to the credit thereof at specified rates determined in accordance with the GIC.

The Guaranteed Investment Contract is governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein.

### **Stand-by Guaranteed Investment Contract**

The Trust has entered into a stand-by guaranteed investment contract with Royal Bank of Canada (the **Stand-by GIC Provider**) on the Programme Date (as amended and/or supplemented and/or restated from time to time, the **Stand-by Guaranteed Investment Contract**), pursuant to which the Stand-by GIC Provider has agreed to pay interest on the Stand-by GIC Account at specified rates determined in accordance with the Stand-by Guaranteed Investment Contract.

The Stand-by Guaranteed Investment Contract is governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein.

### **Security Agreements**

#### *BMO Trust Security Agreement*

Pursuant to the terms of the BMO Trust Security Agreement entered into on the Programme Date by the Trust, the Security Trustee and the other Secured Creditors, the obligations of the Trust under or pursuant to the Transaction Documents to which it is a party are secured, *inter alia*, by a first priority security interest (the **Security**) over the following property, assets and rights of the Trust:

- (a) the Trust's interest in the Loans and their Related Security, including the benefit of CMHC Mortgage Insurance relating to the Loans, and other related rights comprised in the Portfolio;
- (b) all of the Trust's interests, rights and entitlements under and in respect of any Transaction Document to which it is a party governed by Canadian law;
- (c) the rights and benefits of the Trust in the Trust Accounts and any other account of the Trust and all amounts standing to the credit of the Trust Accounts (including the Excess Proceeds) and such other accounts;
- (d) the rights and benefits of the Trust in respect of all Authorised Investments and Substitution Assets purchased from time to time from amounts standing to the credit of the Trust Accounts; and
- (e) all the assets and undertaking of the Trust and not, from time to time, subject to any security interest in favour of the Security Trustee pursuant to the BMO Trust Security Agreement,

together with the English Charged Property, the **Charged Property**.

#### *Release of Security*

In the event of any sale of Loans (including Selected Loans) and their Related Security by the Trust pursuant to and in accordance with the Transaction Documents, the Security Trustee will (subject to the written request of the Trust), release those Loans from the Security created by and pursuant to the BMO Trust Security Agreement on the date of such sale but only if:

- (a) the Security Trustee provides its prior written consent to the terms of such sale as described under — *Declaration of Trust — Method of Sale of Selected Loans* above; and
- (b) the Trust provides a certificate to the Security 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 Security Trustee will release that Loan from the Security created by and pursuant to the BMO Trust Security Agreement on or prior to the date of the repurchase.

#### *Enforcement*

If a Trust Acceleration Notice is served on the Trust, the Security Trustee shall be entitled to appoint a Receiver, and/or enforce the Security constituted by the BMO Trust Security Agreement (including selling the Portfolio), and/or take such steps as it shall 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 Security Trustee from the enforcement of the Security will be applied in accordance with the Post-Enforcement Priority of Payments described under *Cashflows*.

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

#### *English Security Agreement*

Pursuant to the terms of the English Security Agreement entered into on the Programme Date between the Trust, the Security Trustee and the other Secured Creditors, the Trust has granted a first priority security interest over all the Trust's interests, rights and entitlements under and in respect of any Transaction Document to which it is a party which is governed by English law (the **English Charged Property**).

The English Security Agreement is governed by English Law.

#### **Administration Agreement**

Pursuant to the Administration Agreement, BMO acts as administrator of the Trust and provides certain administrative services required by the Trust pursuant to the Transaction Documents. As compensation for the performance of the Administrative Agent's obligations under the Administration Agreement and as reimbursement for its related expenses, the Administrative Agent will be entitled to a monthly administration fee which will be paid in accordance with the applicable Priority of Payments.

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

## CREDIT STRUCTURE

The Covered Bonds will be direct, unsecured, unconditional obligations of the Issuer and will rank *pari passu* among themselves and (save for any obligations required to be preferred by law), equally with all other unsecured senior obligations of the Issuer from time to time. The Covered Bonds are to be "deposits" of the Issuer for the purpose of the Bank Act. The Covered Bonds will not be deposits insured under the *Canada Deposit Insurance Corporation Act* (Canada) or under any other governmental insurance scheme of any country. The Trust has no obligation to pay the Guaranteed Amounts under the Covered Bond Guarantee unless and until service of a Notice to Pay on the Trust following service by the Bond Trustee of an Issuer Acceleration Notice or, if earlier, following the occurrence of a Trust Event of Default and service by the Bond Trustee of a Trust Acceleration Notice. The Issuer will not be relying on payments by the Trust in respect of the Term Advances or receipt of Revenue Receipts or Principal Receipts from the Portfolio in order to pay interest or repay principal under the Covered Bonds.

There are a number of features of the Programme which enhance the likelihood of timely and, as applicable, ultimate payments to Covered Bondholders, as follows:

- the Covered Bond Guarantee provides credit support to the Covered Bondholders;
- the Pre-Maturity Test is intended to test the liquidity of the Trust's assets in respect of principal due on the Final Maturity Date of Hard Bullet Covered Bonds;
- the Asset Coverage Test is intended to test the asset coverage of the Trust's assets in respect of the Covered Bonds outstanding at all times;
- the Amortisation Test is intended to test the asset coverage of the Trust's assets in respect of the Covered Bonds following service of a Notice to Pay on the Trust;
- a Reserve Fund (if the ratings of the Issuer's unsecured, unsubordinated and unguaranteed debt obligations by any of the Rating Agencies falls below the levels specified in the Declaration of Trust) will be established by the Trust (or the Cash Manager on its behalf) in the GIC Account to trap Available Revenue Receipts; and
- under the terms of the Guaranteed Investment Contract, the GIC Provider has agreed to pay a variable rate of interest on all amounts held by the Trust in the GIC Account at a rate of CDOR minus 0.1 per cent for a specified period or such greater amount as the Trust and the GIC Provider may agree from time to time.

Certain of these factors are considered more fully in the remainder of this section.

### **The Covered Bond Guarantee**

The Covered Bond Guarantee provided by the Trust under the Trust Deed guarantees payment of Guaranteed Amounts when the same become Due for Payment in respect of all Covered Bonds issued under the Programme. The Covered Bond Guarantee will not guarantee any amount becoming payable for any other reason, including any accelerated payment pursuant to Condition 9 (*Events of Default, Acceleration and Enforcement*) following the service of a Notice to Pay. In this circumstance (and until a Trust Event of Default occurs and a Trust Acceleration Notice is served), the Trust's obligations will only be to pay the Guaranteed Amounts as they fall Due for Payment. However, should any payments made by the Trust 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 political subdivision thereof or by any authority therein or thereof having the power to tax, the Trust will not be obliged to pay any additional amount as a consequence.

See further *Summary of the Principal Documents — Trust Deed* as regards the terms of the Covered Bond Guarantee. See further *Cashflows — Guarantee Priority of Payments* as regards the payment of amounts payable by the Trust to Covered Bondholders and other Secured Creditors following service of a Notice to Pay.

### **Pre-Maturity Liquidity**

Certain Series of Covered Bonds may be scheduled to be redeemed in full on their respective Final Maturity Dates without any provision for scheduled redemption other than on the Final Maturity Date (the **Hard Bullet Covered Bonds**). The applicable Final Terms Document 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 Trust's assets in respect of the Hard Bullet Covered Bonds when the Issuer's unsecured, unsubordinated and unguaranteed debt obligations credit ratings, as applicable, fall below a certain level. On each Toronto Business Day (each, a **Pre-Maturity Test Date**) prior to the occurrence of an Issuer Event of Default or the occurrence of a Trust Event of Default, the Trust 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 Security Trustee.

The Issuer will fail and be in breach of the **Pre-Maturity Test** on a Pre-Maturity Test Date if:

- (a) the rating from Fitch of the Issuer's unsecured, unsubordinated and unguaranteed debt obligations falls below F1+ (or such higher rating as is notified by the Issuer to Fitch and the Security Trustee) and the Final Maturity Date of the Series of Hard Bullet Covered Bonds falls within 12 months from the relevant Pre-Maturity Test Date (or such longer period as is notified by the Issuer to Fitch and the Security Trustee); or
- (b) the rating from Moody's of the Issuer's unsecured, unsubordinated and unguaranteed debt obligations falls below P-1 (or such higher rating as is notified by the Issuer to Moody's and the Security Trustee) and the Final Maturity Date of the Series of Hard Bullet Covered Bonds falls within 12 months from the relevant Pre-Maturity Test Date (or such longer period as is notified by the Issuer to Moody's and the Security Trustee); or
- (c) the rating from DBRS of the Issuer's unsecured, unsubordinated and unguaranteed debt obligations falls below A(high) or A(low) (or such higher ratings as are notified by the Issuer to DBRS and the Security Trustee) and the Final Maturity Date of the Series of Hard Bullet Covered Bonds falls within six months or 12 months, respectively, from the relevant Pre-Maturity Test Date (or such longer period as is notified by the Issuer to DBRS and the Security Trustee),

(each of the ratings set out above, the **Pre-Maturity Minimum Ratings**).

Following a breach of the Pre-Maturity Test in respect of a Series of Hard Bullet Covered Bonds, the Trust may offer to sell Selected Loans to Purchasers, subject to any right of pre-emption of the Seller pursuant to the terms of the Mortgage Sale Agreement or the Trust may fund the Pre-Maturity Liquidity Ledger by obtaining an Advance under the Intercompany Loan Agreement provided that an Issuer Event of Default will occur 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 of that Series of Hard Bullet Covered Bonds and the Trust has not cured the breach, within the earlier to occur of (i) 10 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 (see further: Condition 9.1(e)).

Following a breach of the Pre-Maturity Test breach within such period, the Pre-Maturity Liquidity Ledger shall be funded so that by the end of such period, there will be an amount equal to the Required Redemption Amount of that Series of Hard Bullet Covered Bonds standing to the credit of the GIC Account and recorded on the Pre-Maturity Liquidity Ledger (after taking into account the Required Redemption Amount of all other Series of Hard Bullet Covered Bonds which mature within 12 months of the date of such calculation).

The method for selling Selected Loans is described in *Summary of Principal Documents—Declaration of Trust Agreement—Method of sale of Loans and their Related Security* above. The proceeds of sale of Selected Loans will be recorded to the Pre-Maturity Liquidity Ledger on the GIC Account.

In certain circumstances, Revenue and Principal Receipts will also be available to repay a Hard Bullet Covered Bond, as described in *Cashflows—Pre-Acceleration Revenue Priority of Payments* below.

Failure by the Issuer to pay the full amount due in respect of a Series of Hard Bullet Covered Bonds on the Final Maturity Date thereof, subject to applicable cure periods, will constitute an Issuer Event of Default. Following service of a Notice to Pay on the Trust, the Trust will apply funds standing to the credit of the GIC Account and recorded on the Pre-Maturity Liquidity Ledger to repay the relevant Series of Hard Bullet Covered Bonds.

If the Issuer and/or the Trust fully repay the relevant Series of Hard Bullet Covered Bonds on the Final Maturity Date thereof, cash standing to the credit of the Pre-Maturity Liquidity Ledger on the GIC Account will be applied by the Trust in accordance with the Pre-Acceleration Principal Priority of Payments, unless:

- (a) the Issuer is failing the Pre-Maturity Test in respect of any other Series of Hard Bullet Covered Bonds, in which case the cash will remain on the Pre-Maturity Liquidity Ledger in order to provide liquidity for that other Series of Hard Bullet Covered Bonds; or
- (b) the Issuer is not failing the Pre-Maturity Test, but the Cash Manager elects to retain the cash on the Pre-Maturity Liquidity Ledger in order to provide liquidity for any future Series of Hard Bullet Covered Bonds.

Amounts standing to the credit of the Pre-Maturity Liquidity Ledger following the repayment of the Hard Bullet Covered Bonds as described above may, except where the Cash Manager has elected or is required to retain such amounts on the Pre-Maturity Liquidity Ledger, also be used to repay the Advances under the Intercompany Loan Agreement, subject to the Trust making provision for higher ranking items in the Pre-Acceleration Principal Priority of Payments.

### **Asset Coverage Test**

The Asset Coverage Test is intended to ensure that the Trust can meet its obligations under the Covered Bond Guarantee. Under the Declaration of Trust, the Trust must ensure that on each Calculation Date the Adjusted Aggregate Loan Amount will be in an amount equal to or in excess of the aggregate Canadian Dollar Equivalent of the Principal Amount Outstanding of the Covered Bonds as calculated as of the relevant Calculation Date. If the Adjusted Aggregate Loan Amount is less than the aggregate Canadian Dollar Equivalent of the Principal Amount Outstanding of the Covered Bonds on such Calculation Date, the Trust will be required to use all reasonable endeavours to purchase sufficient further Loans from the Seller or to request a further advance under the Demand Loan to satisfy the shortfall. If the Adjusted Aggregate Loan Amount is not equal to, or greater than, the aggregate Canadian Dollar Equivalent of the Principal Amount Outstanding of the Covered Bonds on the next following Calculation Date, the Asset Coverage Test will be breached and the Bond Trustee will serve an Asset Coverage Test Breach Notice on the Trust. The Asset Coverage Test is a formula which adjusts the Outstanding Principal Balance of each Loan in the Portfolio and has further adjustments to take account of failure by the Seller, in accordance with the Mortgage Sale Agreement, to repurchase Defaulted Loans or Loans that do not materially comply with the Loan Representations and Warranties on the relevant Purchase Date. See further *Summary of the Principal Documents — Declaration of Trust — Asset Coverage Test*, above.

An Asset Coverage Test Breach Notice will be revoked if, as of any Calculation Date falling on or prior to the Trust Payment Date immediately following the Calculation Date following the service of the Asset Coverage Test Breach Notice, the Asset Coverage Test is satisfied and neither a Notice to Pay nor a Trust Acceleration Notice has been served.

If an Asset Coverage Test Breach Notice has been served and not revoked on or before the Trust Payment Date immediately following the Calculation Date after service of such Asset Coverage Test Breach Notice, then an Issuer Event of Default shall occur and the Bond Trustee shall 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 must serve a Notice to Pay on the Trust.

### **Amortisation Test**

The Amortisation Test is intended to ensure that if, following service of a Notice to Pay on the Trust (but prior to service on the Trust of a Trust Acceleration Notice), the assets of the Trust available to meet its obligations under the Covered Bond Guarantee fall to a level where Covered Bondholders may not be repaid, a Trust Event of Default will occur and all amounts owing under the Covered Bonds may be accelerated. Under the Declaration of Trust, the Trust must ensure that, on each Calculation Date following service of a Notice to Pay on the Trust, the Amortisation Test Aggregate Loan Amount will be in an amount at least equal to the aggregate Canadian Dollar Equivalent of the Principal Amount Outstanding of the Covered Bonds as calculated as of the relevant Calculation Date. The Amortisation Test is a formula which adjusts the Outstanding Principal Balance of each Loan in the Portfolio and has further adjustments to take account of Loans in arrears. See further *Summary of the Principal Documents — Declaration of Trust — Amortisation Test* above.

### **Reserve Fund**

If at any time prior to the occurrence of an Issuer Event of Default, the Issuer's short-term, unsecured, unsubordinated and unguaranteed debt obligations ceases to be rated at least P-1, F1 or R-1(middle) by Moody's, Fitch and DBRS, respectively, and its long-term, unsecured, unsubordinated and unguaranteed debt obligations ceases to be rated at least A(low) by DBRS and A by Fitch, the Trust will be required to credit Available Revenue Receipts to the Reserve Fund up to an amount equal to the Reserve Fund Required Amount. The Trust will not be required to maintain the Reserve Fund following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice.

The Reserve Fund Required Amount will be funded from the proceeds of deemed Subordinated Advances, after the Trust has paid all of its obligations in respect of items ranking higher than the Reserve Ledger in the Pre-Acceleration Revenue Priority of Payments on each Trust Payment Date.

A Reserve Ledger will be maintained by the Cash Manager to record the balance from time to time of the Reserve Fund. Following the occurrence of an Issuer Event of Default, service of an Issuer Acceleration Notice and service of a Notice to Pay on the Trust, amounts standing to the credit of the Reserve Fund will be added to certain other income of the Trust in calculating Available Revenue Receipts.

The balance on the Reserve Ledger in excess of the Reserve Fund Required Amount will form part of Available Revenue Receipts and be applied accordingly.



## CASHFLOWS

As described above under *Credit Structure*, until a Notice to Pay is served on the Trust, the Covered Bonds will be obligations of the Issuer only. The Issuer is liable to make payments when due on the Covered Bonds, whether or not it has received any corresponding payment from the Trust.

This section summarises the Priorities of Payments of the Trust, as to the allocation and distribution of amounts standing to the credit of the Trust Accounts and their order of priority:

- (a) prior to service on the Trust of an Asset Coverage Test Breach Notice, a Notice to Pay or a Trust Acceleration Notice;
- (b) following service of an Asset Coverage Test Breach Notice (and for so long as it has not been revoked);
- (c) following service of a Notice to Pay; and
- (d) following service of a Trust Acceleration Notice.

### **Allocation and distribution of Available Revenue Receipts prior to service of an Asset Coverage Test Breach Notice, a Notice to Pay or a Trust Acceleration Notice**

Prior to service of an Asset Coverage Test Breach Notice, a Notice to Pay or a Trust Acceleration Notice on the Trust, Available Revenue Receipts will be allocated and distributed as described below.

In respect of the Calculation Date immediately preceding each Trust Payment Date, the Trust or the Cash Manager on its behalf will calculate:

- (a) the amount of Available Revenue Receipts available for distribution on the immediately following Trust 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 eleven 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 GIC Account and recorded on the Pre-Maturity Liquidity Ledger at such date is less than the Required Redemption Amount for the relevant Series of Hard Bullet Covered Bonds at such date (together with the Required Redemption Amount of all other Series of Hard Bullet Covered Bonds which mature within 12 months of the date of such calculation).

### *Pre-Acceleration Revenue Priority of Payments*

On each Trust Payment Date, the Trust or the Cash Manager on its behalf will transfer Available Revenue Receipts from the Revenue Ledger to the Payment Ledger on the GIC Account, in an amount equal to the lower of (a) the amount required to make the payments described below and (b) the amount of Available Revenue Receipts standing to the credit of the GIC Account.

