

## Prospectus Supplement To Short Form Base Shelf Prospectus dated December 20, 2013

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

This prospectus supplement together with the short form base shelf prospectus dated December 20, 2013 to which it relates, as amended or supplemented, and each document incorporated by reference into such prospectus, constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities.

The securities to be issued hereunder have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"), or any state securities laws. The securities to be issued hereunder are being sold only outside the United States to non-U.S. Persons (as defined under Regulation S under the U.S. Securities Act) and, subject to certain exceptions, may not be offered, sold or delivered, directly or indirectly, in the United States of America or to or for the account or benefit of U.S. persons. See "Plan of Distribution".

Information has been incorporated by reference in the accompanying short form base shelf prospectus dated December 20, 2013 from documents filed with securities regulatory authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from Vice-President and Head, Investor Relations, Royal Bank of Canada, 200 Bay Street, 4<sup>th</sup> Floor, North Tower, Toronto, Ontario M5J 2J5, Telephone: (416) 955-7803 or Fax: (416) 955-7800, and are also available electronically at [www.sedar.com](http://www.sedar.com).

### New Issue

March 13, 2015



## Royal Bank of Canada \$5,000,000,000 under a global covered bond programme, unconditionally and irrevocably guaranteed as to payments by RBC COVERED BOND GUARANTOR LIMITED PARTNERSHIP

We may at various times until January 20, 2016 offer debt securities constituting unsubordinated indebtedness ("Covered Bonds") described in this prospectus supplement in an aggregate amount of up to \$5,000,000,000 (or its equivalent in non-Canadian currencies or currency units) calculated on the basis of the principal amount of the Covered Bonds issued, in the case of interest bearing Covered Bonds, or on the basis of the gross proceeds received by us, in the case of non-interest bearing Covered Bonds or Covered Bonds bearing interest at a rate that at the time of issue is below market rates. The specific terms of each series or tranche of Covered Bonds issued hereunder, which will be established at the time of the offering and sale of such Covered Bonds, will be set out in a pricing supplement delivered together with the short form base shelf prospectus of Royal Bank of Canada ("the Bank") dated December 20, 2013 (the "base shelf prospectus") and this prospectus supplement to purchasers of the Covered Bonds. The aggregate amount of Covered Bonds that may be offered hereunder may be subject to reduction as a result of the sale by us of other securities pursuant to one or more other prospectus supplements under the base shelf prospectus.

The Covered Bonds will be our direct unsecured obligations which, if we become insolvent or are wound up, will rank equally with our other unsubordinated indebtedness, including deposit liabilities, other than certain governmental claims in accordance with applicable law.

RBC Covered Bond Guarantor Limited Partnership (the "Guarantor LP") has agreed to guarantee payments of interest and principal under the Covered Bonds pursuant to a direct and, following the occurrence of a Covered Bond Guarantee Activation Event (as defined herein), unconditional and irrevocable guarantee which is secured by the assets of the Guarantor LP, including the Covered Bond Portfolio (as defined herein). Recourse against the Guarantor LP under the Covered Bond Guarantee (as defined herein) is limited to the aforementioned assets and the Guarantor LP will not have any other source of funds available to meet its obligations under the Covered Bond Guarantee.

The Bank is a registered issuer and the Programme (as defined herein) is a registered program under Part I.1 of the *National Housing Act* (Canada) and the Canadian Registered Covered Bond Programs Guide (the "Guide") published by Canada Mortgage and Housing Corporation ("CMHC"), the administrator of the Canadian covered bond legal framework under Part I.1 of the *National Housing Act* (Canada). The Covered Bonds will be registered covered bonds under Part I.1 of the *National Housing Act* (Canada) and the Guide.

**THE COVERED BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY CMHC NOR HAS CMHC PASSED UPON THE ACCURACY OR ADEQUACY OF THE PROSPECTUS (AS DEFINED HEREIN). THE COVERED BONDS ARE NOT INSURED OR GUARANTEED BY CMHC OR THE GOVERNMENT OF CANADA OR ANY OTHER AGENCY THEREOF.**

**Investing in the Covered Bonds described herein involves a number of risks. See "Risk Factors".**

**The Covered Bonds will not be deposits insured under the *Canada Deposit Insurance Corporation Act*.**

<sup>®</sup>Registered trademark of Royal Bank of Canada

The Covered Bonds will be offered by RBC Dominion Securities Inc. (“**RBC DS**”) and such other investment dealer or dealers as the Bank may from time to time appoint pursuant to a Dealer Agreement (each a “**Dealer**” and collectively, “**Dealers**”) in respect of the Covered Bonds offered hereunder dated March 9, 2015 as may be amended or supplemented from time to time, between us, the Guarantor LP and the Dealers (the “**Dealer Agreement**”). Under the Dealer Agreement, the Covered Bonds may be purchased or offered at various times by any of the Dealers, as agent, underwriter or principal, at prices and commissions to be agreed upon, for sale to the public at prices to be negotiated with purchasers. Sale prices may vary during the distribution period and as between purchasers. We may also offer the Covered Bonds to purchasers directly, pursuant to applicable law, at prices and on terms to be negotiated. The applicable Final Terms (as defined herein) set out in a pricing supplement will identify each Dealer engaged in connection with the offering and sale of any Covered Bonds, and will also set forth the terms of the offering of such Covered Bonds including the net proceeds to us and, to the extent applicable, any fees payable to the Dealers. RBC DS will be involved in the decision to distribute Covered Bonds hereunder and in the determination of the terms of each particular offering of Covered Bonds. **RBC DS is our wholly owned subsidiary. Consequently, we are a related and connected issuer of RBC DS within the meaning of applicable securities legislation. See “Plan of Distribution”.**

In compliance with applicable Canadian securities laws, we have filed an undertaking with the securities regulators in each province and territory of Canada that we will not distribute any Covered Bonds that are considered novel specified derivatives (as such terms are defined under applicable Canadian securities laws) at the time of distribution without preclearing with such securities regulators the disclosure contained in the prospectus supplements or pricing supplements pertaining to such Covered Bonds. If the Bank decides to offer Covered Bonds that are considered derivatives in Québec, it will comply with the applicable provisions of the *Derivatives Act* (Québec). This prospectus supplement does not qualify the distribution in Québec of Covered Bonds that are derivatives under Québec law.

Pursuant to exemptive relief that we have obtained from the Canadian securities regulatory authorities, we are not required to prepare separate audited annual and unaudited interim financial statements for the Guarantor LP or to provide certain other financial disclosure prescribed by applicable securities law for a “credit supporter”.

**It is not currently anticipated that the Covered Bonds will be listed on or traded over any stock exchange or quotation system and, consequently, there is no market through which these securities may be sold and purchasers may not be able to resell securities purchased under this prospectus supplement in the secondary market. This may affect the pricing of the securities, transparency and availability of trading prices, the liquidity of the securities, and the extent of issuer regulation. See “Risk Factors”.**

In this prospectus supplement, unless otherwise specified, all dollar amounts are expressed in Canadian dollars.

Any offering of Covered Bonds is subject to approval of certain legal matters on our behalf by Norton Rose Fulbright Canada LLP and on behalf of the Dealers by McCarthy Tétrault LLP.

## TABLE OF CONTENTS

<b>PROSPECTUS FOR COVERED BONDS.....</b>	<b>1</b>
<b>DOCUMENTS INCORPORATED BY REFERENCE .....</b>	<b>1</b>
<b>CAUTION REGARDING FORWARD-LOOKING STATEMENTS .....</b>	<b>1</b>
<b>GLOBAL COVERED BOND PROGRAMME .....</b>	<b>2</b>
<b>SUMMARY .....</b>	<b>3</b>
<b>RISK FACTORS .....</b>	<b>10</b>
<b>RBC COVERED BOND GUARANTOR LIMITED PARTNERSHIP .....</b>	<b>30</b>
<b>USE OF PROCEEDS .....</b>	<b>32</b>
<b>DESCRIPTION OF THE COVERED BONDS.....</b>	<b>32</b>
<b>TERMS AND CONDITIONS OF THE COVERED BONDS .....</b>	<b>36</b>
<b>DESCRIPTION OF THE CANADIAN REGULATED COVERED BOND REGIME.....</b>	<b>61</b>
<b>CASHFLOWS .....</b>	<b>63</b>
<b>COVERED BOND PORTFOLIO.....</b>	<b>71</b>
<b>LOAN ORIGINATION AND LENDING CRITERIA .....</b>	<b>72</b>
<b>THE SERVICER.....</b>	<b>75</b>
<b>ROYAL BANK OF CANADA SERVICING PORTFOLIO .....</b>	<b>76</b>
<b>SUMMARY OF PRINCIPAL DOCUMENTS .....</b>	<b>78</b>
<b>ADDITIONAL INFORMATION REGARDING CLEARING AND SETTLEMENT .....</b>	<b>118</b>
<b>TAX CONSEQUENCES .....</b>	<b>120</b>
<b>FOREIGN ACCOUNT TAX COMPLIANCE ACT.....</b>	<b>122</b>
<b>ELIGIBILITY FOR INVESTMENT .....</b>	<b>123</b>
<b>PLAN OF DISTRIBUTION .....</b>	<b>123</b>
<b>SECONDARY MARKET FOR COVERED BONDS.....</b>	<b>124</b>
<b>LEGAL MATTERS &amp; INTEREST OF EXPERTS .....</b>	<b>124</b>
<b>GLOSSARY.....</b>	<b>125</b>

In this prospectus supplement, unless the context otherwise indicates, the “Bank”, the “Issuer”, “we”, “us” or “our” means Royal Bank of Canada together, where the context requires, with its subsidiaries.

## PROSPECTUS FOR COVERED BONDS

Each series or tranche of Covered Bonds issued under the Programme will be described in four separate documents: (1) the base shelf prospectus, (2) the prospectus supplement dated March 9, 2015, which establishes the Programme for purposes of distributions in Canada, (3) this prospectus supplement which provides additional disclosure in respect of the Programme, as the same may be amended or supplemented from time to time and (4) the specific terms of each series or tranche of Covered Bonds (including pricing information) to be described in a pricing supplement. In respect of any particular Covered Bonds we may offer under our Programme, the base shelf prospectus and this prospectus supplement will collectively constitute the “**prospectus**” for such Covered Bonds. Since the specific terms of Covered Bonds that we may offer described in the applicable pricing supplement may differ from the general information provided in the base shelf prospectus and this prospectus supplement, in all cases you should rely on the information in the applicable pricing supplement where it differs from that in the base shelf prospectus and this prospectus supplement.

## DOCUMENTS INCORPORATED BY REFERENCE

This prospectus supplement is deemed to be incorporated by reference into the base shelf prospectus solely for the purpose of our Programme and the Covered Bonds issued hereunder. Other documents are also incorporated or deemed to be incorporated by reference into the base shelf prospectus and reference should be made to the base shelf prospectus for full particulars.

**Any statement contained in a document incorporated or deemed to be incorporated by reference in the base shelf prospectus or this prospectus supplement is deemed to be modified or superseded, for purposes of this prospectus supplement, to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference in the base shelf prospectus or this prospectus supplement modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of material fact or an omission to state a material fact that was required to be stated or that was necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this prospectus supplement.**

## CAUTION REGARDING FORWARD-LOOKING STATEMENTS

From time to time, we make written or oral forward-looking statements within the meaning of certain securities laws, including the “safe harbor” provisions of the *United States Private Securities Litigation Reform Act of 1995* and any applicable Canadian securities legislation. We may make forward-looking statements in this prospectus supplement, in the documents incorporated by reference in the accompanying short form base shelf prospectus dated December 20, 2013, in other filings with Canadian regulators or the United States Securities and Exchange Commission, in reports to shareholders and in other communications. Forward-looking statements in, or incorporated by reference in, this prospectus supplement include, but are not limited to, statements relating to our financial performance objectives, vision and strategic goals, the economic and market review and outlook for Canadian, United States (the “U.S.”), European and global economies, the regulatory environment in which we operate, the outlook and priorities for each of our business segments, and the risk environment including our liquidity and funding risk as set out in our management’s discussion and analysis for the year ended October 31, 2014 (the “**2014 Management’s Discussion and Analysis**”) and in our management’s discussion and analysis for the three month period ended January 31, 2015 (the “**Q1 2015 Management’s Discussion and Analysis**”). The forward-looking information contained in, or incorporated by reference in, this prospectus supplement is presented for the purpose of assisting the holders of our securities, potential purchasers of our securities and financial analysts in understanding our financial position and results of operations as at and for the periods ended on the dates presented and our financial performance objectives, vision and strategic goals, and may not be appropriate for other purposes. Forward-looking statements are typically identified by words such as “believe”, “expect”, “foresee”, “forecast”, “anticipate”, “intend”, “estimate”, “goal”, “plan” and “project” and similar expressions of future or conditional verbs such as “will”, “may”, “should”, “could” or “would”.

By their very nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties, which give rise to the possibility that our predictions, forecasts, projections, expectations or conclusions will not prove to be accurate, that our assumptions may not be correct and that our financial performance objectives, vision and strategic goals will not be achieved. We caution readers not to place undue reliance on these statements as a number of risk

factors could cause our actual results to differ materially from the expectations expressed in such forward-looking statements. These factors – many of which are beyond our control and the effects of which can be difficult to predict – include: credit, market, liquidity and funding, insurance, regulatory compliance, operational, strategic, reputation, legal and regulatory environment, competitive and systemic risks and other risks discussed in the “Risk management” and “Overview of other risks” sections of the 2014 Management’s Discussion and Analysis and in the “Risk management” section of the Q1 2015 Management’s Discussion and Analysis; the high levels of Canadian household debt; cybersecurity; the business and economic conditions in Canada, the U.S. and certain other countries in which we operate; the effects of changes in government fiscal, monetary and other policies; tax risk and transparency; our ability to attract and retain employees; the accuracy and completeness of information concerning our clients and counterparties; the development and integration of our distribution networks; model, information technology, information management, social media, environmental and third party and outsourcing risk.

We caution that the foregoing list of risk factors is not exhaustive and other factors could also adversely affect our results. When relying on our forward-looking statements to make decisions with respect to us, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Material economic assumptions underlying the forward looking statements contained in, or incorporated by reference in, this prospectus supplement are set out in the “Overview and outlook” section and for each business segment under the heading “Outlook and priorities” in the 2014 Management’s Discussion and Analysis, as updated by the “Overview” section in the Q1 2015 Management’s Discussion and Analysis. Except as required by law, we do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by us or on our behalf.

Additional information about these and other factors can be found in the “Risk management” and “Overview of other risks” sections in the 2014 Management’s Discussion and Analysis and in the “Risk management” section in our Q1 2015 Management’s Discussion and Analysis.

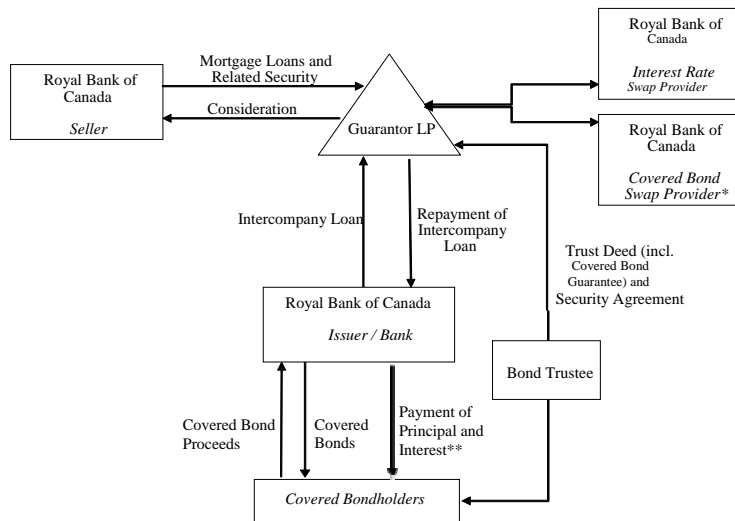
## GLOBAL COVERED BOND PROGRAMME

The Bank has issued covered bonds, which remain outstanding as of the date of this prospectus supplement, in a variety of currencies under the Bank’s global covered bond programme (the “Programme”). The Bank anticipates that it will continue to issue covered bonds under the Programme by means other than this prospectus. Covered bonds issued under the Programme are issued under a trust deed between the Bank, the Guarantor LP and the Bond Trustee as may be supplemented, amended and restated (the “**Trust Deed**”) and have the benefit of the Covered Bond Guarantee issued by the Guarantor LP and secured by a pledge of the Covered Bond Portfolio to the Bond Trustee. The Bond Trustee acts as the trustee under the Trust Deed.

On July 3, 2013, the Bank was accepted as a registered issuer under Part I.1 of the *National Housing Act* (Canada) and the Guide by CMHC in accordance with their terms and on July 3, 2013, (the “**CMHC Programme Registration Date**”), the Programme was registered as a registered program under Part I.1 of the *National Housing Act* (Canada) and the Guide. All outstanding covered bonds under the Programme are and future covered bonds issued under the Programme, including the Covered Bonds, will be, registered covered bonds under Part I.1 of the *National Housing Act* (Canada) and the Guide.

### Programme Structure Overview

The Covered Bonds of each series issued by the Bank are guaranteed by the Guarantor LP pursuant to the terms of the Trust Deed. The Guarantor LP’s guarantee is secured by a pledge of assets of the Guarantor LP, which includes the Covered Bond Portfolio, to the Bond Trustee pursuant to the terms of the Security Agreement. The Guarantor LP purchased the Covered Bond Portfolio from the Bank using amounts borrowed from the Bank under the Intercompany Loan. Proceeds from the Intercompany Loan may also be used to purchase New Loans and their Related Security for the Covered Bond Portfolio and for other purposes as described herein. The Guarantor LP and the Bank entered into an Interest Rate Swap Agreement and a Covered Bond Swap Agreement for which it will enter in a new confirmation for each series of Covered Bonds that it guarantees. Cashflows will be exchanged under the Covered Bond Swap Agreement no later than the date on which the Guarantor LP is required to pay under its guarantee upon the occurrence of a Covered Bond Guarantee Activation Event. The Interest Rate Swap Agreement converts interest received on the Covered Bond Portfolio to an amount in excess of the interest rate payable on the Intercompany Loan and, for each series, the Covered Bond Swap Agreement converts a certain portion of the Canadian dollar payments from the Interest Rate Swap Agreement (or if not then in place for any reason, the Covered Bond Portfolio) to the currency and Interest Amounts payable on the related Covered Bonds.



\*Cashflows will be exchanged under the Covered Bond Swap Agreement no later than the occurrence of a Covered Bond Guarantee Activation Event.

\*\*If a Notice to Pay is served on the Guarantor LP, payments of principal and interest will be made by the Guarantor LP

## SUMMARY

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

- Issuer:** Royal Bank of Canada
- Branch of Account:** The main branch of the Bank in Toronto (located at its Executive Offices) will take the deposits evidenced by the Covered Bonds but without prejudice to the provisions of Condition 9 (see “*Terms and Conditions of the Covered Bonds – Payments*”). The Bank may also specify any other branch in the prospectus supplement.
- Guarantor LP:** RBC Covered Bond Guarantor Limited Partnership
- Dealers:** RBC Dominion Securities Inc. and any other dealer appointed from time to time by the Bank generally in respect of the Programme or in relation to a particular series or tranche of Covered Bonds.
- Seller:** The Bank, any New Seller, or other Limited Partner, who may from time to time accede to, and sell Loans and their Related Security or New Loans and their Related Security to the Guarantor LP.
- Servicer:** The Bank, subject to replacement in accordance with the terms of the Servicing Agreement.
- Cash Manager:** The Bank, subject to replacement in accordance with the terms of the Cash Management Agreement.

<b>Calculation Agent:</b>	The Bank of New York Mellon, London Branch, acting through its offices located at One Canada Square, London E14 5AL, England, unless otherwise specified in the applicable pricing supplement.
<b>Issuing and Paying Agent:</b>	The Bank of New York Mellon, London Branch, acting through its offices located at One Canada Square, London E14 5AL, England, unless otherwise specified in the applicable pricing supplement.
<b>Canadian Registrar and Transfer Agent:</b>	BNY Trust Company of Canada, acting through its offices located at 320 Bay Street, 11th Floor, Toronto, Ontario, Canada, M5H 4A6.
<b>Bond Trustee:</b>	Computershare Trust Company of Canada, acting through its offices located at 100 University Avenue, 11th Floor, North Tower, Toronto, Ontario Canada M5J 2Y1.
<b>Asset Monitor:</b>	Deloitte LLP, acting through its offices at Suite 1400, Brookfield Place, 181 Bay Street, Toronto, Ontario, Canada M5J 2V1.
<b>Interest Rate Swap Provider:</b>	The Bank, subject to replacement in accordance with the terms of the Interest Rate Swap Agreement.
<b>Covered Bond Swap Provider:</b>	The Bank, subject to replacement in accordance with the terms of the Covered Bond Swap Agreement.
<b>GDA Provider:</b>	The Bank, acting through its main branch in Toronto.
<b>Account Bank:</b>	The Bank, acting through its main branch in Toronto.
<b>Standby Account Bank:</b>	Bank of Montreal, acting through its Toronto branch located at 100 King Street West, 1 First Canadian Place, 68th Floor, Toronto, Ontario, Canada M5J 2Y1.
<b>Standby GDA Provider:</b>	Bank of Montreal, acting through its Toronto branch located at 100 King Street West, 1 First Canadian Place, 68th Floor, Toronto, Ontario, Canada M5J 2Y1.
<b>Custodian:</b>	Computershare Trust Company of Canada, acting through its offices located at 100 University Avenue, 11th Floor, North Tower, Toronto, Ontario Canada M5J 2Y1.
<b>Issuance of Series and Tranches:</b>	Covered Bonds will be issued in series (each, a “ <b>series</b> ”). Each series may comprise one or more tranches (“ <b>tranches</b> ” and each, a “ <b>tranche</b> ”) issued on different Issue Dates. The Covered Bonds of each series will all be subject to identical terms, except that the Issue Date and the amount of the first payment of interest may be different in respect of different tranches.
<b>Currency and Denomination:</b>	Unless otherwise specified in the applicable pricing supplement, Covered Bonds will be issued in Canadian dollars and in such denominations as may be agreed to between the Dealers and the Bank and as set forth in the applicable pricing supplement.
<b>Maturities:</b>	Such maturities as may be agreed between the Bank and the Dealers or covered bondholders, as the case may be, and as indicated in the applicable pricing supplement, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant regulator (or equivalent body) or any laws or regulations applicable to the Bank or the relevant Specified Currency.
<b>Form of the Covered Bonds:</b>	The Covered Bonds will be issued in registered form as a global covered bond held through CDS, unless otherwise specified in the applicable pricing supplement.
<b>Interest:</b>	Covered bonds may be interest bearing or non-interest bearing. Interest (if any) may accrue at a fixed or floating rate (detailed in a formula or otherwise) and may vary during the lifetime of the relevant series.

<b>Types of Covered Bonds:</b>	Unless otherwise specified in the applicable pricing supplement, the types of Covered Bonds that may be issued pursuant to this prospectus supplement are (i) Fixed Rate Covered Bonds, and (ii) Floating Rate Covered Bonds.
<b>Other Types of Covered Bonds:</b>	Covered bonds with respect to which payment of principal and/or interest is linked to any source or types of Covered Bonds not referred to above may be issued on terms agreed between the Bank and the relevant Dealer(s) and set out in the applicable pricing supplement.
<b>Fixed Rate Covered Bonds:</b>	Fixed Rate Covered Bonds will bear interest at a fixed rate which will be payable on such date or dates as may be agreed between the Bank and the Dealers and on redemption and will be calculated on the basis of such day count basis as may be agreed between the Bank and the Dealers (as set out in the applicable pricing supplement), provided that if an Extended Due for Payment Date is specified in the applicable pricing supplement (which shall be the case unless amendments are made to the Guarantor LP Agreement (see “ <i>Summary of Principal Documents – The Trust Deed – Covered Bond Guarantee</i> ”)), interest following the Due for Payment Date will continue to accrue and be payable on the unpaid amount at a rate of interest specified in the applicable pricing supplement (in the same manner as the rate of interest for Floating Rate Covered Bonds) even where the relevant Covered Bonds are Fixed Rate Covered Bonds. See “ <i>Terms and Conditions of the Covered Bonds – Interest</i> ”.
<b>Floating Rate Covered Bonds:</b>	Floating Rate Covered Bonds will bear interest at a rate determined on such basis as may be agreed between the Bank and the Dealers, as set out in the applicable pricing supplement.
<b>Rating Agency Confirmation:</b>	Any issuance of Covered Bonds will be conditional upon obtaining Rating Agency Confirmation in respect of the ratings of the then outstanding Covered Bonds by the Rating Agencies.
<b>Listing:</b>	Covered Bonds will not be listed on any stock exchange unless otherwise specified in the applicable pricing supplement.
<b>Redemption:</b>	<p>The applicable pricing supplement relating to each tranche of Covered Bonds will indicate either that the relevant Covered Bonds of such tranche cannot be redeemed prior to their stated maturity (other than following an Issuer Event of Default or a Guarantor LP Event of Default or as indicated below) or that such Covered Bonds will be redeemable at the option of the Bank upon giving notice to the holders of the Covered Bonds, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Bank and the Dealers (as set out in the applicable pricing supplement).</p> <p>Early redemption will be permitted for taxation reasons and illegality as mentioned in “<i>Terms and Conditions of the Covered Bonds – Redemption and Purchase – Early Redemption for Taxation Reasons</i>” and “<i>Terms and Conditions of the Covered Bonds – Redemption and Purchase – Redemption due to Illegality</i>”, but will otherwise be permitted only to the extent specified in the applicable pricing supplement.</p>
<b>Extendable obligations under the Covered Bond Guarantee:</b>	<p>The applicable pricing supplement may also provide that (if a Notice to Pay has been served on the Guarantor LP) the Guarantor LP’s obligations under the Covered Bond Guarantee to pay the Guaranteed Amounts corresponding to the Final Redemption Amount of the applicable series of Covered Bonds on their Final Maturity Date (subject to applicable grace periods) may be deferred until the Extended Due for Payment Date (which shall provide for an Extended Due For Payment Date unless amendments are made to the Guarantor LP Agreement (see “<i>Summary of Principal Documents – The Trust Deed – Covered Bond Guarantee</i>”)).</p> <p>In such case, such deferral will occur automatically (i) if the Bank fails to pay the Final Redemption Amount of the relevant series of Covered Bonds on their Final Maturity Date (subject to applicable grace periods) and (ii) if the Guaranteed</p>



Amounts equal to the Final Redemption Amount in respect of such series of Covered Bonds are not paid in full by the Guarantor LP by the Extension Determination Date (for example, because the Guarantor LP has insufficient moneys in accordance with the Priorities of Payment to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount of the relevant series of Covered Bonds after payment of higher ranking amounts and taking into account amounts ranking *pari passu* in the Priorities of Payment). To the extent a Notice to Pay has been served on the Guarantor LP and the Guarantor LP has sufficient time and sufficient moneys to pay in part the Final Redemption Amount, such partial payment will be made by the Guarantor LP on any Interest Payment Date up to and including the relevant Extended Due for Payment Date. See “*Terms and Conditions of the Covered Bonds – Redemption and Purchase – Redemption at Maturity*”. Interest will continue to accrue and be payable on the unpaid amount at a rate of interest specified in the applicable pricing supplement (in the same manner as the rate of interest for Floating Rate Covered Bonds). The Guarantor LP will pay Guaranteed Amounts constituting Scheduled Interest on each Original Due for Payment Date and the Extended Due for Payment Date and any unpaid amounts in respect thereof shall be due and payable on the Extended Due for Payment Date. See “*Terms and Conditions of the Covered Bonds – Interest*”.

**Cross Default:**

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

**Status of the Covered Bonds:**

The Covered Bonds will constitute deposits for purposes of the *Bank Act* (Canada) and constitute legal, valid and binding direct, unconditional, unsubordinated and unsecured obligations of the Bank and will rank *pari passu* with all deposit liabilities of the Bank without any preference among themselves and (save for any applicable statutory provisions) at least equally with all other present and future unsecured and unsubordinated obligations of the Bank, from time to time outstanding.

The Covered Bonds will be registered under Part I.1 of the *National Housing Act* (Canada) and the Guide.

The Covered Bonds will not be deposits insured under the *Canada Deposit Insurance Corporation Act* (Canada) or any other governmental insurance scheme by any other country.

**Governing Law and Jurisdiction:**

The Covered Bonds and the Transaction Documents (other than the Swap Agreements and as otherwise indicated) are or will be governed by, and construed in accordance with, the laws of the Province of Ontario and the laws of Canada applicable therein. The Swap Agreements are governed by the laws of England.

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

**Terms and Conditions:**

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

**Clearing System:**

CDS and/or such other clearing systems as may be specified in the applicable pricing supplement.

**Non-Canadian Selling Restrictions:**

Specific selling restrictions on offers, sales and deliveries of Covered Bonds and the distribution of offering material outside of Canada, as well as other restrictions in connection with a particular issue of Covered Bonds, may be set out in the applicable pricing supplement.

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

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

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

**Intercompany Loan:** Under the terms of the Intercompany Loan Agreement, the Bank has made available to the Guarantor LP, on an unsecured basis, an interest-bearing Intercompany Loan, comprised of a Guarantee Loan and a revolving Demand Loan, in a combined aggregate amount equal to the Total Credit Commitment, subject to increases and decreases as described below. The Intercompany Loan is denominated in Canadian dollars. The interest rate on the Intercompany Loan is a Canadian dollar floating rate determined by the Bank from time to time, subject to a maximum of the floating rate under the Interest Rate Swap Agreement less the sum of a minimum spread and an amount for certain expenses of the Guarantor LP. The balance of the Guarantee Loan and Demand Loan will fluctuate with the issuances and redemptions of Covered Bonds and the requirements of the Asset Coverage Test.

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

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

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

**The Proceeds of the Intercompany Loan:**

The Guarantor LP has used advances from the Intercompany Loan to purchase Loans and their Related Security for the Covered Bond Portfolio from the Seller in accordance with the terms of the Mortgage Sale Agreement and may use additional advances (i) to purchase New Loans and their Related Security pursuant to the terms of the Mortgage Sale Agreement; and/or (ii) to invest in Substitute Assets in an amount not exceeding the prescribed limit; and/or (iii) subject to complying with the Asset Coverage Test to make capital distributions to the Limited Partner; and/or (iv) to make deposits of the proceeds in the Guarantor LP Accounts (including, without limitation, to fund the Reserve Fund to an amount not exceeding the prescribed limit) and make investments in Substitute Assets.

**Capital Contribution:**

The Limited Partner may from time to time make capital contributions to the Guarantor LP including capital contributions of New Loans and their Related Security. Each of the Managing GP and the Liquidation GP respectively hold 99 percent and 1 percent of the .05 percent general partner interest in the Guarantor LP. The Limited Partner holds the substantial economic interest in the Guarantor LP (approximately 99.95 percent).

**Consideration:**

Under the terms of the Mortgage Sale Agreement, the Seller has sold Loans and their Related Security to the Guarantor LP for the Covered Bond Portfolio on a fully-serviced basis for cash consideration and may, from time to time, sell New Loans and their Related Security to the Guarantor LP on a fully-serviced basis in exchange for cash consideration equal to the fair market value of such Loans on their Transfer Date. The Limited Partner may also make capital contributions of New Loans and their Related Security to the Guarantor LP in exchange for additional interests in the capital of the Guarantor LP.

**Interest Rate Swap Agreement:**

To provide a hedge against possible variances in the rates of interest payable on the Loans in the Covered Bond Portfolio (which may, for instance, include variable rates of interest or fixed rates of interest) and the amounts payable on the Intercompany Loan and (following the occurrence of a Covered Bond Guarantee Activation Event) the Covered Bond Swap Agreement, the Guarantor LP has entered into the Interest Rate Swap Agreement with the Interest Rate Swap Provider.

**Covered Bond Swap Agreement:**

To provide a hedge against currency risks, interest rate risks and timing risks arising in respect of amounts received by the Guarantor LP under the Interest Rate Swap Agreement and amounts payable in respect of its obligations under the Covered Bond Guarantee, the Guarantor LP has entered into the Covered Bond Swap Agreement (which may include a new schedule and confirmation(s) for each tranche and/or series of Covered Bonds) with the Covered Bond Swap Provider. Cashflows will be exchanged under the Covered Bond Swap Agreement no later than upon the occurrence of a Covered Bond Guarantee Activation Event.

**Risk Factors:**

There are certain risks related to any issue of Covered Bonds under the Programme, which investors should ensure they fully understand. A non-exhaustive summary of such risks is set out under “*Risk Factors*” beginning on page 10 of this prospectus supplement.

**Indexation Methodology**

The Market Value of the Properties which are used in calculating the Asset Coverage Test, the Valuation Calculation and the Amortization Test (except in respect of Calculation Dates prior to June 30, 2014) is adjusted, at least quarterly, for subsequent price developments with respect to the Property subject to the Related Security in respect of each such Loan by adjusting the Latest Valuation for such Property by a rate of change determined by the Index. The Index is an independently developed representation of monthly average home price changes in eleven Canadian metropolitan areas, which are then combined using a weighted average to form a national composite index. See “*Summary of the Principal Documents – Guarantor LP Agreement – Indexation Methodology*”.

**Bank Executive Offices:**

The Bank's corporate headquarters are located at Royal Bank Plaza, 200 Bay Street, Toronto, Ontario, Canada M5J 2J5 and the head office is located at 1 Place Ville Marie, Montréal, Québec, Canada H3C 3A9. The telephone number is (416) 974-0117.