Prior to service on the Trust of an Asset Coverage Test Breach Notice (which has not been revoked), a Notice to Pay or a Trust Acceleration Notice, Available Revenue Receipts will be applied by or on behalf of the Trust on each Trust Payment Date in making the following payments and provisions (the **Pre-Acceleration Revenue Priority 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 payment of any amounts due and payable by the Trust to, the BMO Trustee, the Bond Trustee, the Security Trustee, each Agent and to other third parties and incurred without breach by the Trust of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere in this Pre-Acceleration Revenue Priority of Payments) and to provide for any such amounts expected to become due and payable by the Trust in the immediately succeeding Trust Payment Period and to discharge any liability of the Trust for Taxes and stamp duties;
- (b) *second*, in or towards payment of any interest amounts due or to become due and payable, in respect of the Demand Loan pursuant to the terms of the Intercompany Loan Agreement;
- (c) *third*, if the Servicer is not BMO or an affiliate thereof, in or towards payment of 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 or any replacement Servicing Agreement in the immediately succeeding Trust Payment Period, together with any applicable taxes thereon as provided therein;
- (d) *fourth*, in or towards payment *pro rata* and *pari passu* according to the respective amounts thereof:
  - (i) 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 Trust Payment Period, together with any applicable taxes thereon as provided therein;
  - (ii) amounts (if any) due and payable to the Account Bank or, as applicable, the Stand-by Account Bank (including any costs, charges, liabilities and expenses) pursuant to the terms of the Bank Account Agreement or the Stand-by Bank Account Agreement, as the case may be, together with any applicable taxes;
  - (iii) amounts due and payable to the Asset Monitor pursuant to the terms of the Asset Monitor Agreement (other than the amounts referred to in paragraph (k) below), together with any applicable taxes thereon as provided therein; and
  - (iv) any remuneration then due and payable to the Administrative Agent and any costs, charges, liabilities and expenses then due or to become due and payable to the Administrative Agent under the provisions of the Declaration of Trust in the immediately succeeding Trust Payment Period, together with any applicable taxes thereon as provided therein;
- (e) *fifth*, in or towards payment on the Trust Payment Date 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, of any amount due or to become due and payable to the Interest Rate Swap Provider (including any termination payment due and payable by the Trust under the Interest Rate Swap Agreement, but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premiums received from the relevant replacement Swap Providers) pursuant to the terms of the Interest Rate Swap Agreement;
- (f) *sixth*, in or towards payment on the Trust Payment Date 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 (and 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 and, if applicable, any amounts (other than in respect of principal) receivable from a Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement on the Trust Payment Date or such date in the future as the Cash Manager may reasonably determine), of:

- (i) any amounts due or to become due and payable to the Covered Bond Swap Providers (other than in respect of principal) *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap (including any termination payment due and payable by the Trust under the relevant Covered Bond Swap Agreement, but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premiums received from the relevant replacement Swap Providers) pursuant to the terms of the relevant Covered Bond Swap Agreements; and
  - (ii) any amounts due or to become due and payable (excluding principal amounts), *pro rata* and *pari passu* in respect of each relevant Term Advance, to the Issuer pursuant to the terms of the Intercompany Loan Agreement;
- (g) *seventh*, if a Servicer Event of Default has occurred, all remaining Available Revenue Receipts to be credited to the GIC Account (and recorded on the Revenue Ledger) until such Servicer Event of Default is either remedied or waived by the Security Trustee or a new servicer is appointed to service the Portfolio (or the relevant part thereof);
- (h) *eighth*, in or towards a credit to the GIC Account (and recorded on 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 as of the immediately preceding Calculation Date;
- (i) *ninth*, if the Trust is required to make a deposit to the Pre-Maturity Liquidity Ledger, towards a credit to the GIC Account (with a corresponding entry recorded on the Pre-Maturity Liquidity Ledger) of an amount up to but not exceeding the difference between:
- (i) the Required Redemption Amount as calculated on the immediately preceding Calculation Date for the relevant Series of Hard Bullet Covered Bonds; and
  - (ii) any amounts standing to the credit of the GIC Account and recorded on the Pre-Maturity Liquidity Ledger on the immediately preceding Calculation Date after deducting from the Pre-Maturity Liquidity Ledger the Required Redemption Amounts of all other Series of Hard Bullet Covered Bonds as calculated on that Calculation Date which mature within 12 months of the date of such calculation;
- (j) *tenth*, in or towards payment *pro rata* and *pari passu* in accordance with the respective amounts thereof of any Excluded Swap Termination Amounts due and payable by the Trust under the Covered Bond Swap Agreements and the Interest Rate Swap Agreement, except to the extent that such amounts have been paid out of any premiums received from the relevant replacement Swap Providers;
- (k) *eleventh*, in or towards payment of any indemnity amount due to the Asset Monitor pursuant to the Asset Monitor Agreement;
- (l) *twelfth*, any interest amounts and principal due or to become due and payable, *pro rata* and *pari passu* in respect of each Subordinated Advance, to the Issuer pursuant to the terms of the Subordinated Loan Agreement;
- (m) *thirteenth*, the remainder in excess of Cdn\$1,000 in or towards payment of Deferred Consideration due to the Seller for the sale of the Loans and their Related Security to the Trust; and
- (n) *fourteenth*, to pay or provide for Cdn\$1,000 to the Beneficiaries in accordance with the Declaration of Trust.

Any amounts received by the Trust under the Interest Rate Swap Agreement on or after the Trust Payment Date but prior to the next following Trust Payment Date will be applied, together with any provision for such payments made on any preceding Trust Payment Date, to make payments (other than in respect of principal) due and payable *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap under the Covered Bond Swap Agreements or, as the case may be, in respect of each relevant Term Advance under the Intercompany Loan Agreement 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 (other than in respect of principal) received by the Trust under a Covered Bond Swap on or after the Trust Payment Date but prior to the next following Trust Payment Date will be applied, together with any provision for such payments made on any preceding Trust Payment Date, to make payments (other than principal) due and payable *pro rata* and *pari passu* in respect of each relevant Term Advance under the Intercompany Loan Agreement 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 any amounts (other than in respect of principal) received under the Covered Bond Swap Agreements on the Trust Payment Date or on any date prior to the next succeeding Trust Payment Date which are not put towards a payment or provision in accordance with paragraph (f) above or the preceding two paragraphs will be credited to the GIC Account (and recorded on the Revenue Ledger) and applied as Available Revenue Receipts on the next succeeding Trust Payment Date.

Any amounts received from the Seller (other than in respect of principal in respect of repurchase of Loans and their Related Security) to put the Trust in funds to repay a Term Advance on the date on which the Covered Bonds corresponding to such Term Advance mature will not be applied in accordance with the priority of payment above and will (after being swapped if necessary under the relevant Covered Bond Swap) be applied by the Trust in repayment of the relevant Term Advance on the date on which the Covered Bonds corresponding to such Term Advance mature, subject to the Asset Coverage Test being met on the date of such repayment after giving effect to such repayment and after taking into account amounts that will be paid or provided for on the next following Trust Payment Date.

**Allocation and distribution of Available Principal Receipts prior to service on the Trust of an Asset Coverage Test Breach Notice, a Notice to Pay or a Trust Acceleration Notice**

Prior to service on the Trust of an Asset Coverage Test Breach Notice, a Notice to Pay or a Trust Acceleration Notice, Available Principal Receipts will be allocated and distributed as described below.

On each Calculation Date (or if such day is not a Business Day, on the first Canadian Business Day following the Calculation Date), the Trust or the Cash Manager on its behalf will calculate the amount of Available Principal Receipts available for distribution on the immediately following Trust Payment Date.

On each Trust Payment Date, the Trust or the Cash Manager on its behalf will transfer funds from the Principal Ledger and/or the Reserve Ledger, as the case may be, to the Payment Ledger on the GIC Account, in an amount equal to the lower of (a) the amount required to make the payments described below and (b) the amount of Available Principal Receipts standing to the credit of the GIC Account.

If a Forward Starting Covered Bond Swap has been entered into and any payments of principal are required to be made by the Trust on an Interest Payment Date, the distribution of Available Principal Receipts under the Pre-Acceleration Principal Priority of Payments will be delayed until the Issuer has made scheduled interest and/or principal payments under the Covered Bonds on that Interest Payment Date or if a Non Forward Starting Covered Bond Swap has been entered into, the Trust shall direct each Covered Bond Swap Provider to pay any amounts due to the Trust under a Covered Bond Swap, the proceeds of which would be

applied by the Trust in accordance with the two paragraphs immediately following the Pre Acceleration Revenue Priority of Payments, directly to the Bond Trustee (or the Principal Paying Agent at the direction of the Bond Trustee).

*Pre-Acceleration Principal Priority of Payments*

Prior to service on the Trust of an Asset Coverage Test Breach Notice (which has not been revoked), a Notice to Pay or a Trust Acceleration Notice, Available Principal Receipts will be applied by or on behalf of the Trust on each Trust Payment Date in making the following payments and provisions (the **Pre-Acceleration Principal Priority 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 Issuer in respect of any Series of Hard Bullet Covered Bonds, towards a credit to the GIC Account and recorded on the Pre-Maturity Liquidity Ledger in an amount up to but not exceeding the difference between:
  - (i) the Required Redemption Amount calculated on the immediately preceding Calculation Date for the relevant Series of Hard Bullet Covered Bonds; and
  - (ii) any amounts standing to the credit of the GIC Account and recorded on the Pre-Maturity Liquidity Ledger on the immediately preceding Calculation Date after deducting from the Pre-Maturity Liquidity Ledger the Required Redemption Amount of all other Hard Bullet Covered Bonds, as calculated on that Calculation Date, which mature within 12 months of the date of such calculation;
- (b) *second*, (subject to the Asset Coverage Test being met), in or towards repayment of the principal outstanding on the Demand Loan pursuant to the terms of the Intercompany Loan Agreement;
- (c) *third*, to acquire New Loans and their Related Security offered to the Trust by the Seller in accordance with the terms of the Mortgage Sale Agreement and to acquire Substitution Assets in an amount sufficient to ensure that taking into account the other resources available to the Trust, the Trust is in compliance with the Asset Coverage Test;
- (d) *fourth*, to deposit the remaining Available Principal Receipts in the GIC Account (with a corresponding entry recorded on the Principal Ledger) in an amount sufficient to ensure that taking into account the other resources available to the Trust, the Trust is in compliance with the Asset Coverage Test;
- (e) *fifth*, in or towards repayment on the Trust 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 the corresponding Term Advance related to such Series of Covered Bonds by making the following payments:
  - (i) the amounts (in respect of principal) due or to become due and payable to the relevant Covered Bond Swap Providers *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap (including any termination payment due and payable by the Trust under the relevant Covered Bond Swap Agreements, but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premiums received from the relevant replacement Swap Providers) in accordance with the terms of the relevant Covered Bond Swap Agreement; and
  - (ii) where appropriate, after taking into account any amounts in respect of principal receivable from a Covered Bond Swap Provider on the Trust Payment Date or such date in the future as the Cash Manager may reasonably determine) the amounts (in respect of principal) due or to

become due and payable to the Issuer *pro rata* and *pari passu* in respect of each relevant Term Advance, provided that no amounts shall be applied to make a payment to the Issuer in respect of a Term Advance if the principal amounts outstanding under the related Series of Covered Bonds which have fallen due for payment have not been repaid in full by the Issuer; and

- (f) *sixth*, subject to complying with the Asset Coverage Test, in or towards payment of Deferred Consideration due to the Seller for the sale of the Loans and their Related Security to the Trust.

Any amounts in respect of principal received by the Trust under a Covered Bond Swap on or after the Trust Payment Date but prior to the next following Trust Payment Date will be applied, together with any provision for such payments made on any preceding Trust Payment Date, (provided that all principal amounts outstanding under the related Series of Covered Bonds which have fallen due for repayment on such date have been repaid in full by the Issuer), to make payments in respect of principal due and payable to the Issuer in respect of the corresponding Term Advance under the Intercompany Loan Agreement 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 of principal received under the Covered Bond Swap Agreements on the Trust Payment Date or any date prior to the next succeeding Trust Payment Date which are not put towards a payment or provision in accordance with paragraph (e) above or the preceding paragraph will be credited to the GIC Account (and recorded on the Principal Ledger) and applied as Available Principal Receipts on the next succeeding Trust Payment Date.

Any amounts of principal received from the Seller in respect of a repurchase of Loans and their Related Security to put the Trust in funds to repay a Term Advance on the date on which the Covered Bonds corresponding to such Term Advance mature and/or the proceeds of any Demand Loan made for the same purpose, will not be applied in accordance with the priority of payment above and will (after being swapped if necessary under the relevant Covered Bond Swap) be applied or be deemed to be applied by the Trust in repayment of the relevant Term Advance on the date on which the Covered Bonds corresponding to such Term Advance mature, subject to the Asset Coverage Test being met on the date of such repayment after giving effect to such repayment after taking into account amounts that will be paid or provided for on the next following Trust Payment Date.

#### **Allocation and distribution of Available Revenue Receipts and Available Principal Receipts following service of an Asset Coverage Test Breach Notice**

At any time after service on the Trust of an Asset Coverage Test Breach Notice (which has not been revoked), but prior to service of a Notice to Pay or service of a Trust Acceleration Notice, all Available Revenue Receipts and Available Principal Receipts will continue to be applied in accordance with the Pre-Acceleration Revenue Priority of Payments and the Pre-Acceleration Principal Priority of Payments save that, whilst any Covered Bonds remain outstanding, no moneys will be applied under paragraphs (f)(ii), (k), (l) or (m) of the Pre-Acceleration Revenue Priority of Payments or paragraphs (b), (c), (e)(ii), or (f) of the Pre-Acceleration Principal Priority of Payments.

#### **Allocation and distribution of Available Revenue Receipts and Available Principal Receipts following service of a Notice to Pay**

At any time after service of a Notice to Pay on the Trust, but prior to service of a Trust Acceleration Notice, all Available Revenue Receipts and Available Principal Receipts will be applied as described below under *Guarantee Priority of Payments*.

On each Trust Payment Date, the Trust 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 Subordinated Loan Ledger, as the case may be, to the Payment Ledger on the GIC Account, in an amount equal to the lower of (a) the amount required to make the payments set out in the Guarantee Priority of Payments and (b) the amount of all Available Revenue Receipts and Available Principal Receipts standing to the credit of such ledgers on the GIC Account.

The Trust will create and maintain ledgers for each Series of Covered Bonds and record amounts allocated to such Series of Covered Bonds in accordance with paragraph (g), (h) and (i) of the *Guarantee Priority of Payments* below, and such amounts, once allocated, will only be available to pay amounts due under the Covered Bond Guarantee and amounts due under the Covered Bond Swap in respect of the relevant Series of Covered Bonds on the scheduled payment dates therefor.

#### *Guarantee Priority of Payments*

If a Notice to Pay is served on the Trust in connection with the Pre-Maturity Test, the Trust will on the relevant Final Maturity Date apply all funds standing to the credit of the GIC Account and recorded on the Pre-Maturity Liquidity Ledger to repay the relevant series of Hard Bullet Covered Bonds, subject thereto. On each Trust Payment Date on and from the date of service of a Notice to Pay on the Trust (but prior to the occurrence of a Trust Event of Default and service of a Trust Acceleration Notice), the Trust or the Cash Manager on its behalf will apply Available Revenue Receipts and Available Principal Receipts to make the following payments and provisions in the following order of priority (the **Guarantee Priority 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* (subject to the Asset Coverage Test being met), any amounts due or to become due and payable, in respect of the Demand Loan pursuant to the terms of the Intercompany Loan Agreement;
- (b) *second*, in or towards payment *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 in the immediately succeeding Trust Payment Period under the provisions of the Trust Deed together with interest and any applicable taxes thereon as provided therein; and
  - (ii) all amounts due and payable or to become due and payable to the Security Trustee in the immediately succeeding Trust Payment Period under the provisions of the Security Agreements together with interest and any applicable taxes thereon as provided therein;
  - (iii) all amounts due and payable or to become due and payable to the BMO Trustee in the immediately succeeding Trust Payment Period under the provisions of the Declaration of Trust together with interest and any applicable taxes thereon as provided therein.
- (c) *third*, if the Servicer is not BMO or an affiliate thereof in or towards, 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 Trust Payment Period under the provisions of the Servicing Agreement or any replacement Servicing Agreement together with any applicable taxes thereon as provided therein;
- (d) *fourth*, in or towards payment *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any remuneration then due and payable to the Agents under or pursuant to the Agency Agreement together with any applicable taxes thereon as provided therein; and

- (ii) any amounts then due and payable by the Trust to third parties and incurred without breach by the Trust of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere in this Guarantee Priority of Payments) and to provide for any such amounts expected to become due and payable by the Trust in the immediately succeeding Trust Payment Period and to pay or discharge any liability of the Trust for Taxes and stamp duty;
- (e) *fifth*, in or towards payment *pro rata* and *pari passu* according to the respective amounts thereof of:
- (i) 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 Trust Payment Period under the provisions of the Cash Management Agreement, together with any applicable taxes thereon as provided therein;
  - (ii) amounts (if any) due and payable to the Account Bank or, if applicable, the Stand-by Account Bank (including any costs, charges, liabilities and expenses) pursuant to the terms of the Bank Account Agreement or the Stand-by Bank Account Agreement, as the case may be, together with any applicable taxes thereon as provided therein;
  - (iii) amounts due and payable to the Asset Monitor (other than the amounts referred to in paragraph (m) below) pursuant to the terms of the Asset Monitor Agreement, together with any applicable taxes thereon as provided therein; and
  - (iv) any remuneration then due and payable to the Administrative Agent and any costs, charges, liabilities and expenses then due or to become due and payable to the Administrative Agent under the provisions of the Declaration of Trust in the immediately succeeding Trust Payment Period, together with any applicable taxes thereon as provided therein;
- (f) *sixth*, in or towards payment on the Trust Payment Date, 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, of any amount due or to become due and payable to the Interest Rate Swap Provider (including any termination payment due or to become due and payable by the Trust under the Interest Rate Swap Agreement, but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premiums received from the relevant replacement Swap Providers) pursuant to the terms of the Interest Rate Swap Agreement;
- (g) *seventh*, in or towards payment on the Trust Payment Date or to provide for payment on such date in the future of such proportion of the relevant payments falling due in the future as the Cash Manager may reasonably determine, *pro rata* and *pari passu* in accordance to the respective amounts thereof:
- (i) the amounts due or to become due and payable to the relevant Covered Bond Swap Providers (other than in respect of principal) *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap (including any termination payment due and payable by the Trust under the relevant Covered Bond Swap Agreements, but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premiums received from the relevant replacement Swap Providers) in accordance with the terms of the relevant Covered Bond Swap Agreement; and
  - (ii) Scheduled Interest that is Due for Payment (or that will become Due for Payment) under the Covered Bond Guarantee in respect of each Series of Covered Bonds to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the Covered Bondholders *pro rata* and *pari passu* in respect of each Series of Covered Bonds;



but, in the case of any such payment or provision, after taking into account any amounts receivable from the Interest Rate Swap Provider under the Interest Rate Swap Agreement and, if applicable, any amounts (other than principal) receivable from a Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement on the Trust Payment Date or such date in the future as the Cash Manager may reasonably determine, provided that if the amount available for distribution under this paragraph (g) (excluding any amounts received or to be received from the Covered Bond Swap Providers) would be insufficient to pay the Canadian Dollar Equivalent of the Scheduled Interest that is or will be Due for Payment in respect of each Series of Covered Bonds under sub-paragraph (ii) above, the shortfall shall be divided amongst all such Series of Covered Bonds on a *pro rata* basis and the amount payable by the Trust to the relevant Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement in respect of each relevant Series of Covered Bonds or provision to be made in respect thereof under sub-paragraph (i) above shall be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

(h) *eighth*, in or towards payment on the Trust Payment Date or to provide for payment prior to the next Trust Payment Date *pro rata* and *pari passu* in accordance to the respective amounts thereof:

(i) the amounts (in respect of principal) due or to become due and payable to the relevant Covered Bond Swap Provider *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap (including any termination payment due and payable by the Trust under the relevant Covered Bond Swap Agreement, but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premiums received from the relevant replacement Swap Providers) in accordance with the terms of the relevant Covered Bond Swap Agreement; and

(ii) (where appropriate, after taking into account any amounts in respect of principal receivable from a Covered Bond Swap Provider and available to make payments in respect thereof) Scheduled Principal that is Due for Payment (or that will become Due for Payment in the immediately succeeding Trust Payment Period) under the Covered Bond Guarantee in respect of each Series of Covered Bonds to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the Covered Bondholders *pro rata* and *pari passu* in respect of each Series of Covered Bonds,

provided that if the amount available for distribution under this paragraph (h) (excluding any amounts received or to be received from the Covered Bond Swap Providers) would be insufficient to pay the Canadian Dollar Equivalent of the Scheduled Principal that is or will be Due for Payment in respect of each Series of Covered Bonds under sub-paragraph (ii) above, the shortfall shall be divided amongst all such Series of Covered Bonds on a *pro rata* basis and the amount payable by the Trust to the relevant Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement in respect of each relevant Series of Covered Bonds or provision to be made in respect thereof under sub-paragraph (i) above shall be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made; and

(i) *ninth*, in or towards payment on the Trust Payment Date (if such date is an Interest Payment Date) or to provide for payment on any Interest Payment Date prior to the next following Trust Payment Date of the Final Redemption Amount (or portion thereof remaining unpaid) of any Series of Covered Bonds to which an Extended Due for Payment Date applies and whose Final Redemption Amount was not paid in full by the Extension Determination Date, by making the following payments:

(i) the amounts due or to become due and payable to the relevant Covered Bond Swap Providers (whether or not in respect of principal) *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap (including any termination payment due and payable by the Trust under the Covered Bond Swap Agreement, but excluding any Excluded Termination Amount) (except to the extent that such amounts have been paid out of any premiums

received from the relevant replacement Swap Providers) in accordance with the terms of the relevant Covered Bond Swap Agreement; and

- (ii) the Final Redemption Amount *pro rata* and *pari passu* under the Covered Bond Guarantee in respect of each relevant Series of Covered Bonds to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the Covered Bondholders,

but, in the case of any such payment or provision, after taking into account any amounts receivable from the Interest Rate Swap Provider in respect of the corresponding Interest Rate Swap and, if applicable, any amounts (whether or not in respect of principal) receivable from the relevant Covered Bond Swap Provider in respect of the corresponding Covered Bond Swap, provided that if the amount available for distribution under this paragraph (i) (excluding any amounts received or to be received from the Covered Bond Swap Provider) would be insufficient to pay the Canadian Dollar Equivalent of the Final Redemption Amount in respect of the relevant Series of Covered Bonds under sub-paragraph (ii) above, the shortfall shall be divided amongst all such Series of Covered Bonds on a *pro rata* basis and the amount payable by the Trust to the relevant Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement in respect of each Series of Covered Bonds under sub-paragraph (i) above shall be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

- (j) *tenth*, to deposit the remaining moneys in the GIC Account for application on the next following Trust Payment Date in accordance with the priority of payments described in paragraphs (a) to (i) (inclusive) above, until the Covered Bonds have been fully repaid or repayment in full of the Covered Bonds has been provided for (such that the Required Redemption Amount has been accumulated in respect of each outstanding Series of Covered Bonds);
- (k) *eleventh*, in or towards payment *pro rata* and *pari passu* according to the respective amounts thereof of any Excluded Swap Termination Amounts due and payable by the Trust under the Covered Bond Swap Agreements and the Interest Rate Swap Agreement, except to the extent that such amounts have been paid out of any premiums received from the relevant replacement Swap Providers;
- (l) *twelfth*, in or towards payment of any amounts due or to become due and payable in the immediately succeeding Trust Payment Period (whether in respect of principal or interest) under the Intercompany Loan Agreement, *pro rata* and *pari passu* in respect of each relevant Term Advance;
- (m) *thirteenth*, in or towards payment of any amount due or to become due and payable in the immediately succeeding Trust Payment Period (whether in respect to principal or interest) under the Subordinated Loan Agreement, *pro rata* and *pari passu* in respect of each Subordinated Advance and certain costs, expenses and indemnity amounts due by the Trust to the Asset Monitor pursuant to the Asset Monitor Agreement;
- (n) *fourteenth*, thereafter any remaining moneys in excess of Cdn\$1,000 will be applied in or towards payment of Deferred Consideration due to the Seller for the sale of the Loans and their Related Security to the Trust; and
- (o) *fifteenth*, Cdn\$1,000 will be applied to the Beneficiaries in accordance with the Declaration of Trust.

Any amounts received by the Trust under the Interest Rate Swap Agreement after the Trust Payment Date but prior to the next following Trust Payment Date will be applied, together with any provision for such payment made on any preceding Trust Payment Date, to make payments (other than in respect of principal) due and payable *pro rata* and *pari passu* in respect of each Covered Bond Swap under the Covered Bond Swap Agreements 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 Trust under a Covered Bond Swap (whether or not in respect of principal) after the Trust Payment Date but prior to the next following Trust Payment Date will be applied, together with any provision for such payment made on any preceding Trust 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 Trust Payment Date or any date prior to the next succeeding Trust Payment Date which are not put towards a payment or provision in accordance with paragraph (g), (h) or (i) above or the preceding two paragraphs will be credited to the GIC Account (and recorded on the Revenue Ledger or the Principal Ledger as appropriate) and applied as Available Revenue Receipts or Available Principal Receipts, as the case may be, on the next succeeding Trust Payment Date.

### **Termination payments received in respect of Swaps and premiums received in respect of replacement Swaps**

If the Trust receives any termination payment from a Swap Provider in respect of a Swap, such termination payment will first be used (prior to the occurrence of a Trust Event of Default and service of a Trust Acceleration Notice) to pay a replacement Swap Provider to enter into a replacement Swap with the Trust, unless a replacement Swap has already been entered into on behalf of the Trust. If the Trust receives any premium from a replacement Swap Provider in respect of a replacement Swap, such premium will first be used to make any termination payment due and payable by the Trust with respect to the previous Swap, unless such termination payment has already been made on behalf of the Trust.

### **Application of moneys received by the Security Trustee following service of a Trust Acceleration Notice and enforcement of the Security**

Under the terms of the Security Agreements, all moneys received or recovered by the Security Trustee or any Receiver (other than any Third Party Amount or Swap Collateral Excluded Amount) will be applied following the enforcement of the Security in the following order of priority (the **Post-Enforcement Priority 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*, subject to the Asset Coverage Test being met, any amounts due or to become due and payable, in respect of the Demand Loan pursuant to the terms of the Intercompany Loan Agreement;
- (b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) all amounts then due and payable or to become due and payable to the Bond Trustee under the provisions of the Trust Deed together with interest and any applicable taxes chargeable on the supply in respect of which the payment is made as provided therein;
  - (ii) all amounts then due and payable or to become due and payable to the Security Trustee and any Receiver appointed by the Security Trustee under the provisions of the Security Agreements together with interest and any applicable taxes chargeable on the supply in respect of which the payment is made as provided therein; and
  - (iii) all amounts then due and payable or to become due and payable to the BMO Trustee under the provisions of the Security Agreements and the Declaration of Trust together with interest and any applicable taxes chargeable on the supply in respect of which the payment is made as provided therein.

- (c) *third*, if the Servicer is not BMO or an affiliate thereof in or towards, any remuneration then due and payable or to become 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 or any replacement Servicing Agreement, together with any applicable taxes chargeable on the supply in respect of which the payment is made as provided therein;
- (d) *fourth*, in or towards satisfaction of any remuneration then due and payable or to become due and payable to the Agents under or pursuant to the Agency Agreement together with any applicable taxes chargeable on the supply in respect of which the payment is made as provided therein;
- (e) *fifth*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any remuneration then due and payable or to become 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 taxes chargeable on the supply in respect of which the payment is made as provided therein;
  - (ii) amounts then due to the Account Bank or, as applicable, the Stand-by Account Bank (including any costs, charges, liabilities and expenses) pursuant to the terms of the Bank Account Agreement or, as applicable, the Stand-by Bank Account Agreement, together with any applicable taxes chargeable on the supply in respect of which the payment is made as provided therein; and
  - (iii) any remuneration then due and payable or to become due and payable to the Administrative Agent and any costs, charges, liabilities and expenses then due or to become due and payable to the Administrative Agent under the provisions of the Administration Agreement, together with any applicable taxes thereon as provided therein;
- (f) *sixth*, in or towards satisfaction of any amounts then due and payable to the Interest Rate Swap Provider (including any termination payment, but excluding any Excluded Swap Termination Amount) pursuant to the terms of the Interest Rate Swap Agreement;
- (g) *seventh*, in or towards satisfaction of:
  - (i) any amounts then due and payable to the relevant Covered Bond Swap Provider *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap (including any termination payment due and payable by the Trust under the relevant Covered Bond Swap Agreement, but excluding any Excluded Swap Termination Amount) in accordance with the terms of the relevant Covered Bond Swap Agreement; and
  - (ii) the amounts then due and payable under the Covered Bond Guarantee, to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the Covered Bondholders *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 (g) (excluding any amounts received from any Covered Bond Swap Provider) 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 sub-paragraph (ii) above, the shortfall shall be divided amongst all such Series of Covered Bonds on a *pro rata* basis and the amount payable by the Trust to the relevant Covered Bond Swap Provider in respect of each relevant Series of Covered Bond Swap

under sub-paragraph (i) above shall be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

- (h) *eighth*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof, of any Excluded Swap Termination Amounts due and payable by the Trust under the Covered Bond Swap Agreements and the Interest Rate Swap Agreement;
- (i) *ninth*, in or towards payment of all amounts outstanding under the Intercompany Loan Agreement;
- (j) *tenth*, in or towards payment of all amounts outstanding under the Subordinated Loan Agreement;
- (k) *eleventh*, thereafter any remaining moneys in excess of Cdn\$1,000 will be applied in or towards payment of Deferred Consideration due to the Seller (if any) for the sale of the Loans and their Related Security to the Trust; and
- (l) *twelfth*, Cdn\$1,000 to the Beneficiaries in accordance with the Declaration of Trust.

Following the occurrence of a Trust Event of Default and service of a Trust Acceleration Notice, any Swap Collateral Excluded Amounts in respect of a Swap 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.

## THE PORTFOLIO

The Initial Portfolio and each New Portfolio acquired by the Trust (the **Portfolio**) consist of Loans and their Related Security sold by the Seller to the Trust from time to time, in accordance with the terms of the Mortgage Sale Agreement, as more fully described under *Summary of the Principal Documents — Mortgage Sale Agreement*.

For the purposes hereof:

**Initial Portfolio** means the portfolio of Loans and their Related Security sold by the Seller to the Trust on the First Purchase Date, particulars of which are set out in the Original Mortgage Sale Agreement (other than any Loan and its Related Security redeemed in full on or before the First Purchase Date), and all rights, title, interest and benefit of the Seller in and to:

- (a) all payments of principal and interest (including, for the avoidance of doubt, all Accrued Interest, Arrears of Interest, Capitalised Expenses and Capitalised Arrears) and other sums due or to become due in respect of such Loans and Related Security including, without limitation, the right to demand, sue for, recover and give receipts for all principal moneys, interest and costs and the right to sue on all covenants and any undertakings made or expressed to be made in favour of the Seller under the applicable Mortgage Terms;
- (b) the right to exercise all the powers of the Seller in relation thereto subject to and in accordance with the applicable Mortgage Terms;
- (c) all the estate and interest in the relevant Properties vested in the Seller;
- (d) to the extent they are assignable, each solicitor's or notary's report on title (in each case where available) and any right of action of the Seller against any solicitor, licensed conveyancer, qualified conveyancer, valuer or other person in connection with any report, valuation, opinion, certificate or other statement of fact or opinion given in connection with such Loans and Related Security, or any part thereof or affecting the decision of the Seller to make or offer to make any such Loan or part thereof;
- (e) the proceeds of all claims made by or on behalf of the Seller or to which the Seller is entitled under any insurance policies in relation to any such Loan; and
- (f) all proceeds of the foregoing.

**New Portfolio** means each portfolio of Loans and their Related Security (other than any Loans and their Related Security which have been redeemed in full prior to the relevant Purchase Date or which do not otherwise comply with the terms of the Mortgage Sale Agreement as at the relevant Purchase Date), particulars of which are set out in the relevant New Portfolio Notice or in a document stored upon electronic media (including, but not limited to, a CD-ROM), and all right, title, interest and benefit of the Seller in and to the rights and assets set out in paragraphs (a) to (f) above and the benefit of the CMHC Mortgage Insurance relating to such Loans.

See also the following risk factors under *Risk Factors — Risk Factors relating to the Covered Bonds — Limited description of the Portfolio, Risk Factors relating to the Trust, including the ability of the Trust to fulfil its obligations in relation to the Covered Bond Guarantee — Maintenance of Portfolio and Changes to the Lending Criteria of the Seller*.

## 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 Issuer and the Trust believe to be reliable, but none of the Issuer, the Trust, 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 Issuer, the Trust, 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 Issuer that it is a limited purpose trust company organised under the New York Banking Law, a "banking organization" within the meaning of the 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 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](http://www.dtcc.com).

Purchases of 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 effect 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 DTC's Procedures. Under its usual procedures, DTC mails an omnibus proxy (**Omnibus Proxy**) to the Issuer 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 Issuer or the Principal 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 Principal Paying Agent or the Issuer, 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 Issuer or the Principal 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 world-wide 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 Issuer 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. In the case of any payment in a currency other than U.S. dollars in respect of a Registered Global Covered Bond accepted by DTC, payment will be made to the Exchange Agent and the Exchange Agent will (in accordance with express written instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Registered Global Covered Bond in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants' account.

The Issuer 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 Issuer 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 Security Trustee, the Agents or the Issuer. Payment of principal, premium, if any, and interest, if any, on Covered Bonds to DTC is the responsibility of the Issuer.

### **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 may 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 applicable to the Registered Covered Bonds 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 Principal Paying Agent and any custodian (**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 transfer. 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 Principal Paying Agent and the 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 Security Trustee, the Issuer, the Trust, 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.

## TAXATION

### 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, pursuant to this Prospectus, and who, at all relevant times, for the purposes of the *Income Tax Act* (Canada) (the **Act**) and any applicable income tax convention, is not resident and is not deemed to be resident in Canada, deals at arm's length with the Issuer, the Trust and any Canadian resident (or deemed Canadian resident) to whom the holder disposes of the Covered Bonds and does not use or hold and is not deemed to use or hold Covered Bonds in the course of carrying on a business in Canada and is not an insurer that carries on an insurance business in Canada and elsewhere (a **Non-resident Holder**).

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 Issuer or the Trust, as the case may be, for the purposes of the Act.

This summary is based upon the provisions of the Act 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 Act 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 or assessing practice, whether by legislative, regulatory, administrative or judicial action, nor does it take into account provincial, territorial or foreign income tax legislation.

Canadian federal income tax considerations applicable to Covered Bonds may be described more particularly when such Covered Bonds are offered (and then only to the extent material) in the Final Terms Document related thereto if they are not addressed by the comments following and, in that event, the following will be superseded thereby to the extent indicated in such Final Terms Document.

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

#### *Payments by the Issuer in Respect of the Covered Bonds*

Interest paid or credited or deemed to be paid or credited by the Issuer 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, cash flow, 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 Final Terms Document in respect of each particular Tranche of Covered Bonds of a Series will confirm the exemption from (or application of) Canadian withholding tax based upon the terms of that particular Tranche.

In the event that a Covered Bond which is not exempt from Canadian withholding tax upon its terms is redeemed, cancelled, repurchased or purchased by the Issuer 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 on the Covered Bond to that time, be subject to non-resident withholding tax. Such excess will not be subject to withholding tax if the Covered Bond is considered to be an "excluded obligation" for purposes of the Act. 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 Act) of the Covered Bond, and the yield from which, expressed in terms of an annual rate (determined in accordance with the Act) 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.

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 Trust under the Covered Bond Guarantee*

Payments by the Trust 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 withholding tax to the same extent such payments, if made by the Issuer on the Covered Bonds, would be free of Canadian withholding tax, as discussed above.

#### **EU Savings Directive**

Under EC Council Directive 2003/48/EC (the **Directive**) on the taxation of savings income, Member States, are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period Austria and Luxembourg are required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries and territories). A number of non-European Union countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland)..

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

#### **U.S. Federal Income Taxation**

**Any U.S. federal tax discussion in this Prospectus was not intended or written to be used, and cannot be used, by any taxpayer for purposes of avoiding U.S. federal income tax penalties that may be**

**imposed on the taxpayer. Any such tax discussion was written to support the promotion or marketing of the Covered Bonds to be issued or sold pursuant to this Prospectus. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor with respect to the tax consequences of an investment in the Covered Bonds.**

The following is a general summary of the principal 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 U.S. Holders (as defined below) 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) persons 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) ten per cent. or more of the voting shares (or interests treated as equity) of the Issuer; (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 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 United States Internal Revenue Code of 1986, as amended (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 organized 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 advisor.

## **Taxation of U.S. Holders**

The application of the contingent payment debt instrument (**CPDI**) rules to the Covered Bonds will depend upon the specific terms of the Covered Bonds under the applicable Final Terms Document. Where a Covered Bond is treated as a noncontingent debt instrument (and, thus, not subject to the CPDI rules), the following rules apply.

### ***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 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 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 advisors regarding the availability of a foreign tax credit in their particular situation.

### ***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 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 *Original Issue Discount — 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 one 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 *Original Issue Discount — 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 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 above.* 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 advisors 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 *Original Issue Discount — General*) (any such excess being **acquisition premium**) and that does not make the election described below under *Original Issue Discount — 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 one 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.

*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 *Original Issue Discount — 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 *Original Issue Discount — 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 noncontingent principal payments by more than the lesser of (i) the product of (x) the total noncontingent 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 noncontingent 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 Issuer or a related party (such as dividends, profits or the value of the Issuer'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), 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), 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 advisors regarding the applicability and consequences of the variable rate debt instrument rules to any of the Covered Bonds issued under the Programme.**

*Covered Bonds Subject to Redemption.* If the Covered Bonds are redeemable at the option of the Issuer 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 advisors, 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.

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 advisors 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 Instrument***

If a Covered Bond is treated as a CPDI, the Treasury Regulations governing the treatment of a CPDI (the **CPDI Regulations**) would cause the timing and character of income, gain or loss reported on a CPDI to substantially differ from the timing and character of income, gain or loss reported on a noncontingent payment debt obligation under general principles of current U.S. federal income tax law. In general, the CPDI Regulations require a U.S. Holder to include future contingent and noncontingent interest payments in income as such interest accrues based upon a projected payment schedule. Moreover, in general, under the CPDI Regulations, any gain recognised by a U.S. Holder on the sale, exchange or retirement of a contingent payment debt instrument will be treated as ordinary income and all or a portion of any loss realised could be treated as ordinary loss as opposed to capital loss (depending upon the circumstances).