**Guarantor LP Executive Offices:**

The Guarantor LP's address is 155 Wellington Street, West, 14th Floor, Toronto, Ontario, Canada M5V 3K7. The telephone number is (416) 955-4393.

## RISK FACTORS

An investment in the Covered Bonds is subject to various risks including those risks inherent in investing in an issuer involved in conducting the business of a diversified financial institution. Before deciding whether to invest in the Covered Bonds, you should consider carefully the risks described in the documents incorporated by reference in the prospectus (including subsequently filed documents incorporated by reference) and, if applicable, those described in the applicable pricing supplement, as the case may be, relating to a specific offering of Covered Bonds.

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

All references to a “Condition” in these risk factors are referencing the terms and conditions set forth under “*Terms and Conditions of the Covered Bonds*” in this prospectus supplement.

The terms and conditions of Covered Bonds that may be offered under our Programme may introduce specific risks and investor concerns which a potential investor should carefully consider before reaching an investment decision. In addition to the risks described in the base shelf prospectus under the heading “*Risk Factors*”, and the risks described herein, risks specific to any Covered Bonds offered hereunder will be described under similar headings in the applicable pricing supplement. The risks described below are not the only risks that the Bank or Guarantor LP have in respect of Covered Bonds issued under the Programme. Additional risks and uncertainties not presently known to each of the Bank or Guarantor LP or that it currently believes to be immaterial could also have a material impact on its results of operating or financial condition or affect the ability by the Bank or Guarantor LP to pay interest, principal or other amounts in connection with the Covered Bonds. Potential investors should, in consultation with their own financial, tax and legal advisers, carefully consider, among other matters, such risks before deciding whether an investment in the Covered Bonds is suitable. The Covered Bonds are not a suitable investment for a prospective purchaser who does not understand their terms or the risks involved in holding the Covered Bonds.

### **Factors which are material for the purpose of assessing risks relating to the Bank**

You should consider the categories of risks identified and discussed in the “Risk management” and “Overview of other risks” sections of the 2014 Management’s Discussion and Analysis and in the “Risk management” section of the Q1 2015 Management’s Discussion and Analysis, including those summarized under “*Caution Regarding Forward-Looking Statements*” in this prospectus supplement and in the applicable pricing supplement for any Covered Bonds offered, as well as any risks described in subsequently filed documents incorporated by reference in the prospectus.

### **Factors which are material for the purpose of assessing risks relating to the Guarantor LP**

#### ***Only finite resources are available to the Guarantor LP to meet its obligations under the Covered Bond Guarantee***

The Guarantor LP’s ability to meet its obligations under the Covered Bond Guarantee will depend on: (i) the realizable value of the assets of the Guarantor LP, including the Covered Bond Portfolio; (ii) the amount of Available Revenue Receipts and Available Principal Receipts generated by the Covered Bond Portfolio and the timing thereof; (iii) amounts received from the Swap Providers; (iv) the realizable value of Substitute Assets held by it; and (v) the receipt by it of funds held for and on behalf of the Guarantor LP by its service providers and of credit balances and interest on credit balances from the Guarantor LP Accounts. The Guarantor LP will not have any other source of funds available to meet its obligations under the Covered Bond Guarantee.

If a Guarantor LP Event of Default occurs and the Security created by or pursuant to the Security Agreement is enforced, the proceeds from the realization of the Charged Property may not be sufficient to meet the claims of all the Secured Creditors, including the holders of the Covered Bonds.

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

Holders of the Covered Bonds should note that the Asset Coverage Test has been structured to ensure that the Adjusted Aggregate Asset Amount is at least equal to the Canadian Dollar Equivalent of the aggregate Principal Amount

Outstanding of the Covered Bonds for so long as Covered Bonds remain outstanding, which should reduce the risk of there ever being a shortfall (although there is no assurance of this result and the sale of New Loans and their Related Security by the Seller to the Guarantor LP, advances under the Intercompany Loan or additional capital contributions by the Limited Partner may be required to avoid or remedy a breach of the Asset Coverage Test). In addition, the Market Value of the Properties which are used in calculating the Asset Coverage Test (as well as the Valuation Calculation and the Amortization Test) is adjusted, at least quarterly, for subsequent price developments with respect to the Property subject to the Related Security in respect of each such Loan by adjusting the Latest Valuation for each such Property by a rate of change determined by the Index. The Guarantor LP must ensure that following the service of a Notice to Pay, the Amortization Test is met on each Calculation Date. A breach of the Amortization Test will constitute a Guarantor LP Event of Default and will entitle the Bond Trustee to serve a Guarantor LP Acceleration Notice on the Guarantor LP (see “*Summary of the Principal Documents – Guarantor LP Agreement – Asset Coverage Test*”). The Bank will use all reasonable efforts to ensure that the Guarantor LP is in compliance with the Asset Coverage Test. This may include making advances under the Intercompany Loan, selling New Loans and their Related Security to the Guarantor LP or making a Capital Contribution on or before the next Calculation Date following delivery of an Asset Coverage Test Breach Notice in amounts sufficient to avoid such shortfall on future Calculation Dates.

***Reliance of the Guarantor LP on Affiliates and Third Parties poses the risk that a failure of such persons to perform their obligations could adversely affect the Guarantor LP’s ability to meet its obligations***

#### *General*

The Guarantor LP has entered into agreements with the Bank and with a number of third parties pursuant to which the Bank or such third parties have agreed to perform services for the Guarantor LP. In particular, but without limitation, the Servicer has been appointed to service Loans in the Covered Bond Portfolio sold to the Guarantor LP and may sub-contract or delegate the performance of, and has so delegated certain of its duties to, sub-contractors in accordance with the terms of the Servicing Agreement, the Cash Manager has been appointed to calculate and monitor compliance with the Asset Coverage Test, the Valuation Calculation and the Amortization Test and to provide cash management services to the Guarantor LP and the GDA Account and Transaction Account (to the extent maintained) will be held with the Account Bank. Several of those roles, including, but not limited to, the roles of Servicer, Cash Manager and Account Bank, are initially performed by the Bank (see also “*Other factors which are material for the purposes of assessing the risks involved in an investment in the Covered Bonds – The Bank will act in its own interest...*”). The Bank may, and in some circumstances will be required to, be terminated as a service provider if its ratings by the Rating Agencies have been downgraded below a specified rating or there is an uncured breach of the relevant agreement. There can be no assurance that a suitable replacement will be found that is willing to and able to provide such services. In addition, the Bank has agreed to pay and will receive, as applicable, the breakage fees resulting under the Interest Rate Swap Agreement from a portfolio adjustment resulting from a Payment in Kind. In the event that any party fails to perform its obligations under the relevant agreement to which it is a party, the realizable value of the Covered Bond Portfolio or any part thereof or pending such realization (if the Covered Bond Portfolio or any part thereof cannot be sold) the ability of the Guarantor LP to meet its obligations under the Covered Bond Guarantee may be adversely affected. For instance, if the Servicer (or a sub-contractor or delegate of the Servicer) has failed to adequately administer the Loans, this may lead to higher incidences of non-payment or default by Borrowers. The Guarantor LP is also reliant on the Swap Providers to provide it with the funds matching its obligations under the Intercompany Loan Agreement and the Covered Bond Guarantee, as described below.

#### *Servicing*

If a Servicer Event of Default occurs pursuant to the terms of the Servicing Agreement as a result of actions of or events affecting the Servicer or a sub-contractor of the Servicer, then the Guarantor LP and the Bond Trustee will be entitled and in some circumstances required in accordance with the terms of the Guide to terminate the appointment of the Servicer. There can be no assurance that a substitute servicer with sufficient experience in administering mortgages of residential properties in Canada would be found who would be willing and able to service the Loans and their Related Security and enter into a servicing agreement with the Guarantor LP. If found, a substitute servicer may not have ratings from the Rating Agencies on its unsecured, unguaranteed and unsubordinated debt obligations or issuer default ratings, as applicable, above the level specified in the Servicing Agreement and a Rating Agency Confirmation may not be delivered for such substitute servicer. A substitute servicer may charge higher servicing fees that it agrees to with the Guarantor LP, which servicing fees would be entitled to priority over payments to holders of the Covered Bonds.

The ability of a substitute servicer to fully perform the required services would depend, among other things, on the information, software and records available at the time of the appointment. Any delay or inability to appoint a substitute servicer may affect the realizable value of the Covered Bond Portfolio or any part thereof, and/or the ability of the Guarantor LP to meet its obligations under the Covered Bond Guarantee.

The Bond Trustee is not obligated to act as a servicer or to monitor the performance by the Servicer of its obligations in any circumstances.

#### *Indexation Methodology*

The Bank and the Guarantor LP have received written permission from the Index providers to use the Index. The data in the Index is provided on an “as is” basis and without any warranty as to the accuracy, completeness, non-infringement, originality, timeliness or any other characteristics of the data and the Index providers disclaim any and all liability with respect to such data. Neither the Bank nor the Guarantor LP makes any representation or warranty, express or implied, in relation to the accuracy, completeness or reliability of such information or assumes any liability for any errors or reliance placed on such information. As a result, there will not be any recourse for investors, the Bank or the Guarantor LP for any errors in the data in the Index relied upon to determine the Market Value in respect of any Property subject to the Related Security.

#### *Bank’s conflicts of interest*

In respect of the Programme, the Bank will act in its own interest subject to compliance with the Transaction Documents. Such actions by the Bank may not be in the best interests of and may be detrimental to the holders of the Covered Bonds. Subject to compliance with the Transaction Documents, the Bank may act in its own interest without incurring any liability to the holders of any series or tranche of Covered Bonds.

#### *Reliance on Swap Providers*

To provide a hedge against possible variances in the rates of interest payable on the Loans in the Covered Bond Portfolio (which may, for example, include variable rates of interest or fixed rates of interest) and the interest amounts payable on the Intercompany Loan and the Covered Bond Swap Agreement (upon cashflows being exchanged thereunder), the Guarantor LP has entered into the Interest Rate Swap Agreement and may from time to time, including in connection with the purchase of additional Loans, enter into the additional confirmations and schedules under the Interest Rate Swap Agreement with the Interest Rate Swap Provider. In addition, to provide a hedge against currency and/or other risks arising in respect of amounts received by the Guarantor LP under the Interest Rate Swap Agreement and amounts payable in respect of its obligations under the Covered Bond Guarantee, the Guarantor LP has entered into the Covered Bond Swap Agreement and will from time to time, including in connection with the issuance of additional Covered Bonds, enter into the additional confirmations and schedules under the Covered Bond Swap Agreement with the Covered Bond Swap Provider. Cashflows will be exchanged under the Covered Bond Swap Agreement no later than the occurrence of a Covered Bond Guarantee Activation Event. The Bank serves initially as swap counterparty to the Swap Agreements (see also “*Other factors which are material for the purposes of assessing the risks involved in an investment in the Covered Bonds – The Bank will act in its own interest...*”). The Bank may, and in certain circumstances will be required to be replaced by a third party under the Swap Agreements if its ratings by the Rating Agencies have been downgraded below a specified rating, upon an event of default under the relevant Swap Agreement or upon an Issuer Event of Default.

If the Guarantor LP fails to make timely payments of amounts due under any Swap Agreement (except where such failure is caused by the assets available to the Guarantor LP on a Due for Payment Date being insufficient to satisfy such payment obligations), then it will have defaulted under that Swap Agreement and such Swap Agreement may be, and in certain circumstances will be required to be, terminated. Further, a Swap Provider is only obliged to make payments to the Guarantor LP as long as and to the extent that the Guarantor LP has not defaulted under that Swap Agreement. If a Swap Agreement terminates or the Swap Provider is not obliged to make payments or if it defaults in its obligations to make payments of amounts in the relevant currency equal to the full amount to be paid to the Guarantor LP on the payment date under the relevant Swap Agreement, the Guarantor LP will be exposed to changes in the relevant currency exchange rates to Canadian dollars and to any changes in the relevant rates of interest. Unless a replacement swap agreement is entered into, the Guarantor LP may have insufficient funds to meet its obligations under the Covered Bond Guarantee.

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

If the Guarantor LP is obliged to pay a termination payment under any Swap Agreement, such termination payment will rank in priority to principal amounts due on the Covered Bonds and *pari passu* with Interest Amounts due on the Covered Bonds. Under the Guide, if the Liquidation GP is the managing general partner of the Guarantor LP, the Guarantor LP will be permitted to give payments to Swap Providers priority over Interest Amounts due on the Covered

Bonds, provided that pursuant to the terms of the Guarantor LP Agreement any such grant of priority will require the consent of the Bond Trustee and Rating Agency Confirmation. The obligation to pay a termination payment may adversely affect the ability of the Guarantor LP to meet its obligations under the Covered Bond Guarantee. Additionally, the failure of the Guarantor LP to receive a termination payment from the relevant Swap Provider may adversely affect the ability of the Guarantor LP to meet its obligations under the Covered Bond Guarantee.

With respect to potential conflicts of interest that the Bank may have, see “*Reliance of the Guarantor LP on Affiliates and Third Parties... – Bank’s conflicts of interest*”.

***Differences in timings of obligations of the Guarantor LP and the Covered Bond Swap Provider under the Covered Bond Swap Agreement could adversely affect the Guarantor LP’s ability to meet its obligations***

With respect to the Covered Bond Swap Agreement, cashflows will be exchanged under the Covered Bond Swap Agreement no later than upon the occurrence of a Covered Bond Guarantee Activation Event. Upon cashflows being exchanged under the Covered Bond Swap Agreement, the Guarantor LP will make payments to the Covered Bond Swap Provider on each Guarantor LP Payment Date from the amounts received by the Guarantor LP under the Interest Rate Swap Agreement. The Covered Bond Swap Provider may not be obliged to make payments to the Guarantor LP under the Covered Bond Swap Agreement until amounts are Due for Payment on the Covered Bonds, which may be up to twelve months after payments have been made by the Guarantor LP to the Covered Bond Swap Provider under the Covered Bond Swap Agreement. If the Covered Bond Swap Provider does not meet its payment obligations to the Guarantor LP under the Covered Bond Swap Agreement and the Covered Bond Swap Provider does not make a termination payment that has become due from it to the Guarantor LP, the Guarantor LP may have a larger shortfall in funds with which to meet its obligations under the Covered Bond Guarantee than if the Covered Bond Swap Provider’s payment obligations coincided with the Guarantor LP’s payment obligations under the Covered Bond Guarantee. As a result, the difference in timing between the obligations of the Guarantor LP under the Covered Bond Swap Agreement and the obligations of the Covered Bond Swap Provider under the Covered Bond Swap Agreement could adversely affect the Guarantor LP’s ability to meet its obligations under the Covered Bond Guarantee.

**Factors which are material for the purposes of assessing the risks relating to the Covered Bond Portfolio**

***Existing Loans in the Covered Bond Portfolio may be replaced by New Loans with different characteristics***

It is expected that the constitution of the Covered Bond Portfolio will frequently change due to, for instance, repayments of such Loans by Borrowers from time to time and the need to replace such Loans with New Loans in the Covered Bond Portfolio, or the Covered Bond Portfolio being increased to, among other things, permit the issuance of additional Covered Bonds and ensure that the Asset Coverage Test is met.

There is no assurance that the characteristics of New Loans assigned to the Guarantor LP in the future will be the same as those in the current Covered Bond Portfolio. Each New Loan will be required to meet the Eligibility Criteria and satisfy the Representations and Warranties set out in the Mortgage Sale Agreement, although the Eligibility Criteria and Representations and Warranties may change in certain circumstances as described below. The Cash Manager will prepare and provide monthly Investor Reports to the Bank, the Guarantor LP, the Bond Trustee, and the Rating Agencies that will set out certain information in relation to the Covered Bond Portfolio, the calculation of the Asset Coverage Test, the Valuation Calculation, if applicable the Amortization Test, statistical information about the Loans in the Covered Bond Portfolio, performance information about the Loans and other information prescribed by the requirements of the Guide. Investor Reports are available to covered bondholders at the Bank’s website at [http://www.rbc.com/investorrelations/fixed\\_income/covered-bonds-terms.html](http://www.rbc.com/investorrelations/fixed_income/covered-bonds-terms.html) and on SEDAR at [www.sedar.com](http://www.sedar.com).

***New Loan Types added to the Covered Bond Portfolio may be materially different***

If a New Loan constitutes a New Loan Type, the Representations and Warranties in the Mortgage Loan Sale Agreement may be modified as required to accommodate the New Loan Type, but the Representations and Warranties would not change for a New Loan that was not a New Loan Type or in respect of Loans currently in the Covered Bond Portfolio. While the New Loan will be required to comply with the eligibility requirements under Part I.1 of the *National Housing Act* (Canada) and the Guide, the prior consent of the holders of the Covered Bonds to the requisite amendments will not be required. Part I.1 of the *National Housing Act* (Canada) and the Guide prescribe certain requirements which prohibit loans which do not meet certain requirements from forming part of the Covered Bond Portfolio. A New Loan Type is a new type of mortgage loan originated or acquired by the Seller, which the Seller transfers or intends to transfer to the Guarantor LP, the terms and conditions of which are materially different (in the opinion of the Seller, acting reasonably) from the Loans. For the avoidance of doubt, a mortgage loan will not constitute a New Loan Type if it only differs from the Loans 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, cash-backs and/or rate guarantees.



See “*Summary of Principal Documents – Mortgage Sale Agreement – Sale by the Seller of Loans and their Related Security*”.

***There is no assurance that the proceeds from the Covered Bond Portfolio will be sufficient to make all payments due on the Covered Bonds***

The Asset Coverage Test, the Valuation Calculation, the Amortization Test and the Index Methodology are intended to monitor and ensure that the assets and cashflows of the Guarantor LP, including the Loans and their Related Security in the Covered Bond Portfolio and cashflows in respect thereof, will be adequate to enable the Guarantor LP to meet its obligations under the Covered Bond Guarantee. Accordingly, it is expected (but there is no assurance) that the Covered Bond Portfolio could generate sufficient cash, together with the other assets of the Guarantor LP, to enable the Guarantor LP to meet its obligations under the Covered Bond Guarantee.

*Asset Coverage Test:* The value of a Loan for purposes of the Asset Coverage Test is adjusted in accordance with the formula described under “*Summary of Principal Documents – Guarantor LP Agreement – Asset Coverage Test*”. The Asset Coverage Test is met if the aggregate adjusted value of the Loans exceeds the Canadian Dollar Equivalent of aggregate outstanding principal amount of covered bonds issued under the Programme.

If a breach of the Asset Coverage Test occurs which is not cured on the next Calculation Date following a notice by the Managing GP (or the Cash Manager on its behalf) to the Guarantor LP, the Partners and the Bond Trustee that such breach has occurred, the Managing GP (or the Cash Manager on its behalf) will provide an Asset Coverage Test Breach Notice to the Guarantor LP, the Partners, and the Bond Trustee. Failure to meet the Asset Coverage Test as of the Calculation Date following the service of such Asset Coverage Test Breach Notice will result in an Issuer Event of Default.

The Asset Percentage is a component of the Asset Coverage Test which establishes the credit enhancement required for the then outstanding covered bonds under the Programme in accordance with the terms of the Guarantor LP Agreement and in accordance with the Rating Agency methodologies. Pursuant to the terms of the Asset Coverage Test, there is a limit to the degree to which the minimum Asset Percentage may be decreased without the consent of the Bank. In addition, the maximum Asset Percentage may not be increased without the consent of (i) the Bond Trustee (without the consent of the holders of the covered bonds of any series outstanding under the Programme) or (ii) the holders of the Covered Bonds by Extraordinary Resolution (without the consent of the Bond Trustee) in accordance with Condition 13 of the Trust Deed. As a result, there are limits on the amount of credit enhancement required to be maintained to meet the Asset Coverage Test.

If the various methodologies 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 Bank 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, the rating of the Covered Bonds and the assets of the Guarantor LP may be seen to be insufficient to ensure that, in the scenarios employed in the cashflow models, the assets and cashflows of the Guarantor LP will be adequate to enable it to meet its obligations under the Covered Bond Guarantee following a Covered Bond Guarantee Activation Event, notwithstanding that the Asset Coverage Test continues to be met.

*Valuation Calculation:* The Guarantor LP is required to perform the Valuation Calculation to monitor exposure to interest rate and currency exchange rates by measuring the present value of the Covered Bond Portfolio relative to the market value of the obligations guaranteed under the Covered Bond Guarantee. However, there is no obligation on the part of the Bank or the Guarantor LP to take any action in respect of the Valuation Calculation to the extent it shows the market value of the Covered Bond Portfolio is less than the market value of the obligations guaranteed under the Covered Bond Guarantee. The Valuation Calculation does not take into account the Covered Bond Swap Agreement, which is intended to provide a hedge against currency risks, interest rate risks and timing risk in respect of amounts received by the Guarantor LP under the Interest Rate Swap Agreement and amounts payable in respect of its obligations under the Covered Bond Guarantee, except to the extent of any cash or securities transferred to the Guarantor LP by the Covered Bond Swap Provider as credit support for the obligations of the Covered Bond Swap Provider under the terms of the Covered Bond Swap Agreement.

*Amortization Test:* Pursuant to the Guarantor LP Agreement, following service of a notice to pay (the “**Notice to Pay**”) on the Guarantor LP, the Managing GP must use all reasonable efforts to ensure that, on each Calculation Date following service of such Notice to Pay, the Guarantor LP is in compliance with the Amortization Test. The Amortization Test is met if the Amortization Test Aggregate Loan Amount is in an amount at least equal to the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of the covered bonds issued under the Programme. The Amortization Test is intended to ensure that the assets of the Guarantor LP do not fall below a certain threshold to ensure that the assets of the Guarantor LP are sufficient to meet its obligations under the Covered Bond Guarantee.

If the collateral value of the Covered Bond Portfolio has not been maintained in accordance with the terms of the Asset Coverage Test or the Amortization Test, this may affect the realizable value of the Covered Bond Portfolio or any part thereof (both before and after the occurrence of a Guarantor LP Event of Default) and/or the ability of the Guarantor LP to meet its obligations under the Covered Bond Guarantee. Failure to satisfy the Amortization Test on any Calculation Date following the service of a Notice to Pay will constitute a Guarantor LP Event of Default, thereby entitling the Bond Trustee to accelerate the Covered Bonds against the Bank and the Guarantor LP's obligations under the Covered Bond Guarantee against the Guarantor LP, subject to and in accordance with the Conditions.

*Indexation Methodology:* Valuations or assessments in respect of a Property subject to the Related Security in respect of each Loan are obtained when a Loan is originated but generally not subsequent to origination. The Market Value of the Properties subject to the Related Security in respect of the Loans which is used in calculating the Asset Coverage Test, the Valuation Calculation and the Amortization Test (except in respect of Calculation Dates prior to June 30, 2014) is adjusted, at least quarterly, for subsequent price developments with respect to the Property subject to the Related Security in respect of each such Loan by adjusting the Latest Valuation for each such Property by a rate of change determined using the Index. This indexation methodology is subject to certain limitations as described in this Prospectus under "*Risk Factors – Factors which are material for the purpose of assessing risks associated with the Guarantor LP – Reliance of the Guarantor LP on Affiliates and Third Parties poses the risk that a failure of such persons to perform their obligations could adversely affect the Guarantor LP's ability to meet its obligations – Indexation Methodology*".

*Bond Trustee not responsible for monitoring compliance with tests or accuracy of calculations:* The Bond Trustee will not be responsible for monitoring compliance with, nor the monitoring of, the Asset Coverage Test, the Valuation Calculation or the Amortization Test or any other test, or supervising the performance by any other party of its obligations under any Transaction Document.

Prior to the occurrence of an Issuer Event of Default, 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 and Valuation Calculation annually, in respect of the Calculation Period immediately preceding a proposed Issue Date, and more frequently in certain circumstances. Following the occurrence of an Issuer Event of Default, the Asset Monitor will be required to test the calculations performed by the Cash Manager in respect of the Amortization Test and annually in respect of the Asset Coverage Test as required by the Guide. See further "*Summary of Principal Documents – Asset Monitor Agreement*".

***The actual rate of change in the value of a Property may differ from the rate of change used to adjust the Latest Valuation for such Property in determining the Market Value***

The Index does not include a representation of changes in average home prices outside of the Canadian metropolitan areas that it covers and was developed as a representation of monthly average home price changes in the Canadian metropolitan areas that it does cover. While the Index uses data from single family properties, including detached, semi-detached, townhouse/row homes and condominium properties, it is being used to determine the Market Value of all Properties included as Related Security for Loans in the Covered Bond Portfolio, which may not correspond in every case to the categories included in the Index. The actual value of a Property may change at a rate that is greater than or less than the rate of change used to determine the Market Value for such Property. This discrepancy may be magnified when the Index is used to determine the Market Value for a Property outside of the Canadian metropolitan areas covered by the Index given factors that affect housing prices may vary significantly regionally from a national average or where the Index is used to determine Market Value for a Property in a category not covered by the Index and whose value is affected by factors that are different from those that affect the value of properties in the categories used by the Index. In addition, the methodology applied to produce the Index makes certain fundamental assumptions that impose difficulties in selecting or filtering the properties that are used to produce the Index due to a lack of information about the properties, which may result in such properties being excluded and may impact the accuracy of the representation of the rate of change in the Index.

***The Index may not always be available in its current form or a different Index may be used to determine Market Value***

The Index providers may make a change to the method used to calculate the Index, the frequency with which the Index is published may change (such that the Index no longer meets the requirements in the Guide), or the Index may cease to be available to the Issuer and the Guarantor LP for determining Market Value. In such circumstances, the Issuer and the Guarantor LP may or will need to select one or more new indices for determining Market Value. The Issuer and the Guarantor LP may also determine at any time to use a different index or indices to adjust the Latest Valuation for subsequent price developments to determine Market Value for example, or to obtain rates of changes in home prices for metropolitan or geographic areas not covered by the Index, or to use an index or indices that the Issuer and Guarantor LP believe will produce better or more reliable Market Value results or that is more cost effective. The use of any such new index or indices to adjust Latest Valuation could result in a significant change in the Market Value of the Property subject to the Related Security in respect of each Loan. Any change in the Index or Index Methodology used to determine Market

Value will be disclosed to Covered Bondholders in accordance with the definition of “Market Value” in the Master Definition and Construction Agreement and be required to meet the requirements in the Guide. In addition, the Issuer is required, pursuant to the Guide, to provide CMHC notice upon becoming aware of any change or proposed change in the method used to calculate the Index and prior notice of any change in the index or indices used to adjust the Latest Valuation in determining Market Value of the Property subject to the Related Security in respect of each Loan.

***The real property securing the Loans in the Covered Bond Portfolio is concentrated in Canada***

All real property securing the Loans in the Covered Bond Portfolio is located in Canada. The performance of the Loans will therefore be affected by general economic conditions in Canada and the condition of the residential housing market in Canada.

***The Covered Bond Portfolio consists of Loans with renewal risk due to Short Maturities***

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

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

***There is no assurance of the price that may be obtained from the sale of Loans and their Related Security following the occurrence of an Issuer Event of Default***

If a Covered Bond Guarantee Activation Event occurs, the Guarantor LP may need to sell Loans and their Related Security to meet its obligations to creditors and under the Covered Bond Guarantee. 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 obtained, which may affect payments under the Covered Bond Guarantee.

Following a Covered Bond Guarantee Activation Event, the Loans and their Related Security may not be sold by the Guarantor LP 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 an Extended Due for Payment Date is specified as applicable in the applicable pricing supplement, which will be the case unless amendments are made to the Guarantor LP Agreement (see “*Summary of Principal Documents – The Trust Deed – Covered Bond Guarantee*”), the Extended Due for Payment Date under the Covered Bond Guarantee in respect of such Covered Bonds. Following a Covered Bond Guarantee Activation Event, in the six months prior to, as applicable, the Final Maturity Date or Extended Due for Payment Date, the Guarantor LP will 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 Guarantor LP determines it is necessary to sell Loans and their Related Security by a particular date, this may have an adverse effect on their sale price. The Seller that assigned the relevant Loans and their Related Security to the Guarantor LP will have a right of pre-emption to purchase such Loans and their Related Security in the event the Guarantor LP determines to sell such Loans and their Related Security. The Guarantor LP may also use Loans and their Related Security to repay the Demand Loan and will following a Covered Bond Guarantee Activation Event receive credit for such repayment equal to the True Balance on such Loans and their Related Security (see “*Summary of Principal Documents – Mortgage Sale Agreement – Right of pre-emption*”).

***Proceeds of Charged Property following the occurrence of a Guarantor LP Event of Default may be insufficient to pay the Covered Bonds in full***

If a Guarantor LP Event of Default occurs and a Guarantor LP Acceleration Notice is served on the Guarantor LP, then the Bond Trustee will be entitled to enforce the Security created under and pursuant to the Security Agreement and the proceeds from the realization of the Charged Property will be applied by the Bond Trustee towards payment of the obligations of the Guarantor LP in accordance with the Post-Enforcement Priority of Payments described in “*Cashflows*” below.

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

If a Guarantor LP Acceleration Notice is served on the Guarantor LP, then the Covered Bonds may be repaid sooner or later than expected or not at all.

***Canadian regulatory guidelines on residential mortgage underwriting practices and procedures could adversely affect the value of the Covered Bond Portfolio***

OSFI Guideline B-20—Residential Mortgage Underwriting Practices and Procedures (“**Guideline B-20**”), sets out OSFI’s expectations for prudent residential mortgage underwriting by federally-regulated financial institutions. Guideline B-20 applies to the Bank in respect of Loans originated and acquired by it, and it establishes principles with respect to implementing and maintaining a Residential Mortgage Underwriting Policy, borrower due diligence, collateral management and appraisal processes and credit and counterparty risk management practices and procedures.

The Bank instituted a Residential Mortgage Underwriting Policy in compliance with Guideline B-20 prior to the end of its fiscal 2013 and as part of complying with Guideline B-20, implemented a document retention policy on October 1, 2012 requiring retention of all income verification documentation for all Loans. For residential mortgage loans originated prior to the implementation of such policy, outside the Mobile Mortgage Specialists channel, there was no requirement to retain such documentation. As a majority of the Loans in the Covered Bond Portfolio were originated prior to the implementation of the documentation retention policy for income verification, the Asset Monitor may not be able to conduct the income verification procedure in connection with the procedures undertaken in performing its responsibilities under Section 7.3.1 of the Guide with respect to such Loans to the extent such Loans were originated outside of the Mobile Mortgage Specialists channel prior to the implementation of such policy.

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

**Factors that may affect the realizable value of the Covered Bond Portfolio or any part thereof or the ability of the Guarantor LP to meet its obligations under the Covered Bond Guarantee**

Following the occurrence of a Covered Bond Guarantee Activation Event, the realizable value of the Loans and their Related Security in the Covered Bond Portfolio may be reduced (which may affect the ability of the Guarantor LP to meet its obligations under the Covered Bond Guarantee) by:

- representations or warranties not being given by the Guarantor LP or the Seller, as the case may be (unless otherwise agreed with the Seller);
- default by Borrowers of amounts due on the Loans;
- changes to the Lending Criteria of the Seller assigning the Loans and their Related Security;
- the Guarantor LP not being the registered creditor of the Loans in the Covered Bond Portfolio and notice of the sale, transfer, and assignment of such Loans and their Related Security not having been given to Borrowers;
- recourse to the Seller being limited under the terms of the Mortgage Sale Agreement;
- inadequate loan documentation;
- breaches of the Loan Representations and Warranties;
- an insolvency of the Seller;
- possible regulatory changes by the Office of the Superintendent of Financial Institutions (“**OSFI**”) and other regulatory authorities;

- regulations that could lead to some terms of the Loans being unenforceable;
- changes in the then prevailing market interest rates; and
- a disruption in the mortgage or debt capital markets at the time the Loans are being sold by the Guarantor LP to obtain liquidity.

Certain of these factors are considered in further detail below.

In the event the Bank is required to assign some or all of its obligations to one or more third party service providers, as Servicer, Covered Bond Swap Provider, Interest Rate Swap Provider or Cash Manager, such third party service providers may require fees for such services in excess of the rates or amounts, if any, currently being paid to the Bank by the Guarantor LP. Any such increase in fees for the services currently provided by the Bank could have an adverse impact on the ability of the Guarantor LP to meet its obligations under the Covered Bonds. Additionally, there can be no assurance that any third party service provider will have the same level of operational experience as the Bank and operational issues may arise in connection with appointing one or more third party service providers.

***The lack of representations or warranties from the Guarantor LP or the Seller when Loans and their Related Security are to be sold may affect the value of the Covered Bond Portfolio***

Following the occurrence of a Covered Bond Guarantee Activation Event, the Guarantor LP may need to sell Loans and their Related Security to third party purchasers, subject to a right of pre-emption enjoyed by the Seller that assigned such Loans and their Related Security to the Guarantor LP (see “*Summary of Principal Documents – Guarantor LP Agreement – Method of Sale of Selected Loans*”). In respect of any sale of Loans and their Related Security to third parties, however, the Guarantor LP will not be permitted to give any representations or warranties in respect of those Loans and their Related Security (unless expressly permitted to do so by the Bond Trustee). Although a Seller will provide Representations and Warranties in respect of the Loans at the time of sale of the Loans to the Guarantor LP, there is no assurance that any Seller would give any representations or warranties in respect of the Loans and their Related Security at the time of sale of the Loans by the Guarantor LP to third parties. Any Representations or Warranties previously given by the Seller in respect of Loans in the Covered Bond Portfolio may not have value for a third party purchaser if such Seller is then insolvent. Accordingly, there is a risk that the realizable value of the Loans and their Related Security could be adversely affected by the lack of representations and warranties which in turn could adversely affect the ability of the Guarantor LP to meet its obligations under the Covered Bond Guarantee.