Under the noncontingent bond method of the CPDI Regulations, for each accrual period prior to and including the maturity date of the Covered Bond, the amount of interest that accrues, as OID, equals the product of (i) the "adjusted issue price" and (ii) the "comparable yield" (adjusted for the length of the accrual period). This amount is ratably allocated to each day in the accrual period and is includable as ordinary interest income by a U.S. Holder for each day in the accrual period on which the U.S. Holder holds the Covered Bond. The **adjusted issue price** for this purpose is equal to the Covered Bond's Issue Price, increased by the interest previously made on the Covered Bond. The **comparable yield** is the annual yield that the issuer would pay, as of the issue date, on a fixed rate debt instrument (non credit linked) with terms equal to that of the Covered Bond. Amounts treated as interest under the foregoing rules are treated as OID for all U.S. federal income tax purposes.

Also under the noncontingent bond method of the CPDI Regulations, the Issuer would be required to determine a schedule (the **Schedule**) of the projected amounts of payments (the **Projected Payments**) on the Covered Bond. The Schedule must produce the comparable yield. If during any taxable year the sum of any actual payments (including the fair market value of any property received in that year) with respect to the Covered Bond for that taxable year (including, in the case of the taxable year which includes the maturity date of the Covered Bond, the amount of cash received at maturity) exceeds the total amount of the Projected Payments for that taxable year, the difference will produce a "net positive adjustment", which will be treated as additional interest for the taxable year. If the actual amount received in a taxable year is less than the amount of the Projected Payments for that taxable year, the difference will produce a "net negative adjustment", which will (i) reduce the U.S. Holder's interest income for that taxable year and (ii) to the extent of any excess after application of (i), give rise to an ordinary loss to the extent of the U.S. Holder's interest income on the Covered Bond during the prior taxable years (reduced to the extent such interest was offset by

prior net negative adjustments). As a result of the classification of a Covered Bond as a contingent debt instrument subject to the noncontingent bond method, any gain or loss realised on the sale or exchange of the Covered Bond may be treated as ordinary income or loss, in whole or in part.

**Prospective purchasers should consult their own tax advisors regarding the applicability and consequences of the CPDI rules to any of the Covered Bonds issued under the Programme.**

### **Taxation of Non-U.S. Holders**

Subject to the discussion below regarding FATCA withholding 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 U.S.; (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 U.S. 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.

### **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 Issuer, 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 advisors as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.**

Recently enacted legislation may require individual U.S. Holders to report to the IRS certain information with respect to their beneficial ownership of the Covered Bonds. Investors who fail to report required information could be subject to substantial penalties.

### **IRS Disclosure Reporting Requirements**

Certain U.S. Treasury Regulations relating to Section 6011 of the Internal Revenue 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 advisors 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 Statement).

## **U.S. Foreign Account Tax Compliance Withholding**

The Issuer or Guarantor may be required pursuant to the U.S. Foreign Account Tax Compliance Act (**FATCA**) to withhold U.S. tax on all or a portion of payments, including payments of principal, made after 31 December 2014 on Covered Bonds issued after 18 March 2012. Such withholding may be required with respect to payments to an investor that fails to provide certain information to the Issuer (or the Guarantor, if payment is required under the Guarantee), or to any investor (or other financial institution through which payment on such Covered Bonds is made) that is a non-U.S. financial institution not in compliance with FATCA. The application of the FATCA rules to interest, principal or other amounts paid on or with respect to the Covered Bonds is not clear. If an amount of, or in respect of, U.S. withholding tax were to be deducted or withheld from interest, principal or other payments on the Covered Bonds as a result of the holder's failure to comply with these rules, neither the Issuer nor the Guarantor nor the Agent nor any other person would be required to pay additional amounts as a result of the deduction or withholding of such tax.

**Holders of Covered Bonds should consult their own tax advisors on how the FATCA rules may apply to payments they receive under the Covered Bonds.**

**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 advisors.**

## **ERISA Considerations**

Except as otherwise set forth in the Final Terms Documents, the Covered Bonds are eligible for purchase by employee benefit plans and other plans subject to the US Employee Retirement Income Security Act of 1974, as amended (**ERISA**), and/or the provisions of section 4975 of the Internal Revenue Code of 1986, as amended (the **Code**) and by governmental plans (as defined in section 3(32) of ERISA), church plans (as defined in section 3(33) of ERISA), or non-US plans that are subject to state, local, other federal or non-US laws that are substantially similar to 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 Title I of ERISA, including entities such as collective investment funds and separate accounts whose underlying assets are deemed to 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 such 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 and the fact that in the future there may be no market in which such fiduciary will be able to sell or otherwise dispose of the Covered Bonds.

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 are deemed to 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 Seller, the Issuer, the Trust, the Servicer, the Security Trustee or any other party to the transactions contemplated by the Transaction Documents 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 are acquired or held by a Plan with respect to which Seller, the Issuer, the Trust, the Servicer, the Security Trustee, any other party to the transactions contemplated by the Transaction Documents or any of their respective affiliates 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 such Covered Bonds and the circumstances under which such decision is made. Included among these exemptions are section 408(b)(17) of ERISA (relating to certain transactions between a Plan and a non-fiduciary service provider), 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). 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.

Each purchaser and subsequent transferee of any Covered Bonds will be deemed by such purchase or acquisition of any such Covered Bond to have represented and warranted, on each day from the date on which the purchaser or transferee acquires such Covered Bonds (or any interests therein) through and including the date on which the purchaser or transferee disposes of such Covered Bonds (or any interests therein), either that (A) it is not a Plan (including an entity whose underlying assets are deemed to include the assets of any Plan) or a governmental, church, or non-US plan which is subject to any Similar Law or (B) its acquisition and holding of such Covered Bonds (or any interests therein) will not result in a prohibited transaction under section 406 of ERISA or section 4975 of the Code (or, in the case of a governmental, church, or non-US plan, a violation of any Similar Law) for which an exemption is not available.

Each Plan fiduciary who is responsible for making the investment decisions whether 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 proposing to invest in Covered Bonds (including any governmental plan) should consult with its counsel to confirm that such investment will not result in a non-exempt prohibited transaction and will satisfy the other requirements of ERISA and the Code (or, in the case of a governmental plan, any Similar Law).

The sale of any Covered Bonds to a Plan is in no respect a representation by the Seller, the Issuer, the Trust, the Servicer, the Security Trustee or any other party to the transactions contemplated by the Transaction Documents that such an investment meets all relevant legal requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

## SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

The Dealers have pursuant to a programme agreement dated 20 December 2007 as amended and restated on 19 December 2008, 18 December 2009 and as further amended and restated on or about the date of this Prospectus (as the same may be amended and/or supplemented and/or restated from time to time, the **Programme Agreement**), agreed with the Issuer and the Trust a basis upon which such Dealers or any of them may from time to time agree to purchase Covered Bonds. As at the date of this Prospectus, the Dealers in respect of the Programme are Bank of Montreal, London Branch, BMO Capital Markets Corp., Barclays Bank PLC, Barclays Capital Inc., UniCredit Bank AG, Société Générale, and HSBC Bank plc, but the Issuer may appoint other dealers from time to time in accordance with the Programme Agreement, which appointment may be for a specific issue or on an ongoing basis.

The Issuer may pay the Dealers commissions from time to time in connection with the sale of any Covered Bonds. In the Programme Agreement, the Issuer has agreed to reimburse and indemnify the Dealers for certain of their expenses and liabilities in connection with the establishment and any future updates of the Programme and the issue of Covered Bonds under the Programme. The Dealers are entitled to be released and discharged from their obligations in relation to any agreement to purchase Covered Bonds under the Programme Agreement in certain circumstances prior to payment to the Issuer.

In order to facilitate the offering of any Tranche of the Covered Bonds, certain persons participating in the offering of the Tranche may engage in transactions that stabilise, maintain or otherwise affect the market price of the relevant Covered Bonds during and after the offering of the Tranche. Specifically, such persons may over-allot or create a short position in the Covered Bonds for their own account by selling more Covered Bonds than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Covered Bonds in the open market. In addition, such persons may stabilise or maintain the price of the Covered Bonds by bidding for or purchasing Covered Bonds in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker dealers participating in the offering of the Covered Bonds are reclaimed if Covered Bonds previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of the Covered Bonds at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Covered Bonds to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilising or other transactions. Such transactions, if commenced, may be discontinued at any time. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Covered Bonds is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Covered Bonds and 60 days after the date of the allotment of the relevant Covered Bonds.

### **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 (other than a person purchasing an interest in a Registered Global Covered Bond with a view to holding it in the form of an interest in the same Registered Global Covered Bond) or person wishing to transfer an interest from one Registered Global Covered Bond to another 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 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;



- (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 any applicable U.S. State securities laws 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) it agrees that neither the Issuer nor the Trust 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 and either is a person located outside the United States or is not a U.S. person, 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 Issuer or an affiliate of the Issuer was the owner of such Covered Bonds, only (i) to the Issuer 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, (iv) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (v) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. State securities laws;
- (e) that either (A) it is not and for so long as it holds a Covered Bond (or any interest therein) will not be (i) an "employee benefit plan" as defined in Section 3(3) of ERISA that is subject to Title I of ERISA, (ii) a "plan" as defined in and subject to Section 4975 of 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 the Code, or (iv) a governmental, church or other non-US plan which is subject to any U.S. federal, state, local or non-US law, that is substantially similar to ERISA or Section 4975 of the Code, or (B) its acquisition and holding of the Covered Bonds will not result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of such a governmental, church or non-US plan, a violation of any such substantially similar U.S. federal, state, local or non-US law) for which an exemption is not available.
- (f) 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 Issuer:

"THIS SECURITY AND ANY GUARANTEE IN RESPECT THEREOF HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS 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) IT 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 REALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO REALES 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 COVERED BOND (OR ANY INTEREST THEREIN), THE PURCHASER OR HOLDER WILL BE DEEMED TO HAVE REPRESENTED AND AGREED THAT EITHER (A) IT IS NOT AND FOR SO LONG AS IT HOLDS THIS COVERED BOND (OR ANY INTEREST HEREIN) WILL NOT BE (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 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 ARE DEEMED TO 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-US PLAN WHICH IS SUBJECT TO ANY U.S. FEDERAL, STATE, LOCAL OR NON-US LAW, THAT IS SUBSTANTIALLY SIMILAR TO ERISA OR SECTION 4975 OF THE CODE, OR (B) ITS ACQUISITION AND HOLDING OF THE COVERED BONDS WILL NOT RESULT IN A PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF SUCH A GOVERNMENTAL, CHURCH OR NON-US PLAN, A VIOLATION OF ANY SUCH SUBSTANTIALLY SIMILAR U.S. FEDERAL, STATE, LOCAL OR NON-US LAW) FOR WHICH AN EXEMPTION IS NOT AVAILABLE.

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 later of the commencement of the offering and the Issue Date), it will do so only (a)(i) outside the United States in compliance with Rule 903 or 904 under the Securities Act or (ii) to a QIB in compliance with Rule 144A and (b) 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 Issuer:

"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 ANY APPLICABLE U.S. STATE SECURITIES LAWS 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 LATER OF THE COMMENCEMENT OF THE OFFERING AND THE ISSUE DATE, 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 COVERED BOND (OR ANY INTEREST THEREIN), THE PURCHASER OR HOLDER WILL BE DEEMED TO HAVE REPRESENTED AND AGREED THAT EITHER (A) IT IS NOT AND FOR SO LONG AS IT HOLDS THIS COVERED BOND (OR ANY INTEREST HEREIN) WILL NOT BE (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 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 ARE DEEMED TO 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-US PLAN WHICH IS SUBJECT TO ANY U.S. FEDERAL, STATE, LOCAL OR NON-US LAW, THAT IS SUBSTANTIALLY SIMILAR TO ERISA OR SECTION 4975 OF THE CODE, OR (B) ITS ACQUISITION AND HOLDING OF THE COVERED BONDS WILL NOT RESULT IN A PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF SUCH A GOVERNMENTAL, CHURCH OR NON-US PLAN, A VIOLATION OF ANY SUCH SUBSTANTIALLY SIMILAR U.S. FEDERAL, STATE, LOCAL OR NON-US LAW) FOR WHICH AN EXEMPTION IS NOT AVAILABLE; and

- (j) that the Issuer 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 Issuer; 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.\$100,000 (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.\$100,000 (or the approximate equivalent in another Specified Currency) principal amount of Registered Covered Bonds.

Dealers 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 Dealers 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.\$100,000 (or the approximate equivalent in another Specified Currency). To the extent that the Issuer is not subject to or does 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 Issuer has 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***

The Covered Bonds will not be qualified for sale under the securities laws of any province or territory of Canada. Each Dealer will be required to represent and agree 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 except in certain transactions exempt from, or in transactions not subject to, the prospectus registration requirement of the applicable Securities Laws thereof. Each Dealer will also be required to agree that it will not distribute or deliver this Prospectus, or any other offering material in connection with any offering of Covered Bonds, in Canada, other than in compliance with applicable securities laws thereof.

### ***United States***

Each Dealer will acknowledge, and each further Dealer appointed under the Programme Agreement will be required to acknowledge, 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. tax 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 Programme Agreement. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and regulations 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, and each further Dealer appointed under the Programme will be required to represent and agree, 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 later of the commencement of the offering and the Issue Date (**Distribution Compliance Period**), 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 Programme 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 commencement 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 (who is 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.

With respect to the issuance of Rule 144A Covered Bonds, the Programme Agreement provides that selected Dealers, 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 under the Securities Act.

Each Dealer appointed under the Programme 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.

Each issuance of Variable Interest Covered Bonds shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer(s) may agree as a term of the issuance and purchase of such Covered Bonds, which additional selling restrictions shall be set out in the applicable Final Terms Document.

#### ***Public Offer Selling Restriction under the Prospectus Directive***

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Covered Bonds which are the subject of an offering contemplated by this Prospectus as completed by the Final Terms Document in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Covered Bonds to the public in that Relevant Member State:

- (a) if the Final Terms Document in relation to the Covered Bonds specifies that an offer of those Covered Bonds may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a **Non-exempt Offer**), following the date of publication of a prospectus in relation to such Covered Bonds which has been approved by the competent authority in that Relevant Member State in accordance with the Prospectus Directive or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the Final Terms Document contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or Final Terms Document, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;
- (b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (c) at any time to fewer than 100 or, if the relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified

investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

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

provided that no such offer of Covered Bonds referred to in (a) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

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

### ***United Kingdom***

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) 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 Trust or, in the case of the Issuer, would not, if the Issuer was not an authorised person, apply to the Issuer; and
- (b) 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.

### ***Japan***

The Covered Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Law No. 25 of 1948, as amended, the **FIEA**) and each Dealer has represented and agreed and each further Dealer appointed under the Programme 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 Control Law (Law 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.

### ***The Netherlands***

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that it will not offer, sell, transfer or deliver the Covered Bonds in The Netherlands other than to "professional market parties" (*professionele marktpartijen*, **PMPs**) within the meaning of the Dutch Financial Markets Supervision Act (*Wet op het financieel toezicht*, the **FMSA**) and, with effect from and including 1 January 2012, it 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 in relation thereto to the public in The Netherlands in reliance on Article 3(2) of the Prospectus Directive unless:

- (i) such offer is made exclusively to legal entities which are qualified investors (as defined in the Prospectus Directive and which includes authorised discretionary asset managers acting for the account of retail investors under a discretionary investment management contract) in The Netherlands; or
- (ii) such offer is made to PMPs which are not qualified investors and the standard exemption logo and wording are disclosed as required by article 5:20(5) of the FMSA (unless such offer is made in circumstances in which article 5:20(5) is not applicable);

provided that no such offer of Covered Bonds shall require the Issuer or any Dealer or Purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expressions (i) an "**offer of Covered Bonds to the public**" in relation to any Covered Bonds in The Netherlands; and (ii) "**Prospectus Directive**", have the meaning given to them above in the section headed "Public Offer Selling Restriction Under the Prospectus Directive".

Zero Coupon Covered Bonds (as defined below) in definitive form of the Issuer may only be transferred and accepted, directly or indirectly, within, from or into The Netherlands through the mediation of either the Issuer or a member firm of Euronext Amsterdam N.V. in full compliance with the Dutch Savings Certificates Act (*Wet inzake spaarbewijzen*) of 21 May 1985 (as amended) and its implementing regulations. No such mediation is required: (a) in respect of the transfer and acceptance of rights representing an interest in a Zero Coupon Covered Bond in global form, or (b) in respect of the initial issue of Zero Coupon Covered Bonds in definitive form to the first holders thereof, or (c) in respect of the transfer and acceptance of Zero Coupon Covered Bonds in definitive form between individuals not acting in the conduct of a business or profession, or (d) in respect of the transfer and acceptance of such Zero Coupon Covered Bonds within, from or into The Netherlands if all Zero Coupon Covered Bonds (either in definitive form or as rights representing an interest in a Zero Coupon Covered Bond in global form) of any particular Series are issued outside The Netherlands and are not distributed into The Netherlands in the course of initial distribution or immediately thereafter. As used herein "**Zero Coupon Covered Bonds**" are Covered Bonds that are in bearer form and that constitute a claim for a fixed sum against the Issuer and on which interest does not become due during their tenor or on which no interest is due whatsoever.

### ***Republic of Italy***

The offering of the Covered Bonds has not been registered pursuant to Italian securities legislation and, accordingly, no Covered Bonds may 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:

- (i) 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
- (ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Regulation No. 11971.

Any offer, sale or delivery of the Covered Bonds or distribution of copies of the Prospectus or any other document relating to the Covered Bonds in the Republic of Italy under (i) or (ii) above must be:

- (a) 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

- (b) in compliance with Article 129 of the Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and
- (c) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or other Italian authority.

*Please note that in accordance with Article 100-bis of the Financial Services Act, where no exemption from the rules on public offerings applies under (i) and (ii) above, the subsequent distribution of the Covered Bonds on the secondary market in Italy must be made in compliance with the public offer and the prospectus requirement rules provided under the Financial Services Act and Regulation No. 11971. Failure to comply with such rules may result in the sale of such Covered Bonds being declared null and void and in the liability of the intermediary transferring the financial instruments for any damages suffered by the investors.*

### **France**

Each of the Dealers and the Issuer has represented and agreed, and each further Dealer appointed under the Programme 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 it has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, the Prospectus, the relevant Final Terms Document or any other offering material relating to the Covered Bonds, and such offers, sales and distributions have been and shall only be made in France 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 and D.411-1 to D.411 3 of the French Code *monétaire et financier*.

### **Spain**

Each Dealer has represented and agreed that the Covered Bonds may not be offered or sold in Spain by means of a public offer as defined and construed in Chapter I of Title III of Law 24/1998, of 28 July, on the Spanish Securities Act (as amended by Royal Decree Law 5/2005, of 11 March) and related legislation.

### **General**

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will 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 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 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 Issuer, the Trust, the Bond Trustee, the Security Trustee nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer, the Trust, the Bond Trustee, the Security Trustee or any of the Dealers 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 Issuer and the relevant Dealer(s) shall agree as a term of issue and purchase as indicated in the applicable Final Terms Document.



## GENERAL INFORMATION

### Authorisation

The establishment of the Programme and the issue of Covered Bonds have been duly authorised by a resolution of the board of directors of the Issuer dated 24 September 2007. The giving of the Covered Bond Guarantee by the Trust is authorised pursuant to the terms of the Declaration of Trust.

### Listing of Covered Bonds

The admission of Covered Bonds to the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that each Tranche of Covered Bonds which is to be admitted to the Official List and to trading on the London Stock Exchange's Regulated Market will be admitted separately as and when issued, subject only to the issue of a Temporary Global Covered Bond, a Permanent Global Covered Bond, a Regulation S Global Covered Bond or a Rule 144A Global Covered Bond, as the case may be, initially representing the Covered Bonds of such Tranche.

### Documents Available

So long as Covered Bonds are capable of being issued under the Programme, copies of the following documents will, when published, be available to Covered Bondholders during usual business hours upon reasonable notice on any weekday (Saturdays, Sundays and public holidays excepted) from the executive office of the Issuer and, other than in relation to (g) below, from the specified office of the Principal Paying Agent for the time being in London:

- (a) the by-laws of the Issuer and the constitutive documents of the Trust;
- (b) the Issuer's Annual Report for the two most recently completed fiscal years, which includes audited annual comparative consolidated financial statements of the Issuer and the auditor's report thereon;
- (c) the Issuer's First Quarter 2011 Report for the three-month period ended 31 January 2011, which includes comparative unaudited interim consolidated financial statements of the Issuer;
- (d) the Issuer's Second Quarter 2011 Report for the three-month period ended 30 April 2011, which includes comparative unaudited interim consolidated financial statements of the Issuer;
- (e) the Issuer's Third Quarter 2011 Report for the three-month period ended 31 July 2011, which includes comparative unaudited interim consolidated financial statements of the Issuer;
- (f) the forms of the Global Covered Bonds, the Definitive Covered Bonds, the Receipts, the Coupons and the Talons;
- (g) a copy of this Prospectus;
- (h) any future prospectus, prospectuses, information memoranda and supplements including each of the Final Terms Documents and any other documents incorporated herein or therein by reference;
- (i) each Transaction Document; and
- (j) The CMHC Mortgage Insurance in respect of each Loan in the Portfolio (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).

In addition, copies of this Prospectus, any supplementary prospectus, any documents incorporated by reference and each Final Terms Document relating to Covered Bonds which are admitted to trading on the London Stock Exchange's Regulated 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](http://www.londonstockexchange.com).

### **Clearing Systems**

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. In addition, the Issuer 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. 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.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium, the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg, Luxembourg and the address of DTC is 55 Water Street, New York, New York 10041-0099.

### **Significant or Material Change**

There has been no significant change in the financial or trading position of the Issuer or any of its subsidiaries taken as a whole since 31 July 2011, being the last day of the financial period in respect of which unaudited interim consolidated financial statements of the Issuer and its subsidiaries have been prepared. There has been no material adverse change in the prospects of the Issuer or any of its subsidiaries taken as a whole since 31 October 2010, being the last day of the financial period in respect of which the most recent audited published consolidated financial statements of the Issuer and its subsidiaries have been prepared.

There has been no significant change in the financial or trading position of the Trust since it was established on 20 December 2007 and there has been no material adverse change in the prospects of the Trust since 20 December 2007.

### **Litigation**

In the bankruptcy of Adelpia Communications Corporation (**Adelpia**), the Official Committees of Unsecured Creditors and Equity Security Holders or their successor, the Adelpia Recovery Trust (**ART**), filed complaints against the Issuer, its indirect subsidiaries BMO Capital Markets Corp. (previously Harris Nesbitt Corp.) and BMO Capital Markets Financing, Inc. (the **BMO Defendants**) and approximately 380 other financial institutions. The complaint alleged various federal statutory and common law claims and sought damages of approximately \$5 billion. The action brought by ART was settled during the year ended 31 October 2010 against many financial institutions, including the BMO Defendants. A separate action brought by a group of plaintiffs that opted out of the settlement of a class action brought by investors in Adelpia securities remains pending against BMO Capital Markets Corp. and Bank of Montreal.

BMO Nesbitt Burns Inc., an indirect subsidiary of the Issuer has been named as a defendant in several individual actions and proposed class actions in Canada brought on behalf of shareholders of Bre-X Minerals Ltd. (**Bre-X**). Three of the actions in Canada and a proposed class action in the United States have been dismissed as to BMO Nesbitt Burns Inc. BMO Nesbitt Burns Inc., the Issuer and BMO Capital Markets Corp. are also defendants in an individual action in the United States.

These actions are largely based on allegations of negligence and negligent and/or fraudulent misrepresentation in connection with the sale of Bre-X securities. As these matters are all in the early stages, the Issuer is unable to determine the eventual outcome of these matters, but management believes that BMO Nesbitt Burns Inc., the Issuer and BMO Capital Markets Corp. have strong defences to these claims and will vigorously defend against all such actions.

Following the Issuer's disclosures of mark-to-market losses in its commodities trading businesses on 27 April 2007 and 17 May 2007 aggregating Cdn\$680 millions (pre-tax) as of 30 April 2007, the Issuer has received inquiries, requests for documents or subpoenas pertaining to those trading losses from securities, commodities, banking and law enforcement authorities. On 18 November 2008, a number of proceedings were commenced by these authorities against certain parties that were involved in the commodities trading losses. The Issuer is not a party to these proceedings. The Issuer is co-operating with all of these authorities.

Save as disclosed in the preceding paragraphs under this section headed "Litigation", there are no, nor have there been any governmental, legal or arbitration proceedings involving the Issuer or any of its subsidiaries (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have, or have had during the 12 months prior to the date of this Prospectus, individually or in the aggregate, a significant effect on the financial position or profitability of the Issuer or the Issuer and its subsidiaries taken as a whole. The Issuer and its subsidiaries are party to other legal proceedings, including regulatory investigations, in the ordinary course of their businesses. 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 Issuer.

The Trust is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Trust is aware) which may have, or have had, during the 12 months preceding this Prospectus, a significant effect on the Trust's consolidated financial position or profitability.

### **Auditors**

The consolidated financial statements of the Issuer for the year ended 31 October 2010, prepared in accordance with accounting principles generally accepted in Canada, were audited in accordance with Canadian generally accepted auditing standards by KPMG LLP, independent chartered accountants, who expressed an unqualified opinion thereon in their report dated 7 December 2010. The address of KPMG LLP is set out on the last page hereof. KPMG LLP has no material interest in the Issuer.

### **Reports**

The Trust Deed provides that the Bond Trustee may rely on reports or other information from professional advisers or other experts in accordance with the provisions of the Trust Deed, whether or not any such report or other information, or engagement letter or other document entered into by the Bond Trustee and the relevant person in connection therewith, contains any monetary or other limit on the liability of the relevant person.

### **Post-issuance information**

The Issuer provides monthly Investor Reports detailing, among other things, compliance with the Asset Coverage Test.

*The following is a consent statement from KPMG LLP. In relation to this consent statement and the incorporation by reference of the auditors' report dated 7 December 2010, KPMG LLP has given and not withdrawn its consent to their inclusion within this Prospectus in the form and context in which they are included, and have authorised their contents for the purposes of Prospectus Rule 5.5.4R(2)(f) of the Prospectus Rules of the Financial Services Authority.*

#### **CONSENT OF KPMG LLP TO THE ISSUER**

We have read the Prospectus dated 24 October 2011 of Bank of Montreal (the **Issuer**) relating to the offering on a continuous basis of Covered Bonds by of the Issuer. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use by incorporation by reference in the above mentioned Prospectus of (i) our auditor's reports to the shareholders of the Issuer on the consolidated balance sheets of the Issuer as at 31 October 2010 and 31 October 2009 and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the years then ended and (ii) our report on the effectiveness of internal control over financial reporting of the Issuer as of 31 October 2010.

Our reports are dated 7 December 2010.

For the purposes of Prospectus Rule 5.5.4R(2)(f), we are responsible for this statement "Consent of KPMG LLP to the Issuer" and for our reports to the shareholders on the consolidated balance sheets of the issuer as at 31 October 2010 and 31 October 2009 and the consolidated statements of income, comprehensive income, changes in shareholder's equity and cash flows for the years then ended and on internal control over financial reporting under Standards of the Public Company Accounting Oversight Board (United States) (the **Reports**) as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this statement and the Reports is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex XI of the Prospectus Rules of the Financial Services Authority.

Toronto, Canada  
24 October 2011

KPMG LLP  
Chartered Accountants, Licensed Public Accountants

## GLOSSARY

<b>30/360, 360/360 or Bond Basis</b>	The meaning given in Condition 4.7(c)(vi) on page 103
<b>30E/360 or Eurobond Basis</b>	The meaning given in Condition 4.7(c)(vii) on page 103
<b>€, Euro or euro</b>	The lawful currency for the time being of the Member States of the European Union that have adopted or may adopt the single currency introduced at the start of the third stage of European Economic Monetary Union pursuant to the Treaty of Rome of 25 March 1957, as amended by, <i>inter alia</i> , the Single European Act of 1986 and the Treaty of European Union of 7 February 1992 and the Treaty of Amsterdam of 2 October 1997 establishing the European Community
<b>£ or Sterling</b>	The lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland
<b>U.S.\$ or U.S. Dollars or US Dollars</b>	The lawful currency for the time being of the United States of America
<b>Cdn \$ or Canadian Dollars or Canadian \$, or CND</b>	The lawful currency for the time being of Canada
<b>¥, Yen or JPY</b>	The lawful currency for the time being of Japan
<b>Account Bank</b>	BMO and any other financial institution which accedes to the Bank Account Agreement as an Account Bank
<b>Accrual Period</b>	In accordance with Condition 4.7(c)(i)(A), the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date
<b>Accrual Yield</b>	In relation to a Zero Coupon Covered Bond, the meaning given in the applicable Final Terms Document
<b>Accrued Interest</b>	In relation to a 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
<b>AcSB</b>	The meaning given on page 66
<b>Actual/360</b>	The meaning given in Condition 4.7(c)(v) on page 103
<b>Actual/Actual or Actual/Actual (ISDA)</b>	The meaning given in Condition 4.7(c)(ii) on page 103
<b>Actual/365 (Fixed)</b>	The meaning given in Condition 4.7(c)(iii) on page 103
<b>Actual/365 (Sterling)</b>	The meaning given in Condition 4.7(c)(iv) on page 103
<b>Actual/Actual (ICMA)</b>	The meaning given in Condition 4.7(c)(i) on page 102
<b>Additional Business Centre</b>	The meaning (if any) given in the applicable Final Terms Document

<b>Adjusted Aggregate Loan Amount</b>	The meaning given on page 164
<b>Adjusted Outstanding Principal Balance</b>	The meaning given on page 164
<b>Adjusted Required Redemption Amount</b>	<p>The Canadian Dollar Equivalent of:</p> <p>(a) the Required Redemption Amount; plus or minus</p> <p>(b) any swap termination amounts payable to or by the Trust under the Covered Bond Swap Agreement in respect of the relevant Series (or Tranche within such Series) of Covered Bonds less (i) in respect of a sale following service of a Notice to Pay, amounts standing to the credit of the GIC Account and the principal balance of any Substitution Assets and Authorised Investments (excluding all amounts to be applied on the next following Trust Payment Date to pay or 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), or (ii) in respect of a sale in connection with the Pre-Maturity Test, amounts standing to the credit of the GIC Account and recorded on 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 the previous Calculation Date; plus or minus</p> <p>(c) any swap termination amounts payable to or by the Trust under the Interest Rate Swap Agreement in respect of the relevant Series of Covered Bonds</p>
<b>Administrative Agent</b>	BMO pursuant to the Administration Agreement
<b>Administration Agreement</b>	The administration agreement dated 20 December 2007 and made between the Trust, the Trustee, the Security Trustee, the Administrative Agent and BMO (as amended and/or supplemented and/or restated from time to time)
<b>Advance</b>	A Term Advance or an advance under the Demand Loan, each made pursuant to the Intercompany Loan Agreement and in accordance with its terms
<b>Adverse Claim</b>	A lien, security interest or other charge, encumbrance or claim, or any other type of preferential arrangement, it being understood that a lien, security interest or other charge, encumbrance or claim on any mortgaged property subject to any Loan, which, in the reasonable opinion of the Seller does not impair the marketability of such mortgaged property shall not constitute an Adverse Claim
<b>Agency Agreement</b>	The agency agreement dated the Programme Date and made between the Issuer, the Trust, the Bond Trustee, the Security Trustee, the Principal Paying Agent and the other Paying Agents, the Exchange Agent, the

	Registrar and the Transfer Agent (as amended and/or supplemented and/or restated from time to time)
<b>Agents</b>	The Paying Agents, the Registrar, the Exchange Agent, the Transfer Agents and any Calculation Agent
<b>Amortisation Test</b>	The test as to whether the Amortisation Test Aggregate Loan Amount is at least equal to the aggregate Canadian Dollar Equivalent of the Principal Amount Outstanding of the Covered Bonds as calculated as of the relevant Calculation Date after a Notice to Pay has been served on the Trust
<b>Amortisation Test Aggregate Loan Amount</b>	The meaning given on page 168
<b>Amortisation Test Outstanding Principal Balance</b>	The meaning given on page 168
<b>Amortised Face Amount</b>	The meaning given on page 115
<b>Arrears of Interest</b>	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
<b>Asset Coverage Test</b>	The test as to whether the Adjusted Aggregate Loan Amount is at least equal to the aggregate Canadian Dollar Equivalent of the Principal Amount Outstanding of the Covered Bonds as calculated with respect to the relevant Calculation Date
<b>Asset Coverage Test Breach Notice</b>	The notice required to be served by the Bond Trustee if the Adjusted Aggregate Loan Amount is less than the aggregate Canadian Dollar Equivalent of the Principal Amount Outstanding of the Covered Bonds on two consecutive Calculation Dates
<b>Asset Monitor</b>	A reputable institution acceptable to the Rating Agencies appointed pursuant to the Asset Monitor Agreement
<b>Asset Monitor Agreement</b>	The asset monitor agreement entered into on the Programme Date between the Asset Monitor, the Trust, the Cash Manager, the Issuer, the Bond Trustee and the Security Trustee (as amended and/or supplemented and/or restated from time to time)
<b>Asset Monitor Report</b>	The results of the tests conducted by the Asset Monitor in accordance with the Asset Monitor Agreement to be delivered to the Cash Manager, the Trust, the Issuer, the Bond Trustee and the Security Trustee
<b>Asset Percentage</b>	The meaning given on page 167
<b>Asset Percentage Adjusted Outstanding Principal Balance</b>	The meaning given on page 165
<b>Authorised Investments</b>	Investments of a type or class for which Rating Agency Confirmation has been received, including for example, short-term provincial and federal government bonds and money market securities

**Available Principal Receipts**

As of a relevant Calculation Date, an amount equal to the aggregate of (without double counting):

- (a) the amount of Principal Receipts received during the Calculation Period and credited to the GIC Account (and recorded on the Principal Ledger);
- (b) any other amount standing to the credit of the Principal Ledger including (i) the proceeds of any Advance under the Intercompany Loan (where such proceeds have not been applied to acquire New Portfolios, refinance an existing Term Advance or invest in Substitution Assets), (ii) the proceeds from any sale of Loans (including, but not limited to, Selected Loans) pursuant to the terms of the Declaration of Trust or the Mortgage Sale Agreement to the extent that such proceeds represent principal, but excluding any amount of principal received under the Covered Bond Swap Agreements and (iii) any Excess Proceeds;
- (c) the proceeds of any Subordinated Advance which the Cash Manager has determined shall be treated as Available Principal Receipts;
- (d) the amount of any termination payment received from a Swap Provider which is not applied to acquire a replacement for the relevant terminated Swap; and
- (e) following repayment of any Hard Bullet Covered Bonds by the Issuer and/or the Trust on the Final Maturity Date thereof, any amounts standing to the credit of the GIC Account and recorded on the Pre-Maturity Liquidity Ledger in respect of such Series of Hard Bullet Covered Bonds (except where the Trust has elected to or is required to retain such amounts on the Pre-Maturity Liquidity Ledger),

*Less*

- (a) any Swap Collateral Excluded Amounts

**Available Revenue Receipts**

As of a relevant Calculation Date, an amount equal to the aggregate of (without double counting):

- (a) the amount of Revenue Receipts received during the Calculation Period and credited to the GIC Account (and recorded on the Revenue Ledger);
- (b) other receipts forming part of net income of the Trust including all amounts of interest received on the Trust Accounts, the Substitution Assets and any Authorised Investments in the Calculation Period and the proceeds from any sale of Loans (including, but not limited to, Selected Loans) pursuant to the terms of the Declaration of Trust or the Mortgage Sale Agreement to the extent that such proceeds comprise Accrued Interest and Arrears of Interest or other interest amounts, but



excluding amounts received by the Trust under the Interest Rate Swap Agreement and in respect of interest received by the Trust under each Covered Bond Swap Agreement;

- (c) prior to the Service of a Notice to Pay or an Asset Coverage Test Breach Notice (if not revolved), amounts standing to the credit of the Reserve Fund in excess of the Reserve Fund Required Amount
- (d) following service of a Notice to Pay or an Asset Coverage Test Breach Notice, amounts standing to the credit of the Reserve Fund;
- (e) any other revenue receipts not referred to in paragraphs (a) to (d) (inclusive) above received during the previous Calculation Period and standing to the credit of the Revenue Ledger on the GIC Account; and
- (f) the amount of any premium received by the Trust from a new Swap Provider as consideration for the entry by the Trust into a new Swap, except to the extent applied to pay any termination payment under the relevant Swap being replaced,

*Less*

- (a) Third Party Amounts, which shall be paid on receipt in cleared funds to the Seller; and
- (b) Swap Collateral Excluded Amounts

**Bank Account Agreement**

The bank account agreement entered into on the Programme Date between the Trust, the Account Bank, the GIC Provider, the Cash Manager and the Security Trustee (as amended and/or supplemented and/or restated from time to time)

**Bank Act**

Bank Act (Canada)

**Banking Act**

Financial Services Act and Legislative Decree No. 385 of 1 September 1993 of the Republic of Italy, as amended

**Bearer Covered Bonds**

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 Programme 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 in the form or substantially in the form set out in the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Principal 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 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