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

Borrowers may default on their obligations due under the Loans. 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. Examples of such factors include changes in the national or international economic climate, regional economic or housing conditions, changes in tax laws, interest rates, inflation, the availability of financing, yields on alternative investments, political developments and government policies. Other factors in Borrowers’ individual, personal or financial circumstances may affect the ability of Borrowers to repay the Loans including failing to obtain or maintain property insurance in accordance with the terms of the relevant loan agreement or otherwise. 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. Non-Performing Loans in the Covered Bond Portfolio will be given no weighting for the purposes of the Asset Coverage Test and the Amortization Test.

***Changes to the Lending Criteria of the Seller may adversely affect the creditworthiness of New Loans acquired by the Guarantor LP***

Each of the Loans originated by the Seller will have been originated in accordance with such Seller’s Lending Criteria at the time of origination. It is expected that the Seller’s Lending Criteria will generally consider type of property, term of loan, age of applicant, the loan-to-value ratio, status of applicant and credit history. In the event of the sale of any Loans and their Related Security to the Guarantor LP, the Seller will only warrant that such Loans and their Related Security meet the Eligibility Criteria and were originated in accordance with the Seller’s Lending Criteria applicable at the time of origination. The Seller retains the right to revise its Lending Criteria from time to time. If the Lending Criteria changes in a manner that affects the creditworthiness of the Loans, that may lead to increased defaults by Borrowers and may affect the realizable value of the Covered Bond Portfolio, or part thereof, and the ability of the Guarantor LP to meet

its obligations under the Covered Bond Guarantee. As described above, however, Non-Performing Loans in the Covered Bond Portfolio will be given no weighting for the purposes of the Asset Coverage Test, the Valuation Calculation and the Amortization Test.

***Notice and registration of the sale, transfer and assignment of the Loans and their Related Security in the Covered Bond Portfolio may not be made or given, as the case may be, on the relevant Transfer Dates***

The sale, transfer and assignment by the Seller to the Guarantor LP of the Loans and their Related Security will be effected in accordance with the terms of the Mortgage Sale Agreement, with such revisions as may be necessary for a Capital Contribution in Kind.

Other than (i) registrations in the appropriate land registry or land titles offices in respect of the sale, transfer and assignment of the relevant Loans from the Seller to the Guarantor LP effected by the Mortgage Sale Agreement, and (ii) the provision to Borrowers under the related Loans or the obligors under their Related Security of actual notice of the sale, transfer and assignment thereof to the Guarantor LP, all material filings, recordings, notifications, registrations or other actions under all applicable laws will have been made or taken in each jurisdiction where necessary or appropriate (and where permitted by applicable law) to give legal effect to the sale, transfer and assignment of the Loans and their Related Security and the right to transfer servicing of such Loans as contemplated by the Mortgage Sale Agreement, and to validate, preserve, perfect and protect the Guarantor LP ownership interest in and rights to collect any and all of the related Loans being purchased on the relevant Transfer Date, including the right to service and enforce such Loans and their Related Security.

Notice of the sale, transfer and assignment of the Loans will not be given to Borrowers and, where appropriate, the registration or recording in the appropriate land registry or land title offices of the transfer of legal title to the Mortgages will not be made, except in the circumstances described in “*Summary of Principal Documents – Mortgage Sale Agreement – Notice to Borrower of the Sale, assignment and transfer of the Loans and their Related Security and registration of transfer of title to the Mortgages*”. Similarly, Borrowers will not be given notice of the interests of the Bond Trustee (for itself and on behalf of the other Secured Creditors) in the Loans and their Related Security, granted pursuant to the terms of the Security Agreement, nor will the interests of the Bond Trustee (for itself and on behalf of the other Secured Creditors) in the Mortgages be registered in the appropriate land registry or land titles offices, prior to notice of the Guarantor LP’s interests in the Loans and their Related Security, and/or registration of the transfer of title to the Mortgages, having been given or made, as the case may be.

As long as the interests of the Guarantor LP in the Loans and their Related Security are not registered at the appropriate land registry or land titles offices, and notice has not been given to Borrowers, the following risks exist:

- *first*, if the Seller wrongly sells a Loan and its Related Security, which has already been sold to the Guarantor LP, to another person and that person acted in good faith and did not have notice of the interests of the Guarantor LP in the Loan and its Related Security, then such person might obtain good title to the Loan and its Related Security, free from the interests of the Guarantor LP. If this occurred then the Guarantor LP would not have good title to the affected Loan and its Related Security and it would 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 Guarantor LP would likely be limited to circumstances arising from a breach by the Seller of its contractual obligations or fraud, negligence or mistake on the part of the Seller or the Guarantor LP or their respective personnel or agents;
- *second*, the rights of the Guarantor LP may be subject to the rights of the Borrowers against the Seller, such as rights of legal set-off or equitable set-off, which may be granted by a court, which occur in relation to transactions or deposits made between Borrowers and the Seller, as applicable, and the rights of Borrowers to redeem their mortgages by repaying the Loans directly to the Seller, as applicable; and
- *third*, unless the Guarantor LP has registered the sale, transfer and assignment of the Loans and their Related Security (which it is only entitled to do in certain limited circumstances), the Guarantor LP may not, itself, be able to enforce any Borrower’s obligations under a Loan or its Related Security but would have to join the Seller as a party to any legal proceedings.

The foregoing risks apply to the Bond Trustee (for itself and on behalf of the other Secured Creditors). If any of the risks described in the first two bullet points above were to occur then the realizable value of the Covered Bond Portfolio or any part thereof and/or the ability of the Guarantor LP to meet its obligations under the Covered Bond Guarantee or the

Bond Trustee (for itself and on behalf of the other Secured Creditors) to enforce the Security granted under the Security Agreement with respect to the Covered Bond Portfolio may be adversely affected.

While the exercise of set-off rights by Borrowers may adversely affect the realizable value of the Covered Bond Portfolio and/or the ability of the Guarantor LP to meet its obligations under the Covered Bond Guarantee and/or the ability of the Bond Trustee (for itself and on behalf of the other Secured Creditors) to realize on the Covered Bond Portfolio under the Security Agreement, all of the Loans in the Covered Bond Portfolio include waivers on the part of the Borrowers in respect of any right of set-off. In addition, Canadian dollar deposits of Borrowers with the Bank are currently insured up to C\$100,000, subject to certain exceptions, by Canada Deposit Insurance Corporation, a Canadian Crown corporation, limiting the amount in respect of which a Borrower might be expected to claim set-off rights in the event of a failure of the Issuer under the *Canada Deposit Insurance Corporation Act* (Canada)

Once notice has been given to the Borrowers of the sale, transfer and assignment of the Loans and their Related Security to the Guarantor LP and of the interest of the Bond 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), will crystallize 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, for 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 Mortgages has not been registered in the appropriate land registry or land titles offices in the name of the Guarantor LP, the Seller will undertake for the benefit of the Guarantor LP and the Secured Creditors that it will lend its name to, and take such other steps as may be reasonably required by the Guarantor LP and/or the Bond Trustee, in relation to any legal proceedings in respect of the Loans and their Related Security. The details of the Loans and their Related Security will be provided to and held by the Custodian pursuant to the terms of the Custodial Agreement.

***Limitations on recourse to the Seller may adversely affect the value of the Covered Bond Portfolio***

A review of the Loans is required to be undertaken periodically by a third party on behalf of the Bank. Material negative findings and conclusions of such review, including material issues raised by externally prepared reports and opinions authorized or contracted for by the Bank, or any of its affiliates or the Guarantor LP relating to the Covered Bond Portfolio, the Covered Bonds or the Programme and exceptions identified in the report of such third party which the Bank considers material are required to be disclosed in the applicable pricing supplement in connection with each offering of Covered Bonds. However, the Guarantor LP and the Bond Trustee have not undertaken and will not undertake any investigations, searches or other actions on any Loan or its Related Security and have relied on and will continue to rely instead on the Representations and Warranties given in the Mortgage Sale Agreement by the Seller in respect of the Loans sold by it to the Guarantor LP.

If the Seller receives a notice from the Guarantor LP (or the Cash Manager on its behalf) or the Asset Monitor that any Loan and its Related Security assigned by the Seller to the Guarantor LP does not comply with any of the Representations and Warranties made by the Seller as at the Transfer Date of that Loan and that such non-compliance materially and adversely affects the interest in or value of the Loan, then the Seller will be required to notify the Guarantor LP and the Bond Trustee as soon as reasonably practical after being notified of the fact by the Cash Manager or the Asset Monitor and, upon receipt of a request to do the same from the Guarantor LP, remedy the breach within 28 Business Days of receipt by it of the request.

If the Seller fails to remedy the breach of a Representation and Warranty within 28 Business Days of such request, then the Seller will be required (but only prior to the occurrence of an Issuer Event of Default and after the service of a Loan Repurchase Notice) to repurchase on or before the next following Calculation Date (or such other date that may be agreed between the Guarantor LP and the Seller) the relevant Loan and its Related Security and any other Loans secured or intended to be secured by the Related Security that are included in the Covered Bond Portfolio, at the purchase price paid by the Guarantor LP for the relevant Loan(s) and its or their Related Security, as the case may be, plus expenses as at the relevant repurchase date, less any amounts received from the Borrower since the Transfer Date in respect of principal on such Loan and the Related Security.

There can be no assurance that the Seller, in the future, will have the financial resources to repurchase a Loan or Loans and its or their Related Security. There is no further recourse to the Seller in respect of a breach of a Representation or Warranty.

Unless there has been a Covered Bond Guarantee Activation Event, the Guarantor LP and the Cash Manager will be affiliates of the Seller and, subject to the obligation of the Bank to repurchase a Loan that does not meet the eligibility

requirements under Part I.1 of the *National Housing Act* (Canada) and the Guide, there can be no assurance that they will require a Seller to repurchase a Loan for breach of a Representation or Warranty.

### **Factors which are material for the purpose of assessing risks relating to the Covered Bonds**

#### ***Covered bonds are not obligations of the Dealers or the Bond Trustee***

The Covered Bonds will not represent an obligation or be the responsibility of any of the Dealers, the Bond Trustee, or any other person involved in or associated with the Programme, or their officers, directors, employees, security holders or incorporators, other than the Bank and, after a Covered Bond Activation Event, the Guarantor LP. The Bank will be liable solely in its corporate capacity, the Managing GP and Liquidation GP will be liable solely as general partners of the Guarantor LP in their corporate capacity and the Limited Partner of the Guarantor LP will be liable in its corporate capacity solely to the extent of its interests in the Guarantor LP, for their respective obligations in respect of the Covered Bonds and the Covered Bond Guarantee, as applicable, and such obligations will not be the obligations of any of their respective officers, directors, employees, security holders or incorporators, as the case may be.

#### ***Bank liable to make payments when due on the Covered Bonds; no deposit insurance***

The Bank is liable to make payments when due on the Covered Bonds. The Covered Bonds constitute deposit liabilities of the Bank for purposes of the *Bank Act* (Canada), however they will not be insured under the *Canada Deposit Insurance Corporation Act* (Canada) or any other governmental insurance scheme of any other country, and will constitute legal, valid and binding direct, unconditional, unsubordinated and unsecured obligations of the Bank and rank *pari passu* with all deposit liabilities of the Bank without any preference among themselves and at least *pari passu* with all other unsubordinated and unsecured obligations of the Bank, present and future (except as otherwise prescribed by law).

The Guarantor LP has no obligation to pay the Guaranteed Amounts payable under the Covered Bond Guarantee until the occurrence of a Covered Bond Guarantee Activation Event. The occurrence of an Issuer Event of Default does not constitute a Guarantor LP Event of Default. However, failure by the Guarantor LP to pay amounts when Due for Payment under the Covered Bond Guarantee would constitute a Guarantor LP Event of Default which would entitle the Bond Trustee to accelerate the obligations of the Bank under the Covered Bonds (if they have not already become due and payable) and the obligations of the Guarantor LP under the Covered Bond Guarantee and entitle the Bond Trustee to enforce the Security.

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

Subsequent to a failure by the Bank to make a payment in respect of one or more series of Covered Bonds, the Bond Trustee may, but is not obliged to, serve an Issuer Acceleration Notice on the Bank and Notice to Pay on the Guarantor LP (which would constitute a Covered Bond Guarantee Activation Event) unless and until service of such Issuer Acceleration Notice is requested or directed, as applicable, by the holders of at least 25 percent of the aggregate Principal Amount Outstanding of the Covered Bonds then outstanding as if they were a single series or an Extraordinary Resolution of all the holders of the Covered Bonds. The Bond Trustee may determine that it is in the best interests of holders of the Covered Bonds not to serve an Issuer Acceleration Notice on the Bank and Notice to Pay on the Guarantor LP (which would constitute a Covered Bond Guarantee Activation Event) if, for example, the Bond Trustee concluded that the Issuer Event of Default was the result of a system breakdown and was unlikely to occur again. See “*Bond Trustee’s powers may affect the interests of the holders of the Covered Bonds*”.

Because Covered Bonds have been and will be issued in registered form as global covered bonds through CDS and/or other clearing systems or financial institutions, it may be more difficult to obtain an Extraordinary Resolution of all holders of the Covered Bonds in the event that the Bond Trustee determines not to issue an Issuer Acceleration Notice on the Bank and Notice to Pay on the Guarantor LP (which would constitute a Covered Bond Guarantee Activation Event). See “*Book-Entry Only Securities*” in the base shelf prospectus.

The Guarantor LP will not be obliged to pay holders of the Covered Bonds any amounts which may be payable in respect of the Covered Bonds until a Covered Bond Guarantee Activation Event has occurred. Following a Covered Bond Guarantee Activation Event, the Guarantor LP will be obliged to pay Guaranteed Amounts as and when the same are Due for Payment.

Payments by the Guarantor LP will be made subject to any applicable withholding or deduction and the Guarantor LP will not be obliged to pay any additional amounts as a consequence. Prior to service on the Guarantor LP of a Guarantor LP Acceleration Notice, the Guarantor LP 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 Guarantor LP will not be obliged at any time to make any payments in respect of additional amounts would otherwise have been payable by the Bank.



Subject to any applicable grace period, if the Guarantor LP fails to make a payment when Due for Payment under the Covered Bond Guarantee or any other Guarantor LP Event of Default occurs, then the Bond Trustee may accelerate the obligations of the Guarantor LP under the Covered Bond Guarantee by service of a Guarantor LP 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 8 (*Taxation*)). In such circumstances, the Guarantor LP 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 Guarantor LP Acceleration Notice, the Bond Trustee may enforce the security granted under the Security Agreement over the Covered Bond Portfolio. The proceeds of enforcement of the Security will be applied by the Bond Trustee in accordance with the Post-Enforcement Priority of Payments in the Security Agreement, and holders of the Covered Bonds will receive amounts from the Guarantor LP (if any) on an accelerated basis.

***The Bank has issued and will issue other covered bonds under the Programme that rank pari passu and are subject to cross default with your Covered Bonds***

Covered bonds issued under the Programme will either be fungible with an existing series of covered bonds issued under the Programme or have different terms from any existing series of covered bonds issued under the Programme (in which case they will constitute a new series).

All covered bonds issued from time to time under the Programme will rank *pari passu* with each other in all respects and will share in the security granted by the Guarantor LP under the Security Agreement. If an Issuer Event of Default occurs in respect of a particular series of covered bonds, the covered bonds of all series outstanding will, provided a Covered Bond Guarantee Activation Event has occurred, accelerate at the same time against the Bank and have the benefit of payments made by the Guarantor LP under the Covered Bond Guarantee. In order to ensure that any further issue of covered bonds under the Programme does not adversely affect holders of the existing covered bonds:

- the Asset Coverage Test will be required to be met both before and after any further issue of covered bonds under the Programme; and
- on or prior to the date of issue of any further covered bonds under the Programme, the Bank will be obliged to obtain Rating Agency Confirmation.

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

In the exercise of its powers, trusts, authorities and discretions, the Bond Trustee will only have regard to the interests of the holders of the covered bonds under the Programme. In the exercise of its powers, trusts, authorities and discretions, the Bond Trustee may not act on behalf of the Bank.

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

***Extendable obligations under the Covered Bond Guarantee may delay payment of principal on the Covered Bonds***

Following the failure by the Bank to pay the Final Redemption Amount of a series of Covered Bonds on their Final Maturity Date (subject to applicable grace periods) and if following the service of a Notice to Pay on the Guarantor LP (by no later than the date which falls one Business Day prior to the Extension Determination Date), the Guarantor LP has insufficient moneys available in accordance with the Guarantee Priority of Payments for the payment of the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of such series of the Covered Bonds in full, then the payment of such Guaranteed Amounts may be automatically deferred for payment until the applicable Extended Due for Payment Date (where the relevant series of Covered Bonds are subject to an Extended Due for Payment Date, which will be the case unless amendments are made to the Guarantor LP Agreement (see "*Summary of Principal Documents – The Trust Deed – Covered Bond Guarantee*")) and interest will continue to accrue and be payable on the unpaid amount at a rate of interest specified in the applicable pricing supplement (in the same manner as the rate of interest for Floating Rate Covered Bonds). To the extent that a Notice to Pay has been served on the Guarantor LP and the Guarantor LP has sufficient time and sufficient moneys to pay in part the Guaranteed Amounts corresponding to the relevant Final Redemption Amount in respect of such Covered Bonds, the Guarantor LP will make such partial payment on any Interest Payment Date up to and including the relevant Extended Due for Payment Date in accordance with the Priorities of Payment and the Guarantor LP will pay Guaranteed Amounts constituting Scheduled Interest on each Original Due for Payment Date and the Extended

Due for Payment Date and any unpaid amounts in respect thereof shall be due and payable on the Extended Due for Payment Date. The Bank is not required to notify covered bondholders of such deferral. This will occur (subject to no Guarantor LP Event of Default having occurred) if the applicable pricing supplement for a relevant series of Covered Bonds provides that such Covered Bonds are subject to an Extended Due for Payment Date, which as noted above, will be the case unless amendments are made to the Guarantor LP Agreement.

Where an Extended Due for Payment Date is specified in the applicable pricing supplement, the Extended Due for Payment Date (unless otherwise specified in such prospectus supplement) will fall one year after the Final Maturity Date and the Guarantor LP will pay Guaranteed Amounts constituting Scheduled Interest on each Original Due for Payment Date and the Extended Due for Payment Date and any unpaid amounts in respect thereof shall be due and payable on the Extended Due for Payment Date. In these circumstances, except where the Guarantor LP has failed to apply money in accordance with the Priorities of Payment, failure by the Guarantor LP to meet its obligations in respect of the Final Redemption Amount on the Final Maturity Date (or such later date within any applicable grace period) will not constitute a Guarantor LP Event of Default. However, failure by the Guarantor LP 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 and/or pay Guaranteed Amounts constituting Scheduled Interest on any Original Due for Payment Date or the Extended Due for Payment Date will (subject to any applicable grace period) be a Guarantor LP Event of Default.

***Modification and Waivers; The Bond Trustee may agree to modifications to the Transaction Documents without, respectively, the holders of the Covered Bonds' or Secured Creditors' prior consent; Rating Agency Confirmation***

The Conditions of the covered bonds issued under the Programme contain provisions for calling meetings of holders to consider matters affecting their interest generally. These provisions permit defined majorities to bind (and to modify or waive certain Conditions of the Covered Bonds or covenants and agreements made by the Bank) all holders including holders who do not attend and vote at the relevant meeting and holders who voted in a manner contrary to the majority, subject to certain exceptions.

Pursuant to the terms of the Trust Deed, the Bond Trustee may also, without the consent or sanction of any of the holders of the Covered Bonds or any of the other Secured Creditors, concur with the Guarantor LP and the Issuer in making or sanctioning any modification to the Transaction Documents:

- provided that the Bond Trustee is of the opinion that such modification will not be materially prejudicial to the interest of any of the holders of the Covered Bonds of any series; or
- which in the opinion of the Bond Trustee are made to correct a manifest error or are of a formal, minor, or technical nature or are made to comply with mandatory provisions of law.

Pursuant to the terms of the Trust Deed, the Bond Trustee may, without the consent or sanction of any of the holders of the Covered Bonds or any of the other Secured Creditors, grant any authorization or waiver of (on such terms and conditions (if any) as shall seem expedient to it) any proposed or actual breach of any of the covenants contained in the Trust Deed, the Security Agreement or any of the other Transaction Documents, provided that the Bond Trustee is of the opinion that such waiver or authorization will not be materially prejudicial to the interest of any of the holders of the Covered Bonds of any series.

Pursuant to the terms of the Transaction Documents, certain conditions, actions, and steps under or with respect to the Transaction Documents require Rating Agency Confirmation. Certain Rating Agencies have issued policies or commented that such Rating Agencies do not provide consent to or approval of changes or amendments to the transaction documents or structure and that such Rating Agencies are not bound by the provisions of transaction documents in programs for which they provide ratings. As a result of such policies and comments, a formal written or published response from the Rating Agencies with respect to the granting of Rating Agency Confirmation or confirming that such Rating Agencies do not consider such confirmation or response necessary in the circumstances (which would also satisfy such requirement) may not be forthcoming despite such condition, action, or step being in the best interest of covered bondholders. In these circumstances, the Bank may in the future be restricted from taking such conditions, actions, or steps in a timely manner.

Notwithstanding any other provision of the Trust Deed, the right of any holder of a covered bond to receive payment of principal and interest on the covered bond, on or after the respective due date expressed in the covered bond, or to bring suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of the holder.

***Certain decisions of holders of the Covered Bonds taken at the Programme level could affect the ability of your series of Covered Bonds to control the vote***

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 Guarantor LP Acceleration Notice following a Guarantor LP Event of Default and any direction to the Bond 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. In the event that there is more than one series of covered bonds outstanding, the holders of the covered bonds of your series may not have sufficient votes to control any matter voted on at a single meeting of the holders of all covered bonds of all series outstanding.

***Changes in law could adversely affect the ability of the Bank and the Guarantor LP to meet their obligations***

The structure of the issue of the Covered Bonds and the ratings which are to be assigned to them are based on the laws of Ontario and the laws of Canada applicable therein, and in the case of the Swap Agreements the laws of England, in each case in effect as at the date of the applicable pricing supplement. No assurance can be given as to the impact of any possible judicial decision or change to such laws or administrative practice after the date of this prospectus supplement and before or after the date on which the Covered Bonds are issued. Any such change could materially adversely impact the value of any Covered Bonds affected by it.

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

On July 3, 2013, the Bank was accepted as a registered issuer under Part I.1 of the *National Housing Act* (Canada) and the Guide by CMHC in accordance with their terms and on July 3, 2013, the Programme was registered as a registered program under Part I.1 of the *National Housing Act* (Canada) and the Guide. All outstanding covered bonds issued under the Programme are, and any covered bonds issued under the Programme will be registered covered bonds under Part I.1 of the *National Housing Act* (Canada) and the Guide.

Part I.1 of the *National Housing Act* (Canada) and the Guide impose certain ongoing obligations on both the Bank and the Guarantor LP and permit CMHC to take certain actions in respect of the Bank. There is a risk that suspending the right of the Bank to issue Covered Bonds under the Programme or any non-compliance with a direction from CMHC may negatively impact the Covered Bonds, including the performance of the Covered Bonds. However, pursuant to Condition 7.1(b), non-compliance by the Bank with Part I.1 of the *National Housing Act* (Canada) or the Guide will not constitute an Issuer Event of Default.

With respect to the risks referred to above, see also “*Description of the Canadian Regulated Covered Bond Regime*” below for further details.

***Ratings of the Covered Bonds may not reflect all potential issues and any Rating Agency may lower its rating, withdraw its rating or place the rating on negative watch***

The ratings assigned to the Covered Bonds address with respect to Fitch:

- the likelihood of full and timely payment to holders of the Covered Bonds of all payments of interest on each Interest Payment Date; and
- the likelihood of ultimate payment of principal in relation to Covered Bonds on: (i) the Final Maturity Date thereof; or (ii) if the Covered Bonds are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee in accordance with the applicable pricing supplement on the Extended Due for Payment Date thereof.

With respect to Moody's, the ratings assigned to the Covered Bonds address the expected loss posed to investors.

With respect to DBRS, the ratings assigned to the Covered Bonds addresses the risk of default on the Covered Bonds.

Any Rating Agency may lower its rating or withdraw its rating or place the rating on negative watch if, in the sole judgment of the Rating Agency, the credit quality of the Covered Bonds has declined or is in question. If any rating assigned to the Covered Bonds is lowered or withdrawn or placed on negative watch, the market value of the Covered Bonds may be reduced. The rating assigned to the Covered Bonds may not reflect the potential of all risks related to structure, market, additional and other factors discussed herein and other factors that may affect the value of the Covered Bonds. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension, or withdrawal at any time.

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

Each of the risks highlighted in this prospectus supplement could adversely affect the trading price of any Covered Bonds or the rights of investors under any Covered Bonds and, as a result, investors could lose some or all of their investment. The Bank believes that the factors described in this prospectus supplement represent the principal risks inherent in investing in Covered Bonds, but the Bank may be unable to pay or deliver amounts on or in connection with any Covered Bonds for other reasons and the Bank does not represent that the statements in this prospectus supplement 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 his or her 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 supplement 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.

In addition, an investment in other Covered Bonds linked to one or more reference item(s), may entail significant risks not associated with investments in a conventional debt security, including but not limited to, the risks set out in “*Risks related to the structure of a particular issue of Covered Bonds*”, below.

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

***Risks related to the structure of a particular issue of Covered Bonds***

The Bank may issue a wide range of Covered Bonds. A number of these Covered Bonds may have features which contain particular risks for potential investors, the most common of which are set out below:

***Covered Bonds subject to optional redemption by the Bank***

An optional redemption feature of Covered Bonds is likely to limit their market value. During any period when the Bank 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 Bank may be expected to redeem Covered Bonds, if the Bank has a right of redemption in respect of the relevant tranche or series of 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.

### *Variable rate 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, their market values may be even more volatile than those for securities that do not include those features.

### *Inverse floating rate Covered Bonds*

Covered bonds with an inverse floating rate have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of these 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). Such 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.

### *Fixed/floating rate Covered Bonds*

Fixed/floating rate Covered Bonds may bear interest at a rate that the Bank may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Bank's ability to convert the interest rate will affect the secondary market and the market value of the Covered Bonds since the Bank may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Bank converts from a fixed rate to a floating rate, the spread on the fixed/floating rate Covered Bonds may be less favourable than prevailing spreads on comparable floating rate Covered Bonds tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on the other Covered Bonds. If the Bank converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Covered Bonds.

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

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

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

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

On 18 September, 2013, the European Commission released proposals that could result in additional regulation of LIBOR and other benchmarks if adopted by the European Parliament and Member States.

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

The Issue Price of Covered Bonds specified in the applicable pricing supplement may be more than the market value of such Covered Bonds as of the Issue Date, and the price, if any at which a dealer or any other person is willing to purchase the Covered Bonds in secondary market transactions may be lower than the Issue Price.

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

***Additional risk factors***

Additional risk factors in relation to specific issues of Covered Bonds may be included in the applicable pricing supplement.

**Factors which are material for the purposes of assessing the risks relating to the Bank's and the Guarantor LP's legal and regulatory situation**

***Bankruptcy and insolvency risk***

The assignments of the Loans and their Related Security from the Seller to the Guarantor LP pursuant to the terms of the Mortgage Sale Agreement are intended by the Seller and the Guarantor LP to be and have been documented as sales. If the Seller or the Guarantor LP were to become bankrupt or otherwise subject to insolvency and/or restructuring proceedings, the Superintendent of Financial Institutions (the "**Superintendent**") appointed pursuant to the *Office of the Superintendent of Financial Institutions Act* (Canada), or other stakeholders of the Seller, could attempt to re-characterize the sale of the Loans and their Related Security as a loan from the Guarantor LP to the Seller secured by the Loans and their Related Security or to consolidate the assets of the Seller with the assets of the Guarantor LP. In this regard, the Transaction Documents contain restrictions on the Seller and the Guarantor LP intended to reduce the possibility that a Canadian court would order consolidation of the assets and liabilities of the Seller and the Guarantor LP given, among other things, current jurisprudence on the matter. Further, Part I.1 of the *National Housing Act* (Canada) contains provisions relating to bankruptcy and insolvency protection which limit this risk, however, this legislative provision has yet to be tested in the courts. Nonetheless, any attempt to consolidate the assets of the Seller with the assets of the Guarantor LP, even if unsuccessful, could result in a delay or potential reduction of collections on the Loans and their Related Security available to the Guarantor LP to meet its obligations under the Covered Bond Guarantee.

The ability of the Bond Trustee (for itself and on behalf of the other Secured Creditors) to enforce the security granted to it pursuant to the terms of the Security Agreement is subject to the bankruptcy and insolvency laws of Canada. The *Bankruptcy and Insolvency Act* (Canada) ("**BIA**") and the *Companies' Creditors Arrangement Act* (Canada) ("**CCAA**") both provide regimes pursuant to which debtor companies are entitled to seek temporary relief from their creditors. Canadian jurisprudence makes it clear that both the BIA and the CCAA apply to limited partnerships. Further, it is a possibility that the Superintendent would take the view that it could appoint a receiver over the Guarantor LP pursuant to the *Bank Act* (Canada) or that any winding-up of the Guarantor LP should take place under the *Winding-up and Restructuring Act* (Canada) ("**WURA**").

If the Guarantor LP voluntarily or involuntarily becomes subject to insolvency or winding-up proceedings including pursuant to the BIA, the CCAA or the WURA or if a receiver is appointed over the Bank pursuant to the *Bank Act*, it may delay or otherwise impair any realization by the Bond Trustee (for itself and on behalf of the other Secured Creditors) under the Covered Bond Guarantee and/or the Security Agreement. Part I.1 of the *National Housing Act* (Canada) contains provisions relating to bankruptcy and insolvency protection which limit this risk, however, such legislative provisions have yet to be tested in the courts.

***Remedial powers of the Superintendent under the Bank Act***

The Superintendent, under Section 645(1) of the *Bank Act* (Canada), 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 June 27, 2007, as revised by a letter dated December 19, 2014, 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 4 percent of the Total Assets of the relevant deposit taking institution; (ii) if at any time after issuance the 4 percent limit is exceeded, the relevant deposit taking institution must immediately notify OSFI; (iii) excesses (above the 4 percent limit) due to factors not under the control of the issuing institution, such as foreign exchange fluctuations, will not require the relevant deposit taking institution to take action to reduce the amount outstanding, however for other excesses the relevant deposit taking institution must provide a plan showing how it proposes to eliminate the excess quickly. Prior to Q1 2015, “**Total Assets**” for the purpose of the foregoing limit, was equal to the numerator of the asset-to-capital multiple of the relevant deposit taking institution. Following Q1 2015, “Total Assets” will be determined using a broadly equivalent measure based on data points from returns the Bank is required to file with OSFI. 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* (Canada) 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.

***Regulatory Changes could adversely affect the ability of the Guarantor LP to dispose of the Covered Bond Portfolio and could lead to the terms of some Loans being unenforceable***

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

Possible regulatory changes by OSFI and other regulatory authorities could lead to some terms of the Loans being unenforceable. This could result in such Loans being modified to comply with the regulatory changes. Changes in regulations also may adversely affect the ability of the Guarantor LP to dispose of the Covered Bond Portfolio or any part thereof in a timely manner and/or the realizable value of the Covered Bond Portfolio. No assurance can be given that additional regulations or guidance from OSFI, Canadian Deposit Insurance Corporation or any other regulatory authority will not arise with regard to the mortgage market in Canada generally.

**Other factors which are material for the purposes of assessing the risks involved in an investment in the Covered Bonds**

***Risks related to the market generally, including liquidity and interest rate risk***

Set out below is a brief description of the principal market risks, including liquidity risk and interest rate risk:

*The secondary market generally*

Covered bonds may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Covered Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed liquid secondary market. This is particularly the case for Covered Bonds that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors or for Covered Bonds which are not listed on any stock exchange or for Covered Bonds the outstanding number of which is very low. These types of Covered Bonds generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Covered Bonds.

*Absence of secondary market; lack of liquidity*

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

### *Issuance of Covered Bonds in book-entry form may affect liquidity and the ability to pledge the Covered Bonds*

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

Beneficial owners of the Covered Bonds should also realize that book-entry securities may be more difficult to pledge because of the lack of a physical note.

### *Changes in interest rates may affect the value of the 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. If prevailing interest rates rise, the secondary market value of a Fixed Rate Covered Bond may fall. In such an interest rate environment, any holder of a Fixed Rate Covered Bond who sells the bond may realize a loss of principal.

### **Legal investment considerations may restrict certain investments**

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

### ***Interests of Dealers***

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Bank in the ordinary course of business without regard to the Bank, the Bond Trustee, the holders of the Covered Bonds or the Guarantor LP.

The Covered Bonds will be offered severally by one or more of the Dealers, including RBC Dominion Securities Inc. Under the Dealer Agreement, the Covered Bonds may be purchased or offered at various times by certain of the Dealers, including RBC Dominion Securities Inc., as agent, underwriter or principal at prices and commissions to be agreed upon, for sale to the public at prices to be negotiated with purchasers. In addition to any proceeds from any offering of the Covered Bonds under the Programme being applied, directly or indirectly, for the benefit of RBC Dominion Securities Inc. in its capacity as wholly-owned indirect subsidiary of the Bank, RBC Dominion Securities Inc. will receive a portion of any fees and commissions payable in connection with any such offering of Covered Bonds in its capacity as a Dealer (see “*Plan of Distribution*”, below).

### ***Market-Making Resales by Affiliates***

The prospectus may be used by RBC Dominion Securities Inc., in connection with offers and sales of covered bonds in market-making transactions. In a market-making transaction, RBC Dominion Securities Inc. may resell covered bonds it acquires from other holders, after the original offering and sale of the covered bonds. Resales of this kind may occur in the open market or may be privately negotiated, at prevailing market prices at the time of resale or at related or negotiated prices. In these transactions, RBC Dominion Securities Inc. may act as principal or agent, including as agent for the counterparty in a transaction in which RBC Dominion Securities Inc. acts as principal, or as agent for both counterparties in a transaction in which RBC Dominion Securities Inc. does not act as principal. RBC Dominion Securities Inc. may receive compensation in the form of discounts and commissions, including from both counterparties in some cases.

The covered bonds to be sold in market-making transactions include covered bonds to be issued after the date of this prospectus supplement, as well as previously issued covered bonds.

The Bank does not expect to receive any proceeds from market-making transactions and does not expect that RBC Dominion Securities Inc. or any other affiliate that engages in these transactions will pay any proceeds from its market-making resales to the Bank.

Information about the trade and settlement dates, as well as the purchase price, for a market-making transaction will be provided to the purchaser in a separate confirmation of sale.



Unless we or an agent informs you in your confirmation of sale that your Covered Bond is being purchased in its original offering and sale, you may assume that you are purchasing your Covered Bond in a market-making transaction.

### ***Foreign Account Tax Compliance Act Withholding***

#### ***U.S. Foreign Account Tax Compliance Act Withholding may affect payments on the Covered Bonds***

Whilst the Covered Bonds are in global form and held within the clearing systems, in all but the most remote circumstances, it is not expected that the new reporting regime and potential withholding tax imposed by sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 ("FATCA") will affect the amount of any payment received by the clearing systems (see *Foreign Account Tax Compliance Act*). However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Issuer's obligations under the Covered Bonds are discharged once it has paid the common depository or common safekeeper for the clearing systems (as registered holder of the Covered Bonds) and the Bank has therefore no responsibility for any amount thereafter transmitted through the clearing systems and custodians or intermediaries.

#### ***The Bank will act in its own interest in connection with the Programme, and such actions may not be in the best interests of and may be detrimental to the holders of Covered Bonds***

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

### **RBC COVERED BOND GUARANTOR LIMITED PARTNERSHIP**

The Guarantor LP is a Canadian limited partnership whose only business is to provide services to the Bank in respect of the Programme by (A) owning the Covered Bond Portfolio and entering into the Intercompany Loan Agreement; (B) accepting capital contributions from its partners; and (C) using the proceeds from the Intercompany Loan and capital contributions (i) to purchase New Loans and their Related Security for the Covered Bond Portfolio pursuant to the terms of the Mortgage Sale Agreement; and/or (ii) to invest in Substitute Assets in an amount not exceeding the prescribed limit; and/or (iii) subject to complying with the Asset Coverage Test (as described below) to make capital distributions to the Limited Partner; and/or (iv) to make deposits of the proceeds in the Guarantor LP Accounts (including, without limitation, to fund the Reserve Fund to an amount not exceeding the prescribed limit); and/or (v) arranging for the servicing of the Loans and their Related Security by the Servicer; and/or (vi) entering into the Trust Deed, giving the Covered Bond Guarantee and entering into the Security Agreement; and/or (vii) entering into the Transaction Documents to which it is a party; and (viii) performing its obligations under any of the Transaction Documents and doing all things incidental or ancillary to perform such obligations.

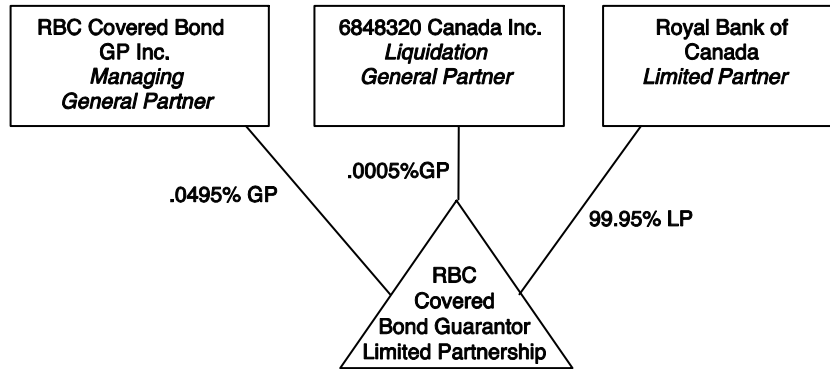
The Guarantor LP has not, since its formation, engaged in, and will not, while there are Covered Bonds outstanding, engage in any material activities other than activities relating to the business of the Guarantor LP described above and/or incidental or ancillary thereto. The Guarantor LP and its general partners are not required by applicable Canadian law (including the *Limited Partnership Act* (Ontario)) to publish any financial statements. The Guarantor LP has no employees.

The partners (the "**Partners**") of the Guarantor LP are RBC Covered Bond GP Inc., as the managing general partner (the "**Managing GP**"); 6848320 Canada Inc., as the liquidation general partner (the "**Liquidation GP**"); and the Bank, as the sole limited partner. The Bank holds substantially all of the capital in the Guarantor LP with the Managing GP and the Liquidation GP each holding a nominal interest in the Guarantor LP. Pursuant to the terms of the Limited Partnership Act (Ontario), the liability of a limited partner for the liabilities, debts and obligations of the Guarantor LP is limited to the amount contributed by it or agreed to be contributed by it to the Guarantor LP, unless, in addition to

exercising rights and powers as a limited partner, such limited partner takes part in control of the business of the Guarantor LP and such limited partner will, subject to applicable law, otherwise have no liability in respect of the liabilities, debts and obligations of the partnership. Each of the general partners of the Guarantor LP will have unlimited liability for any obligation of the Guarantor LP unless the holder of such obligation agrees otherwise.

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

**Ownership Structure of the Guarantor LP**



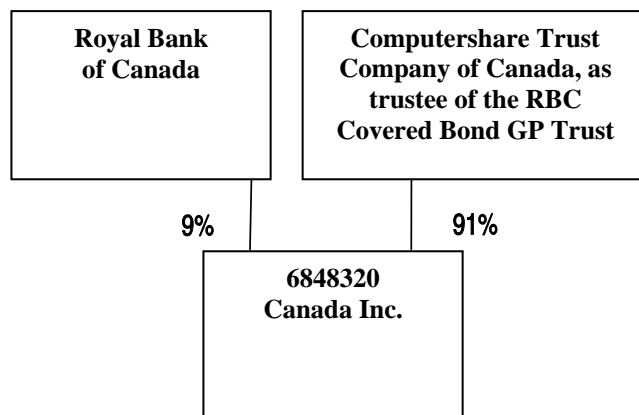
**Ownership Structure of the Managing GP**

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

**Ownership Structure of the Liquidation GP**

91 percent of the issued and outstanding shares in the capital of the Liquidation GP are held by Computershare Trust Company of Canada, as trustee of the RBC Covered Bond LGP Trust (the “LGP Trust”) and 9 percent of the issued and outstanding shares in the capital of the Liquidation GP are held by the Bank. Neither the Bank nor any affiliate (within the meaning of the *Bank Act* (Canada)) is permitted to hold more than 10 percent of the issued and outstanding shares of the Liquidation GP. All of the directors of the Liquidation GP are independent of the Bank and have been nominated by the Corporate Services Provider. The Bank is entitled to have one nominee who is an officer or employee of the Bank attend meetings of the board of the Liquidation GP. Based on the foregoing, at any time the Liquidation GP is the managing general partner of the Guarantor LP, the Guarantor LP will be considered to be “Independently Controlled and Governed” within the meaning of the Guide.

The beneficiary of the LGP Trust is one or more charities registered under the *Income Tax Act* (Canada).



### USE OF PROCEEDS

The Covered Bonds will be sold in the normal course of our business and the net proceeds used for general banking purposes.

### DESCRIPTION OF THE COVERED BONDS

#### General

The Bank may issue, and the Guarantor LP will guarantee, as many distinct series of Covered Bonds as we wish. The provisions of the Trust Deed allow us not only to issue Covered Bonds with terms different from those previously issued, but also to “re-open” a previous issue of a series of Covered Bonds and issue additional Covered Bonds of that series. We may issue Covered Bonds in amounts that exceed the total amount specified on the cover of this prospectus supplement at any time without your consent and without notifying you.

The Covered Bonds will be issued under the base shelf prospectus, the prospectus supplement dated March 9, 2015, this prospectus supplement and the applicable pricing supplement which will contain the terms of the Covered Bonds.

The Conditions (as defined herein) will apply to Covered Bonds issued pursuant to the prospectus as supplemented, modified or replaced by the applicable pricing supplement.

Unless otherwise indicated in any applicable pricing supplement, the Covered Bonds will be issued in “book-entry only” form and must be purchased or transferred through participants in the depository service of CDS. Participants include Depository Trust Company (“DTC”), Clearstream Banking, société anonyme (“Clearstream”) and Euroclear Bank S.A./N.V. (“Euroclear”). See “Book-Entry Only Securities” in the base shelf prospectus.

The Bank will provide information to holders of Covered Bonds in the form of Investor Reports, which will be available on the Bank’s website at [www.rbc.com/investorrelations/fixed\\_income/covered-bonds.html](http://www.rbc.com/investorrelations/fixed_income/covered-bonds.html) and on SEDAR at [www.sedar.com](http://www.sedar.com). The most recently published Investor Report will be incorporated by reference in the applicable pricing supplement for each series of Covered Bonds.

General information about the Bank, the Programme, and the covered bonds issued under the Programme, including the Covered Bonds, can be located on the Bank’s website at [www.rbc.com/investorrelations/fixed\\_income/covered-bonds.html](http://www.rbc.com/investorrelations/fixed_income/covered-bonds.html) and through CMHC’s covered bond registry at [www.cmhc-schl.gc.ca/coveredbonds](http://www.cmhc-schl.gc.ca/coveredbonds). All internet references in this prospectus supplement are inactive textual references and the Bank has not incorporated website contents into this prospectus supplement.

Other than regulatory capital requirements applicable to us, there is no limit on the amount of indebtedness we may issue. In the case of covered bonds, the issuance of covered bonds by the Bank is subject to the OSFI Covered Bond Limit (see “Description of the Canadian Regulated Covered Bond Regime”).

Because this section is a summary, it does not describe every aspect of the Covered Bonds. This description is subject to and qualified in its entirety by reference to all the provisions of the Trust Deed, the other Transaction Documents including definitions of certain terms used in the Trust Deed and other Transaction Documents and Part I.1 of the *National Housing*

Act (Canada) and the terms of the Guide. In this description, we describe the meaning of only some of the material terms that are applicable to the Covered Bonds. You must look to the Trust Deed, the other Transaction Documents and Part I.1 of the *National Housing Act* (Canada) and the terms of the Guide for the most complete description of what we describe in summary form in this prospectus supplement.

This description is also subject to and qualified by reference to the description of the particular terms of your series described in the applicable pricing supplement. Those terms may vary from the terms described in this prospectus supplement.

### **Asset Coverage Test, Valuation Calculation and Amortization Test**

The Covered Bond Guarantee has the benefit of the Asset Coverage Test, the Valuation Calculation and following the service of a Notice to Pay, the Amortization Test, which are conducted on the Covered Bond Portfolio on each Calculation Date. The Asset Coverage Test has been structured to ensure that the assets and cashflows of the Guarantor LP, including the Loans and their Related Security in the Covered Bond Portfolio, will be adequate to enable the Guarantor LP to meet its obligations under the Covered Bond Guarantee following the occurrence of the Covered Bond Guarantee Activation Event (see “*Summary of Principal Documents – Guarantor LP Agreement – Asset Coverage Test*”). The Valuation Calculation has been structured to monitor the Programme’s exposure to market risk (see “*Summary of Principal Documents – Guarantor LP Agreement – Valuation Calculation*”). The Amortization Test has been structured to ensure that the assets of the Guarantor LP, including the Loans and their Related Security in the Covered Bond Portfolio, do not fall below the threshold required to ensure that the assets of the Guarantor LP are sufficient to meet its obligations under the Covered Bond Guarantee following service of a Notice to Pay (see “*Summary of Principal Documents – Guarantor LP Agreement – Amortization Test*”). If the Asset Coverage Test is not met on two consecutive Calculation Dates, an Asset Coverage Test Breach Notice will be served on the Guarantor LP and if not revoked (in accordance with the terms of the Transaction Documents) on or before the Guarantor LP Payment Date immediately following the next Calculation Date after service of such Asset Coverage Test Breach Notice, will constitute an Issuer Event of Default and entitle the Bond Trustee to serve a Notice to Pay on the Guarantor LP. A breach of the Amortization Test will constitute a Guarantor LP Event of Default and will entitle the Bond Trustee to serve a Guarantor LP Acceleration Notice on the Guarantor LP.

The Bank will use all reasonable efforts to ensure that the Guarantor LP is in compliance with the Asset Coverage Test which should reduce the risk of a breach of the Asset Coverage Test although there is no assurance of this result, and the sale of New Loans and their Related Security by the Seller to the Guarantor LP, advances under the Intercompany Loan or additional capital contributions by the Limited Partner may be required to avoid or, before or after delivery of an Asset Coverage Test Breach Notice, remedy a breach of the Asset Coverage Test.

There is no specific recourse available to the Guarantor LP in respect of any failure by the Bank to make a capital contribution in any circumstances, including following receipt of an Asset Coverage Test Breach Notice.

### **Terms and Conditions**

The Covered Bonds of each series issued pursuant to the prospectus will be in fully registered form, without interest coupons or, in such other form as shall be agreed upon by the Issuer, the Guarantor LP, and the relevant Dealer(s), and the Bond Trustee and specified in the applicable pricing supplement.

Registered global covered bonds will either: (i) be deposited with a custodian for, and registered in the name of a nominee of, CDS; or (ii) be deposited with a common depository for, and registered in the name of a common nominee of, CDS, unless otherwise specified in the applicable pricing supplement. 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 any provision to the contrary, be made to the person shown on the Register as the registered holder of the registered global covered bonds. None of the Issuer, the Guarantor LP, 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 any provision to the contrary, be made to the persons shown on the Register on the relevant Record Date immediately preceding the due date for payment in the manner provided in Condition 9.

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 interest coupons attached only upon the occurrence of an Exchange Event.

For these purposes, “**Exchange Event**” means that (i) CDS has notified the Issuer that it is unwilling or unable to continue to act as a depository for the covered bonds and a successor depository is not appointed by the Issuer within 90 days after receiving such notice, or has ceased to be a recognised clearing agency under the *Securities Act* (Ontario) or a self-regulatory organisation under the *Securities Act* (Québec) or other applicable Canadian securities legislation and a successor is not appointed by the Issuer within 90 days after the Issuer becoming aware that CDS is no longer so authorised; or (ii) the Bank has or will become subject to adverse tax consequences which would not be suffered were the covered bonds represented by the registered global covered bond in definitive form. The Issuer will promptly give notice to holders of the covered bonds of each series of registered global covered bonds in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, CDS (acting on the instructions of any registered holder of an interest in such registered global covered bond) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (i) 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.

Interests in a registered global covered bond may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in a registered global covered bond. 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 CDS, to the extent applicable.

Pursuant to the Agency Agreement, the Issuing and 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 may be assigned a CUSIP number which is different from the CUSIP assigned to covered bonds of any other tranche of the same series.

Any reference herein to CDS shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable pricing supplement or as may otherwise be approved by the Issuer, the Issuing and Paying Agent and the Bond Trustee.

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

The terms and conditions applicable to Covered Bonds will be endorsed on such Covered Bonds and will consist of the terms and conditions attached as Schedule 1 to the Trust Deed and the provisions of the applicable pricing supplement that supplement, amend and/or replace such terms and conditions. The “*Terms and Conditions of the Covered Bonds*” set forth below, are the terms and conditions that will be applicable to the Covered Bonds, which may be supplemented, amended or replaced by the terms in the pricing supplement applicable to the Covered Bonds. Certain provisions of the Terms and Conditions attached as Schedule I to the Trust Deed are not applicable to the Covered Bonds and have therefore been intentionally omitted, but the numbering has been preserved to assist in a comparison to such Schedule I.

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

	<b>Condition</b>	<b>Page</b>
1.	Form and Denomination	37
2.	Title and Transfer	37
3.	Status of the Covered Bonds	38
4.	Guarantee	38
5.	Interest	39
6.	Redemption and Purchase	47
7.	Events of Default	50
8.	Taxation	53
9.	Payments	55
10.	Prescription	56
11.	The Paying Agents, the Registrar, Transfer Agents, the Calculation Agent and the Exchange Agent	56
12.	Replacement of Covered Bonds	56
13.	Meetings of Holders of the Covered Bonds, Modification and Waiver	57
14.	Notices	59
15.	Further Issues	59

	<b>Condition</b>	<b>Page</b>
16.	Currency Indemnity	59
17.	Waiver and Remedies	59
18.	Branch of Account	60
19.	Substitution	60
20.	Rating Agency Confirmation	60
21.	Indemnification of Bond Trustee and Bond Trustee contracting with the Bank and/or the Guarantor LP	61
22.	Law and Jurisdiction	61

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

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

Condition 4 (*Guarantee*) provides the terms of the Covered Bond Guarantee and the conditions precedent to the obligation of the Guarantor LP to make payment of Guaranteed Amounts. The obligations of the Guarantor LP, following the occurrence of a Covered Bond Guarantee Activation Event, are direct and unconditional, secured by the pledge of the assets of the Guarantor LP which includes the Covered Bond Portfolio pursuant to the terms of the Security Agreement. A Covered Bond Guarantee Activation Event will occur on the earlier of (i) an Issuer Event of Default, together with service by the Bond Trustee of an Issuer Acceleration Notice on the Bank and a Notice to Pay on the Guarantor LP and (ii) a Guarantor LP Event of Default, together with service by the Bond Trustee of a Guarantor LP Acceleration Notice on the Bank and the Guarantor LP.

Condition 5 (*Interest*) sets forth the terms of the interest rates that may apply to the covered bonds. The specific terms of interest payable on a covered bond that you purchase will be disclosed in the relevant pricing supplement.

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

Condition 7 (*Events of Default*) sets forth the conditions that will constitute an Issuer Event of Default and a Guarantor LP Event of Default. Condition 7.03 (*Enforcement*) provides for the enforcement of the obligations of the Bank and the Guarantor LP. Under the Condition, the Bond Trustee is not required to take proceedings against the Bank or the Guarantor LP to seek enforcement of the provisions of the Trust Deed and the covered bonds unless it shall be directed by an Extraordinary Resolution of the holders of the covered bonds of all series or requested by holders of not less than 25 percent of the aggregate Principal Amount Outstanding of the covered bonds of all series then outstanding.

Condition 8 (*Taxation*) provides that all payments by the Bank on the covered bonds will be paid free and clear of any taxes, duties, assessment, or charges of any kind imposed by Canada or any political subdivision of Canada or, if the covered bonds are issued by a branch of the Bank located outside Canada, by any taxing authority of the jurisdiction where the branch is located unless required by law. Except for certain conditions, if a tax or other levy is imposed, the Bank will pay additional amounts sufficient so that the holder will receive the same net amount that would have been received absent the tax or other duty, assessment or charge.

Condition 9 (*Payments*) provides that payments of principal, interest and any other amount in respect of the registered global covered bonds (other than the final installments of principal of a covered bond) will be made to the person shown on the Register as the registered holder of the registered global covered bonds. None of the Bank, the Guarantor LP, the Bond Trustee and any Agent will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the registered global covered bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. Final installments of principal will be made against presentation and surrender of the global covered bond at the specified office of the Registrar or any of the Paying Agents.

Condition 13 (*Meetings of Holders of the Covered Bonds, Modification and Waiver*) provides for convening meetings of holders of covered bonds to consider matters that affect one or more series of covered bonds or all of the

covered bonds under the Programme, which may include among other things, a modification of the Terms and Conditions or the provisions of the Trust Deed. A resolution adopted at a meeting to effect such a modification will be binding on all holders of all covered bonds of any series for which the meeting was convened. Condition 13 also provides that the Bond Trustee, the Guarantor LP and the Bank may agree to certain modifications without the consent of holders of covered bonds of any series.

## TERMS AND CONDITIONS OF THE COVERED BONDS

Each series (as defined below) of covered bonds is issued by the Bank as part of the Programme and constituted by the Trust Deed. In accordance with the Trust Deed, the Bank shall appoint in respect of the applicable series of covered bonds to be issued under the prospectus the entity named in the applicable pricing supplement as (i) principal paying agent (the “**Principal Paying Agent**”, which expression shall include any successor principal paying agent) and each other entity, if any, named in the applicable pricing supplement as paying agent (each, together with the Principal Paying Agent, a “**Paying Agent**”); (ii) calculation agent (the “**Calculation Agent**”, which expression shall include any successor calculation agent and any substitute calculation agent appointed in accordance with the Trust Deed); (iii) Canadian registrar (the “**Canadian Registrar**”, which expression shall include any successor to the Canadian Registrar in its capacity as such, the “**Registrar**”) for a tranche; and (iv) transfer agent and any substitute or additional transfer agents appointed in accordance with the terms of the Trust Deed (the “**Transfer Agents**”). As used herein, “**Agents**” shall mean the Paying Agents, the Registrar, and the Transfer Agents.

References in these Terms and Conditions to the pricing supplement are to the applicable pricing supplement prepared in relation to the relevant tranche or series you are purchasing. In respect of any covered bonds, references herein to these “Terms and Conditions” are to the Terms and Conditions attached to the Trust Deed as supplemented or modified or (to the extent thereof) replaced by such pricing supplement and any reference herein to a “**Condition**” is a reference to the relevant Condition of the Terms and Conditions of the relevant covered bonds.

The covered bonds are issued in series (each, a “**series**”), and each series may comprise one or more tranches (“**tranches**” and each, a “**tranche**”) of covered bonds. Each tranche will be the subject of a pricing supplement, copies of which will be available free of charge during normal business hours at the specified office of the Bond Trustee and/or, as the case may be, the applicable Registrar and each other Paying Agent.

The Bond Trustee acts for the benefit of the holders for the time being of the covered bonds (the “**holders of the covered bonds**”, which expression shall, in relation to any covered bonds represented by a global covered bond, be construed as provided below), and for holders of each other series of covered bonds in accordance with the provisions of the Trust Deed.

The Guarantor LP has, in the Trust Deed, irrevocably and unconditionally guaranteed the due and punctual payment of the Guaranteed Amounts in respect of the covered bonds as and when the same shall become Due for Payment on certain dates and in accordance with the Trust Deed, but only after the occurrence of a Covered Bond Guarantee Activation Event. The security for the obligations of the Guarantor LP 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 (such security agreement as amended, supplemented or replaced the “**Security Agreement**”) between the Guarantor LP, the Bond Trustee, and certain other Secured Creditors.

These Terms and Conditions include summaries of and are subject to, the provisions of the Trust Deed. Copies of the Trust Deed, the Security Agreement, the Master Definitions and Constructions Agreement (as defined below) and each of the other Transaction Documents are available for inspection during normal business hours at the registered office of the Bond Trustee, which are located as of the date of this prospectus supplement at 100 University Avenue, 11th Floor, North Tower, Toronto, Ontario, Canada, M5J 2Y1 and at the specified office of each of the Paying Agents. Copies of the pricing supplement of all covered bonds of each series, or the final terms (“**Final Terms**”) in the case of a series of covered bonds issued under the Programme that is not issued under the prospectus, are obtainable during normal business hours of the specified office of each of the Paying Agents, and any holder of the covered bonds must produce evidence satisfactory to the Bank and the Bond Trustee or, as the case may be, the relevant Paying Agent as to its holding of covered bonds and identity. The holders of the covered bonds are deemed to have notice of, or are bound by, and are entitled to the benefit of, all the provisions of, and definitions contained in, the Trust Deed, the Security Agreement, the Master Definitions and Construction Agreement, each of the other Transaction Documents and the pricing supplement that are applicable to them and to have notice of each pricing supplement or Final Terms, as the case may be, relating to each other series of covered bonds.

Except where the context otherwise requires, capitalized terms used or otherwise defined in these Terms and Conditions shall have the meanings given to them in the prospectus and/or the master definitions and construction

agreement (the “**Master Definitions and Construction Agreement**”), a copy of each of which may be obtained as described above.

Certain provisions of the Terms and Conditions summarized below have been intentionally omitted from this summary as they are not relevant to the covered bonds, but the numbering has been preserved to assist in a comparison to Schedule I of the Trust Deed.

## **1. Form and Denomination**

**1.01** Covered bonds will be issued in registered form and are serially numbered; covered bonds under the Programme may be issued other than pursuant to the prospectus in registered form, bearer form, definitive form, or in such other form as shall be agreed upon by the Bank, the Guarantor LP, the relevant Dealer(s) or covered bondholder(s), as the case may be, and the Bond Trustee, as specified in the Final Terms.

**1.02** For so long as any of the covered bonds is represented by a registered global covered bond, each person (other than CDS) who is for the time being shown in the records of CDS as the holder of a particular principal amount of such covered bonds (a “**Relevant Account Holder**”) (in which regard any certificate or other document issued by CDS as to the principal 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 or proven error) shall be treated by the Issuer, the Guarantor LP, the Bond Trustee, the Issuing and Paying Agent, the Registrar and any other Agent as the holder of such principal amount of such covered bonds for all purposes, in accordance with and subject to the Terms and Conditions of the relevant global covered bond and the Trust Deed, other than with respect to the payment of principal or interest on the covered bonds, and, in the case of CDS or its nominee, voting, giving consents and making requests, for which purpose the registered holder of a registered global covered bond (or in either case, the Bond Trustee in accordance with the Trust Deed) shall be treated by the Issuer, the Guarantor LP, the Bond Trustee, the Issuing and Paying Agent and any Agent and any Registrar as the holder of such principal amount of such covered bonds in accordance with and subject to the terms of the relevant global covered bond and the expression “**Holder**” and related expressions shall be construed accordingly. Similar rights as those made available to Relevant Account Holders in the preceding sentence may be made available to Relevant Account Holders in other relevant clearing systems as more fully provided in the Final Terms. Covered bonds which are represented by a global covered bond will be transferable only in accordance with the then current rules and procedures of CDS.

References to CDS shall, whenever the context so permits, be deemed to include a reference to, DTC, CDS, Euroclear or Clearstream, or any additional or alternative clearing system, specified in the applicable pricing supplement as may otherwise be approved by the Issuer, the Issuing and Paying Agent and the Bond Trustee.

### ***Denomination of Registered Covered Bonds***

**1.09** Registered covered bonds are in the Specified Denominations specified in the applicable pricing supplement.

### ***Currency of Covered Bonds***

**1.10** The covered bonds issued pursuant to the prospectus will be denominated in such currency as may be specified in the applicable pricing supplement. Any currency may be so specified, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

## **2. Title and Transfer**

**2.02** Title to registered covered bonds passes by due endorsement in the relevant register. The Bank shall procure that the Registrar keep a register or registers in which shall be entered the names and addresses of the holders of registered covered bonds and particulars of the registered covered bonds held by them. Such registration shall be noted on the registered covered bonds by the Registrar. References herein to the “**holders**” of registered covered bonds are to the persons in whose names such registered covered bonds are so registered in the relevant register.

**2.03** The holder of any registered covered bond will for all purposes of the Trust Deed, Security Agreement and Agency Agreement (except as otherwise required by applicable law or regulatory requirement) be treated as its absolute owner whether or not it is overdue and regardless of any notice of ownership, trust or any interest thereof or therein, any writing thereon, or any theft or loss thereof and no person shall be liable for so treating such holder.

### ***Transfer of Registered Covered Bonds***

**2.04** A registered definitive covered bond may, upon the terms and subject to the terms and conditions set forth in the Agency Agreement and as required by law, be transferred in whole or in part only (provided that such part is a Specified Denomination specified in the applicable pricing supplement) upon the surrender of the registered definitive covered bond



to be transferred, together with a form of transfer duly completed and executed, at the specified office of the Registrar. A new registered definitive covered bond will be issued to the transferee and, in the case of a transfer of part only of a registered definitive covered bond, a new registered definitive covered bond in respect of the balance not transferred will be issued to the transferor.

**2.05** Each new registered definitive covered bond to be issued upon the registration of the transfer of a registered definitive covered bond will, within three Relevant Banking Days of the transfer date be available for collection by each relevant holder at the specified office of the Registrar or, at the option of the holder requesting such transfer, be mailed (by uninsured post at the risk of the holder(s) entitled thereto) to such address(es) as may be specified by such holder. For these purposes, a form of transfer received by the Registrar or the Issuing and Paying Agent after the Record Date in respect of any payment due in respect of registered covered bonds shall be deemed not to be effectively received by the Registrar or the Issuing and Paying Agent until the day following the due date for such payment.

**2.06** Transfers of beneficial interests in registered covered bonds will be effected by CDS 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. A beneficial interest in a registered global covered bond will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Registered Definitive Covered Bonds or for a beneficial interest in another registered global covered bond only in the Specified Denominations set out in the applicable pricing supplement and only in accordance with the rules and operating procedures for the time being of CDS, and in accordance with the terms and conditions specified in the Agency Agreement. Transfers of a registered global covered bond registered in the name of a nominee for CDS shall be limited to transfers of such registered global covered bond, in whole but not in part, to another nominee of CDS, as applicable, or to a successor of CDS, as applicable, or such successor's nominee.

**2.07** For the purposes of these Terms and Conditions:

- (a) “**Relevant Banking Day**” means a day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in the place where the specified office of the Registrar is located; and
- (b) the “**Transfer Date**” shall be the Relevant Banking Day following the day on which the relevant registered covered bond shall have been surrendered for transfer in accordance with Condition 2.04.

**2.08** The issue of new registered covered bonds on transfer will be effected without charge by or on behalf of the Bank, the Issuing and Paying Agent, or the Registrar, but upon payment by the applicant of (or the giving by the applicant of such indemnity as the Bank, the Issuing and Paying Agent, or the Registrar may require in respect of) any tax, duty or other governmental charges which may be imposed in relation thereto.

### **3. Status of the Covered Bonds**

The covered bonds constitute deposit liabilities of the Bank for purposes of the *Bank Act* (Canada), however they will not be insured under the Canada Deposit Insurance Corporation Act (Canada) or any other government insurance scheme of any other country, and will constitute legal, valid and binding direct, unconditional, unsubordinated, and unsecured obligations of the Bank and rank *pari passu* with all deposit liabilities of the Bank without any preference among themselves and at least *pari passu* with all other unsubordinated and unsecured obligations of the Bank, present and future (except as otherwise prescribed by law). Unless otherwise specified in the applicable pricing supplement, the deposits to be evidenced by the covered bond will be taken by the main branch of the Bank in Toronto but without prejudice to the provisions of Condition 9.

### **4. Guarantee**

Payment of Guaranteed Amounts in respect of the covered bonds when the same shall become Due for Payment has been unconditionally and irrevocably guaranteed by the Guarantor LP (the “**Covered Bond Guarantee**”) in favour of the Bond Trustee (for and on behalf of the covered bondholders) following a Covered Bond Guarantee Activation Event pursuant to the terms of the Trust Deed. The Guarantor LP shall have no obligation under the Covered Bond Guarantee to pay any Guaranteed Amounts until a Covered Bond Guarantee Activation Event (as defined below) has occurred. The obligations of the Guarantor LP under the Covered Bond Guarantee are direct and, following the occurrence of a Covered Bond Guarantee Activation Event, unconditional and, except as provided in the Guarantee Priorities of Payment, unsubordinated obligations of the Guarantor LP, which are secured as provided in the Security Agreement. For the purposes of these Terms and Conditions a “**Covered Bond Guarantee Activation Event**” means the earlier to occur of (i) an Issuer Event of Default, service of an Issuer Acceleration Notice on the Bank and service of a Notice to Pay on the Guarantor LP; and (ii) a Guarantor LP Event of Default and service of a Guarantor LP Acceleration Notice on the Bank and the Guarantor LP. If a Notice to Pay is served on the Guarantor LP, the Guarantor LP shall pay Guaranteed Amounts in respect of the covered bonds on the Original Due for Payment Dates or, if applicable, the Extended Due for Payment Date.

Any payment made by the Guarantor LP under the Covered Bond Guarantee shall (unless such obligation shall have been discharged as a result of the payment of Excess Proceeds to the Bond Trustee pursuant to Condition 7) discharge *pro tanto* the obligations of the Bank in respect of such payment under the covered bonds, except where such payment has been declared void, voidable, or otherwise recoverable in whole or in part and recovered from the Bond Trustee or the holders of the covered bonds.

## 5. Interest

### *Interest*

**5.01** Covered bonds may be interest-bearing or non interest-bearing. The Interest Basis is specified in the applicable pricing supplement. Words and expressions appearing in this Condition 5 and not otherwise defined herein or in applicable pricing supplement shall have the meanings given to them in Condition 5.10.

### *Interest on Fixed Rate Covered Bonds*

**5.02** Each Fixed Rate Covered Bond bears interest on its Outstanding Principal Amount from and including the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrears on the Interest Payment Date(s) in each year up to and including the Final Maturity Date if that does not fall on an Interest Payment Date.

Unless otherwise provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on, but excluding, such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount(s) so specified.

As used in these Terms and Conditions, “**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.

Interest will be calculated on the Calculation Amount of the Fixed Rate Covered Bonds and will be paid to the holders of the covered bonds (in the case of a global covered bond, interest will be paid to CDS for distribution by them to Relevant Account Holders in accordance with their usual rules and operating procedures). If interest is required to be calculated for a period ending other than on an Interest Payment Date, or if no Fixed Coupon Amount is specified in the applicable Final Terms, such interest shall be calculated in accordance with Condition 5.09.