<b>Bearer Global Covered Bonds</b>	Global Covered Bonds in bearer form, comprising Temporary Global Covered Bonds and Permanent Global Covered Bonds
<b>Beneficial Owner</b>	Each actual purchaser of each DTC Covered Bond
<b>Beneficiary</b>	Each beneficiary of the Trust
<b>BMO</b>	Bank of Montreal
<b>BMO Group</b>	BMO and its Subsidiaries collectively
<b>BMO Prime Rate</b>	The rate announced from time to time by BMO as its reference rate for the purpose of determining interest rates on Canadian dollar denominated loans made by it in Canada and commonly referred to as its "prime" rate
<b>BMO Trustee</b>	CIBC Mellon Trust Company
<b>BMO Trust Security Agreement</b>	The trust security agreement entered into on the Programme Date between the Trust, the Bond Trustee, the Security Trustee and the other Secured Creditors (as amended and/or supplemented and/or restated from time to time)
<b>Bond Trustee</b>	Computershare Trust Company of Canada, in its capacity as bond trustee under the Trust Deed together with any successor or additional bond trustee appointed from time to time thereunder
<b>Borrower</b>	In relation to a Loan, each individual specified as such in the relevant Mortgage Terms together with each individual (if any) who assumes from time to time an obligation to repay such Loan or any part of it
<b>Broken Amount</b>	The meaning (if any) given in the applicable Final Terms Document
<b>Business Day</b>	The meaning given in Condition 4.7(a) on page 102
<b>Business Day Convention</b>	In respect of a Tranche of Covered Bonds and either the Specified Periods or the Interest Payment Dates, the business day convention specified in the applicable Final Terms Document and determined in accordance with Condition 4.7(b)
<b>Calculation Agent</b>	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 Trust pursuant to the Agency Agreement or, if applicable, any successor calculation agent in relation to such Covered Bonds
<b>Calculation Amount</b>	The meaning given in the applicable Final Terms Document

<b>Calculation Date</b>	The last day of each calendar month
<b>Calculation Period</b>	The period from (and including) the first day of a calendar month to (and including) the last day of that calendar month, except that the first Calculation Period shall commence on (and include) the first Issue Date under the Programme and end on (and include) the last day of the next following calendar month
<b>Canadian Business Day</b>	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
<b>Canadian Dollar Equivalent</b>	In relation to a Term Advance or a Series of Covered Bonds (including any calculations of the Required Redemption Amount of such Series of Covered Bonds) which is denominated in (a) a currency other than Canadian Dollars, the Canadian Dollar equivalent of such amount ascertained using the relevant Covered Bond Swap Rate relating to such Term Advance or to such Series of Covered Bonds and (b) Canadian Dollars, the applicable amount in Canadian Dollars
<b>Capitalised Arrears</b>	<p>In relation to a Loan on any date (the <b>determination date</b>), 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:</p> <ul style="list-style-type: none"> <li>(a) the Seller acting as a Reasonable Prudent Mortgage Lender (or the Servicer on the Seller's behalf) has, by arrangement with the relevant Borrower, agreed to capitalise such Arrears of Interest; and</li> <li>(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 Trust), to the principal amount outstanding in respect of such Loan</li> </ul>
<b>Capitalised Expenses</b>	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 of that Loan in accordance with the relevant Mortgage Terms
<b>Cash Management Agreement</b>	The cash management agreement entered into on the Programme Date between the Trust, the Seller, the Servicer, the Cash Manager and the Security Trustee (as amended and/or supplemented and/or restated from time to time)
<b>Cash Manager</b>	BMO, in its capacity as cash manager or any successor cash manager appointed from time to time
<b>CDIC</b>	Canada Deposit Insurance Corporation
<b>CDOR</b>	Canadian Deposit Offering Rate
<b>Charged Property</b>	The meaning given on page 179

<b>Clearing Systems</b>	DTC, Euroclear and/or Clearstream, Luxembourg
<b>Clearstream, Luxembourg</b>	Clearstream Banking, société anonyme or its successors
<b>CMHC</b>	Canada Mortgage and Housing Corporation, a Canadian federal Crown corporation and its successors
<b>CMHC Approved Lender</b>	Any "approved lender" under CMHC Mortgage Insurance
<b>CMHC Insured Mortgage</b>	A Canadian first lien, residential mortgage insured as to principal and interest by CMHC pursuant to CMHC Mortgage Insurance
<b>CMHC Mortgage Insurance</b>	A policy of mortgage loan insurance, funded either directly by a Borrower or bulk insured by the Seller or the relevant Originator, issued to the Seller or the relevant Originator, as applicable, by CMHC subject, in each case, to the <i>National Housing Act</i> (Canada) and the regulations thereunder
<b>Common Depository</b>	HSBC Bank plc, London, in its capacity as the common depository for Euroclear and Clearstream, Luxembourg
<b>Common Safekeeper</b>	The common safekeeper for Euroclear and Clearstream, Luxembourg
<b>Couponholders</b>	The holders of the Coupons (which expression shall, unless the context otherwise requires, include the holders of the Talons)
<b>Coupons</b>	Interest coupons in respect of Bearer Definitive Covered Bonds
<b>Covered Bond</b>	Each covered bond issued or to be issued pursuant to the Programme 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 6.12 and Condition 10
<b>Covered Bond Guarantee</b>	An unconditional and irrevocable guarantee by the Trust in the Trust Deed for the payment (following service of a Notice to Pay) of Guaranteed Amounts in respect of the Covered Bonds when the same shall become Due for Payment
<b>Covered Bond Swap</b>	A Forward Starting Covered Bond Swap or a Non-Forward Starting Covered Bond Swap
<b>Covered Bond Swap Agreement</b>	Each agreement between the Trust and a Covered Bond Swap Provider governing any Covered Bond Swaps in the form of an ISDA Master Agreement, including a schedule and one or more confirmations
<b>Covered Bond Swap Early Termination Event</b>	The meaning given on page 176
<b>Covered Bond Swap Provider</b>	Each provider of a Covered Bond Swap under a Covered Bond Swap Agreement
<b>Covered Bond Swap Rate</b>	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

<b>Covered Bondholders</b>	The holders for the time being of the Covered Bonds
<b>Credit and Collection Policy</b>	The 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 date on the Programme Date, as modified in compliance with the Mortgage Sale Agreement from time to time
<b>Credit Linked Interest Covered Bonds</b>	Covered Bonds in respect of which payments of interest will be calculated by reference to the creditworthiness of, performance of obligations by or some other factor relating to one or more Reference Entities, as set out in the applicable Final Terms Document
<b>Custodian</b>	Any custodian with whom the relevant Registered Global Covered Bonds have been deposited
<b>Customer File</b>	With respect to any Loan, (a) the original fully executed copy of the document evidencing 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 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 relied upon by the solicitor or title insurance company in issuing his or its report or title insurance policy, (f) the most recent Valuation 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 shall keep on file relating to such Loan.
<b>Day Count Fraction</b>	The applicable meaning given in Condition 4.7(c) on page 102
<b>DBRS</b>	DBRS Limited or its successors
<b>Dealer</b>	Each dealer appointed from time to time in accordance with the Programme Agreement, which appointment may be for a specific issue or on an ongoing basis. References in this Prospectus to the relevant Dealer(s) shall, in the case of an issue of Covered Bonds being (or intended to be) subscribed for by more than one Dealer, be to all Dealers agreeing to subscribe for such Covered Bonds

<b>Declaration of Trust</b>	Declaration of Trust dated 20 December 2007 made by the BMO Trustee establishing the Trust (as amended and/or supplemented and/or restated from time to time)
<b>Defaulted Loan</b>	Any Loan in the Portfolio which is three months or more in arrears
<b>Deferred Consideration</b>	The consideration payable to the Seller in respect of the Loans sold to the Trust from time to time, which is paid after making payments of a higher order of priority as set out in the relevant Priority of Payments and to the extent of any excess over the monies available for such payment is paid by way of set-off against Subordinated Advances
<b>Definitive Covered Bond</b>	A Bearer Definitive Covered Bond and/or a Registered Definitive Covered Bond, as the context may require
<b>Definitive Regulation S Covered Bond</b>	A Registered Covered Bond sold to non-U.S. persons outside the United States in reliance on Regulation S, which is in definitive form
<b>Definitive Rule 144A Covered Bond</b>	A Registered Covered Bond sold in the United States to QIBs in reliance on Rule 144A, which is in definitive form
<b>Demand Loan</b>	The Canadian Dollar revolving credit facility granted to the Trust under the Intercompany Loan Agreement
<b>Demand Loan Repayment Event</b>	(i) the Issuer is required to assign the Interest Rate Swap Agreement to a third party; or (ii) a Notice to Pay has been served on the Trust; or (iii) the Issuer ceases to be assigned either a long term, unsecured, unsubordinated unguaranteed debt rating of at least BBB+ or a short term, unsecured unsubordinated unguaranteed debt rating of at least F2, in each case, by Fitch
<b>Demand Loan Required Amount</b>	The meaning given on page 171
<b>Designated Account</b>	The meaning given in Condition 5.4 on page 107
<b>Designated Bank</b>	The meaning given in Condition 5.4 on page 107
<b>Designated Maturity</b>	The meaning given in the ISDA Definitions
<b>Determination Date</b>	The meaning given in the applicable Final Terms Document
<b>Determination Period</b>	The meaning given in Condition 4.7(d) on page 104
<b>Direct Participants</b>	Direct participants in DTC
<b>Distribution Compliance Period</b>	The period that ends 40 days after the later of the commencement of the offering and the Issue Date
<b>DTC</b>	The Depository Trust Company or its successors
<b>DTC Covered Bonds</b>	Registered Covered Bonds accepted into DTC's book-entry settlement system

**DTCC**

The Depository Trust & Clearing Corporation or its successors

**Dual Currency Interest Covered Bond**

A Covered Bond in respect of which payments of interest will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer(s) may agree, such currencies and rates of exchange to be specified in the applicable Final Terms Document

**Due for Payment**

The requirement by the Trust to pay any Guaranteed Amount:

- (a) following service of a Notice to Pay but prior to service of a Trust Acceleration Notice:
  - (i) (except where paragraph (ii) below applies) on the date on which the Scheduled Payment Date in respect of such Guaranteed Amount is reached, or, if the applicable Final Terms Document specified that an Extended Due for Payment Date is applicable to the relevant Series of Covered Bonds, on the Interest Payment Date that would have applied if the Final Maturity Date of such Series of Covered Bonds had been the Extended Due for Payment Date or such other Interest Payment Date(s) specified in the applicable Final Terms Document (the **Original Due for Payment Date**); and
  - (ii) in relation to any Guaranteed Amount in respect of the Final Redemption Amount payable on the Final Maturity Date of a Series of Covered Bonds for which an Extended Due for Payment Date is specified in the applicable Final Terms Document, on the Extended Due for Payment Date, but only to the extent that the Trust, having received the Notice to Pay no later than the date falling one Business Day prior to the Extension Determination Date, does not pay Guaranteed Amounts corresponding to the full amount of the Final Redemption Amount in respect of such Series of Covered Bonds by the Extension Determination Date, because the Trust has insufficient moneys available under the Guarantee Priority of Payments to pay such Guaranteed Amounts in full on the earlier of (1) the date which falls two Business Days after service of the Notice to Pay on the Trust or, if later, the Final Maturity Date (in each case after the expiry of the grace period set out in Condition 9.2(a)) and (2) the Extension Determination Date.

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 service of a Trust Acceleration Notice, on the date on which the Trust Acceleration Notice is served on the Issuer and the Trust

<b>Earliest Maturing Covered Bonds</b>	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 GIC Account) that has or have the earliest Final Maturity Date as specified in the applicable Final Terms Document (ignoring any acceleration of amounts due under the Covered Bonds prior to service of a Trust Acceleration Notice)
<b>Early Redemption Amount</b>	The amount calculated in accordance with Condition 6.7
<b>Eligibility Criteria</b>	The meaning given on page 151
<b>English Security Agreement</b>	The security agreement entered into on the Programme Date between the Trust, the Bond Trustee, the Security Trustee and the other Secured Creditors (as amended and/or supplemented and/or restated from time to time)
<b>Equity Linked Interest Covered Bonds</b>	Covered Bonds in respect of which payments of interest will be calculated by reference to the price, value, performance or some other factor relating to one or more Reference Assets, as set out in the applicable Final Terms Document
<b>EU</b>	European Union
<b>EURIBOR</b>	Euro-zone inter-bank offered rate
<b>Euroclear</b>	Euroclear Bank S.A./N.V. or its successors
<b>Eurosystem</b>	The meaning given on page 65
<b>Excess Proceeds</b>	In accordance with Condition 9.1, moneys received (following service of an Issuer Acceleration Notice) by the Bond Trustee from the Issuer or any liquidator or other similar officer appointed in relation to the Issuer
<b>Excess Proceeds Percentage</b>	The meaning given in Condition 9.1
<b>Excess Proceeds Percentage Amount</b>	An amount in respect of each Series of Covered Bonds, equal to the Early Redemption Amount in respect of such Series of Covered Bonds (as at the date of service of an Issuer Acceleration Notice), together with (to the extent not included in the Early Redemption Amount) accrued interest thereon up to the date of the receipt of such Excess Proceeds Amount multiplied by the Excess Proceeds Percentage.
<b>Exchange Act</b>	The U.S. Securities Exchange Act of 1934, as amended
<b>Exchange Agent</b>	HSBC Bank USA, National Association or HSBC Bank plc, as applicable in its capacity as exchange agent (which expression shall include any successor exchange agent)



<b>Exchange Date</b>	On or after the date which is 40 days after a Temporary Global Covered Bond is issued
<b>Exchange Event</b>	In the case of Bearer Covered Bonds, the meaning given on page 70 and in the case of Registered Covered Bonds, the meaning given on page 71
<b>Excluded Scheduled Interest Amounts</b>	The meaning given in the definition of Scheduled Interest
<b>Excluded Scheduled Principal Amounts</b>	The meaning given in the definition of Scheduled Principal
<b>Excluded Swap Termination Amount</b>	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
<b>Existing Covered Bonds</b>	In accordance with Condition 6.12, the Covered Bonds of all Series then outstanding
<b>Extended Due for Payment Date</b>	In relation to any Series of Covered Bonds, the date, if any, specified as such in the applicable Final Terms Document 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
<b>Extension Determination Date</b>	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
<b>Extraordinary Resolution</b>	A resolution of the Covered Bondholders passed as such under the terms of the Trust Deed
<b>Final Maturity Date</b>	The Interest Payment Date on which a Series of Covered Bonds will be redeemed at the Final Redemption Amount in accordance with the Terms and Conditions
<b>Final Redemption Amount</b>	The meaning given in the relevant Final Terms Document
<b>Final Terms Document</b>	The final terms which, with respect to each Tranche or Series of Covered Bonds to be admitted to the Official List and admitted to trading by the London Stock Exchange, will be delivered to the U.K. Listing Authority and the London Stock Exchange on or before the date of issue of the applicable Tranche of Covered Bonds
<b>Financial Services Act</b>	Legislative Decree No. 58 of 24 February 1998 of the Republic of Italy, as amended

<b>First Purchase Date</b>	The date on which the Initial Portfolio was assigned to the Trust pursuant to the terms of the Original Mortgage Sale Agreement, being 20 January 2008
<b>Fitch</b>	Fitch, Inc. or its successors
<b>Fixed Coupon Amount</b>	The meaning given in the applicable Final Terms Document
<b>Fixed Rate Covered Bonds</b>	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)
<b>Fixed Rate Loan</b>	A Loan the interest rate on which is fixed at a specified rate at the time of its origination, and the initial term of which was up to ten years
<b>Flexible Variable Rate Loan</b>	A Loan the interest rate on which is equal to the BMO Prime Rate less a spread, the initial term of which was up to six years, and which allows the Borrower to prepay the Loan after the third anniversary of its origination
<b>Floating Rate</b>	The meaning given in the ISDA Definitions
<b>Floating Rate Convention</b>	The meaning given in Condition 4.7(b)(i) on page 102
<b>Floating Rate Covered Bonds</b>	<p>Covered Bonds which bear interest at a rate determined:</p> <ul style="list-style-type: none"> <li>(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</li> <li>(b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or</li> <li>(c) on such other basis as may be agreed between the Issuer and the relevant Dealer(s),</li> </ul> <p>as set out in the applicable Final Terms Document</p>
<b>Floating Rate Option</b>	The meaning given in the ISDA Definitions
<b>Following Business Day Convention</b>	The meaning given in Condition 4.7(b)(ii) on page 102
<b>Forward Starting Covered Bond Swap</b>	Each transaction between the Trust and the relevant Covered Bond Swap Provider in respect of a Series or Tranche, as applicable, of Covered Bonds which provides a hedge against certain interest rate, currency and/or other risks in respect of amounts received by the Trust under the Loans in the Portfolio and any relevant Interest Rate Swaps and amounts payable by the Trust under the Covered Bond Guarantee in respect of Covered Bonds (after service of a Notice to Pay)

<b>Framework</b>	A comprehensive framework, the text of which was published by the Basel Committee on Banking Supervision in June 2006 under the title " <i>International Convergence of Capital Measurement and Capital Standards: A Revised Framework (Comprehensive Version)</i> "
<b>FSA</b>	Financial Services Authority
<b>FSMA</b>	Financial Services and Markets Act 2000, as amended
<b>GAAP</b>	Canadian generally accepted accounting principles
<b>GIC Account</b>	The account in the name of the Trust held with BMO and maintained subject to the terms of the Guaranteed Investment Contract, the Bank Account Agreement and the BMO Trust Security Agreement or such additional or replacement account as may for the time being be in place with the prior consent of the Security Trustee and designated as such
<b>GIC Provider</b>	BMO, in its capacity as GIC provider or any successor GIC provider appointed from time to time
<b>Global Covered Bond</b>	A Bearer Global Covered Bond and/or Registered Global Covered Bond, as the context may require
<b>Guaranteed Amounts</b>	Prior to service of a Trust 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 Trust 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), including all Excluded Scheduled Interest Amounts, all Excluded Scheduled Principal Amounts (whenever the same arose) and all amounts payable by the Trust under the Trust Deed
<b>Guaranteed Amounts Due Date</b>	The later of (a) the date which is two Business Days following service of a Notice to Pay on the Trust, and (b) the date on which the Guaranteed Amounts are otherwise Due for Payment
<b>Guaranteed Investment Contract or GIC</b>	The guaranteed investment contract between the Trust, the GIC Provider, the Security Trustee and the Cash Manager dated the Programme Date (as amended and/or supplemented and/or restated from time to time)
<b>Guarantee Priority of Payments</b>	The meaning given on page 191
<b>Hard Bullet Covered Bond</b>	Any Covered Bond issued by the Issuer 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

<b>Index Linked Interest Covered Bonds</b>	Covered Bonds in respect of which payments of interest will be calculated by reference to such index and/or formula or to changes in the prices of such securities or commodities or to such other factors as the Issuer and the relevant Dealer(s) may agree
<b>Indirect Participants</b>	Indirect participants in DTC that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly
<b>Initial Advance</b>	In relation to a Loan, the original principal amount advanced by the Seller including any retention(s) advanced to the relevant Borrower after completion of the Mortgage
<b>Initial Portfolio</b>	The meaning given on page 198
<b>Insolvency Event</b>	If the Seller, an Originator or the Servicer shall have become insolvent, or if the Superintendent of Financial Institutions (Canada) shall have taken control of the assets of the Seller, an Originator, or the Servicer or the Seller, an Originator, or the Servicer itself, or if a liquidator of the Seller, an Originator, or the Servicer, as applicable, or person with similar powers, shall have been appointed pursuant to a winding up order or otherwise
<b>Instalment Amounts</b>	In respect of Instalment Covered Bonds, each amount specified as such in the applicable Final Terms Document
<b>Instalment Covered Bonds</b>	Covered Bonds which will be redeemed in the Instalment Amounts and on the Instalment Dates specified in the applicable Final Terms Document
<b>Instalment Dates</b>	In respect of Instalment Covered Bonds, each date specified as such in the applicable Final Terms Document
<b>Intercompany Loan Agreement</b>	The loan agreement dated the Programme Date documenting the Term Loan and the Demand Loan between the Issuer, the Trust, the Cash Manager and the Security Trustee (as amended and/or supplemented and/or restated from time to time)
<b>Interest Amount</b>	The amount of interest payable on the Floating Rate Covered Bonds or Variable Interest Covered Bonds in respect of each Specified Denomination for the relevant Interest Period, as calculated in accordance with Condition 4.2(d)
<b>Interest Commencement Date</b>	In the case of interest bearing Covered Bonds, the date specified in the applicable Final Terms Document from (and including) which the relevant Covered Bonds will accrue interest
<b>Interest Determination Date</b>	In respect of Floating Rate Covered Bonds to which Screen Rate Determination is applicable, the meaning given in the applicable Final Terms Document