Notwithstanding anything else in this Condition 5.02, if an Extended Due for Payment Date is specified in the Final Terms, interest following the Due for Payment Date will continue to accrue and be payable on any unpaid amount in accordance with Condition 5 at a Rate of Interest determined in accordance with Condition 5.03 (in the same manner as the Rate of Interest for Floating Rate Covered Bonds).

### *Interest on Floating Rate and Index Linked Interest Covered Bonds*

#### *Interest Payment Dates*

**5.03** Each Floating Rate Covered Bond and Index Linked Interest Covered Bond bears interest on its Outstanding Principal Amount from (and including) the Interest Commencement Date and such interest will be payable in arrears on either:

- (a) the Specified Interest Payment Date(s) (each an “**Interest Payment Date**”) in each year specified in the applicable Final Terms; or
- (b) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each an “**Interest Payment Date**”) which falls the number of months or other period specified as the Specified Period(s) in the applicable Final Terms 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 (which expression, shall, in these Terms and Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date). Interest will be calculated on the Calculation Amount of the Floating Rate Covered Bonds or Index Linked Interest Covered Bonds and will be paid to the holders of the covered bonds (in the case of a global covered bond, interest will be paid to CDS for distribution by them to Relevant Account Holders in accordance with their usual rules and operating procedures).

### *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Covered Bonds and Index Linked Interest Covered Bonds will be determined in the manner specified in the applicable Final Terms.

### *Screen Rate Determination*

Where the Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined:

- (a) the Rate of Interest for each Interest Period will, subject as provided below, be either:
  - (i) the offered quotation, or
  - (ii) the arithmetic mean (rounded, if necessary, to the nearest one-hundred thousandth of a percentage point, 0.000005 being rounded upwards) of the offered quotations  
(expressed as a percentage rate per annum) for the Reference Rate for deposits in the Specified Currency for that Interest Period which appears or appear, as the case may be, on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date, all as determined by the Calculation Agent;
- (b) if, on any Interest Determination Date, no such Reference Rate so appears or, as the case may be, if fewer than two offered quotations so appear or if the Relevant Screen Page is unavailable or if the offered rate or rates which appear as at the Relevant Time do not apply to a period or durations equal to the Interest Period, the Calculation Agent will request appropriate quotations and will determine the arithmetic mean (rounded as described above) of the rates at which deposits in the relevant currency are offered by the Reference Banks at approximately the Relevant Time on the Interest Determination Date to prime banks in the London interbank market in the case of LIBOR (as defined herein) or in the Euro-zone (as defined herein) interbank market in the case of EURIBOR (as defined herein) for a period of the duration of the relevant Interest Period and in an amount that is representative for a single transaction in the relevant market at the relevant time;
- (c) if, on any Interest Determination Date, only two or three rates are so quoted, the Calculation Agent will determine the arithmetic mean (rounded as described above) of the rates so quoted; or
- (d) if fewer than two rates are so quoted, the Calculation Agent will determine the arithmetic mean (rounded as described above) of the rates quoted by four major banks in the Financial Centre as selected by the Calculation Agent, at approximately 11.00 a.m. (Financial Centre time) on the first day of the relevant Interest Period for loans in the relevant currency to leading European banks for a period for the duration of the relevant Interest Period and in an amount that is representative for a single transaction in the relevant market at the relevant time,

and the Rate of Interest applicable to such covered bonds during such Interest Period will be the rate or, as the case may be, the arithmetic mean (rounded as described above) of the rates so determined plus or minus (as indicated in the Final Terms) the Margin, if any, provided however that if the Calculation Agent is unable to determine a rate or, as the case may be, an arithmetic mean of rates in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to such covered bonds during such Interest Period will be the rate or, as the case may be, the arithmetic mean (rounded as described above) of the rates determined in relation to such covered bonds in respect of the last preceding Interest Period plus or minus (as indicated in the Final Terms) the Margin, if any.

### *ISDA Rate Determination*

**5.04** Where ISDA Determination is specified in the Final Terms 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) the Margin, if any. For purposes of this Condition 5.04, “**ISDA Rate**” for an Interest Period means a rate equal to the Fixed Rates, Fixed Amounts, Fixed Prices, Floating Rates, Floating Amounts or Floating Prices, as the case may be, or as otherwise specified in the applicable Final Terms, as would have applied (regardless of any event of default or termination event or tax event thereunder) if the Issuer had entered into a schedule and confirmation in respect of the relevant Tranche or series of covered bonds, as applicable, with the holder of such covered bond under the terms of an agreement to which the ISDA Definitions applied and under which:

- the Fixed Rate Payer, Fixed Amount Payer, Floating Rate Payer or, as the case may be, Floating Amount Payer is the Issuer (as specified in the Final Terms);
- the Effective Date is the Interest Commencement Date;
- the Floating Rate Option (which may refer to a Rate Option or a Price Option, specified in the ISDA Definitions) is as specified in the applicable Final Terms;
- the Designated Maturity is the period specified in the applicable Final Terms;
- the Issuing and Paying Agent is the Calculation Agent;
- the Calculation Periods are the Interest Periods;
- the Payment Dates are the Interest Payment Dates;
- the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate (“LIBOR”) or on the Euro-zone inter-bank offered rate (“EURIBOR”) for a currency, the first day of that Interest Period or (ii) in any other case as specified in the applicable Final Terms;
- the Calculation Amount is the principal amount of such covered bond;
- the Day Count Fraction applicable to the calculation of any amount is that specified in the Final Terms or, if none is so specified, as may be determined in accordance with the ISDA Definitions;
- the Applicable Business Day Convention applicable to any date is that specified in the Final Terms or, if none is so specified, as may be determined in accordance with the ISDA Definitions; and
- the other terms are as specified in the Final Terms.

For the purposes of this Condition 5.04 “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity**” and “**Reset Date**” have the meanings given to those terms in the ISDA Definitions.

***Maximum Rate of Interest or Minimum Rate of Interest***

**5.05** If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the Final Terms, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.

***Linear Interpolation***

**5.06** Where “Linear Interpolation” is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Issuing and Paying Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified as applicable in the applicable Final Terms) or the relevant Floating Rate Option (where ISDA Determination is specified as applicable in the applicable Final Terms), one of which shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period and the other of which shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period provided however that if there is no rate available for a period of time next shorter or, as the case may be, next longer, then the Issuing and Paying Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

“Designated Maturity” means, in relation to Screen Rate Determination, the period of time designated in the Reference Rate.

***Accrual of Interest after the due date***

**5.07** Interest will cease to accrue as from the due date for redemption therefor (or, in the case of an Instalment Covered Bond, in respect of each Instalment Amount, on the due date for payment of the relevant Instalment Amount) unless upon due presentation or surrender thereof (if required), payment in full of the Final Redemption Amount or the relevant Instalment Amount is improperly withheld or refused or default is otherwise made in the payment thereof. In such

event, interest shall continue to accrue on the principal amount in respect of which payment has been improperly withheld or refused or default has been made (as well after as before any demand or judgment) at the Rate of Interest then applicable or such other rate as may be specified for this purpose in the Final Terms if permitted by applicable law (“**Default Rate**”) until the date on which, upon due presentation or surrender of the relevant covered bond (if required), the relevant payment is made or, if earlier, the seventh day after the date on which, the Issuing and Paying Agent or, as the case may be, the Registrar having received the funds required to make such payment, notice is given to the holders of the covered bonds in accordance with Condition 14 that the Issuing and Paying Agent or, as the case may be, the Registrar has received the required funds (except to the extent that there is failure in the subsequent payment thereof to the relevant holder).

### ***Interest Amount(s), Calculation Agent and Reference Banks***

**5.08** If a Calculation Agent is specified in the Final Terms, the Calculation Agent, as soon as practicable after the Relevant Time on each Interest Determination Date (or such other time on such date as the Calculation Agent may be required to calculate any Final Redemption Amount or Instalment Amount, obtain any quote or make any determination or calculation) will determine the Rate of Interest and calculate the amount(s) of interest payable (the “**Interest Amount(s)**”) in the manner specified in Condition 5.08 below, calculate the Final Redemption Amount or Instalment Amount, obtain such quote or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date or, as the case may be, the Final Redemption Amount or any Instalment Amount to be notified to the Issuing and Paying Agent, the Registrar (in the case of registered covered bonds), the Issuer, the Holders in accordance with Condition 14 and, if the covered bonds are listed on a stock exchange or admitted to listing by any other authority and the rules of such exchange or other relevant authority so require, such exchange or listing authority as soon as possible after their determination or calculation but in no event later than the fourth London Banking Day thereafter or, if earlier in the case of notification to the stock exchange or other relevant authority, the time required by the relevant stock exchange or listing authority. The Interest Amounts and the 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. If the covered bonds become due and payable under Condition 7, the Rate of Interest and the accrued interest payable in respect of the covered bonds shall nevertheless continue to be calculated in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made. The determination of each Rate of Interest, Interest Amount, Final Redemption Amount and Instalment Amount, the obtaining of each quote and the making of each determination or calculation by the Calculation Agent shall (in the absence of manifest or proven error) be final and binding upon the Issuer and the Holders and neither the Calculation Agent nor any Reference Bank shall have any liability to the Holders in respect of any determination, calculation, quote or rate made or provided by it.

The Issuer will procure that there shall at all times be such Reference Banks as may be required for the purpose of determining the Rate of Interest applicable to the covered bonds and a Calculation Agent, if provision is made for one in the Terms and Conditions.

If the Calculation Agent is incapable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for any Interest Period or to calculate the Interest Amounts or any other requirements, the Bond Trustee shall determine the Rate of Interest at such rate as, in its absolute discretion (having regard as it shall think fit to the foregoing provision of this Condition, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Final Terms), it shall deem fair and reasonable in all circumstances or, as the case may be, the Bond Trustee shall calculate (or appoint an agent to calculate) the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Calculation Agent. The Calculation Agent may not resign its duties without a successor having been appointed as described above.

### ***Calculations and Adjustments***

**5.09** The amount of interest payable in respect of any covered bond for any period shall be calculated by applying the Rate of Interest to the Calculation Amount, and, in each case, multiplying such sum by the Day Count Fraction, save that (i) if the Final Terms specifies a specific amount in respect of such period, the amount of interest payable in respect of such covered bond for such Interest Period will be equal to such specified amount and (ii) in the case of Fixed Rate covered bonds, the interest shall be calculated on such basis as may be specified in the applicable Final Terms.

For the purposes of any calculations referred to in these Terms and Conditions (unless otherwise specified in the Final Terms), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount and (c) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the smallest sub-unit of such currency, with halves being rounded upwards.

Where the covered bonds are represented by a global covered bond or where the Specified Denomination of a covered bond in definitive form is a multiple of the Calculation Amount, the amount of interest 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 Outstanding Principal Amount of the global covered bond or the Specified Denomination of a covered bond in definitive form, without any further rounding.

## **Definitions**

**5.10** In these Conditions, unless the context otherwise requires, the following defined terms shall have the meaning set out below:

**“Banking Day”** means, in respect of any city, a day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in that city.

**“Business Day”** means (i) in relation to covered bonds payable in other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets are open for general business (including dealings in foreign exchange and foreign currency deposits) and settle payments in the relevant currency in the Business Centre(s) specified in the Final Terms or (ii) in relation to covered bonds payable in euro, a day (other than a Saturday or Sunday) which is a TARGET2 Business Day (as defined below) and on which commercial banks and foreign exchange markets are open for general business (including dealings in foreign exchange and foreign currency deposits) in the Business Centre(s) specified in the Final Terms.

**“Business Day Convention”** means a convention for adjusting any date if it would otherwise fall on a day that is not a Business Day and the following Business Day Conventions, where specified in the Final Terms in relation to any date applicable to any covered bonds, shall have the following meanings:

- (a) **“Following Business Day Convention”** means that such date shall be postponed to the first following day that is a Business Day;
- (b) **“Modified Following Business Day Convention”** or **“Modified Business Day Convention”** means that such date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;
- (c) **“Preceding Business Day Convention”** means that such date shall be brought forward to the first preceding day that is a Business Day; and
- (d) **“FRN Convention”** or **“Eurodollar Convention”** means that each such date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the Final Terms after the calendar month in which the preceding such date occurred, provided that:
  - (i) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;
  - (ii) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and
  - (iii) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred.

**“Calculation Agent”** means the Issuing and Paying Agent or such other agent as may be specified in the Final Terms as the Calculation Agent.

**“Day Count Fraction”** means, in respect of the calculation of an amount for any period of time (each such period an “Accrual Period”), such day count fraction as may be specified in the Final Terms and:

- (a) if **“Actual/Actual”** or **“Actual/Actual (ISDA)”** is so specified, means the actual number of days in the Accrual Period divided by 365 (or, if any portion of the Accrual Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Accrual Period falling in a leap year divided by 366 and

(B) the actual number of days in that portion of the Accrual Period falling in a non-leap year divided by 365);

- (b) if “**Actual/365 (Fixed)**” is so specified, means the actual number of days in the Accrual Period divided by 365;
- (c) if “**Actual/360**” is so specified, means the actual number of days in the Accrual Period divided by 360;
- (d) if “**30E/360**” or “**Eurobond Basis**” is so specified, means the number of days in the Accrual Period divided by 360, calculated on a formula basis as follows:

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

where,

“**Y<sub>1</sub>**” is the year, expressed as a number, in which the first day of the Accrual Period falls;

“**Y<sub>2</sub>**” is the year, expressed as a number, in which the day immediately following the last day included in the Accrual Period falls;

“**M<sub>1</sub>**” is the calendar month, expressed as a number, in which the first day of the Accrual Period falls;

“**M<sub>2</sub>**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Accrual Period falls;

“**D<sub>1</sub>**” is the first calendar day, expressed as a number, of the Accrual Period, unless such number would be 31, in which case D1 will be 30; and

“**D<sub>2</sub>**” is the calendar day, expressed as a number, immediately following the last day included in the Accrual Period, unless such number would be 31, in which case D2 will be 30;

- (e) if “**30/360**”, “**360/360**” or “**Bond Basis**” is so specified, means the number of days in the Accrual Period divided by 360, calculated on a formula basis as follows:

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

where,

“**Y<sub>1</sub>**” is the year, expressed as a number, in which the first day of the Accrual Period falls;

“**Y<sub>2</sub>**” is the year, expressed as a number, in which the day immediately following the last day included in the Accrual Period falls;

“**M<sub>1</sub>**” is the calendar month, expressed as a number, in which the first day of the Accrual Period falls;

“**M<sub>2</sub>**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Accrual Period falls;

“**D<sub>1</sub>**” is the first calendar day, expressed as a number, of the Accrual Period, unless such number would be 31, in which case D1 will be 30; and

“**D<sub>2</sub>**” is the calendar day, expressed as a number, immediately following the last day included in the Accrual Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

- (f) if “**30E/360 (ISDA)**” is so specified, means the number of days in the Accrual Period divided by 360, calculated on a formula basis as follows:

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

where,

“**Y<sub>1</sub>**” is the year, expressed as a number, in which the first day of the Accrual Period falls;

“**Y<sub>2</sub>**” is the year, expressed as a number, in which the day immediately following the last day included the Accrual Period falls;

“**M<sub>1</sub>**” is the calendar month, expressed as a number, in which the first day of the Accrual Period falls;

“**M<sub>2</sub>**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Accrual Period falls;

“**D<sub>1</sub>**” is the first calendar day, expressed as a number, of the Accrual Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

“**D<sub>2</sub>**” is the calendar day, expressed as a number, immediately following the last day included in the Accrual Period, unless (i) that day is the last day of February but not the Final Maturity Date or (ii) such number would be 31, in which case D2 will be 30; and

- (g) if “**Actual/Actual (ICMA)**” is so specified:
- (i) if the Accrual Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Accrual Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Interest Payment Dates that would occur in one calendar year assuming interest was to be payable in respect of the whole of that year; or
  - (ii) if the Accrual Period is longer than the Determination Period, the sum of:
    - (x) the number of days in such Accrual Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Interest Payment Dates that would occur in one calendar year assuming interest was to be payable in respect of the whole of that year; and
    - (y) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Interest Payment Dates that would occur in one calendar year assuming interest was to be payable in respect of the whole of that year

where,

“**Determination Date**” means such dates as specified in the applicable Final Terms; and

“**Determination Period**” means the period from and including a Determination Date in any year 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).

“**euro**” means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

“**Euro-zone**” means the region comprised of those member states of the European Union participating in the European Monetary Union from time to time.

“**Financial Centre**” means such financial centre or centres as may be specified in relation to the relevant currency for the purposes of the definition of “**Business Day**” in the ISDA Definitions or indicated in the Final Terms or, in the case of covered bonds denominated in euro, such financial centre or centres as the Calculation Agent may select.

“**Interest Commencement Date**” means the date of issue (the “**Issue Date**”) of the covered bonds (as specified in the Final Terms) or such other date as may be specified as such in the Final Terms.

“**Interest Determination Date**” means, in respect of any Interest Period, the date specified in the Final Terms, or if none is specified:

- (a) the first day of such Interest Period; or
- (b) in the case of LIBOR (other than Sterling LIBOR) or EURIBOR, the date falling two London Banking Days (or, in the case of EURIBOR or EUROLIBOR, two TARGET2 Business Days) prior to the first day of such Interest Period.



**“Interest Payment Date”** means the date or dates specified as such in, or determined in accordance with the provisions of, the Final Terms and, as the same may be adjusted in accordance with the Business Day Convention, if any, specified in the Final Terms or if the Business Day Convention is the FRN Convention and an interval of a number of calendar months is specified in the Final Terms as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention at such Specified Period of calendar months following the Interest Commencement Date of the covered bonds (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case).

**“Interest Period”** means each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date, provided always that the first Interest Period shall commence on and include the Interest Commencement Date and the final Interest Period shall end on but exclude the Final Maturity Date.

**“ISDA Definitions”** means the 2006 ISDA Definitions (as amended, supplemented and updated as at the date of issue of the first Tranche of the covered bonds of the relevant series (as specified in the Final Terms) as published by the International Swaps and Derivatives Association, Inc.) unless otherwise specified in the applicable Final Terms.

**“Outstanding Principal Amount”** means, in respect of a covered bond, its principal amount less, in respect of any Instalment Covered Bond, any principal amount on which interest shall have ceased to accrue in accordance with Condition 5.06 or otherwise as indicated in the Final Terms.

**“Rate of Interest”** means the rate or rates (expressed as a percentage per annum) or amount or amounts (expressed as a price per unit of relevant currency) of interest payable in respect of the covered bonds specified in, or calculated or determined in accordance with the provisions of, the Final Terms.

**“Reference Banks”** means such banks as may be specified in the Final Terms as the Reference Banks, or, if none are specified, “Reference Banks” has the meaning given in the ISDA Definitions, mutatis mutandis.

**“Relevant Time”** means the time as of which any rate is to be determined as specified in the Final Terms (which in the case of LIBOR means London time or in the case of EURIBOR means Central European Time) or, if none is specified, at which it is customary to determine such rate.

**“Reuters Screen”** means, when used in connection with a designated page and any designated information, the display page so designated on the Reuters Market 3000 (or such other page as may replace that page on that service for the purpose of displaying such information).

**“TARGET2 Business Day”** means, a day in which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System is open;

### ***Zero-Coupon Covered Bonds***

**5.11** If any Final Redemption Amount in respect of any Zero Coupon Covered Bond is not paid when due, interest shall accrue on the overdue amount at a rate per annum (expressed as a percentage per annum) equal to the Accrual Yield defined in, or determined in accordance with the provisions of, the Final Terms or at such other rate as may be specified for this purpose in the Final Terms until the date on which, upon due presentation or surrender of the relevant covered bond (if required), the relevant payment is made or, if earlier, the seventh day after the date on which, the Issuing and Paying Agent or, as the case may be, the Registrar having received the funds required to make such payment, notice is given to the holders of the covered bonds in accordance with Condition 14 that the Issuing and Paying Agent or, as the case may be, the Registrar has received the required funds (except to the extent that there is failure in the subsequent payment thereof to the relevant Holder). The amount of any such interest shall be calculated in accordance with the provisions of Condition 5.09 as if the Rate of Interest was the Accrual Yield, the Outstanding Principal Amount was the overdue sum and the Day Count Fraction was as specified for this purpose in the Final Terms or, if not so specified, 30E/360 (as defined in Condition 5.10).

## **6. Redemption and Purchase**

### ***Redemption at Maturity***

**6.01** Unless previously redeemed, or purchased and cancelled, a covered bond shall be redeemed at its Final Redemption Amount specified in or determined in the manner specified in the applicable pricing supplement in the Specified Currency on the Final Maturity Date.

Without prejudice to Condition 7, if an Extended Due for Payment Date is specified as applicable in the pricing supplement for a series of covered bonds and the Bank has failed to pay the Final Redemption Amount on the Final

Maturity Date specified in the pricing supplement (or after expiry of the grace period set out in Condition 7.01(a)) and following the service of a Notice to Pay on the Guarantor LP by no later than the date falling one Business Day prior to the Extension Determination Date the Guarantor LP has insufficient moneys available in accordance with the Guarantee Priority of Payments to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount 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 such Notice to Pay on the Guarantor LP or if later the Final Maturity Date (or, in each case, after the expiry of the grace period set out in Condition 7.02) under the terms of the Covered Bond Guarantee, or (b) the Extension Determination Date, then (subject as provided below) payment of the unpaid amount by the Guarantor LP under the Covered Bond Guarantee shall be deferred until the Extended Due for Payment Date, provided that in respect of any amount representing the Final Redemption Amount due and remaining unpaid on the earlier of (a) and (b) above the Guarantor LP will apply any moneys available (after paying or providing for payment of higher ranking or *pari passu* amounts in accordance with the Guarantee Priority of Payments) to pay the Guaranteed Amounts corresponding to the Final Redemption Amount of the relevant series of covered bonds on any Interest Payment Date thereafter up to (and including) the relevant Extended Due for Payment Date.

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

The Guarantor LP shall notify the relevant holders of the covered bonds (in accordance with Condition 14), the Rating Agencies, the Bond Trustee, the Issuing and Paying Agent and the Registrar (in the case of registered covered bonds) as soon as reasonably practicable and in any event at least one Business Day prior to the dates specified in (a) and (b) of the second paragraph of this Condition 6.01 of any inability of the Guarantor LP to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of a series of covered bonds pursuant to the Covered Bond Guarantee. Any failure by the Guarantor LP to notify such parties shall not affect the validity or effectiveness of the extension nor give rise to any rights in any such party.

In the circumstances outlined above, the Guarantor LP shall on the earlier of (a) the date falling two Business Days after the service of a Notice to Pay on the Guarantor LP or if later the Final Maturity Date (or, in each case, after the expiry of the applicable grace period set out in Condition 7.02) 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 Scheduled Interest in respect of each such covered bond on such date. The obligation of the Guarantor LP 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 Guarantor LP shall not constitute, in and of itself, a Guarantor LP Event of Default.

Any discharge of the obligations of the Bank as the result of the payment of Excess Proceeds to the Bond Trustee shall be disregarded for the purposes of determining the amounts to be paid by the Guarantor LP under the Covered Bond Guarantee in connection with this Condition 6.01.

For the purposes of these Terms and Conditions:

“**Extended Due for Payment Date**” means, in relation to any series of covered bonds, the date, if any, specified as such in the applicable pricing supplement to which the payment of all or (as applicable) part of the Final Redemption Amount payable on the Final Maturity Date will be deferred in the event that the Final Redemption Amount is not paid in full on the Extension Determination Date; and

“**Extension Determination Date**” means, in respect of a 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 covered bonds.

“**Guarantee Priority of Payments**” means the priority of payments relating to moneys received by the Cash Manager for and on behalf of the Guarantor LP and moneys standing to the credit of the Guarantor LP Accounts, to be paid on each Guarantor LP Payment Date in accordance with the Guarantor LP Agreement.

“**Rating Agency**” means any one of Moody’s Investors Service, Inc., Fitch, Inc. and DBRS Limited, to the extent that at the relevant time they provide ratings in respect of the then outstanding covered bonds, or their successors and “**Rating Agencies**” means more than one Rating Agency.

### ***Early Redemption for Taxation Reasons***

**6.02** If, in relation to any series of covered bonds (i) as a result of any change in the laws or regulations of Canada or any province or territory thereof or any authority or agency therein or thereof having power to tax or, in the case of covered bonds issued by a branch of the Bank outside Canada, of the country in which such branch is located or of any political subdivision thereof or any authority or agency therein or thereof having power to tax or in the interpretation or administration of any such laws or regulations which becomes effective on or after the issue date of such covered bonds or any other date specified in the applicable pricing supplement, the Bank would be required to pay additional amounts as provided in Condition 8, (ii) such obligation cannot be avoided by the Bank taking reasonable measures available to it and (iii) such circumstances are evidenced by the delivery by the Bank to the Issuing and Paying Agent and Bond Trustee of (x) a certificate signed by two senior officers of the Bank stating that the said circumstances prevail and describing the facts leading thereto, and (y) an opinion of independent legal advisers of recognised standing to the effect that the circumstances set forth in (i) above, prevail, the Bank may, at its option and having given no less than 30 nor more than 60 days' notice (ending, in the case of floating rate covered bonds, on an Interest Payment Date) to the holders of the covered bonds in accordance with Condition 14 (which notice shall be irrevocable), redeem all (but not some only) of the outstanding covered bonds at their outstanding principal amount or such Early Redemption Amount as may be specified in, or determined in accordance with the provisions of, the applicable pricing supplement, together with accrued interest (if any) thereon, provided, however, that no such notice of redemption may be given earlier than 90 days (or, in the case of floating rate covered bonds a number of days which is equal to the aggregate of the number of days falling within the then current Interest Period plus 60 days) prior to the earliest date on which the Bank would be obliged to pay such additional amounts were a payment in respect of the covered bonds then due.

The Bank may not exercise such option in respect of any covered bond which is the subject of the prior exercise by the holder thereof of its option to require the redemption of such covered bond under Condition 6.06.

### ***Call Option***

**6.03** If a Call Option is specified in the pricing supplement as being applicable, then the Bank may, having given the appropriate notice to the holders in accordance with Condition 14, which Notice shall be irrevocable, and shall specify the date fixed for redemption and subject to such conditions as may be specified in the applicable pricing supplement, redeem all or some only of the covered bonds of this series outstanding on any Optional Redemption Date at the Optional Redemption Amount(s) specified in, or determined in the manner specified in the applicable pricing supplement, together with accrued interest (if any) thereon on the date specified in such notice.

The Bank may not exercise such option in respect of any covered bond which is the subject of the prior exercise by the holder thereof of its option to require the redemption of such covered bond under Condition 6.06.

**6.04** The appropriate notice referred to in Condition 6.03 is a notice given by the Bank to the holders of the covered bonds of the relevant series in accordance with Condition 14, which notice shall be irrevocable and shall specify:

- the series of covered bonds subject to redemption;
- whether such series is to be redeemed in whole or in part only and, if in part only, the aggregate principal amount of and (except in the case of a global covered bond) the serial numbers of the covered bonds of the relevant series which are to be redeemed;
- the due date for such redemption, which shall be not less than thirty days nor more than 60 days after the date on which such notice is given and which shall be such date or the next of such dates (“**Call Option Date(s)**”) or a day falling within such period (“**Call Option Period**”), as may be specified in the applicable pricing supplement and which is, in the case of covered bonds which bear interest at a floating rate, a date upon which interest is payable; and
- the Optional Redemption Amount at which such covered bonds are to be redeemed.

### ***Partial Redemption***

**6.05** If the covered bonds are to be redeemed in part only on any date in accordance with Condition 6.03:

- such redemption must be for an amount not less than the Minimum Redemption Amount or not more than the Maximum Redemption Amount, in each case as may be specified in the applicable pricing supplement;

- in the case of a global covered bond, the covered bonds to be redeemed shall be selected in accordance with the rules of Euroclear, Clearstream, DTC, CDS and/or any other relevant clearing system (to be reflected in the records of Euroclear and/or Clearstream, DTC and/or CDS or such other relevant clearing system as either a pool factor or a reduction in principal amount, at their discretion); and
- in the case of registered definitive covered bonds, the covered bonds shall be redeemed (so far as may be practicable) *pro rata* to their principal amounts, provided always that the amount redeemed in respect of each covered bond shall be equal to a Specified Denomination,

subject always to compliance with all applicable laws and the requirements of any stock exchange on which the relevant covered bonds may be listed.

In the case of the redemption of part only of a registered definitive covered bond, a new registered definitive covered bond in respect of the unredeemed balance shall be issued in accordance with Conditions 2.04 to 2.08, which shall apply as in the case of a transfer of registered definitive covered bonds as if such new registered definitive covered bond were in respect of the untransferred balance.

### ***Put Option***

**6.06** If a Put Option is specified in the pricing supplement as being applicable, upon the holder of any covered bond of this series giving the required notice to the Bank specified in the applicable pricing supplement (which notice shall be irrevocable), the Bank will, upon expiry of such notice, redeem such covered bond subject to and in accordance with the terms specified in the applicable pricing supplement in whole (but not in part only) on the Optional Redemption Date and at the Optional Redemption Amount specified in, or determined in accordance with the provisions of, the applicable pricing supplement, together with accrued interest (if any) thereon, provided that any such Put Option shall expire no later than upon an Issuer Event of Default. In order to exercise such option, the holder must, not less than 45 days before the Optional Redemption Date where the covered bond is a covered bond in definitive form held outside Euroclear, Clearstream, DTC and/or CDS deposit the relevant covered bond during normal business hours at the specified office of the Registrar together with a duly completed early redemption notice (“**Put Notice**”) in the form which is available from the specified office of any of the Paying Agents or, as the case may be, the Registrar, specifying, in the case of a global covered bond, the aggregate principal amount in respect of which such option is exercised (which must be a Specified Denomination specified in the applicable pricing supplement). Notwithstanding the foregoing, covered bonds represented by a registered global covered bond shall be deemed to be deposited with the Registrar for purposes of this Condition 6.06 at the time a Put Notice has been received by the Registrar in respect of such covered bonds. No covered bond so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement).

In the case of the redemption of part only of a registered covered bond, a new registered definitive covered bond in respect of the unredeemed balance shall be issued in accordance with Conditions 2.04 to 2.08 which shall apply as in the case of a transfer of registered definitive covered bonds as if such new registered definitive covered bond were in respect of the untransferred balance.

The holder of a covered bond may not exercise such Put Option in respect of any covered bond which is the subject of an exercise by the Bank of its option to redeem such covered bond under either Condition 6.02 or 6.03.

### ***Purchase of Covered Bonds***

**6.07** The Bank or any of its subsidiaries may at any time purchase covered bonds in the open market or otherwise and at any price. If purchases are made by tender, tenders must be available to all holders of the relevant covered bonds alike.

### ***Cancellation of Redeemed and Purchased Covered Bonds***

**6.08** All unmatured covered bonds redeemed in accordance with this Condition 6 will be cancelled forthwith and may not be reissued or resold. All unmatured covered bonds purchased in accordance with Condition 6.07 may be cancelled or may be reissued or resold.

### ***Other Redemption and Purchase Provisions***

**6.14** Notwithstanding the foregoing, any additional redemption events which shall enable the Bank to redeem the covered bonds of any series shall be set forth in the applicable pricing supplement.

## ***Redemption due to Illegality***

**6.15** The covered bonds of all series may be redeemed at the option of the Bank in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bond Trustee, the Issuing and Paying Agent, the Registrar and, in accordance with Condition 14, all holders of the covered bonds (which notice shall be irrevocable), if the Bank satisfies the Bond Trustee immediately before the giving of such notice that it has, or will, before the next Interest Payment Date of any covered bond of any series, become unlawful for the Bank to make, fund or allow to remain outstanding any advance made by it to the Guarantor LP pursuant to 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.

Covered bonds redeemed pursuant to this Condition 6.15 will be redeemed at their Early Redemption Amount together (if appropriate) with interest accrued to (but excluding) the date of redemption.

Prior to the publication of any notice of redemption pursuant to this Condition 6.15, the Bank shall deliver to the Issuing and Paying Agent and Bond Trustee a certificate signed by two senior officers of the Bank stating that the Bank is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Bank so to redeem have occurred and the Issuing and Paying Agent and Bond Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on all holders of the covered bonds.

## **7. Events of Default**

### ***Issuer Events of Default***

**7.01** The Bond Trustee at its discretion may, and if so requested in writing by the holders of at least 25 percent of the aggregate Principal Amount Outstanding of the covered bonds (which for this purpose or the purpose of any Extraordinary Resolution (as defined in the Trust Deed) referred to in this Condition 7.01 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 euros converted into euros at the rate specified in the applicable pricing supplement) or if so directed by an Extraordinary Resolution of all the holders of the covered bonds shall, (but in the case of the happening of any of the events mentioned in sub-paragraphs (b) to (d) below, only if the Bond Trustee shall have certified in writing to the Bank and the Guarantor LP that such event is, in its opinion, materially prejudicial to the interests of the holders of the covered bonds of any series) (subject in each case to being indemnified and/or secured to its satisfaction), give notice (an "**Issuer Acceleration Notice**") in writing to the Bank that as against the Bank (but, for the avoidance of doubt, not against the Guarantor LP 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 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) the Bank fails to pay (i) any principal in respect of the covered bonds within 10 days of the due date or (ii) any interest in respect of the covered bonds within 30 days of the due date; or
- (b) the Bank fails to perform or observe any obligations under the covered bonds, Receipts or Coupons of any series, the Trust Deed or any other Transaction Document to which the Bank is a party (other than the Dealership Agreement and the Subscription Agreement and the U.S. Underwriting Agreement) but excluding (i) any obligation of the Bank to comply with the Asset Coverage Test; (ii) any obligation of the Bank which relates solely to its obligations under Part I.1 of the National Housing Act (Canada) or the Guide and breach of which would not otherwise constitute a breach of the terms of the Transaction Documents, and (iii) the obligation to exchange cashflows under the Swap Agreement following a Trigger Event Date, and 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 Bank of notice requiring the same to be remedied (except in circumstances where the Bond Trustee considers such failure to be incapable of remedy in which case no period of continuation will apply and no notice by the Bond Trustee will be required); or
- (c) Section 8.1(3)(a)(ii) or Section 8.1(3)(b) of the Guarantor LP Agreement (which limits the right of the Guarantor LP to exercise discretion in respect of rights under Transaction Documents as described under "*Summary of Principal Documents – Guarantor LP Agreement – Other Provisions*") or Part 5(t)(ii) of a Schedule to the ISDA Master Agreement for a Swap Agreement (which limits the right of the Guarantor LP to exercise discretion in respect of rights under such Swap Agreement as described under "*Summary of Principal Documents – Interest Rate Swap Agreement and Covered Bond Swap Agreement*") is not complied with; or

- (d) the Reserve Fund is not established within 30 days (or such longer period as the Bond Trustee may permit) following the date on which the Reserve Fund is required to be established pursuant to Section 6.1(2) of the Guarantor LP Agreement (which requires the Reserve Fund to be established upon the ratings of the Bank falling below the Reserve Fund Required Amount Ratings); or
- (e) cashflows are not exchanged in accordance with the terms of the Covered Bond Swap Agreement within 30 days (or such longer period as the Bond Trustee may permit) following a Trigger Event Date; or
- (f) any impending or actual insolvency on the part of the Bank as evidenced by, but not limited to (i) the commencement of a dissolution proceeding or a case in bankruptcy involving the Bank (and where such proceeding is the result of an involuntary filing, such proceeding is not dismissed within 60 days after the date of such filing); (ii) the appointment of a trustee or other similar court officer over, or the taking of control or possession by such officer or by OSFI of the Bank's business in whole or in part, or in the case of OSFI, the Bank, before the commencement of a dissolution proceeding or a case of bankruptcy; (iii) a general assignment by the Bank for the benefit of any of its creditors; or (iv) the general failure of, or the inability of, or the written admission of the inability of, the Bank to pay its debts as they become due; or
- (g) 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 Guarantor LP Payment Date immediately following the next Calculation Date after service of such Asset Coverage Test Breach Notice.

Upon the covered bonds becoming immediately due and repayable against the Bank pursuant to this Condition 7.01, the Bond Trustee shall forthwith serve a notice to pay (the "**Notice to Pay**") on the Guarantor LP pursuant to the Covered Bond Guarantee and the Guarantor LP 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 the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice, the Bond Trustee may or shall take such proceedings against the Bank in accordance with the first paragraph of Condition 7.03.

The Trust Deed provides that all moneys (the "**Excess Proceeds**") received by the Bond Trustee from the Bank or any receiver, liquidator, administrator or other similar official appointed in relation to the Bank following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice and a Notice to Pay on the Guarantor LP, shall be paid by the Bond Trustee, as soon as practicable after receipt thereof by the Bond Trustee, on behalf of the holders of the covered bonds of the relevant series to the Guarantor LP (or the Cash Manager on its behalf) for the account of the Guarantor LP and shall be held in the Guarantor LP Accounts and the Excess Proceeds shall thereafter form part of the Security granted pursuant to the Security Agreement and shall be used by the Guarantor LP (or the Cash Manager on its behalf) in the same manner as all other moneys from time to time held by the Cash Manager and/or standing to the credit of the Guarantor LP in the Guarantor LP Accounts. Any Excess Proceeds received by the Bond Trustee shall discharge *pro tanto* the obligations of the Bank in respect of the payment of the amount of such Excess Proceeds under the covered bonds. However, the obligations of the Guarantor LP under the Covered Bond Guarantee are, following a Covered Bond Guarantee Activation Event, unconditional and irrevocable and the receipt by the Bond Trustee of any Excess Proceeds shall not reduce or discharge any of such obligations.

By subscribing for covered bonds, each holder of the covered bonds shall be deemed to have irrevocably directed the Bond Trustee to pay the Excess Proceeds to the Guarantor LP in the manner as described above.

### ***Guarantor LP Events of Default***

**7.02** The Bond Trustee at its discretion may, and if so requested in writing by the holders of at least 25 percent of the aggregate Principal Amount Outstanding of the covered bonds (which for this purpose and the purpose of any Extraordinary Resolution referred to in this Condition 7.02 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 euros converted into euros at the rate specified in the applicable pricing supplement), or if so directed by an Extraordinary Resolution of all the holders of the covered bonds shall (but in the case of the happening of any of the events described in paragraphs (b) to (h) below, only if the Bond Trustee shall have certified in writing to the Bank and the Guarantor LP that such event is, in its opinion, materially prejudicial to the interests of the holders of the covered bonds of any series) (subject in each case to being indemnified and/or secured to its satisfaction) give notice (the "**Guarantor LP Acceleration Notice**") in writing to the Bank and to the Guarantor LP, that (x) each covered bond of each series is, and each covered bond of each series shall as against the Bank (if not already due and repayable against it following an Issuer Event of Default), thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest and (y) all amounts payable by the Guarantor LP 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 the Trust Deed and thereafter the Security shall become enforceable if any of the following events (each a "**Guarantor LP Event of Default**") shall occur and be continuing:

- (a) default is made by the Guarantor LP for a period of seven days or more in the payment of any Guaranteed Amounts when Due for Payment in respect of the covered bonds of any series except in the case of the payments of a Guaranteed Amount when Due for Payment under Condition 6.01 where the Guarantor LP shall be required to make payments of Guaranteed Amounts which are Due for Payment on the dates specified therein; or
- (b) (i) the Guarantor LP fails to perform or observe any obligation, condition or provision binding on it (other than any obligation for the payment of Guaranteed Amounts in respect of the covered bonds of any series) under the Trust Deed, the Security Agreement or any other Transaction Document (other than the obligation of the Guarantor LP to repay the Demand Loan within 60 days of a demand therefor or an obligation to do so pursuant to the terms of the Intercompany Loan Agreement or any obligation of the Guarantor LP to make any payment under a Swap Agreement which does not constitute an event of default under the Swap Agreement) to which the Guarantor LP is a party but excluding (A) any obligation of the Guarantor LP to comply with the Amortization Test; and (B) any obligation of the Guarantor LP which relates solely to its obligations under Part I.1 of the National Housing Act (Canada) or the Guide and breach of which would not otherwise constitute a breach of the terms of the Transaction Documents, or (ii) any party to a Transaction Document fails to take any remedial action required to be taken in accordance with the terms of the Transaction Documents, other than an action specified in Condition 7.02(c) or Condition 7.02(d), as a result of (A) the ratings by the Rating Agencies ceasing to meet a minimum rating, or (B) the failure to meet any financial test set out in the Transaction Documents that is intended to confirm the financial soundness of any counterparty; and 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 Guarantor LP of notice requiring the same to be remedied (except in circumstances where the Bond Trustee considers such failure to be incapable of remedy in which case no period of continuation will apply and no notice by the Bond Trustee will be required; or
- (c) Section 8.1(3)(b) of the Guarantor LP Agreement (which obligates the Guarantor LP to terminate the Servicer or the Cash Manager, as applicable, in accordance with the terms of the Servicing Agreement or Cash Management Agreement, respectively, as a result of a breach by the Servicer or the Cash Manager, as applicable, of its obligations under such agreement to deposit funds into the Guarantor LP Accounts as described under “*Summary of Principal Documents – Guarantor LP Agreement – Other Provisions*”) is not complied with; or
- (d) cashflows are not exchanged in accordance with the terms of the Covered Bond Swap Agreement within 30 days following a Trigger Event Date (unless such requirement is waived in accordance with the terms of the Covered Bond Swap Agreement) but disregarding any failure of the Guarantor LP to make a payment under the Covered Bond Swap Agreement which does not constitute an event of default under the Covered Bond Swap Agreement; or
- (e) any impending or actual insolvency on the part of the Guarantor LP as evidenced by, but not limited to (i) the Guarantor LP being unable, or admitting inability, to pay its debts generally as they fall due; (ii) the Guarantor LP being adjudicated or found bankrupt or insolvent; (iii) proceedings initiated against the Guarantor LP under any applicable liquidation, winding up, insolvency, bankruptcy, composition, reorganization or other similar laws (including, but not limited to, presentation of a petition or the filing of documents with a court or any registrar for its winding-up, administration or dissolution or the giving notice of the intention to appoint an administrator (whether out of court or otherwise); (iv) a receiver and/or manager, administrative receiver, administrator, trustee or other similar official being appointed (whether out of court or otherwise) in relation to the Guarantor LP or in relation to the whole or any part of its assets, (v) a distress, diligence or execution or other process shall be levied or enforced upon or sued out against the whole or any part of its assets, (vi) the Guarantor LP initiating or consenting to judicial proceedings relating to itself under any applicable liquidation, winding up, insolvency, bankruptcy, composition, reorganisation or other similar laws or (vii) making a conveyance or assignment for the benefit of, or shall enter into any composition with, its creditors generally; or
- (f) an order is made or an effective resolution passed for the liquidation or winding up of the Guarantor LP; or
- (g) if the Guarantor LP ceases or threatens to cease to carry on its business or substantially the whole of its business; or
- (h) a failure to satisfy the Amortization Test on any Calculation Date following an Issuer Event of Default; or
- (i) the Covered Bond Guarantee is not, or is claimed by the Guarantor LP not to be, in full force and effect.

Following the occurrence of a Guarantor LP Event of Default and service of a Guarantor LP Acceleration Notice on the Guarantor LP, the Bond Trustee may or shall take such proceedings or steps in accordance with the first and second paragraphs, respectively, of Condition 7.03 and the holders of the covered bonds shall have a claim against the Guarantor

LP, under the Covered Bond Guarantee, for an amount equal to the Early Redemption Amount together with accrued but unpaid interest and any other amount due under the covered bonds (other than additional amounts payable under Condition 8) as provided in the Trust Deed in respect of each covered bond.

### **Enforcement**

**7.03** The Bond Trustee may at any time, at its discretion and without further notice, take such proceedings against the Bank and/or the Guarantor LP, as the case may be, and/or any other person as it may think fit to enforce the provisions of the Trust Deed and the covered bonds, but it shall not be bound to take any such enforcement proceedings in relation to the Trust Deed, the covered bonds, or any other Transaction Document unless (i) it shall have been so directed by an Extraordinary Resolution of all the holders of the covered bonds of all series (with the covered bonds of all series taken together as a single series as described above) or so requested in writing by the holders of not less than 25 percent of the aggregate Principal Amount Outstanding of the covered bonds of all series then outstanding (taken together and converted into euros at the rate specified in the applicable pricing supplement as described above), and (ii) it shall have been indemnified and/or secured to its satisfaction.

The Bond Trustee may at any time, at its discretion and without further notice, take such proceedings against the Guarantor LP and/or any other person as it may think fit to enforce the provisions of the Security Agreement and may, at any time after the Security has become enforceable, take such steps as it may think fit to enforce the Security, but it shall not be bound to take any such steps unless (i) it shall have been so directed by an Extraordinary Resolution of all the holders of the covered bonds of all series (with the covered bonds of all series taken together as a single series as described above) or a request in writing by the holders of not less than 25 percent of the aggregate Principal Amount Outstanding of the covered bonds of all series then outstanding (taken together and converted into euros at the rate specified in the applicable pricing supplement as described above), and (ii) it shall have been indemnified and/or secured to its satisfaction.

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

No holder of the covered bonds shall be entitled to proceed directly against the Bank or the Guarantor LP or to take any action with respect to the Trust Deed, the covered bonds, or the Security unless the Bond Trustee, having become bound so to proceed, fails so to do within a reasonable time and such failure shall be continuing.

Notwithstanding any other provision of these Conditions, the right of any holder of a covered bond to receive payment of principal and interest on the covered bond, on or after the respective due date expressed in the covered bond, or to bring suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of the holder.

## **8. Taxation**

**8.01** All amounts payable (whether in respect of principal, interest or otherwise) in respect of the covered bonds will be paid free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Canada, any province or territory or political subdivision thereof or any authority or agency therein or thereof having power to tax or, in the case of covered bonds issued by a branch of the Bank located outside Canada, the country in which such branch is located or any political subdivision thereof or any authority or agency therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law or the interpretation or administration thereof. In that event, the Bank will pay such additional amounts as may be necessary in order that the net amounts received by the holder after such withholding or deduction shall equal the respective amounts of principal and interest which would have been received in respect of the covered bonds, in the absence of such withholding or deduction; except that no additional amounts shall be payable with respect to any payment in respect of any covered bond:

- (a) to, or to a third party on behalf of, a holder who is liable for such taxes, duties, assessments, or governmental charges in respect of such covered bond by reason of his having some connection with Canada or the country in which such branch is located otherwise than the mere holding of (but not the enforcement of) such covered bond; or
- (b) to, or to a third party on behalf of, a holder in respect of whom such tax, duty, assessment, or governmental charge is required to be withheld or deducted by reason of the holder or any owner of a beneficial interest in a covered bond being a person with whom the Bank is not dealing at arm's length (within the meaning of the *Income Tax Act* (Canada)); or
- (c) 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 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directives; or



- (d) to, or to a third party on behalf of, a holder who is, or who does not deal at arm's length with a person who is, a "specified shareholder" (within the meaning of subsection 18(5) of the *Income Tax Act* (Canada)) of the Bank; or
- (e) presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant covered bond or coupon to another Paying Agent in a member state of the European Union; or
- (f) 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 the thirtieth such day; or
- (g) to, or to a third party on behalf of, a holder who is liable for such taxes, duties, assessments, or other governmental charges by reason of such holder's failure to comply with any certification, identification, documentation or other reporting requirement concerning the nationality, residence, identity or connection with Canada or the country in which such branch is located of such holder, if (i) compliance is required by law as a precondition to, exemption from, or reduction in the rate of, the tax, assessment or other governmental charge and (ii) the Bank has given holders at least 30 days' notice that holders will be required to provide such certification, identification, documentation or other requirement; or
- (h) for or on account of any withholding tax or deduction imposed or collected pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") (or any amended or successor version that is substantively comparable and not materially more onerous to comply with), any current or future regulations or official interpretations thereof, any agreement entered into pursuant to Section 1471(b) of the Code, or any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the implementation of such Sections of the Code, whether currently in effect or as published and amended from time to time (the "**FATCA Withholding Tax Rules**").

**8.02** For the purposes of these Terms and Conditions, the "**Relevant Date**" means, in respect of any covered bond, the date on which payment thereof first become due and payable, or, if the full amount of the moneys payable has not been received by the Issuing and Paying Agent, or as the case may be, the Registrar on or prior to such due date, the date on which, the full amount of such moneys shall have been so received and notice to that effect shall have been duly given to the holders in accordance with Condition 14.

**8.03** If the Bank becomes subject generally at any time to any taxing jurisdiction other than or in addition to Canada or the country in which the relevant Branch of Account is located, references in Condition 6.02 and Condition 8.01 to Canada or the country in which the relevant branch is located shall be read and construed as references to Canada or the country in which such branch is located and/or to such other jurisdiction(s).

**8.04** Any reference in these Terms and Conditions to any payment due in respect of the covered bonds shall be deemed to include any additional amounts which may be payable under this Condition 8. Unless the context otherwise requires, any reference in these Terms and Conditions to "**principal**" shall include any premium payable in respect of a covered bond, any Final Redemption Amount, any Excess Proceeds which may be payable by the Bond Trustee under or in respect of the covered bonds and any other amounts in the nature of principal payable pursuant to these Terms and Conditions and "**interest**" shall include all amounts payable pursuant to Condition 5 and any other amounts in the nature of interest payable pursuant to these Terms and Conditions.

**8.05** Should any payments made by the Guarantor LP under the Covered Bond Guarantee be made subject to any withholding or deduction for or on account of taxes or duties of whatever nature imposed or levied by or on account of Canada, any province or territory, political subdivision thereof or by any authority or agency therein or thereof having power to tax or, in the case of covered bonds issued by a branch of the Bank located outside Canada, the country in which such branch is located or any political subdivision thereof or any authority or agency therein or thereof having power to tax, the Guarantor LP will not be obliged to pay any additional amounts as a consequence.

## **9. Payments**

### ***Payments – Registered Covered Bonds***

**9.08** Condition 9.09 is applicable in relation to registered covered bonds.

**9.09** 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 the Registrar or any of the Paying Agents. Such payments will be made by electronic transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the registered covered bond appearing in the register of holders of the registered covered bonds maintained by the Registrar (the “**Register**”) at the close of business on the third Business Day (being for this purpose 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. Notwithstanding the previous sentence, if (i) a holder does not have a Designated Account or (ii) the principal amount of the covered bonds held by a holder is less than U.S.\$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a check 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 Japanese 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 center of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively) 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 Redemption Amount) in respect of each registered covered bond (whether or not in global form) will be made by a check in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the Business Day in the city where the specified office of the Registrar is located on the relevant due date to the holder (or the first named of joint holders) of the registered covered bond appearing in the Register at the close of business on (i) the first Business Day (in relation to global covered bonds); and (ii) the fifteenth day (in relation to registered definitive covered bonds), whether or not such fifteenth day is a Business Day, before the relevant due date (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 in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a registered covered bond, the payment may be made by electronic transfer on the due date in the manner provided in the preceding paragraph. Any such application for electronic 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 check 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 Registrar in respect of any payments of principal or interest in respect of the registered covered bonds.

None of the Bank, the Guarantor LP, 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.

### ***Payments – General Provisions***

**9.10** Save as otherwise specified in these Terms and Conditions, Conditions 9.11 to 9.14 are applicable in relation to registered covered bonds.

**9.11** Payments of amounts due (whether principal, interest or otherwise) in respect of covered bonds will be made in the currency in which such amount is due (a) by check or (b) at the option of the payee, by transfer to an account denominated in the relevant currency (or in the case of euro, an account to which euro may be credited or transferred) specified by the payee. Payments will, without prejudice to the provisions of Condition 8, be subject in all cases to any applicable fiscal or other laws and regulations.

**9.12** For the purposes of these Terms and Conditions, “**Payment Day**” means

- (a) 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 (1) in the case of covered bonds in definitive form only, the place of presentation of the relevant covered bond and (2) each Financial Center specified in the applicable pricing supplement; and
- (b) either (1) in the case of any currency other than euro, a day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) and foreign exchange markets settle payments in the principal financial center of the country of the relevant Specified

Currency (if other than the place of presentation and any Financial Center(s) specified in the applicable pricing supplement) and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland respectively or (2) in the case of payment in euro, a day which is a TARGET2 Business Day.

**9.13** No commissions or expenses shall be charged to the holders of covered bonds in respect of such payments.

## **10. Prescription**

**10.01** Subject to applicable law, the Bank's obligation to pay an amount of principal and interest in respect of covered bonds will cease if the covered bonds are not presented within two years after the Relevant Date (as defined in Condition 8.02) for payment thereof, or such other length of time as is specified in the applicable pricing supplement.

## **11. The Paying Agents, the Registrar, Transfer Agents, the Calculation Agent and the Exchange Agent**

**11.01** The initial Paying Agents, the Registrar, the Transfer Agents and the Exchange Agent and their respective initial specified offices are specified below. The Calculation Agent in respect of any covered bonds and any additional or other Paying Agents shall be specified in the applicable Final Terms or Pricing Supplement. The Bank reserves the right, without approval of the Bond Trustee, at any time to vary or terminate the appointment of any Paying Agent (including the Issuing and Paying Agent), any Transfer Agent(s), the Registrar, the Exchange Agent or the Calculation Agent and to appoint additional or other Paying Agents, Transfer Agents or another Registrar, Exchange Agent or Calculation Agent provided that it will at all times maintain (i) an Issuing and Paying Agent, (ii) in the case of registered covered bonds, a Registrar, (iii) a Paying Agent in a member state of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directives, (iv) a Paying Agent with a specified office in New York City, (v) a Calculation Agent where required by the Terms and Conditions applicable to any covered bonds, and (vi) 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 with a specified office in the United States (and in the case of (i), (ii), and (v) with a specified office located in such place (if any) as may be required by the Terms and Conditions). The Agents, the Registrar and the Calculation Agent reserve the right at any time to change their respective specified offices to some other specified office in the same metropolitan area. Notice of all changes in the identities or specified offices of any Agent, the Registrar, or the Calculation Agent will be given promptly by the Bank to the holders in accordance with Condition 14.

**11.02** The Agents, the Registrar and the Calculation Agent act solely as agents of the Bank and, in certain circumstances of the Bond Trustee, and save as provided in the Agency Agreement or any other agreement entered into with respect to their appointment, do not assume any obligations towards or relationship of agency or trust for any holder of any covered bond and each of them shall only be responsible for the performance of the duties and obligations expressly imposed upon it in the Agency Agreement or other agreement entered into with respect to its appointment or incidental thereto.

## **12. Replacement of Covered Bonds**

If any covered bond is lost, stolen, mutilated, defaced, or destroyed, it may be replaced at the specified office of the Issuing and Paying Agent, or of the Registrar, or any Transfer Agent (in the case of registered covered bonds) (the "**Replacement Agent**"), subject to all applicable laws and the requirements of any stock exchange on which the covered bonds are listed, upon payment by the claimant of all expenses incurred in connection with such replacement and upon such terms as to evidence, security, indemnity and otherwise as the Bank and the Replacement Agent may require. Mutilated or defaced covered bonds must be surrendered before replacements will be delivered therefor.

## **13. Meetings of Holders of the Covered Bonds, Modification and Waiver**

The Trust Deed contains provisions for convening meetings of the holders of the covered bonds 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. 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 in the event quorum is not present at the initial meeting and notice is provided of any adjournment of such meeting, at such adjourned meeting one or more persons being or representing holders of the covered bonds whatever the nominal amount of the covered bonds of such series so held or represented, except that (i) at any meeting the business of which includes the modification of any Series Reserved Matter (as defined below), 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 in the event quorum is not present at the initial meeting and notice is provided of any

adjournment of such meeting, at such adjourned 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, and (ii) at any meeting the business of which is modification of any Bondholder Reserved Matter (as defined below) each affected holder of a covered bond shall consent to such modification and no such modification shall affect any holder of a covered bond that does not so consent. An Extraordinary Resolution passed at any meeting of the holders of the covered bonds of a series shall, subject as provided below, be binding on all the holders of the covered bonds 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 7 or to direct the Bond Trustee to take any enforcement action (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 under the Programme. Any such meeting to consider a Programme Resolution may be convened by the Bank, the Guarantor LP, or the Bond Trustee or by holders of the covered bonds of any series. 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 under the Programme or at any adjourned such meeting one or more persons holding or representing covered bonds whatever the nominal amount of the covered bonds of any series so held or represented. A Programme Resolution passed at any meeting of the holders of the covered bonds of all series shall be binding on all holders of the covered bonds of all series, whether or not they are present at the meeting.

In connection with any meeting of the holders of covered bonds of more than one series issued under the Programme, covered bonds of any series not denominated in euros shall be converted into euros at the rate specified in the applicable pricing supplement.

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

- (a) any modification of the covered bonds of one or more series or any Transaction Document provided that in the opinion of the Bond Trustee such modification is not materially prejudicial to the interests of any of the holders of the covered bonds of any series; or
- (b) any modification of the covered bonds of any one or more series or any Transaction Document which is of a formal, minor or technical nature or is in the opinion of the Bond Trustee made to correct a manifest or proven error or to comply with mandatory provisions of law.

The Bond Trustee (without the consent of the holders of the covered bonds of any series) or the holders of covered bonds by Extraordinary Resolution (without the consent of the Bond Trustee), may also agree to (i) the waiver or authorization of any breach or proposed breach of any of the provisions of the covered bonds of any series, or determine, without any such consent as described above, that any Issuer Event of Default or Guarantor LP Event of Default or Potential Issuer Event of Default or Potential Guarantor LP Event of Default shall not be treated as such, or (ii) any amendment or modification to increase the maximum Asset Percentage as disclosed in this prospectus supplement (as the same may be adjusted in accordance with this Condition 13), provided that, in any such case, it is not, in the opinion of the Bond Trustee, materially prejudicial to the interests of any of the holders of the covered bonds of any series. Notwithstanding any other provision of these Conditions, the right of any holder of a covered bond to receive payment of principal and interest on the covered bond, on or after the respective due dates expressed in the covered bond, or to bring suit for the enforcement of any such payment on or after such respective due dates, shall not be impaired or affected without the consent of the holder.

Any such modification, waiver, authorization, or determination shall be binding on all holders of the covered bonds of all series of covered bonds for the time being outstanding and on the other Secured Creditors, provided that the right of any holder of a covered bond to receive payment of principal and interest on the covered bond, on or after the respective due dates expressed in the covered bond, or to bring suit for the enforcement of any such payment on or after such respective due dates, shall not be impaired or affected without the consent of the holder of the Covered Bond, and unless the Bond Trustee otherwise agrees, any such modification shall be notified by the Bank to the holders of the covered bonds of all series of covered bonds for the time being outstanding and to 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, authorization or determination), the Bond Trustee shall have regard to the general interests of the holders of the covered bonds of each series as a class (but shall not have regard to any interests arising from circumstances particular to individual holders of the covered bonds whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual holders of the covered bonds (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 shall not be entitled to require, nor shall any holder of the covered bonds be entitled to claim, from the Bank, the Guarantor LP, the Bond Trustee, or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual holders of the covered bonds, except to the extent already provided for in Condition 8 and/or in any undertaking or covenant given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

For the purposes of these Terms and Conditions:

**“Bondholder Reserved Matter”** in relation to any covered bond means: (i) 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; and (ii) any change to the definition of Bondholder Reserved Matter.

**“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;

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

**“Series Reserved Matter”** in relation to covered bonds of a series means: (i) 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; (ii) subject to any applicable redenomination provisions specified in the applicable pricing supplement, alteration of the currency in which payments under the covered bonds are to be made; (iii) alteration of the majority required to pass an Extraordinary Resolution; (iv) any amendment to the Covered Bond Guarantee or the Security Agreement (except in a manner determined by the Bond Trustee not to be materially prejudicial to the interests of the holders of the covered bonds of any series); (v) except in accordance with Condition 13, the sanctioning of any such scheme or proposal for the exchange or sale of the covered bonds for or the conversion of the covered bonds into, or the cancellation of the covered bonds in consideration of, shares, stock, covered bonds, bonds, debentures, debenture stock, and/or other obligations, and/or securities of the Bank or any other company formed or to be formed, or for or into or in consideration of cash, or partly for or into or in consideration of such shares, stock, bonds, covered bonds, debentures, debenture stock, and/or other obligations, and/or securities as described above and partly for or into or in consideration of cash and for the appointment of some person with power on behalf of the holders of the covered bonds 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 (vi) alteration of specific sections of the Trust Deed relating to quorum and procedure for meetings of holders of covered bonds.

## **14. Notices**

### ***To Holders of Registered Definitive Covered Bonds***

**14.01** Notices to holders of registered definitive covered bonds, save where another means of effective communication has been specified herein, will be deemed to be validly given if sent by first class mail (or equivalent) or, if posted to an overseas address, by air mail to them (or, in the case of joint holders, to the first-named in the register kept by the Registrar) at their respective addresses as recorded in the register kept by the Registrar, and will be deemed to have been validly given on the fourth weekday after the date of such mailing or, if posted from another country, on the fifth such day. The Bank shall also ensure that notices are duly published in compliance with the requirements of each stock exchange or any other relevant authority on which the covered bonds are listed.

### ***To the Bank***

**14.02** Notices to be given by any holder of covered bonds shall be in writing and given by lodging the same, together with the relevant covered bond or covered bonds, with the Issuing and Paying Agent or the Registrar, as the case may be. While any of the covered bonds are represented by a global covered bond, such notice may be given by any

accountholder to the Issuing and Paying Agent through Euroclear and/or Clearstream, as the case may be, in such manner as the Issuing and Paying Agent or the Registrar and Euroclear and/or Clearstream, as the case may be, may approve for this purpose.

### **Global Covered Bonds**

**14.03** So long as the covered bonds of a series are represented in their entirety by any registered global covered bond held on behalf of CDS, there may be substituted for publication in newspaper(s) (in accordance with Condition 14.01) the delivery of the relevant notice to CDS for communication by them to the holders of the covered bonds and, in addition, for so long as any covered bonds of a series are listed on a stock exchange or admitted to listing by any other relevant authority and the rules of the stock exchange, or as the case may be, other relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by that stock exchange or, as the case may be, or any other relevant authority. Any such notice shall be deemed to have been given to the holders of the covered bonds on the day on which the said notice was given to CDS.

### **15. Further Issues**

The Bank may from time to time, without the consent of the holders of any covered bonds, create and issue further covered bonds having the same terms and conditions as such covered bonds in all respects (or in all respects except for the first payment of interest, if any, on them and/or the Specified Denomination thereof) so as to form a single series with the covered bonds of any particular series.

### **16. Currency Indemnity**

The currency in which the covered bonds are denominated or, if different, payable, as specified in the applicable pricing supplement (the “**Contractual Currency**”), is the sole currency of account and payment for all sums payable by the Bank in respect of the covered bonds, including damages. Any amount received or recovered in a currency other than the Contractual Currency (whether as a result of, or of the enforcement of, a judgement or order of a court of any jurisdiction or otherwise) by any holder of a covered bond in respect of any sum expressed to be due to it from the Bank shall only constitute a discharge to the Bank to the extent of the amount in the Contractual Currency which such holder is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first day on which it is practicable to do so). If that amount is less than the amount in the Contractual Currency expressed to be due to any holder of a covered bond the Bank shall indemnify such holder against any loss sustained by such holder as a result. In any event, the Bank shall indemnify each such holder against any cost of making such purchase which is reasonably incurred. These indemnities constitute a separate and independent obligation from the Bank’s other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any holder of a covered bond and shall continue in full force and effect despite any judgement, order, claim or proof for a liquidated amount in respect of any sum due in respect of the covered bonds or any judgement or order. Any such loss shall be deemed to constitute a loss suffered by the relevant holder of a covered bond and no proof or evidence of any actual loss will be required by the Bank.

### **17. Waiver and Remedies**

No failure to exercise, and no delay in exercising, on the part of the holder of any covered bond, any right hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or future exercise thereof or the exercise of any other right. Rights hereunder shall be in addition to all other rights provided by law. No notice or demand given in any case shall constitute a waiver of rights to take other action in the same, similar or other instances without such notice or demand.

### **18. Branch of Account**

**18.01** For the purposes of the *Bank Act* (Canada) the branch of the Bank set out in the applicable pricing supplement shall be the branch of account (the “**Branch of Account**”) for the deposits evidenced by this covered bond. If not specified in the applicable pricing supplement, the Branch of Account will be the main branch of the Bank in Toronto.

**18.02** This covered bond will be paid without the necessity of first being presented for payment at the Branch of Account.

**18.03** If the Branch of Account is not in Canada, the Bank may change the Branch of Account for the deposits evidenced by this covered bond, upon not less than seven days’ prior notice to its holder given in accordance with Condition 14 and upon and subject to the following terms and conditions:

- (a) if this covered bond is denominated in Yen, the Branch of Account shall not be in Japan;

- (b) the Bank shall indemnify and hold harmless the holders of the covered bonds against any tax, duty, assessment or governmental charge which is imposed or levied upon such holder as a consequence of such change, and shall pay the reasonable costs and expenses of the Issuing and Paying Agent in connection with such change; and
- (c) notwithstanding (b) above, no change of the Branch of Account may be made unless immediately after giving effect to such change (a) no Issuer Event of Default, Guarantor LP Event of Default, Potential Issuer Event of Default or Potential Guarantor LP Event of Default shall have occurred and be continuing, and (b) payments of principal, interest, or other amounts on covered bonds of this series to holders thereof (other than Excluded Holders, as hereinafter defined) shall not, in the opinion of counsel to the Bank, be subject to any taxes, as hereinafter defined, to which they would not have been subject had such change not taken place. For the purposes of this section, an “**Excluded Holder**” means a holder of a covered bond of this series who is subject to taxes by reason of its having some connection with the Relevant Jurisdiction other than the mere holding of a covered bond of this series as a non-resident of such Relevant Jurisdiction. “**Relevant Jurisdiction**” means Canada, its provinces or territories, and the jurisdiction in which the new Branch of Account is located, and “**taxes**” means any tax, duty, assessment, or other governmental charge imposed or levied in respect of the payment of the principal of the covered bonds of this series or interest thereon for or on behalf of a Relevant Jurisdiction or any authority therein or thereof having power to tax.

## 19. Substitution

Subject as provided in the Trust Deed, the Bond Trustee, if it is satisfied that to do so would not be materially prejudicial to the interests of the holders of the covered bonds, may agree, without the consent of the holders of the covered bonds, to the substitution of a Subsidiary of the Bank in place of the Bank as principal debtor under the covered bonds and the Trust Deed, provided that the obligations of such Subsidiary in respect of the covered bonds and the Trust Deed shall be guaranteed by the Bank in such form as the Bond Trustee may require.

Any substitution pursuant to this Condition 19 shall be binding on the holders of the covered bonds and, unless the Bond Trustee agrees otherwise, shall be notified to the holders of the covered bonds as soon as practicable thereafter in accordance with Condition 14.