<b>Interest Payment Date</b>	In respect of Fixed Rate Covered Bonds, the meaning given in the applicable Final Terms Document and in respect of Floating Rate Covered Bonds and Variable Interest Covered Bonds, the meaning given in Condition 4.2(a)
<b>Interest Period</b>	In accordance with Condition 4.7(e), the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date
<b>Interest Rate Swap</b>	The interest rate swap entered into in connection under the terms of the Interest Rate Swap Agreement
<b>Interest Rate Swap Agreement</b>	The agreement between the Trust and the Interest Rate Swap Provider dated the Programme Date governing the Interest Rate Swap in the form of an ISDA Master Agreement, including a schedule and one or more confirmations (each as may be amended and/or supplemented and/or restated from time to time)
<b>Interest Rate Swap Early Termination Event</b>	The meaning given on page 174
<b>Interest Rate Swap Provider</b>	BMO in its capacity as interest rate swap provider under the Interest Rate Swap Agreement together with any successor interest rate swap provider
<b>Investor Put</b>	The meaning given in Condition 6.4 on page 113
<b>Investor Report</b>	The monthly report made available to the Covered Bondholders, the Security Trustee, the Bond Trustee and the Rating Agencies detailing, <i>inter alia</i> , compliance with the Asset Coverage Test
<b>Inverse Floating Rate Covered Bonds</b>	A Covered Bond that has an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR
<b>ISDA</b>	International Swaps and Derivatives Association, Inc.
<b>ISDA Definitions</b>	The meaning given in Condition 4.2(b)(i) on page 98
<b>ISDA Determination</b>	If specified as applicable in the applicable Final Terms Document, the manner in which the Rate of Interest on Floating Rate Covered Bonds is to be determined in accordance with Condition 4.2(b)(i)
<b>ISDA Master Agreement</b>	The 1992 ISDA Master Agreement (Multicurrency — Cross Border), as published by ISDA
<b>ISDA Rate</b>	The meaning given in Condition 4.2(b)(i) on page 98
<b>Issue Date</b>	Each date on which the Issuer issues a Tranche of Covered Bonds under the Programme, as specified in the applicable Final Terms Document
<b>Issue Price</b>	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
<b>Issuer</b>	Bank of Montreal

<b>Issuer Acceleration Notice</b>	The meaning given in Condition 9.1 on page 119
<b>Issuer Call</b>	The meaning given in Condition 6.3 on page 113
<b>Issuer Event of Default</b>	The meaning given in Condition 9.1 on page 119
<b>Late Payment</b>	The meaning given in Condition 6.11 on page 115
<b>Latest Valuation</b>	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 the purchase price of that Property or current property tax assessment, as applicable
<b>Ledger</b>	Each of the Revenue Ledger, the Principal Ledger, the Subordinated Loan Ledger, the Reserve Ledger, the Pre-Maturity Liquidity Ledger and the Payment Ledger
<b>Legislative Exchange</b>	The meaning given in Condition 6.12 on page 116
<b>Lending Criteria</b>	The lending criteria of the Seller, or, as applicable, the Originator, from time to time, or such other criteria as would be acceptable to a Reasonable Prudent Mortgage Lender
<b>Loan</b>	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 Terms 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
<b>Loan Representations and Warranties</b>	The representations and warranties relating to the Loans set out in the Mortgage Sale Agreement
<b>Loan Repurchase Notice</b>	A notice in substantially the form set out in the Mortgage Sale Agreement served by the Trust 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
<b>Loan-to-Value Ratio</b>	The ratio of the outstanding balance of a Loan to the value of the Property securing that Loan
<b>London Stock Exchange</b>	London Stock Exchange plc
<b>Long Maturity Covered Bond</b>	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 shall 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
<b>Margin</b>	In respect of a Floating Rate Covered Bond, the percentage rate per annum (if any) specified in the applicable Final Terms Document

<b>Master Definitions and Construction Agreement</b>	The master definitions and construction agreement made between the parties to the Transaction Documents on or about the Programme Date (as the same may be amended and/or supplemented and/or restated from time to time)
<b>Maximum Rate of Interest</b>	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
<b>Maximum Redemption Amount</b>	The amount specified as such in the applicable Final Terms Document
<b>Minimum Rate of Interest</b>	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
<b>Minimum Redemption Amount</b>	The amount specified as such in the applicable Final Terms Document
<b>Modified Following Business Day Convention</b>	The meaning given in Condition 4.7(b)(iii) on page 102
<b>Monthly Asset Coverage Report</b>	The report substantially in the form set out in the Cash Management Agreement
<b>Monthly Payment</b>	The amount which the relevant Mortgage Terms require a Borrower to pay on each Monthly Payment Day in respect of that Borrower's Loan
<b>Monthly Payment Day</b>	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
<b>Moody's</b>	Moody's Investors Service, Inc. or its successors
<b>Mortgage</b>	The legal charge, mortgage, standard security or charge securing a Loan
<b>Mortgage Account</b>	The mortgage account into which all Loans secured on the same Property will be incorporated
<b>Mortgage Conditions</b>	The terms and conditions applicable to the Loans as contained in the Seller's "Mortgage Conditions" booklets for Canadian mortgage loans, applicable from time to time (or the equivalent documentation published by a New Seller or a new Originator, as the case may be)
<b>Mortgage Pool</b>	The mortgages owned from time to time by the Trust
<b>Mortgage Sale Agreement</b>	The mortgage sale agreement entered into on the Programme Date between the Seller, the Trust and the Security 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 Trust and the Security Trustee

<b>Mortgage Terms</b>	All of the terms and conditions applicable to a Loan, including, without limitation, the applicable Mortgage Conditions and Offer Conditions
<b>Negative Carry Factor</b>	The meaning given on page 167
<b>New Global Covered Bond</b>	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 the Trust Deed, in either case where the applicable Final Terms Document specifies that the Covered Bonds are in NGCB form
<b>New Loan</b>	Loans, other than the Loans already comprised in the Portfolio, which the Seller may assign or transfer to the Trust after the First Purchase Date pursuant to the Mortgage Sale Agreement
<b>New Loan Type</b>	A new type of mortgage loan originated or purchased by the Seller or a New Seller, which the Seller or the New Seller intends to transfer to the Trust, 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 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, tracker rate or any other interest rate or the benefit of any discounts, cashbacks 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
<b>New Mortgage Sale Agreement</b>	Any new mortgage sale agreement entered into between any New Seller, the Trust and the Security Trustee (as amended and/or supplemented and/or restated from time to time), which shall be substantially in the same form and contain substantially the same provisions as the mortgage sale agreement entered into on the Programme Date between the Seller, the Trust and the Security Trustee (as amended and/or supplemented and/or restated from time to time)
<b>New Portfolio</b>	The meaning given on page 198
<b>New Portfolio Notice</b>	A notice in the form set out in the Mortgage Sale Agreement served in accordance with the terms of the Mortgage Sale Agreement
<b>New Seller</b>	Any member of the BMO Group (other than BMO) that accedes to the relevant Transaction Documents and sells New Seller Loans and their Related Security to the Trust in the future pursuant to a New Mortgage Sale Agreement
<b>New Seller Loans</b>	Loans originated by a New Seller
<b>NGCB</b>	New global covered bond
<b>Non-exempt Offer</b>	The meaning given on page 221
<b>Non-Forward Starting Covered Bond Swap</b>	Each transaction between the Trust and the relevant Covered Bond Swap Provider in respect of a Series or Tranche, as applicable, of Covered



Bonds which provides a hedge against certain interest rate, currency and/or other risks in respect of amounts received by the Trust under the Loans in the Portfolio and the Interest Rate Swap and amounts payable by the Trust under the Intercompany Loan Agreement (prior to service of a Notice to Pay) and under the Covered Bond Guarantee in respect of Covered Bonds (after service of a Notice to Pay)

<b>Notice to Pay</b>	The meaning given in Condition 9.1 on page 120
<b>Offer Conditions</b>	The terms and conditions applicable to a specified Loan as set out in the relevant offer letter to the Borrower
<b>Official List</b>	Official List of the U.K. Listing Authority
<b>Omnibus Proxy</b>	The omnibus proxy mailed by DTC to the Issuer as soon as possible after the record date in accordance with DTC's usual procedures
<b>Open Variable Rate Loan</b>	A Loan the interest rate on which is equal to the BMO Prime Rate and the initial term of which was three years
<b>Optional Redemption Amount</b>	The meaning (if any) given in the applicable Final Terms Document
<b>Optional Redemption Date</b>	The meaning (if any) given in the applicable Final Terms Document
<b>Original Due for Payment Date</b>	The meaning given in paragraph (a) of the definition of Due for Payment Date
<b>Original Mortgage Sale Agreement</b>	The mortgage sale agreement entered into on the Programme Date between the Seller, the Trust and the Security Trustee
<b>Originator</b>	Has the meaning given to it on page 20
<b>OSFI</b>	Office of the Superintendent of Financial Institutions
<b>Outstanding Principal Balance</b>	<p>In relation to any Loan at any date (the <b>determination date</b>), the aggregate at such date (but avoiding double counting) of:</p> <ul style="list-style-type: none"><li>(a) the Initial Advance;</li><li>(b) Capitalised Expenses; and</li><li>(c) Capitalised Arrears,</li></ul> <p>in each case relating to such Loan less any prepayment, repayment or payment of any of the foregoing made on or prior to the determination date</p>
<b>Partial Portfolio</b>	Part of any portfolio of Selected Loans
<b>Partly-Paid Covered Bonds</b>	Covered Bonds which are only partly paid up on issue, in respect of which interest will accrue in accordance with Condition 4.4 on the paid-up amount of such Covered Bonds or on such other basis as may be agreed between the Issuer and the relevant Dealer(s) and indicated in the applicable Final Terms Document

<b>Paying Agents</b>	The Principal Paying Agent and any other paying agent appointed pursuant to the terms of the Agency Agreement
<b>Payment Day</b>	The meaning given in Condition 5.6 on page 108
<b>Payment Ledger</b>	The ledger on the GIC Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record the credits and debits of Available Revenue Receipts and Available Principal Receipts for application in accordance with the relevant Priority of Payments
<b>Permanent Global Covered Bond</b>	The meaning given on page 69
<b>Portfolio</b>	The Initial Portfolio and each New Portfolio acquired by the Trust but excluding Loans which have been redeemed in full or repurchased by the Seller or a New Seller or otherwise sold by the Trust
<b>Post-Enforcement Priority of Payments</b>	The meaning given on page 195
<b>Potential Issuer Event of Default</b>	The meaning given in Condition 14 on page 129
<b>Potential Trust Event of Default</b>	The meaning given in Condition 14 on page 129
<b>Pre-Acceleration Principal Priority of Payments</b>	The meaning given on page 189
<b>Pre-Acceleration Revenue Priority of Payments</b>	The meaning given on page 185
<b>Preceding Business Day Convention</b>	The meaning given in Condition 4.7(b)(iv) on page 102
<b>Pre-Maturity Liquidity Ledger</b>	The ledger on the GIC 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
<b>Pre-Maturity Minimum Ratings</b>	The meaning given in " <i>Credit Structure</i> " on page 182
<b>Pre-Maturity Test</b>	The meaning given in " <i>Credit Structure</i> " on page 182
<b>Pre-Maturity Test Date</b>	The meaning given in " <i>Credit Structure</i> " on page 182
<b>Principal Amount Outstanding</b>	In accordance with Condition 4.7(g), 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

<b>Principal Ledger</b>	The ledger on the GIC 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 Declaration of Trust
<b>Principal Paying Agent</b>	HSBC Bank plc, London, and any successor principal paying agent
<b>Principal Receipts</b>	Any payment received in respect of principal in respect of any Loan (including payments pursuant to any insurance policies taken out in respect of a Loan), 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)
<b>Priorities of Payments</b>	The orders of priority for the allocation and distribution of amounts standing to the credit of the Trust Accounts in different circumstances
<b>Product Switch</b>	The meaning given on page 157
<b>Programme</b>	€10 billion global public sector covered bond programme established by the Issuer on the Programme Date
<b>Programme Agreement</b>	The programme agreement entered into on 20 December 2007 between the Issuer, the Trust and the Relevant Dealers (as amended and/or supplemented and/or restated from time to time)
<b>Programme Date</b>	20 December 2007
<b>Programme Resolution</b>	Any Extraordinary Resolution to direct the Bond Trustee to accelerate the Covered Bonds pursuant to Condition 9 or to direct the Bond Trustee or the Security Trustee to take any enforcement action pursuant to Condition 9
<b>Property</b>	Freehold or leasehold residential property located in Canada which is subject to a Mortgage
<b>Prospectus Directive</b>	Directive 2003/71/EC
<b>Protected Rate Mortgage</b>	A Mortgage the interest rate on which is equal to the BMO Prime Rate less 0.01 per cent. but is capped at a predetermined maximum interest rate, and the initial term of which was five years
<b>Purchaser</b>	Any third party or the Seller to whom the Trust offers to sell Selected Loans
<b>Purchase Date</b>	Each of the First Purchase Date and each other date on which a New Portfolio is assigned to the Trust in accordance with the terms of the Mortgage Sale Agreement
<b>Put Notice</b>	The meaning given in Condition 6.4 on page 114

<b>QIB</b>	A "qualified institutional buyer" within the meaning of Rule 144A
<b>Rate of Interest</b>	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
<b>Rating Agencies</b>	Moody's, Fitch and DBRS, and each a <b>Rating Agency</b>
<b>Rating Agency Confirmation</b>	A confirmation in writing by the Rating Agencies that the then current ratings of the Covered Bonds will not be downgraded or withdrawn as a result of the relevant event or matter
<b>Reasonable Prudent Mortgage Lender</b>	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 and with no less care than that lender would service mortgages beneficially owned by it
<b>Receiptholders</b>	The holders of the Receipts
<b>Receipts</b>	Receipts for the payment of instalments of principal (other than the final instalment) attached on issue to Bearer Definitive Covered Bonds repayable in instalments
<b>Receiver</b>	Any person or persons appointed (and any additional person or persons appointed or substituted) as an administrative receiver, receiver, manager, or receiver and manager of the Charged Property by the Security Trustee pursuant to the BMO Trust Security Agreement
<b>Record Date</b>	The meaning given in Condition 5.4 on page 106
<b>Records</b>	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
<b>Redeemed Covered Bonds</b>	The meaning given in Condition 6.3 on page 113
<b>Reference Assets</b>	In respect of Equity Linked Interest Covered Bonds, shares or other securities, as indicated in the applicable Final Terms Document
<b>Reference Entities</b>	In respect of Credit Linked Interest Covered Bonds, entities as indicated in the applicable Final Terms Document
<b>Reference Price</b>	In respect of a Zero Coupon Covered Bond, the meaning given in the applicable Final Terms Document
<b>Reference Rate</b>	In respect of Floating Rate Covered Bonds to which Screen Rate Determination applies, the meaning given in the applicable Final Terms Document

<b>Register</b>	The register of holders of the Registered Covered Bonds maintained by the Registrar
<b>Registered Covered Bond</b>	A Covered Bond in registered form
<b>Registered Definitive Covered Bond</b>	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 Programme 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 the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Principal 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
<b>Registered Global Covered Bonds</b>	Global Covered Bonds in registered form, comprising Rule 144A Global Covered Bonds and Regulation S Global Covered Bonds
<b>Registrar</b>	HSBC Bank USA, National Association or, as applicable HSBC Bank plc, in its capacity as registrar (and any successor registrar)
<b>Regulation S</b>	Regulation S under the Securities Act
<b>Regulation S Covered Bond</b>	A Covered Bond represented by a Regulation S Global Covered Bond or a Definitive Regulation S Covered Bond
<b>Regulation S Global Covered Bond</b>	A Registered Global Covered Bond representing Covered Bonds sold to non-U.S. persons outside the United States in reliance on Regulation S
<b>Regulatory Event</b>	The meaning set out in Condition 6.12 on page 117
<b>Related Security</b>	With respect to any Loan: <ul style="list-style-type: none"> <li>(a) all of the Seller's right, title and interest in the related Customer File including the Mortgage and the security interest 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 or realised thereunder;</li> <li>(b) all other security interests 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 and similar instruments or other filings relating thereto and all proceeds thereof or realised thereunder;</li> </ul>

- (c) all guaranties, 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 the proceeds of the foregoing;
- (d) all Records related to such Loan;
- (e) the proceeds of any claims made under the blanket insurance coverage maintained by the Seller where such proceeds relate to a Loan sold to the Trust; and
- (f) the benefit of the insurance in respect of such Loan provided under the applicable CMHC Mortgage Insurance to the extent required so that when sold to the Trust such Loan remains an insured loan within the meaning of the *National Housing Act* (Canada), including the right to all related insurance proceeds paid or payable under the applicable CMHC Mortgage Insurance in respect of claims made in respect of such Loan, subject to the terms and conditions of the applicable CMHC Mortgage Insurance

<b>Relevant Date</b>	The meaning given in Condition 7 on page 118
<b>Relevant Period</b>	The meaning given in Condition 14 on page 127
<b>Relevant Screen Page</b>	In respect of Floating Rate Covered Bonds to which Screen Rate Determination applies, the meaning given in the Final Terms Document
<b>Required Outstanding Principal Balance Amount</b>	The meaning given on page 170
<b>Required Redemption Amount</b>	The meaning given on page 170
<b>Reserve Fund</b>	The reserve fund that the Trust will be required to establish on the GIC Account which will be credited with Available Revenue Receipts up to an amount equal to the Reserve Fund Required Amount, the Available Revenue Receipts used to fund the Reserve Fund will be deemed to constitute Subordinated Advance(s) made to the Trust by the Subordinated Loan Provider
<b>Reserve Fund Required Amount</b>	Means: <ul style="list-style-type: none"> <li>(a) so long as the Issuer's short-term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least P-1, F1 and R-1(middle) by Moody's, Fitch and DBRS, respectively, and its long-term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least A(low) by DBRS and A by Fitch, nil or otherwise;</li> <li>(b) so long as the Issuer's short-term and long-term unsecured, unsubordinated and unguaranteed debt obligations are not rated at</li> </ul>

least F1 by Fitch and A by Fitch, respectively, an amount equal to the Canadian Dollar Equivalent of amounts of interest due on each Series of Covered Bonds in the immediately following three months 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 (d), and if applicable (e), of the Pre-Acceleration Revenue Priorities of Payments provided that in determining the amount of the Reserve Fund Required Amount where any amount in respect of the Covered Bonds or the Covered Bond Swaps is by reference to a floating rate, the rate shall be at the then current floating rate as at the date on which the amount is calculated;

- (c) so long as the Issuer's short-term, unsecured, unsubordinated and unguaranteed debt obligations are not rated at least P-1 by Moody's or at least R-1(middle) by DBRS, or its long-term, unsecured, unsubordinated and unguaranteed debt obligations are not rated at least A(low) by DBRS, an amount equal to the Canadian Dollar Equivalent of one month's interest due on each Series of Covered Bonds together with an amount equal to one-twelfth of the anticipated aggregate annual amount payable in respect of the items specified in paragraphs (a) to (d), and if applicable (e), of the Pre-Acceleration Revenue Priorities of Payments provided that in determining the amount of the Reserve Fund Required Amount where any amount in respect of the Covered Bonds or the Covered Bond Swaps is by reference to a floating rate, the rate shall be at the then current floating rate as at the date on which the amount is calculated; or
- (d) so long as the Issuer's short-term, unsecured, unsubordinated and unguaranteed debt obligations are not rated at least P-1, F1 or R-1(middle) by Moody's, Fitch and DBRS, respectively, or its long-term, unsecured, unsubordinated and unguaranteed debt obligations are not rated at least A(low) by DBRS or A by Fitch, respectively, the higher of the amounts determined in accordance with paragraphs (b) and (c) above.

<b>Reserve Ledger</b>	The ledger on the GIC Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement, to record the crediting of Available Revenue Receipts to the Reserve Fund and the debiting of such Reserve Fund in accordance with the terms of the Declaration of Trust
<b>Reset Date</b>	The meaning given in the ISDA Definitions
<b>Residential Mortgage Loan</b>	A Loan secured over residential Property
<b>Responsible Persons</b>	The meaning given on page 2
<b>Revenue Ledger</b>	The ledger on the GIC Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement, to record credits and debits of Revenue Receipts in accordance with the terms of the Declaration of Trust

<b>Revenue Receipts</b>	Any payment received in respect of any Loan, including payments pursuant to any insurance policies taken out in respect of 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
<b>Rule 144A</b>	Rule 144A under the Securities Act
<b>Rule 144A Covered Bond</b>	A Covered Bond represented by a Rule 144A Global Covered Bond or a Definitive Rule 144A Covered Bond
<b>Rule 144A Global Covered Bond</b>	A Registered Global Covered Bond representing Covered Bonds sold in the United States to QIBs in reliance on Rule 144A
<b>Rules</b>	The rules, regulations and procedures creating and affecting DTC and its operations
<b>Scheduled Interest</b>	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 (but excluding any additional amounts relating to premiums, default interest or interest upon interest (Excluded Scheduled Interest Amounts) payable by the Issuer following service of an Issuer Acceleration Notice, but including such amounts (whenever the same arose) following service of a Trust Acceleration Notice), as if such Covered Bonds had not become due and repayable prior to their Final Maturity Date and (if the applicable Final Terms Document 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 less any additional amounts the Issuer 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
<b>Scheduled Payment Date</b>	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 repayable prior to their Final Maturity Date
<b>Scheduled Principal</b>	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 repayable 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 and Condition 6.7 (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 Issuer following service of an Issuer Acceleration Notice, but including such amounts (whenever the same arose) following service of a Trust Acceleration Notice), as if such Covered Bonds had not become due and repayable prior to their Final Maturity Date and (if the Final Terms Document 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

<b>Screen Rate Determination</b>	If specified as applicable in the applicable Final Terms Document, the manner in which the Rate of Interest on Floating Rate Covered Bonds is to be determined in accordance with Condition 4.2(b)(ii)
<b>Secured Creditors</b>	The Security Trustee (in its own capacity and on behalf of the other Secured Creditors), the Bond Trustee (in its own capacity and on behalf of the Covered Bondholders), the Covered Bondholders, the Receiptholders, the Couponholders, the Issuer, the Seller, the Servicer, the Account Bank, the GIC Provider, the Stand-by Account Bank, the Stand-by GIC Provider, the Cash Manager, the Swap Providers, the Agents, the Administrative Agent, the BMO Trustee and any other person which becomes a Secured Creditor pursuant to the Security Agreements
<b>Securities Act</b>	U.S. Securities Act of 1933, as amended
<b>Securities and Exchange Law</b>	The Securities and Exchange Law of Japan
<b>Security</b>	The meaning given on page 179
<b>Security Agreements</b>	The English Security Agreement and the BMO Trust Security Agreement
<b>Security Trustee</b>	Computershare Trust Company of Canada, in its capacity as security trustee under the Trust Deed and the Security Agreements together with any successor security trustee appointed from time to time
<b>Selected Loan Offer Notice</b>	A notice from the Trust 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
<b>Selected Loan Repurchase Notice</b>	A notice from the Seller served on the Trust accepting an offer set out in a Selected Loan Offer Notice
<b>Selected Loans</b>	Loans and their Related Security to be sold by the Trust pursuant to the terms of the Declaration of Trust or the Mortgage Sale Agreement having in aggregate the Required Outstanding Principal Balance Amount
<b>Selection Date</b>	The meaning given in Condition 6.3 on page 113
<b>Seller</b>	BMO and Sellers means BMO together with any New Seller
<b>Series</b>	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

**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 Agreements (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 or the Security Trustee (as the case may be) 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 or the Security Trustee (as the case may be) 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 Issuer, 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 6 to the Trust Deed

**Servicer**

BMO in its capacity as servicer under the Servicing Agreement (and any successor servicer). Any New Seller that is appointed to service any New Seller Loans will constitute the Servicer with respect to such Loans

**Servicer Event of Default**

The meaning given on page 161

**Servicer Termination Event**

The meaning given on page 161

<b>Servicing Agreement</b>	The servicing agreement entered into on the Programme Date between the Trust, the Seller, the Servicer and the Security Trustee (as amended and/or supplemented and/or restated from time to time)
<b>Specified Currency</b>	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 Principal Paying Agent and the Bond Trustee and specified in the applicable Final Terms Document
<b>Specified Denomination</b>	The meaning given in the applicable Final Terms Document
<b>Specified Interest Payment Date</b>	In respect of Floating Rate Covered Bonds or Variable Interest Covered Bonds, the meaning (if any) given in the applicable Final Terms Document
<b>Specified Period</b>	In respect of Floating Rate Covered Bonds or Variable Interest Covered Bonds, the meaning (if any) given in the applicable Final Terms Document
<b>Standard Documentation</b>	The standard documentation, annexed as an exhibit to the Mortgage Sale Agreement or any update or replacement therefor as the Seller and/or any Originator may from time to time introduce acting in accordance with the standards of a Reasonable Prudent Mortgage Lender
<b>Stand-by Account Bank</b>	The meaning given on page 178
<b>Stand-by Bank Account Agreement</b>	The meaning given on page 178
<b>Stand-by GIC Account</b>	The meaning given on page 178
<b>Stand-by GIC Provider</b>	The meaning given on page 179
<b>Stand-by Guaranteed Investment Contract</b>	The meaning given on page 179
<b>Stand-by Swap Account</b>	The meaning given on page 178
<b>Stand-by Transaction Account</b>	The meaning given on page 178
<b>Subordinated Advances</b>	The advances made by the Subordinated Loan Provider to the Trust made by way of set off against payment of Deferred Consideration
<b>Subordinated Loan Agreement</b>	The loan agreement entered into on the Programme Date between the Trust, the Subordinated Loan Provider, the Cash Manager and the Security Trustee (as amended and/or supplemented and/or restated from time to time)
<b>Subordinated Loan Ledger</b>	The ledger maintained by the Cash Manager on behalf of the Trust in respect of Subordinated Loan to record the balance of the Subordinated Loan from time to time
<b>Subordinated Repayments</b>	Any repayment of all or part of a Subordinated Advance in accordance

with the terms of the Declaration of Trust and the Subordinated Loan Agreement.

**Subsidiary**

The meaning given to such term in the Bank Act

**Substitution Assets**

The classes and types of assets from time to time eligible under the Capital Requirements Directive to collateralise covered bonds which may include the following, provided that the total exposure to such Substitute Assets shall not exceed 10 per cent. of the aggregate Canadian Dollar Equivalent of the Principal Amount Outstanding of the Covered Bonds: (a) exposures to institutions that qualify for a 10 per cent. risk weighting under the Standardised Approach; (b) exposures to institutions that qualify for a 20 per cent. risk weighting under the Standardised Approach; and (c) Canadian Dollar denominated residential mortgage backed securities provided that such class of investments have received Rating Agency Confirmation;

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 Ratings 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.

**sub-unit**

In accordance with Condition 4.7(i), 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, euro 0.01

**Superintendent**

Means the Superintendent of Financial Institutions under Section 645(1) of the Bank Act

**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 Trust 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 Accounts**

Any account in the name of the Trust held with BMO (or any other Account Bank from time to time) into which collateral in respect of an Interest Rate Swap or a Covered Bond Swap may be deposited in

accordance with the terms of any such Swap

**Swap Collateral Excluded Amounts**

At any time, the amount of Swap Collateral which may not be applied under the terms of the relevant Swap Agreement at that time in satisfaction of the relevant Swap Provider's obligations to the Trust, including Swap Collateral which is to be returned to the relevant Swap Provider upon termination of the relevant Swap Agreement

**Swap Payments Accounts**

Any account in the name of the Trust held with BMO (or any other Account Bank from time to time) through which payments under the Interest Rate Swap or the Covered Bond Swaps will be made

**Swap Provider Default**

The occurrence of an Event of Default (as defined in the relevant Swap Agreement) with respect to the relevant Swap Provider, where the relevant Swap Provider is the Defaulting Party (as defined in relevant Swap Agreement)

**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**

**Swaps**

The Covered Bond Swaps together with the Interest Rate Swaps, and each a **Swap**

**Talons**

Talons for further Coupons in respect of interest bearing Bearer Definitive Covered Bonds

**TARGET2 System**

In accordance with Condition 4.7(a)(ii), the Trans European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System

**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, 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 bearer global covered bond without receipts and interest coupons attached initially representing each Tranche of Bearer Covered Bonds, unless otherwise specified in the applicable Final Terms Document

**Term Advance**

Each term advance made by the Issuer to the Trust pursuant to the Intercompany Loan Agreement

**Term Loan**

The multicurrency term loan facility granted to the Trust under the Intercompany Loan Agreement

<b>Terms and Conditions or Conditions</b>	The terms and conditions of the Covered Bonds (as set out in Schedule 1 to the Trust Deed)
<b>Third Party Amounts</b>	<p>Each of:</p> <ul style="list-style-type: none"> <li>(a) payments of any High Loan-to-Value Fees;</li> <li>(b) amounts under a direct debit which are repaid to the bank making the payment if such a bank is unable to recoup that amount itself from the customer's account; or</li> <li>(c) payments by Borrowers of Early Repayment Fees and other charges due to the Seller;</li> <li>(e) which amounts shall be paid on receipt by the Trust to the Seller from moneys on deposit in the GIC Account</li> </ul>
<b>Toronto Business Day</b>	A day (other than a Saturday or Sunday) on which commercial banks and are open for general business (including dealing in foreign exchange and foreign currency deposits) in Toronto
<b>Total Assets</b>	The meaning given to it on page 38
<b>Tranche</b>	An issue of Covered Bonds which are identical in all respects (including as to listing and admission to trading)
<b>Transaction Documents</b>	<ul style="list-style-type: none"> <li>(a) Mortgage Sale Agreement</li> <li>(b) Servicing Agreement</li> <li>(c) Asset Monitor Agreement</li> <li>(d) Intercompany Loan Agreement</li> <li>(e) Declaration of Trust</li> <li>(f) Cash Management Agreement</li> <li>(g) Interest Rate Swap Agreement</li> <li>(h) each Covered Bond Swap Agreement</li> <li>(i) Guaranteed Investment Contract</li> <li>(j) Stand-by Guaranteed Investment Contract</li> <li>(k) Bank Account Agreement</li> <li>(l) Stand-by Bank Account Agreement</li> <li>(m) Security Agreements (and any documents entered into pursuant to the Security Agreements)</li> <li>(n) Trust Deed</li> </ul>

- (o) Agency Agreement
- (p) Programme Agreement
- (q) Subordinated Loan Agreement
- (r) Administration Agreement
- (s) each of the Final Terms Documents (as applicable in the case of each issue of listed Covered Bonds subscribed for pursuant to a subscription agreement)
- (t) each Subscription Agreement (as applicable in the case of each issue of listed Covered Bonds subscribed for pursuant to a subscription agreement)
- (u) Master Definitions and Construction Agreement

<b>Transfer Agent</b>	HSBC Bank USA, National Association or, as applicable, HSBC Bank plc, in its capacity as transfer agent (and any successor transfer agent)
<b>Transfer Certificate</b>	The meaning given in Condition 2.5(a) on page 95
<b>Trigger Event</b>	The meaning given on page 153
<b>Trust</b>	BMO Covered Bond Trust, a trust established under the laws of the Province of Ontario, Canada
<b>Trust Acceleration Notice</b>	A notice in writing given by the Bond Trustee to the Issuer and the Trust, that each Covered Bond of each Series is, and each Covered Bond of each Series shall, as against the Issuer (if not already due and repayable against it following an Issuer Acceleration Notice) and as against the Trust, thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest and all amounts payable by the Trust under the Covered Bond Guarantee shall 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 accrued interest in each case as provided in and in accordance with the Trust Deed and thereafter the Security shall become enforceable, if any of the Trust Events of Default shall occur and be continuing
<b>Trust Accounts</b>	The GIC Account and any additional or replacement accounts opened in the name of the Trust, including each Swap Payments Account, each Swap Collateral Account, the Stand-by GIC Account, the Stand-by Transaction Account and any Stand-by Swap Account
<b>Trust Deed</b>	The trust deed entered into on the Programme Date between the Issuer, the Trust, the Bond Trustee and the Security Trustee (as amended and/or supplemented and/or restated from time to time)
<b>Trust Event of Default</b>	The meaning given in Condition 9.2 on page 121

<b>Trust Payment Date</b>	The 12th Canadian Business Day of each month following a Calculation Date
<b>Trust Payment Period</b>	The period from (and including) a Trust Payment Date to (but excluding) the next following Trust Payment Date
<b>Unpaid Excess Proceeds Percentage Amount</b>	In respect of each Series of Covered Bonds, an amount equal to the Early Redemption Amount in respect of such Series of Covered Bonds (as at the date of service of an Issuer Acceleration Notice), together with (to the extent not included in the Early Redemption Amount) accrued interest thereon up to the date of the receipt of such Excess Proceeds Amount minus the Excess Proceeds Percentage Amount received by the Trust in respect of such Series of Covered Bonds.
<b>U.K. Listing Authority</b>	The FSA in its capacity as competent authority under the FSMA
<b>Valuation Report</b>	The appraisal of the Property for mortgage purposes, obtained by the relevant Borrower, the Seller or, as applicable, any Originator, in respect of each Property in accordance with the Credit and Collection Policy or appraisal 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
<b>Variable Interest Covered Bonds</b>	Index Linked Interest Covered Bonds, Credit Linked Interest Covered Bonds, Equity Linked Interest Covered Bonds, Dual Currency Interest Covered Bonds and other Covered Bonds (excluding Floating Rate Covered Bonds) where the rate of interest is variable
<b>WAFF</b>	Weighted average foreclosure frequency in respect of the Portfolio
<b>WALS</b>	Weighted average loss severity in respect of the Portfolio
<b>Zero Coupon Covered Bonds</b>	Covered Bonds which will be offered and sold at a discount to their nominal amount and which will not bear interest



**ISSUER**  
**BANK OF MONTREAL**

**HEAD OFFICE**  
129 rue Saint Jacques  
Montréal, Québec  
Canada H2Y 1L6

**EXECUTIVE OFFICES**  
100 King Street West  
1 First Canadian Place, 68<sup>th</sup> Floor  
Toronto, Ontario, Canada M5X 1A1

**THE TRUST**  
**BMO Covered Bond Trust**  
100 King Street West  
1 First Canadian Place, 68<sup>th</sup> Floor  
Toronto, Ontario  
Canada M5X 1A1

**SECURITY TRUSTEE AND BOND TRUSTEE**

**Computershare Trust Company of Canada**  
100 University Avenue  
9th Floor, North Tower  
Toronto, Ontario  
Canada M5J 2Y1

**PRINCIPAL PAYING AGENT**

**HSBC Bank plc**  
8 Canada Square  
London E14 5HQ

**PAYING AGENT**

**Dexia Banque Internationale à Luxembourg,  
société anonyme**  
69 route d'Esch, L2953 Luxembourg

**LEGAL ADVISERS**

**To the Issuer**

*As to Canadian Law*  
**Osler, Hoskin & Harcourt LLP**  
PO Box 50  
1 First Canadian Place  
Toronto, Ontario  
Canada M5X 1B8

*As to English Law*  
**Allen & Overy LLP**  
One Bishops Square  
London E1 6AD

*As to U.S. Law*  
**Allen & Overy LLP**  
1221 Avenue of the Americas  
New York  
New York, 10020

**To the Dealers**

*As to Canadian Law*  
**McCarthy Tétrault LLP**  
Suite 5300, TD Bank Tower  
Toronto Dominion Centre  
Toronto, Ontario  
Canada M5K 1E6

*As to English Law*  
**Clifford Chance LLP**  
10 Upper Bank Street  
Canary Wharf  
London E14 5JJ

*As to U.S. Law*  
**Clifford Chance US LLP**  
31 West 52 Street  
New York  
New York, 10019

**AUDITORS**

**KPMG LLP**  
Bay Adelaide Centre  
333 Bay Street  
Suite 4600  
Toronto, Ontario  
Canada M5H 2S5

**Shearman & Sterling LLP**

Commerce Court West  
Suite 4405  
Toronto, Ontario  
Canada M5L 1E8

**ARRANGERS**

**BMO Capital Markets**  
95 Queen Victoria Street  
London EC4V 4HG

**Barclays Capital Inc.**  
745 Seventh Avenue  
New York New York 10019

**Société Générale**  
29 Boulevard Haussmann  
75009 Paris

**DEALERS**

**HSBC Bank plc**  
8 Canada Square  
London E14 5HQ

**Barclays Bank PLC**  
5 The North Colonnade  
Canary Wharf, London, E14 4BB

**Bank of Montreal, London Branch**  
95 Queen Victoria Street  
London EC4V 4HG

**BMO Capital Markets Corp.**  
3 Times Square  
New York, NY 10036

**Société Générale**  
29 Boulevard Haussmann  
75009 Paris

**UniCredit Bank AG**  
Arabellastrasse 12  
D 81925 Munich,  
Germany

**Barclays Capital Inc.**  
745 Seventh Avenue  
New York New York 10019