It shall be a condition of any substitution pursuant to this Condition 19 that the covered bond Guarantee shall remain in place or be modified to apply *mutatis mutandis* and continue in full force and effect in relation to any Subsidiary of the Bank which is proposed to be substituted for the Bank as principal debtor under the covered bonds and the Trust Deed.

## 20. Rating Agency Confirmation

If Rating Agency Confirmation or some other response by a Rating Agency is a condition to any action or step under any Transaction Document or is otherwise required and a written request for such Rating Agency Confirmation or response is delivered to that Rating Agency by any of the Bank, the Guarantor LP and/or the Bond Trustee, as applicable (each a “**Requesting Party**”), and the Rating Agency indicates that it does not consider such confirmation or response necessary in the circumstances, the Requesting Party shall be entitled to treat Rating Agency Confirmation from such Rating Agency, as not required, for the action or step. For the purposes of this Condition 20 “**Rating Agency Confirmation**” means, with respect to any relevant event or matter, confirmation in writing from the Rating Agencies that the then current ratings of the covered bonds by the Rating Agencies will not be adversely affected by or withdrawn as a result of the occurrence of such event or matter.

## 21. Indemnification of Bond Trustee and Bond Trustee contracting with the Bank and/or the Guarantor LP

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

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

The Trust Deed and the Security Agreement also contain provisions pursuant to which the Bond Trustee is entitled, among other things: (i) to enter into business transactions with the Bank, the Guarantor LP, 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 Bank, the Guarantor LP, 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 holders of the covered bonds or the 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.

The Bond Trustee will not 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. The Bond Trustee will not be responsible for: (i) supervising the performance by the Bank or any other party to the Transaction Documents of their respective obligations under the Transaction Documents and the Bond Trustee will be entitled to assume, until it has written notice to the contrary, that all such persons are properly performing their duties; (ii) considering the basis on which approvals or consents are granted by the Bank or any other party to the Transaction Documents under the Transaction Documents; (iii) monitoring the Covered Bond Portfolio, including, without limitation, whether the Covered Bond Portfolio is in compliance with the Asset Coverage Test or the Amortization Test; or (iv) monitoring whether Loans and their Related Security satisfy the Eligibility Criteria. The Bond Trustee will not be liable to any holder of the covered bonds or other Secured Creditor for any failure to make or to cause to be made on their behalf the searches, investigations, and inquiries which would normally be made by reasonable and prudent institutional mortgage lenders in the Seller's market 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.

## **22. Law and Jurisdiction**

The Trust Deed, Agency Agreement, the covered bonds, and the other Transaction Documents, except as specified therein, are governed by and shall be construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

### **DESCRIPTION OF THE CANADIAN REGULATED COVERED BOND REGIME**

Part I.1 of the *National Housing Act* (Canada) came into force on July 6, 2012. Together with the Guide, most recently published on December 19, 2014 by CMHC, as administrator of the Canadian regulated covered bond regime, it establishes a legal framework for the issue of covered bonds by certain Canadian issuers. The objective underlying the legal framework is to develop a robust Canadian covered bonds regime designed to promote appropriate disclosure and continuity of payment (and ultimate repayment) of issued covered bonds, without intimation of a guarantee on the part of the Canadian government.

On July 3, 2013, the Bank was accepted as a registered issuer under Part I.1 of the *National Housing Act* (Canada) and the Guide by CMHC and on July 3, 2013, the Programme was registered as a registered program under Part I.1 of the *National Housing Act* (Canada) and the Guide. All previously issued and outstanding covered bonds and future covered bonds issued under the Programme, are and will be, as applicable, registered covered bonds under Part I.1 of the *National Housing Act* (Canada) and the Guide.

#### ***Overview***

Part I.1 of the *National Housing Act* (Canada) and the Guide include various requirements related to issuers, guarantor entities, terms of the covered bonds, the assets that can be included as covered bond collateral, review and reporting requirements and contractual arrangements made in respect of the covered bond collateral and the covered bonds.

In particular, the framework imposes certain disclosure requirements on issuers including the obligation to post information relating to the issuer, its program, covered bonds and covered bond collateral to a dedicated website. It also requires issuers to (amongst other things) enter into arrangements with a custodian to maintain records and documents relating to the transfer of the covered bond collateral and with a cover pool monitor qualified to be an auditor of the registered issuer under the *Bank Act* (Canada) and Canadian auditing standards to conduct certain arithmetic testing of the asset coverage test and, as applicable, the amortization test, and to periodically review and report on the covered bond collateral for the registered program.

The legal framework also imposes a requirement on registered issuers to carry out an asset coverage test, a valuation calculation, an amortization test (as applicable) and to apply an index methodology to adjust the market value of properties for purposes of the asset coverage test, valuation calculation and amortization test.



### ***Eligible Issuers***

Part I.1 of the *National Housing Act* (Canada) provides that a Canadian federal financial institution, and following the order of the Governor in Council, a cooperative credit society incorporated and registered by or under an act of the legislature of any Canadian province, may apply for registration. Registered issuers are required to undertake not to issue covered bonds outside of the framework.

### ***Eligible Assets***

The framework imposes restrictions on the assets that can be included as covered bond collateral by prohibiting mortgage loans insured by CMHC, Canada Guaranty Mortgage Insurance Company, Genworth Financial Mortgage Insurance Company of Canada, the PMI Mortgage Insurance Company Canada, and mortgage loans where the mortgage loan together with any equal or prior ranking loans secured on the relevant property exceeded 80% of the value of the property at the time of the loan, from forming part of the covered bond collateral. In addition, mortgage loans included as covered bond collateral are required to be secured by a first ranking interest over Canadian residential property consisting of less than four residential units, to be current at the time they are transferred to the guarantor entity and to have been originated in accordance with the approved underwriting policies of the issuer at the time they were originated. In addition, the framework limits Substitute Assets forming part of the covered bond collateral to securities issued by the Government of Canada, repos of Government of Canada securities having terms acceptable to CMHC and in each case sums derived therefrom, having an aggregate face value of less than 10% of the aggregate covered bond collateral. Asset backed securities cannot be included in covered bond collateral or Substitute Assets in a registered covered bond program under Part I.1 of the *National Housing Act* (Canada).

### ***Insolvency and Bankruptcy Protections***

In the event of an insolvency or bankruptcy of the issuer, Part I.1 of the *National Housing Act* (Canada) contains provisions which limit the risk that the covered bond collateral will not be available to the covered bondholders and specified creditors of the registered covered bond program. Provided the registered issuer is not suspended from issuing at the time it issues the relevant covered bonds, these provisions expressly provide that (i) nothing in any law of Canada or a province relating to bankruptcy or insolvency or any court order relating to a reorganization, arrangement or receivership involving bankruptcy or insolvency, will prevent or prohibit the making of payments, the netting or setting off or compensation of obligations, or any dealing with covered bond collateral under the provisions of contracts relating to covered bonds issued under a registered program or the termination of those contracts, and (ii) the transfer of loans or other assets to a guarantor entity to be held as covered bond collateral, by a registered issuer or any of its affiliates, is effective against every person, is not voidable or, in Quebec, annulable, is not subject to any other remedies available to creditors of the registered issuer and does not constitute a fraudulent conveyance, unjust preference or other reviewable transaction.

### ***Administration***

As the administrator of the framework, CMHC performs certain supervision and enforcement related tasks in respect of the regime, including accepting issuers and their programs for registration and monitoring compliance with ongoing requirements. To assist it with these tasks, CMHC has the power to take certain actions including suspending the right of a registered issuer to issue covered bonds under a registered program and upon the request of the registered issuer to deregister a registered program or issuer (however, pursuant to the Guide, a registered program will only be deregistered if there are no covered bonds outstanding under the registered program and a registered issuer will only be deregistered if it has no registered program).

### ***OSFI Covered Bond Limit***

In addition to the legal framework outlined above, OSFI has imposed certain conditions on the issuance of covered bonds by Canadian federal deposit taking institutions. Following an initial review of potential regulatory and policy concerns associated with the issuance of covered bonds by Canadian federal deposit taking institutions (during which it requested that such financial institutions refrain from issuing covered bonds), OSFI confirmed by letter dated June 27, 2007 that Canadian federal 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 4 percent of the Total Assets of the relevant deposit taking institution (the “**OSFI Covered Bond Limit**”); (ii) if at any time after issuance the OSFI Covered Bond Limit is exceeded, the relevant deposit taking institution must immediately notify OSFI; and (iii) excesses (above the OSFI Covered Bond 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 such excesses quickly.

The full Programme amount (which is €23 billion or the equivalent amount in other currencies and includes the amount of Covered Bonds issued under the prospectus) is less than the OSFI Covered Bond Limit for the Bank as of the date of this prospectus supplement. The Bank did not issue covered bonds prior to June 27, 2007. The Bank received board approval for, and has implemented, amendments to its pledging policies which take into account the issuance of covered bonds under the Programme.

“**Total Assets**” for the purpose of the foregoing limit, will be equal to the numerator of the asset-to-capital multiple of the relevant deposit taking institution. In addition, relevant deposit taking institutions are expected, prior to issuing any covered bonds, to amend the pledging policies they are required to maintain under the *Bank Act* (Canada) 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.

## CASHFLOWS

Until the occurrence of a Covered Bond Guarantee Activation Event, the Covered Bonds will be obligations of the Bank only. The Bank is liable to make payments when due on the Covered Bonds, whether or not it has received any corresponding payment from the Guarantor LP.

This section summarizes the Priorities of Payments of the Guarantor LP, as to the allocation and distribution of amounts standing to the credit of the Guarantor LP on the Ledgers and their order of priority:

- (a) when no Asset Coverage Test Breach Notice is outstanding and no Covered Bond Guarantee Activation Event has occurred;
- (b) when an Asset Coverage Test Breach Notice is outstanding but no Covered Bond Guarantee Activation Event has occurred;
- (c) following service of a Notice to Pay on the Guarantor LP; and
- (d) following service of a Guarantor LP Acceleration Notice and enforcement of the Security.

If the Transaction Account is closed in accordance with the terms of the Bank Account Agreement or no Transaction Account is maintained, any payment to be made to or from the Transaction Account will, as applicable, be made to or from the GDA Account, or no payment shall be made at all if such payment is expressed to be from the GDA Account to the Transaction Account.

Guarantor LP Payment Dates occur monthly.

In accordance with the Guide and the Cash Management Agreement, the Guarantor LP is not permitted to hold cash in excess of the amounts necessary to meet its payment obligations for the immediately succeeding six month period, excluding amounts received between Guarantor LP Payment Dates. Pursuant to the terms of the Cash Management Agreement, the Cash Manager will invest any such excess cash in Eligible Loans or Substitute Assets, repay the Intercompany Loan or make distributions or as otherwise permitted by the Guide, as directed by the Guarantor LP, unless CMHC has granted the Guarantor LP permission to hold such excess cash.

### **Allocation and distribution of Available Revenue Receipts when no Asset Coverage Test Breach Notice is outstanding and no Covered Bond Guarantee Activation Event has occurred**

At any time during which no Asset Coverage Test Breach Notice is outstanding and no Covered Bond Guarantee Activation Event has occurred, Available Revenue Receipts will be allocated and distributed as described below.

The Guarantor LP or the Cash Manager on its behalf will, as of each Calculation Date, calculate the amount of Available Revenue Receipts available for distribution on the immediately following Guarantor LP Payment Date and the Reserve Fund Required Amount (if applicable).

### ***Pre-Acceleration Revenue Priority of Payments***

On each Guarantor LP Payment Date, the Guarantor LP (or the Cash Manager on its behalf) will transfer Available Revenue Receipts from the Revenue Ledger to the Payment Ledger, and use Available Revenue Receipts held by the Cash Manager for and on behalf of the Guarantor LP and, as necessary, transfer Available Revenue Receipts from the GDA Account to the Transaction Account (to the extent maintained), in an amount equal to the lower of (a) the amount required to make the payments or credits described below (taking into account any Available Revenue Receipts held by the Cash Manager for or on behalf of the Guarantor LP and any Available Revenue Receipts standing to the credit of the Transaction Account), and (b) the amount of Available Revenue Receipts.

At any time no Asset Coverage Test Breach Notice is outstanding and no Covered Bond Guarantee Activation Event has occurred, Available Revenue Receipts will be applied by or on behalf of the Guarantor LP (or the Cash Manager on its behalf) on each Guarantor LP Payment Date (except for amounts due to third parties by the Guarantor LP under paragraph (a) below or Third Party Amounts, which will be paid when due) in making the following payments and provisions (the “**Pre-Acceleration Revenue 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 satisfaction of any amounts due and payable by the Guarantor LP to third parties and incurred without breach by the Guarantor LP of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere in the relevant Priorities of Payments) and to provide for any such amounts expected to become due and payable by the Guarantor LP in the immediately succeeding Guarantor LP Payment Period and to pay and discharge any liability of the Guarantor LP for taxes;
- (b) *second*, any amounts in respect of interest due to the Bank in respect of the Demand Loan pursuant to the terms of the Intercompany Loan;
- (c) *third*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any remuneration then due and payable to the Servicer and any costs, charges, liabilities, and expenses then due or to become due and payable to the Servicer under the provisions of the Servicing Agreement in the immediately succeeding Guarantor LP Payment Period, together with applicable HST (or other similar taxes) thereon to the extent provided therein;
  - (ii) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities, and expenses then due or to become due and payable to the Cash Manager under the provisions of the Cash Management Agreement in the immediately succeeding Guarantor LP Payment Period, together with applicable HST (or other similar taxes) thereon to the extent provided therein;
  - (iii) amounts (if any) due and payable to the Account Bank (or, as applicable, the Standby Account Bank) (including costs) pursuant to the terms of the Bank Account Agreement (or, as applicable, the Standby Bank Account Agreement), together with applicable HST (or other similar taxes) thereon to the extent provided therein;
  - (iv) 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 (j) below), together with applicable HST (or other similar taxes) thereon to the extent provided therein; and
  - (v) amounts due and payable to the Custodian pursuant to the terms of the Custodial Agreement together with applicable HST (or other similar taxes) thereon to the extent provided therein;
- (d) *fourth*, in or towards payment due to the Interest Rate Swap Provider (including any termination payment due and payable by the Guarantor LP under the Interest Rate Swap Agreement, but excluding any Excluded Swap Termination Amount), pursuant to the terms of the Interest Rate Swap Agreement;
- (e) *fifth*, to pay, as applicable, *pro rata* and *pari passu* according to the respective amounts thereof of the amounts due and payable to the Covered Bond Swap Provider *pro rata* and *pari passu* in respect of each relevant series of covered bonds outstanding under the Programme (including any termination payment due and payable by the Guarantor LP under the Covered Bond Swap Agreement but excluding any Excluded Swap Termination Amount) in accordance with the terms of the Covered Bond Swap Agreement;
- (f) *sixth*, in or towards payment on the Guarantor LP Payment Date of, or to provide for payment on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine (in the case of any such payment or provision, after taking into account any provisions previously made and any amounts receivable from the Interest Rate Swap Provider under the Interest Rate Swap Agreement) any amounts due or to become due and payable (excluding principal amounts) to the Bank in respect of the Guarantee Loan pursuant to the terms of the Intercompany Loan Agreement;
- (g) *seventh*, if a Servicer Event of Default has occurred, all remaining Available Revenue Receipts are to be credited to the GDA Account (with a corresponding credit to the Revenue Ledger maintained in respect

of that account) until such Servicer Event of Default is either remedied by the Servicer or waived by the Bond Trustee or a new servicer is appointed to service the Covered Bond Portfolio (or the relevant part thereof);

- (h) *eighth*, in or towards a credit to the Reserve Ledger on the GDA Account of an amount up to but not exceeding the amount by which the Reserve Fund Required Amount (if applicable) exceeds the existing balance on the Reserve Ledger as calculated on the immediately preceding Calculation Date;
- (i) *ninth*, payment of any Excluded Swap Termination Amounts due and payable by the Guarantor LP under the Swap Agreements;
- (j) *tenth*, in or towards payment *pro rata* and *pari passu* in accordance with the respective amounts thereof of any indemnity amount due to the Asset Monitor pursuant to the Asset Monitor Agreement, and any indemnity amount due to any Partner pursuant to the Guarantor LP Agreement;
- (k) *eleventh*, in or towards payment of the fee due to the Corporate Services Provider; and
- (l) *twelfth*, towards payment to the Limited Partner of the sum (specified in the Guarantor LP Agreement) as profit for its interest in the Guarantor LP.

Any amounts received by the Guarantor LP under the Swap Agreements on or after the Guarantor LP Payment Date but prior to the next following Guarantor LP Payment Date will be applied, together with any provision for such payments made on any preceding Guarantor LP Payment Date, to make payments (other than in respect of principal) due and payable in respect of the Intercompany Loan Agreement and then the expenses of the Guarantor LP unless an Asset Coverage Test Breach Notice is outstanding or otherwise to make provision for such payments on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine.

Any amounts received under the Swap Agreements on the Guarantor LP Payment Date or on any date prior to the next succeeding Guarantor LP Payment Date which are not put towards a payment or provision in accordance with paragraph (d) or (e) above or the preceding paragraph will be credited to the Revenue Ledger and applied as Available Revenue Receipts on the next succeeding Guarantor LP Payment Date.

Amounts (if any) held by the Cash Manager for and on behalf of the Guarantor LP or standing to the credit of the Transaction Account which are not required to be applied in accordance with paragraphs (a) to (l) of the Pre-Acceleration Revenue Priority of Payments or paragraphs (a) to (e) of the Pre-Acceleration Principal Priority of Payments below will, if applicable, be deposited by the Cash Manager and, in each case be credited to the appropriate ledger in the GDA Account on the Guarantor LP Payment Date.

**Allocation and Distribution of Available Principal Receipts when no Asset Coverage Test Breach Notice is outstanding and no Covered Bond Guarantee Activation Event has occurred**

At any time during which no Asset Coverage Test Breach Notice is outstanding and no Covered Bond Guarantee Activation Event has occurred, Available Principal Receipts will be allocated and distributed as described below.

The Guarantor LP or the Cash Manager on its behalf will, as of each Calculation Date, calculate the amount of Available Principal Receipts available for distribution on the immediately following Guarantor LP Payment Date.

***Pre-Acceleration Principal Priority of Payments***

On each Guarantor LP Payment Date, the Guarantor LP (or the Cash Manager on its behalf) will transfer Available Principal Receipts from the Principal Ledger to the Payment Ledger, and use Available Principal Receipts held by the Cash Manager for and on behalf of the Guarantor LP and, as necessary, transfer Available Principal Receipts from the GDA Account to the Transaction Account (to the extent maintained), in an amount equal to the lower of (a) the amount required to make the payments or credits described below (taking into account any Available Principal Receipts held by the Cash Manager for or on behalf of the Guarantor LP and/or standing to the credit of the Transaction Account), and (b) the amount of Available Principal Receipts.

If a Guarantor LP Payment Date is the same as an Interest Payment Date, then the distribution of Available Principal Receipts under the Pre-Acceleration Principal Priority of Payments will be delayed until the Bank has made Scheduled Interest and/or principal payments on that Interest Payment Date unless payment is made by the Guarantor LP directly to the Bond Trustee (or the Issuing and Paying Agent at the direction of the Bond Trustee).

At any time during which no Asset Coverage Test Breach Notice is outstanding and no Covered Bond Guarantee Activation Event has occurred, Available Principal Receipts (other than cash capital contributions made from time to time by the Seller in its capacity as a Limited Partner) will be applied by or on behalf of the Guarantor LP on each Guarantor LP 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*, to pay amounts in respect of principal outstanding on the Demand Loan pursuant to the terms of the Intercompany Loan Agreement;
- (b) *second*, to acquire New Loans and their Related Security offered to the Guarantor LP, if necessary or prudent to ensure that, taking into account the other resources available to the Guarantor LP, the Asset Coverage Test is met and thereafter to acquire (in the discretion of the Guarantor LP or the Cash Manager on its behalf and subject to the restrictions in the Guarantor LP Agreement and Cash Management Agreement (see “*Summary of Principal Documents – Guarantor LP Agreement and Cash Management Agreement*”)) Substitute Assets up to the prescribed limit;
- (c) *third*, to deposit the remaining Available Principal Receipts in the GDA Account (with a corresponding credit to the Principal Ledger) in an amount sufficient to ensure that taking into account the other resources available to the Guarantor LP, the Asset Coverage Test is met;
- (d) *fourth*, in or towards a credit to the Reserve Ledger on the GDA Account of an amount up to but not exceeding the amount by which the Reserve Fund Required Amount (if applicable) exceeds the existing balance on the Reserve Ledger as calculated on the immediately preceding Calculation Date;
- (e) *fifth*, in or towards repayment on the Guarantor LP Payment Date (or to provide for repayment on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine) of amounts (in respect of principal) due or to become due and payable to the Bank in respect of the Guarantee Loan; and
- (f) *sixth*, subject to complying with the Asset Coverage Test, to make capital distributions.

**Allocation and distribution of Available Revenue Receipts and Available Principal Receipts when an Asset Coverage Test Breach Notice is outstanding but no Covered Bond Guarantee Activation Event has occurred**

At any time an Asset Coverage Test Breach Notice is outstanding but no Covered Bond Guarantee Activation Event has occurred, all Available Revenue Receipts and Available Principal Receipts will continue to be applied in accordance with the Pre-Acceleration Revenue Priority of Payments and the Pre-Acceleration Principal Priority of Payments save that, while any covered bonds remain outstanding under the Programme, no moneys will be applied under paragraphs (b), (e), (f), (j) (to the extent only that such amounts are payable to a Partner), (k) or (l) of the Pre-Acceleration Revenue Priority of Payments or paragraphs (a), (b), (e), 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 on the Guarantor LP**

At any time after service of a Notice to Pay on the Guarantor LP, but prior to service of a Guarantor LP Acceleration Notice, all Available Revenue Receipts and Available Principal Receipts (other than Third Party Amounts) will be applied as described below under “*Guarantee Priority of Payments*”.

On each Guarantor LP Payment Date, the Guarantor LP or the Cash Manager on its behalf will transfer Available Revenue Receipts and Available Principal Receipts from the Revenue Ledger, the Reserve Ledger, the Principal Ledger or the Capital Account Ledger, as the case may be, to the Payment Ledger, in an amount equal to the lower of (a) the amount required to make the payments set out in the Guarantee Priority of Payments and (b) the amount of all Available Revenue Receipts and Available Principal Receipts standing to the credit of such Ledgers.

The Guarantor LP will create and maintain Ledgers for each series of covered bonds outstanding under the Programme and record amounts allocated to such series of covered bonds in accordance with paragraph (f) 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 in respect of the relevant series of covered bonds under the Covered Bond Swap Agreement on the scheduled repayment dates thereof.

## ***Guarantee Priority of Payments***

On each Guarantor LP Payment Date after the service of a Notice to Pay on the Guarantor LP (but prior to service of a Guarantor LP Acceleration Notice), the Guarantor LP 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*, to pay any amounts in respect of principal and interest due to the Bank in respect of the Demand Loan pursuant to the terms of the Intercompany Loan Agreement;
- (b) *second*, in or towards payment of all amounts due and payable or to become due and payable to the Bond Trustee in the immediately succeeding Guarantor LP Payment Period under the provisions of the Trust Deed together with interest and applicable HST (or other similar taxes) thereon as provided therein;
- (c) *third*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any remuneration then due and payable to the Agents under the provisions of the Agency Agreement together with applicable HST (or other similar taxes) thereon as provided therein; and
  - (ii) any amounts then due and payable by the Guarantor LP to third parties and incurred without breach by the Guarantor LP of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere) and to provide for any such amounts expected to become due and payable by the Guarantor LP in the immediately succeeding Guarantor LP Payment Period and to pay or discharge any liability of the Guarantor LP for taxes;
- (d) *fourth*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any remuneration then due and payable to the Servicer and any costs, charges, liabilities, and expenses then due or to become due and payable to the Servicer in the immediately succeeding Guarantor LP Payment Period under the provisions of the Servicing Agreement together with applicable HST (or other similar taxes) thereon to the extent provided therein;
  - (ii) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities, and expenses then due or to become due and payable to the Cash Manager in the immediately succeeding Guarantor LP Payment Period under the provisions of the Cash Management Agreement, together with applicable HST (or other similar taxes) thereon to the extent provided therein;
  - (iii) amounts (if any) due and payable to the Account Bank (or, as applicable, the Standby Account Bank) (including costs) pursuant to the terms of the Bank Account Agreement (or, as applicable, the Standby Bank Account Agreement), together with applicable HST (or other similar taxes) thereon to the extent provided therein;
  - (iv) amounts due and payable to the Asset Monitor (other than the amounts referred to in paragraph (j) below) pursuant to the terms of the Asset Monitor Agreement, together with applicable HST (or other similar taxes) thereon as provided therein; and
  - (v) amounts due and payable to the Custodian pursuant to the terms of the Custodial Agreement together with applicable HST (or other similar taxes) thereon to the extent provided therein;
- (e) *fifth*, to pay *pro rata* and *pari passu* according to the respective amounts thereof:
  - (i) in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of any amounts due and payable to the Interest Rate Swap Provider (including any termination payment due and payable by the Guarantor LP under the Interest Rate Swap Agreement but excluding any Excluded Swap Termination Amount) pursuant to the terms of the Interest Rate Swap Agreement;
  - (ii) to the Bond Trustee or (if so directed by the Bond Trustee) the Issuing and Paying Agent on behalf of the holders of the covered bonds of each series outstanding under the Programme *pro rata* and *pari passu* Scheduled Interest that is Due for Payment (or will become Due for

Payment in the immediately succeeding Guarantor LP Payment Period) under the Covered Bond Guarantee in respect of each series of the covered bonds outstanding under the Programme, and

- (iii) the amounts due and payable to the Covered Bond Swap Provider (other than in respect of principal) *pro rata* and *pari passu* in respect of each relevant series of covered bonds outstanding under the Programme (including any termination payment (other than in respect of principal) due and payable by the Guarantor LP under the Covered Bond Swap Agreement but excluding any Excluded Swap Termination Amount) in accordance with the terms of the Covered Bond Swap Agreement;

provided that if the amount available for distribution under this paragraph (e) (excluding any amounts received from the Covered Bond Swap Provider) would be insufficient to pay the Canadian Dollar Equivalent of the Scheduled Interest that is Due for Payment in respect of each series of covered bonds outstanding under the Programme under (e)(ii) above, the shortfall will be divided amongst all such series of covered bonds on a *pro rata* basis and the amount payable by the Guarantor LP in respect of each relevant series of covered bonds outstanding under the Programme to the Covered Bond Swap Provider under (e)(iii) above will be reduced by the amount of the shortfall applicable to such covered bonds in respect of which such payment is to be made;

- (f) *sixth*, to pay or provide for *pro rata* and *pari passu* according to the respective amounts thereof, of:
  - (i) the amounts (in respect of principal) due and payable *pro rata* and *pari passu* in respect of each relevant series of covered bonds outstanding under the Programme (including any termination payment (relating solely to principal) due and payable by the Guarantor LP under the Covered Bond Swap Agreement but excluding any Excluded Swap Termination Amount) to the Covered Bond Swap Provider in accordance with the terms of the relevant Covered Bond Swap Agreement; and
  - (ii) to the Bond Trustee or (if so directed by the Bond Trustee) the Issuing and Paying Agent on behalf of the holders of the covered bonds of each series outstanding under the Programme *pro rata* and *pari passu* Scheduled Principal that is Due for Payment (or will become Due for Payment in the immediately succeeding Guarantor LP Payment Period) under the Covered Bond Guarantee in respect of each series of covered bonds, provided that if the amount available for distribution under this paragraph (f) (excluding any amounts received from the Covered Bond Swap Provider) in respect of the amounts referred to in (f)(i) above would be insufficient to pay the Canadian Dollar Equivalent of the Scheduled Principal that is Due for Payment in respect of the relevant series of covered bonds outstanding under the Programme under this (f)(ii), the shortfall will be divided amongst all such series of covered bonds on a *pro rata* basis and the amount payable by the Guarantor LP in respect of each relevant series of covered bonds outstanding under the Programme under (f)(i) to the Covered Bond Swap Provider above will be reduced by the amount of the shortfall applicable to the covered bonds in respect of which such payment is to be made;
- (g) *seventh*, to deposit the remaining moneys into the GDA Account for application on the next following Guarantor LP Payment Date in accordance with the Priorities of Payment described in paragraphs (a) to (f) (inclusive) above, until all covered bonds outstanding under the Programme have been fully repaid or provided for (such that the Required Redemption Amount has been accumulated in respect of each outstanding series of covered bonds outstanding under the Programme);
- (h) *eighth*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of any Excluded Swap Termination Amount due and payable by the Guarantor LP to the relevant Swap Provider under the relevant Swap Agreement;
- (i) *ninth*, after all covered bonds outstanding under the Programme have been fully repaid or provided for (such that the Required Redemption Amount has been accumulated in respect of each outstanding series of covered bonds under the Programme), any remaining moneys will be applied in and towards repayment in full of amounts outstanding under the Intercompany Loan Agreement;
- (j) *tenth*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of any indemnity amount due to the Partners pursuant to the Guarantor LP Agreement and certain costs, expenses and indemnity amounts due by the Guarantor LP to the Asset Monitor pursuant to the Asset Monitor Agreement; and

- (k) *eleventh*, thereafter any remaining moneys will be applied in accordance with the Guarantor LP Agreement.

***Termination payments received in respect of the Swap Agreements, premiums received in respect of replacement Swap Agreements***

If the Guarantor LP receives any termination payment from a Swap Provider in respect of a Swap Agreement, such termination payment will first be used, to the extent necessary (prior to the occurrence of a Guarantor LP Event of Default and service of a Guarantor LP Acceleration Notice) to pay a replacement Swap Provider to enter into a replacement Swap Agreement with the Guarantor LP, unless a replacement Swap Agreement has already been entered into on behalf of the Guarantor LP. If the Guarantor LP receives any premium from a replacement Swap Provider in respect of a replacement Swap Agreement, such premium will first be used to make any termination payment due and payable by the Guarantor LP with respect to the previous Swap Agreement, unless such termination payment has already been made on behalf of the Guarantor LP.

Any amounts received by the Guarantor LP which are not applied to pay a replacement Swap Provider to enter into a replacement Swap Agreement will be credited to the Revenue Ledger and applied as Available Revenue Receipts on the next succeeding Guarantor LP Payment Date.

**Application of moneys received by the Bond Trustee following service of a Guarantor LP Acceleration Notice and enforcement of the Security**

Following service of a Guarantor LP Acceleration Notice and enforcement of the Security granted under the terms of the Security Agreement, all moneys received or recovered by the Bond Trustee (or a Receiver appointed on either's behalf) (excluding all amounts due or to become due in respect of any Third Party Amounts) will be applied 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*, in or towards satisfaction of all amounts due and payable or to become due and payable to the Bond Trustee under the provisions of the Trust Deed, together with interest and applicable HST (or other similar taxes) thereon as provided therein; and
- (b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to respective amounts thereof of any remuneration then due and payable to the Agents under or pursuant to the Agency Agreement together with applicable HST (or other similar taxes) thereon to the extent provided therein;
- (c) *third*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof, of:
  - (i) any remuneration then due and payable to the Servicer and any costs, charges, liabilities and expenses then due or to become due and payable to the Servicer under the provisions of the Servicing Agreement, together with applicable HST (or other similar taxes) thereon to the extent provided therein;
  - (ii) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager under the provisions of the Cash Management Agreement, together with applicable HST (or other similar taxes) thereon to the extent provided therein;
  - (iii) amounts due to the Account Bank or, as applicable, the Standby Account Bank (including costs) pursuant to the terms of the Bank Account Agreement or applicable, the Standby Bank Account Agreement, together with applicable HST (or other similar taxes) thereon to the extent provided therein;
  - (iv) amounts due and payable to the Asset Monitor (other than the amounts referred to in paragraph (g) below) pursuant to the terms of the Asset Monitor Agreement, together with applicable HST (or other similar taxes) thereon as provided therein; and
  - (v) amounts due and payable to the Custodian pursuant to the terms of the Custodial Agreement together with applicable HST (or other similar taxes) thereon to the extent provided therein;
- (d) *fourth*, to pay *pro rata* and *pari passu* according to the respective amounts thereof, of:



- (i) to pay *pro rata* and *pari passu* according to the respective amounts thereof, of any amounts due and payable to the Interest Rate Swap Provider (including any termination payment (but excluding any Excluded Swap Termination Amounts)) pursuant to the terms of the Interest Rate Swap Agreement;
- (ii) the amounts due and payable to the Covered Bond Swap Provider *pro rata* and *pari passu* in respect of each relevant series of covered bonds outstanding under the Programme to the Covered Bond Swap (including any termination payment due and payable by the Guarantor LP under the Covered Bond Swap Agreement (but excluding any Excluded Swap Termination Amount)) in accordance with the terms of the Covered Bond Swap Agreement; and
- (iii) the amounts due and payable under the Covered Bond Guarantee, to the Bond Trustee on behalf of the holders of the covered bonds outstanding under the Programme *pro rata* and *pari passu* in respect of interest and principal due and payable on each series of covered bonds outstanding under the Programme;

provided that if the amount available for distribution under this paragraph (d) (excluding any amounts received from the Swap Provider in respect of amounts referred to in (d)(i) and (ii) above) would be insufficient to pay the Canadian Dollar Equivalent of the amounts due and payable under the Covered Bond Guarantee in respect of each series of covered bonds outstanding under the Programme under (d)(iii) above, the shortfall will be divided amongst all such series of covered bonds on a *pro rata* basis and the amount payable by the Guarantor LP in respect of each relevant series of covered bonds outstanding under the Programme under (d)(i) and (ii) above to the Swap Providers will be reduced by the amount of the shortfall applicable to the covered bonds in respect of which such payment is to be made;

- (e) *fifth*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof, of any Excluded Swap Termination Amounts due and payable by the Guarantor LP to the relevant Swap Provider under the relevant Swap Agreement;
- (f) *sixth*, after all covered bonds outstanding under the Programme have been fully repaid, any remaining moneys shall be applied in or towards repayment in full of all amounts outstanding under the Intercompany Loan Agreement;
- (g) *seventh*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of any indemnity amount due to the Partners pursuant to the Guarantor LP Agreement and certain costs, expenses and indemnity amounts due by the Guarantor LP to the Asset Monitor pursuant to the Asset Monitor Agreement;
- (h) *eighth*, thereafter any remaining moneys will be applied in or towards payment to the Partners pursuant to the Guarantor LP Agreement.

### Summary of Fees and Expenses

Upon the occurrence of a Covered Bond Guarantor Activation Event, the following fees and expenses will be paid from the collections on and proceeds of the Covered Bond Portfolio.

Fee Description	Payable To	Purpose	Amount (% or \$ per annum)	Current Provider
Agent Fees	US Paying Agent Issuing and Paying Agent	Making payments on bonds issued through DTC	Up to \$10,000	Bank of New York Mellon
	Exchange Agent Canadian Registrar and Transfer Agent	For bonds issued outside the US, the issuing and paying agent		Bank of New York Mellon / BNY Trust Company of Canada
Bond Trustee Fee	Bond Trustee	Trustee for bond holders and holds security for secured creditors	Up to \$20,000	Computershare Trust Company of Canada
Servicing Fee and Expenses of Servicer	Servicer	Servicing the mortgage loans	Up to 0.20% (expected fee for replacement)	Royal Bank of Canada

			servicer)	
Cash Manager Fee and expenses of Cash Manager	Cash Manager	Hold and manage cash of Guarantor LP	Up to \$10,000	Royal Bank of Canada
Account Bank Fee	Account Bank	Take deposits for Guarantor LP	Up to \$10,000	Royal Bank of Canada
Asset Monitor Fee	Asset Monitor	Check accuracy of records and confirm mathematical accuracy of tests and calculations	Up to \$75,000	Deloitte LLP
GDA Provider Fee	GDA Provider	Pay guaranteed interest rate on funds in GDA Account	Up to 0.025%	Stand-by GDA Provider: Bank of Montreal
Custodial Fee	Custodian	Hold records and documents of Guarantor LP in respect of Covered Bond Portfolio	Up to \$7,500	Computershare Trust Company of Canada
Corporate Service Provider Fees and Liquidation General Partner Fees	Corporate Service Provider and Liquidation General Partner	Provide corporate services for Liquidation GP	Up to \$100,000	Computershare Trust Company of Canada
Annual Registration Fee	CMHC	Annual registration fee as set out in the Guide	\$350,000	n/a

## COVERED BOND PORTFOLIO

The Covered Bond Portfolio consists of Loans and their Related Security, and in some cases Substitute Assets up to a certain threshold amount. For details on the eligibility criteria and Representations and Warranties provided with respect to the Loans in the Covered Bond Portfolio, see “*Summary of Principal Documents – Mortgage Sale Agreement – Eligibility Criteria*” and “*Summary of Principal Documents – Mortgage Sale Agreement – Representations and Warranties*”. The Asset Coverage Test and the Amortization Test performed by the Cash Manager are intended to ensure that the assets and cashflows of the Guarantor LP, including the Loans and their Related Security in the Covered Bond Portfolio and cashflows in respect thereof, will be adequate to enable the Guarantor LP to meet its obligations under the Covered Bond Guarantee following the occurrence of a Covered Bond Guarantee Activation Event and the Valuation Calculation performed by the Cash Manager is intended to monitor exposure to interest rate and currency exchange rates.

Because the Covered Bond Portfolio is not a static pool of assets, statistical data for the Covered Bond Portfolio will be provided in the applicable pricing supplement that will be distributed to investors with respect to an offering of a specific series of Covered Bonds. In addition, the Cash Manager will prepare and provide monthly Investor Reports to the Bank, the Guarantor LP, the Bond Trustee, and the Rating Agencies that will set out certain information in relation to the Covered Bond Portfolio, the calculation of the Asset Coverage Test, the Valuation Calculation, the Amortization Test (if applicable) and the Indexation Methodology, statistical information about the Loans in the Covered Bond Portfolio, performance information about the Loans, information on proceeds received on assets in the Covered Bond Portfolio and the application of such proceeds and other information prescribed by the requirements of the Guide. Investor Reports are prepared no later than the 15th day of each month (or if such day is not a Business Day, the first following Business Day) in respect of the preceding month and are available to covered bondholders at the Bank’s website at [http://www.rbc.com/investorrelations/fixed\\_income/covered-bonds-terms.html](http://www.rbc.com/investorrelations/fixed_income/covered-bonds-terms.html) and at SEDAR at [www.sedar.com](http://www.sedar.com).

### *Characteristics of the Loans*

Mortgage loans originated by the Bank are secured by a first mortgage on the residential property to which they relate and are full recourse against the borrower (subject to exceptions in Alberta and Saskatchewan, as described below) and if guaranteed to the guarantor and against the property securing the mortgage loan.

Interest is calculated using either a fixed or variable rate. Fixed rate mortgage loans provide for interest based on a fixed annual rate agreed to at the time the mortgage loan is advanced with interest calculated semi-annually, not in advance. Variable rate mortgage loans provide for interest based on the Bank’s annual rate of interest announced from time to time as a reference rate then in effect for determining interest rates on Canadian dollar commercial loans in Canada (the “Bank’s

**Prime Rate**) plus or minus a set percentage, calculated on the outstanding balance when each regular payment is due. In the case of variable rate mortgage loans, the interest rate varies automatically with changes in the Bank's Prime Rate. If the Bank's Prime Rate changes between scheduled payment dates, the revised rate becomes effective from the date of such change and is reflected on the next payment date. The total monthly payment amount due will not change (only the split between interest and principal is adjusted) unless that amount is insufficient to cover the interest amount due on the mortgage. In some circumstances the interest rate on a variable rate mortgage loan may be capped at a maximum rate.

Mortgage loans can either be open or closed to pre-payment at any time without pre-payment charges and can be for terms up to 25 years (with a typical term of 5 years) with original amortization periods that do not exceed 40 years. They provide for regular payments (e.g. weekly, bi-weekly or monthly) and early and/or increased payment options subject to pre-payment charges in certain circumstances. Payments are applied first to premiums for insurance obtained by the borrower in connection with the loan, then to property taxes, if paid by the Bank on behalf of the Borrower, then interest, then to principal and lastly, to any fees or other charges payable pursuant to the Related Security. In the case of variable rate mortgage loans, in the event that the Borrower's regular payment is insufficient to pay all interest when due, the mortgage loan terms and conditions allow the Bank to increase the regular payment amount payable by the Borrower to cover interests costs. Interest which is not paid when due is subject to interest.

The Bank may make more than one mortgage loan and provide home equity lines of credit to a Borrower under a single loan agreement. In such circumstances, each mortgage loan and home equity line of credit is subject to cross-default in the event payments on any loan are not made in accordance with their terms and prior to default the Bank is entitled to allocate payments received from the relevant Borrower among amounts owing by such Borrower under the loan agreement.

Where a mortgage loan is in default all amounts owing in respect of the mortgage loan will become due and payable and the Bank is allowed to require immediate payment of all amounts owing under all mortgage loans. In the case of multiple mortgage loans under a single loan agreement, any amounts obtained from enforcement are applied first to pay amounts owing under any such mortgage loans that are term mortgage loans (first to any insured mortgage loan and then to any uninsured mortgage loans in each case starting with the smallest outstanding balance) and then to amounts owing under any such mortgage loans that are home equity lines of credit, starting with the smallest outstanding balance. The Covered Bond Portfolio is not permitted to include mortgage loans that are insured mortgage loans or a conventional loan component under the RBC Homeline plan agreement that includes an insured mortgage component (See "*Description of the Canadian Regulated Covered Bond Regime – Eligible Assets*"). In Alberta and Saskatchewan the law restricts a lender's recourse against a borrower where the proceeds from enforcement of the mortgage by way of a foreclosure action are insufficient to repay the amounts owing on a mortgage loan.

## LOAN ORIGINATION AND LENDING CRITERIA

The description of the Bank's Lending Criteria and procedures that follows describes the Bank's Lending Criteria and procedures for the origination of mortgage loans as of the date of this prospectus supplement. There is no requirement for the Bank to maintain the Lending Criteria or procedures described below and the Bank reserves the right to change its Lending Criteria and procedures at any time (see "*Risk Factors – Changes to the Lending Criteria of the Seller may adversely affect the creditworthiness of New Loans acquired by the Guarantor LP*").

All of the Bank's residential mortgages included in the Covered Bond Portfolio are originated by employees of the Bank. As a strategy, the Bank does not originate any mortgages directly from external broker channels at this time. Many of the Bank's mortgage clients have multiple products and services with the Bank. From time to time, the Bank may purchase residential mortgage loans from third party or parties and these purchased mortgage loans are not expected to form part of the Covered Bond Portfolio. The mortgage loans purchased through such process will meet the underwriting criteria of the Bank's approved residential mortgage underwriting policy document.

The *Bank Act* (Canada) currently requires that all residential mortgage loans that have a loan to value ("**LTV**") ratio greater than 80 percent at origination be insured against default by a Canadian mortgage insurer, such as CMHC. In addition, from time to time, the Bank may obtain insurance against default from a Canadian mortgage insurer on a portfolio of mortgage loans where the portfolio includes mortgage loans with an LTV of 80 percent or less. Mortgage loans which are insured against default are referred to in the prospectus as "insured mortgage loans" or "insured Loans." Mortgage loans with an LTV that does not exceed 80 percent and that are not insured against default are referred to in this prospectus supplement as "conventional mortgage loans" or "conventional Loans." The Covered Bond Portfolio is not permitted to include mortgage loans that are insured mortgage loans, conventional loans which have been advanced under the same mortgage as an insured mortgage loan or mortgage loans that at the time they were originated, together with any other prior or equal ranking mortgage, had an LTV of 80 percent or more.

## ***Mortgage Origination and Renewal***

The Home Equity Financing unit of the Bank uses three channels for origination and renewal of residential mortgages: Mobile Mortgage Specialists (a Bank proprietary sales force), the Bank's Canadian branch network employees, and Royal Direct, the Bank's telephone service center (a "call center").

### ***Mobile Mortgage Specialists***

Mobile Mortgage Specialists are the source of the majority of mortgage origination for the Bank, but are not involved in the mortgage renewals. These specialists have no credit authority and thus all mortgage applications derived by this channel go to credit adjudication specialists for review and approval. The Mobile Mortgage Specialists' activities and performance are monitored by their sales managers, who are expected to monitor the performance of loans originated in their market. Mortgage sales managers at the Bank have a number of tools available to monitor credit and market trends, and results are reviewed with each Mobile Mortgage Specialist at least on a quarterly basis.

### ***Canadian Branch Network***

The branch origination channel primarily focuses upon the refinancing needs of existing clients as well as new clients. In addition to refinancing and renewals of existing mortgages, the Bank's branch network is also responsible for mortgage origination. The branch personnel with lending responsibilities have approval authorities and mortgage applications exceeding the applicable authority are submitted to credit adjudication for review and approval.

### ***Call Center - "Royal Direct"***

In addition to its role as a call center handling client queries, Royal Direct is also engaged in the Bank's mortgage renewal process. The renewal process is completed by the Bank's centralized mortgage document processing center. Generally, mortgage origination does not occur through this channel, but instead it is redirected into the other two channels: the Bank's Mobile Mortgage Specialists or the Bank's Canadian branch network.

## ***Valuations, Appraisals, Assessments and Credit Strategy***

The *Bank Act* (Canada) currently requires that all residential mortgage loans that have a LTV greater than 80 percent at origination be default insured by a mortgage insurer. As discussed above, these loans are referred to in this prospectus as "insured mortgage loans" or "insured Loans." Mortgage loans that do not have an LTV in excess of 80 percent are referred to as "conventional mortgage loans" or "conventional Loans." The LTV ratio for prospective loans cannot exceed 95 percent. Prior to April 2007, the threshold for requiring default insurance was 75 percent. The new threshold of 80 percent is reflected in the Bank's current mortgage portfolio. The LTV is calculated based on the outstanding amount of all loans under the same loan agreement (see "*Covered Bond Portfolio – Characteristics of the Loans*") and the property valuation or risk assessment (as discussed below) at the time of origination or refinance (when new funds are advanced) of the mortgage loan. For internal analysis, the LTV may be updated based on a more recent property valuation, risk assessment or house price index (which is not required to be the same as the Index).

For all residential mortgage loans that have a LTV ratio of 80 percent or less, the Bank's mortgage approval policy requires one of the following methods as an acceptable property valuation type:

- Low ratio property risk assessment – a third-party automated risk assessment system to assess whether the stated value meets the Bank's predetermined risk parameters;
- Automated property risk assessment models – third-party computer generated property risk assessment models which are used to assess whether the stated value meets the Bank's predetermined risk parameters, typically based on land title/sales histories, and municipally-assessed information;
- Desktop appraisals – a Bank approved appraiser's opinion of the property without an actual site inspection of the property;
- Drive-by appraisals – a Bank approved appraiser's opinion of the property based on an exterior inspection of the property; or
- Full appraisal – a Bank approved appraiser's opinion of the property based on an exterior and interior inspection of the property.

The type of property valuation or property risk assessment used may depend on any combination of the following loan characteristics at the time of the application: the location of the property, property value, mortgage loan amount, borrower risk profile, specialty product programs, and the LTV ratio.

The Bank utilizes two credit scoring models: one is based on the Bureau Score, and the second is a proprietary model that evaluates existing Bank clients' historical loan, credit and deposit performance. Both models are monitored on a quarterly basis to ensure their continuing functionality and market relevance.

### ***Credit Scores***

The Bank's underwriting policies and procedures require each prospective borrower to submit a mortgage loan application that discloses the applicant's credit history, assets, liabilities, income and employment history, and includes consent to the Bank obtaining a credit report in respect of such applicant.

Credit reports are obtained by the Bank from either Equifax Information Services LLC or TransUnion LLC, which are nationally recognized credit reporting bureaus, as a means of assessing the creditworthiness of the borrowers. Each of these credit reports contains a standardized credit score (each a "**Bureau Score**" and commonly referred to as a FICO score or a BEACON score) that is designed to assess a borrower's credit history at a single point in time, using data currently on file for the borrower at the particular credit reporting bureau. Bureau Scores range from approximately 300 to approximately 900, with higher scores indicating an individual with a more favourable credit performance (i.e. statistically expected to be less likely to default) compared to an individual with a lower score. Information used to create a Bureau Score may include, among other things, the borrower's payment history, delinquencies on accounts, levels of outstanding indebtedness, length of credit history, types of credit and bankruptcy experience. A Bureau Score, however, only assesses a borrower's past credit history and provides an indicator of the relative degree of potential risk that a borrower represents to a lender on a specified date. In addition, Bureau Scores were developed to indicate levels of default probability over a two-year period and were not developed specifically for use with mortgage loans, but for consumer loans in general. Accordingly, Bureau Scores are not necessarily accurate indicators of levels of default probability over the entire terms of the mortgage loans (which extend beyond a two year period to three or five years). Furthermore, Bureau Scores do not take into account the differences between mortgage loans and consumer loans, including the particular loan-to-value ratios of the mortgage loans, the quality or value of the real estate collateral, or the borrower's debt to income ratio. There can be no assurance that a borrower's Bureau Score will be an accurate predictor of the likelihood of such borrower's mortgage loan being repaid, or that a borrower's Bureau Score has or will remain unchanged after origination.

### ***Assessment of Client Capacity***

Based on the data provided in the prospective borrower's application and certain verifications, if required, the Bank determines whether in its view, the applicant's income will be sufficient to enable such applicant to meet the obligations under the proposed mortgage loan and to pay the other expenses relating to the mortgaged property, including taxes, insurance costs and other fixed obligations. In general, the Bank requires that the scheduled payments that would be due during the first year of the term of a mortgage loan, plus all taxes due in respect of the mortgaged property during such period and all other scheduled payments due under the borrower's other debt obligations during such period, must not exceed a specified percentage of the applicant's gross employment or stated income. To comply with OSFI Guideline B-20, the Bank implemented a document retention policy on October 1, 2012 requiring retention of all income verification documentation for all Loans. For residential mortgage loans originated prior to the implementation of such policy, outside the Mobile Mortgage Specialists channel, there was no requirement to retain such documentation. As a majority of the Loans in the Covered Bond Portfolio were originated prior to the implementation of the documentation retention policy for income verification, the Asset Monitor may not be able to conduct the income verification procedure in connection with the procedures undertaken in performing its responsibilities under Section 7.3.1 of the Guide with respect to such Loans to the extent such Loans were originated outside of the Mobile Mortgage Specialists channel prior to the implementation of such policy.

### ***Credit Adjudication and the Risk Management Group***

The Bank's credit adjudication centers process any mortgage loan application where: (i) the principal amount to be borrowed is over the approval authority for branch personnel with lending responsibilities approval authorities; or (ii) there are evident credit issues with the application (e.g. unsatisfactory scoring results from the Bank's valuation models or total debt servicing ratios that trigger further review in accordance with the Bank's credit risk policies or non-alignment with product policies). The credit adjudication centers also review all mortgage loan applications originating from Mobile Mortgage Specialists. Credit adjudication centers review more than 70% of the Bank's mortgage applications.

Large mortgage applications are sent to a specialized adjudication team for credit adjudication.

Suspicious or potentially fraudulent activity is monitored throughout the process. Fraud detection systems are designed to look for inconsistencies in applications and suspicious facts. Large mortgage applications are sent to the specialized adjudication team for credit adjudication.

#### ***Credit Effectiveness Review, Audit Process, Quality Control Process***

Post loan reviews are conducted both internally and by an independent centralized team, which also performs credit reviews for the Bank's mortgage portfolio. This review includes random audits of mortgage applications conducted on a quarterly basis to ensure mortgage applications are adjudicated utilizing the correct risk profile and in compliance with the applicable mortgage credit policies and program guidelines.

The Bank also has a dedicated team of employees that audits the mortgage business and monitors quality control. External auditors are routinely hired to audit the internal audit group, and conduct random reviews to ensure the Bank's mortgage application review policies are being adhered to in a complete and consistent manner.

#### ***Property Insurance***

Each Loan contains a requirement that the mortgaged property be covered by property insurance maintained by the Borrower or in the case of a leasehold property under a policy arranged by a relevant landlord or property management company with the Servicer being noted as a loss payee/mortgagee. The lawyer facilitating the origination of the Mortgage is instructed to confirm that such insurance has been obtained and to confirm that such confirmation has been obtained in the lawyers report on title and security, or First Canadian Title, as the Bank's closing agent, confirms that such insurance has been obtained. The Bank does not require evidence of such property insurance by the Borrower to be retained on file, and in the event that a Borrower does not maintain property insurance, the Bank does not independently maintain separate property insurance for such mortgaged property.

### **THE SERVICER**

#### **General**

The Bank is the servicer (the "**Servicer**") of the Loans and Related Security pursuant to a servicing agreement (the "**Servicing Agreement**") between Royal Bank of Canada, in its capacity as the Servicer, Seller and Cash Manager, the Guarantor LP, as owner of the Loans and Related Security, and Computershare Trust Company of Canada, as the Bond Trustee. The Servicer will have no obligation or liability with respect to the Loans or Related Security in accordance with the terms and conditions of the Servicing Agreement save in respect of the negligence or willful default of the Servicer in carrying out its functions.

#### **Servicing Activities**

The Servicer began originating and servicing residential mortgage loans in 1954. The Servicer services its own portfolio of mortgage loans and generally retains the servicing rights with respect to any mortgage loans it sells or securitizes. As at June 30, 2014, the Servicer acted as primary servicer and owned the corresponding servicing rights on approximately 1,069,739 residential mortgage loans having an aggregate unpaid balance of approximately \$187.6 billion.

The following table sets forth the dollar amount of mortgage loans serviced by the Servicer for the periods indicated, and the number of such loans for the same period.

## ROYAL BANK OF CANADA SERVICING PORTFOLIO

For the Year Ended October 31

	Measures	2013	2012	2011	2010
<b>Conventional mortgages</b>	No. of Loans (thousands)	656	685	679	657
	Dollar Amount of Loans (millions)	107,117	110,049	105,398	97,924
	Percentage Change from Prior Year	-2.7%	4.4%	7.63%	13.16%
<b>Insured mortgages</b>	No. of Loans (thousands)	400	344	336	324
	Dollar Amount of Loans (millions)	77,006	65,153	61,276	57,421
	Percentage Change from Prior Year	18.2%	6.3%	6.71%	-5.88%
<b>Total mortgage loans serviced</b>	No. of Loans (thousands)	1056	1,029	1015	981
	Dollar Amount of Loans (millions)	184,123	175,201	166,674	155,345
	Percentage Change from Prior Year	5.1%	5.1%	7.29%	5.29%

### Servicing Procedures with respect to Loans and Related Security

Following the sale of a mortgage loan to the Guarantor LP, the Servicer keeps and maintains records in relation to the Loans and Related Security sold to the Guarantor LP on a loan by loan basis, for the purposes of identifying amounts paid by each borrower, any amount due from a borrower and the principal balance (and, if different, the total balance) from time to time outstanding on a borrower's account and such other records as would be customarily kept by a reasonable and prudent mortgage lender. The Servicer also identifies the Loan and Related Security as belonging to the Guarantor LP and maintains a computer record of the location and identification of the Loans and Related Security by reference to an account number and pool identifier so as to be able to distinguish them from other mortgage loans and security serviced by the Servicer for retrieval purposes. In the event the ratings of the Servicer by the Rating Agencies fall below certain ratings, the Servicer shall use reasonable efforts to ensure that files relating to the Loans and their Related Security are identified as distinct from the conveyancing deeds and documents which make up the title and security of other properties and mortgages which do not form part of the Covered Bond Portfolio.

The Servicer provides customary servicing functions with respect to the Loans and Related Security. The Servicer makes reasonable efforts to collect all payments called for under the loan documents and follows such collection procedures as are customary with respect to loans. The Servicer collects and remits mortgage loan payments, responds to borrower inquiries, accounts for principal and interest, holds escrow account information and funds for payment of property taxes, counsels or otherwise works with delinquent borrowers, supervises power of sale, judicial sales or foreclosures, and property dispositions and generally administers the Loans and is required to take all reasonable steps to recover all sums due to the Guarantor LP in respect of the Loans and Related Security. The Bank will administer the Loans and the Related Security in the same way it administers mortgage loans for its own account. The Servicing Agreement requires that the Loans and the Related Security are to be serviced as if the Loans had not been sold to the Guarantor LP but remained with the Bank.

The Servicer may act as collection agent for the Guarantor LP under a scheme for either the manual or automated debiting of bank accounts (the "**Direct Debiting System**") provided such Direct Debiting System is operated in accordance with policies and procedures which would be acceptable to a reasonable and prudent mortgage lender. Borrowers provide authorization for regular payments (made monthly or on a greater frequency) to be deducted automatically from bank accounts on the date each schedule payment is due.

The Servicer has the power to exercise the rights, powers and discretions and to perform the duties of the Guarantor LP in relation to the Loans and their Related Security and to do anything which it reasonably considers necessary or convenient or incidental to the administration of the Loans and their Related Security. This includes the authority to accept applications for product switches or advances in respect of the Loans in its sole discretion. The Bank, as seller of the Loans and Related Security to the Guarantor LP is required to provide the funding for any product switches or advances approved by the Servicer. The Servicer is not restricted from, in its discretion, (i) waiving any assumption fee, late payment or other charge in connection with a Loan; or (ii) waiving, varying or modifying any term of any Loan or consenting to the postponement of strict compliance with any such term or in any matter grant indulgence to any borrower.

With respect to collections, the Guarantor LP may institute proceedings and enforce any relevant Loan which is in default in accordance with the Bank's enforcement procedures and the usual procedures undertaken by a reasonable and prudent institutional mortgage lender.

The Servicer's collections policy is designed to identify payment problems sufficiently early to permit the Servicer to address such delinquency problems and, when necessary, to act to preserve the lender's equity in the property. A Loan is considered delinquent if a scheduled payment remains unpaid the day following the due date. If timely payment is not received, the Servicer's automated loan servicing system automatically places the Loan in the assigned collection queue. The account remains in the queue unless and until a payment is received, at which point the Servicer's automated loan servicing system automatically removes the Loan from that collection queue.

When a Loan appears in a collection queue, various collection techniques are employed to remind the borrower that a payment is due. Such techniques include subsequent automated attempts to contact the borrower as well as automated letters, with the borrower ultimately telephoned by a collector. Follow-up telephone contacts with the borrower are attempted until the account is current or other payment arrangements have been made. When contact is made with a delinquent borrower, collectors present the borrower with alternative payment methods, in order to expedite payments. Standard form letters are utilized when attempts to reach the borrower by telephone fail and/or in some circumstances, to supplement the phone contacts. Collectors have computer access to telephone numbers, payment histories, loan information, and all past collection notes. The Servicer supplements the collectors' efforts with advanced technology such as predictive dialers and statistical behavioural software used to determine the optimal times to call a particular customer. Additionally, collectors may attempt to mitigate losses through the use of behavioural or other models that are designed to assist in identifying workout options in the early stages of delinquency. For those Loans in which collection efforts have been exhausted without success, the Servicer determines whether mortgage enforcement proceedings are appropriate. The course of action elected with respect to a delinquent Loan generally will be guided by a number of factors, including the related borrower's payment history, ability and willingness to pay, the condition and occupancy of the Related Security, the amount of borrower equity in the Related Security, and whether there are any tax arrears, condominium or strata arrears, or construction liens.

Prior to a foreclosure or sale by power of sale, once the Servicer is in possession of the Related Security, it obtains an appraisal from a Bank approved appraiser. The Servicer then hires a real-estate agent to sell the property. The real-estate agent performs a current market analysis which includes: (i) a current valuation of the Related Security; (ii) an evaluation of the amount owed, if any, for real estate taxes; and (iii) estimated carrying costs, brokers' fees, repair costs, and other related costs associated with real estate owned properties. The Servicer bases the sale price at the foreclosure process or power of sale on this analysis and its own appraisal.

The foreclosure process and power of sale process vary by jurisdiction across Canada and there are two different ways that the Servicer can acquire the right to sell the Related Security. If the Servicer acquires title to a property at a foreclosure process or a certificate of power of sale at a power of sale process, it obtains an estimate of the sale price of the property and then hires one or more real estate agents to begin marketing the property. If the Related Security is not vacant when acquired, the lawyers that have been hired to facilitate the mortgage enforcement commence eviction proceedings and/or negotiations are held with occupants in an attempt to get them to vacate without incurring the additional time and cost of eviction. Repairs are performed if it is determined that they will increase the net liquidation proceeds, taking into consideration the cost of repairs, the carrying costs during the repair period and the marketability of the property both before and after the repairs.

Any loss, if any, on a Loan is determined based on the aggregate amount due on the Loan less the aggregate proceeds of sale of the mortgage property minus related expenses.

The Servicer's collections procedures are updated regularly and continue to evolve on a regular basis to improve its efficiency and effectiveness. The most recent changes have been the introduction of functionalization (the consolidation of tasks and activities under common management and across multiple sites) and the implementation of risk based collections (the collection of payments by client as opposed to the use of a mono-line). Risk based collections involves one collector collecting all delinquent accounts for a borrower at the same time as opposed to different collectors calling the same borrower for each Loan or other product that is delinquent.

### **Servicing and Other Compensation and Payment of Expenses**

Each Loan acquired by the Guarantor LP is a serviced interest. The Guarantor LP does not have any obligation or liability to the Servicer on account of costs, expenses, disbursements, charges, or fees of the Servicer, which are the sole responsibility of the Servicer.



## Payments on Loans; Deposits to Segregated Accounts

Any collections received by the Servicer in respect of Loans and Related Security to which the Guarantor LP is entitled are required to be held by the Servicer in trust for the Guarantor LP and to be kept distinguishable from all other moneys held by the Servicer and following a downgrade in ratings by the Rating Agencies below certain thresholds, to be deposited directly into the GDA Account. All other sums received by the Servicer in respect of the Loans and their Related Security shall be held by the Servicer for itself.

## Replacement of Servicer

The Guarantor LP and the Bond Trustee may terminate the Servicing Agreement immediately upon the:

- (a) assignment of a rating on the Servicer's unsecured, unguaranteed, and unsubordinated debt obligations, or issuer default rating, as applicable, by a rating agency below Baa3, F2 and BBB(low) long-term (in respect of Moody's, Fitch, and DBRS respectively) and failure to obtain a Rating Agency Confirmation;
- (b) default in payment of any amount due to the Guarantor LP and failure to remedy such default within three business days;
- (c) failure by the Servicer to comply with its obligations under the Servicing Agreement, including a breach of its representations and warranties, without remedy of such compliance for 30 days;
- (d) insolvency of the Servicer;
- (e) when the Bank is the Servicer upon the occurrence of (and while it is continuing) an Issuer Event of Default; and
- (f) resolution by the Guarantor LP that the Servicer should be terminated,

provided the Guarantor LP must exercise its right to terminate the Servicer in the circumstance described in (a) and (e) above if the Bank is the Servicer unless the Liquidation GP is the managing general partner of the Guarantor LP at such time.

The Servicer may voluntarily resign by giving not less than 12 months' notice to the Bond Trustee and Guarantor LP. The resignation of the Servicer is conditional upon there being no adverse effect on the then current ratings of the Covered Bonds unless the holders of the Covered Bonds agree by Extraordinary Resolution.

In replacing the Servicer with a successor servicer, the Guarantor LP and Bond Trustee will consent in writing to the termination of the Servicer and a substitute servicer shall be appointed, with such appointment to be effective not later than the date of such termination. Such substitute servicer shall have: (i) sufficient qualifications to act as such; (ii) a management team with experience of administering mortgages of residential property in Canada, as approved by the Guarantor LP; (iii) entered into an agreement substantially on the same terms as the relevant provisions of the Servicing Agreement, except as to fees; and (iv) provided Rating Agency Confirmation, unless the termination is otherwise agreed by an Extraordinary Resolution of the holders of the Covered Bonds.

In the event the Servicer is replaced, the Guarantor LP will reimburse the Servicer in accordance with the relevant priorities of payment for all out-of-pocket expenses, disbursements, charges and fees (together with any amounts in respect of HST due thereon). The Servicer will use reasonable endeavors to recover all costs and expenses incurred by the Servicer which are properly recoverable from the borrowers.

## SUMMARY OF PRINCIPAL DOCUMENTS

The principal document governing the relationship of the Bank and a purchaser of Covered Bonds is the Trust Deed and the Terms and Conditions attached to each Covered Bond. See "*Terms and Conditions of the Covered Bonds*". Copies of such documents, including the applicable Transaction Documents (as defined herein) may be viewed on SEDAR at [www.sedar.com](http://www.sedar.com) or at [http://www.rbc.com/investorrelations/fixed\\_income/covered-bonds-terms.html](http://www.rbc.com/investorrelations/fixed_income/covered-bonds-terms.html).

## Pricing Supplement

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

## The Trust Deed

The Trust Deed is the principal agreement governing the Covered Bonds. The Trust Deed contains provisions relating to, among other things:

- the constitution of the Covered Bonds and the terms and conditions of the Covered Bonds (as more fully set out under “*Terms and Conditions of the Covered Bonds*” above);
- the covenants of the Bank and the Guarantor LP;
- the terms of the Covered Bond Guarantee (as described below);
- the enforcement procedures relating to the Covered Bonds and the Covered Bond Guarantee;
- the appointment, powers, and responsibilities of the Bond Trustee and the circumstances in which the Bond Trustee may retire, be removed, or appoint a separate bond trustee or a co bond trustee; and
- procedures for convening and holding meetings of covered bondholders to consider any matter affecting their interests, and for the appointment of a Chairman who in the case of an equality of votes has a casting vote in addition to any other vote(s) to which such person may be entitled.

This description is subject to and qualified by the description of the particular terms of your series of Covered Bonds in the relevant prospective supplement.

### ***Bond Trustee***

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

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

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

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

The Bond Trustee will receive reimbursement for those reasonable out of pocket expenses (including the reasonable expenses of its counsel and agents) incurred by it in carrying out provisions of the Trust Deed (the “**Trustee Expenses**”). Trustee Expenses will be payable on the date specified in a demand by the Bond Trustee and may carry interest if not paid within five days. Such amounts where payable by the Guarantor LP will be paid in accordance with the Priorities of Payment. The Bond Trustee shall be entitled in its absolute discretion to determine in respect of which series of Covered Bonds any liabilities incurred pursuant to the Trust Deed have been incurred or to allocate any such liabilities between different series of Covered Bonds.

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

The Bond Trustee may retire at any time by providing three months’ prior written notice to the Bank and the Guarantor LP. The covered bondholders may by Extraordinary Resolution of all the covered bondholders remove any bond trustee or bond trustees. The Guarantor LP may remove the Bond Trustee upon a default by the Bond Trustee in the performance or observance of any of its covenants and obligations under the Trust Deed (including the Bond Trustee’s representations and warranties) if such breach continues unremedied for a period of 30 days. In the event that the Bond Trustee (or the only bond trustee that is a trust corporation) gives notice of its intention to retire or is removed by Extraordinary Resolution or by the Guarantor LP, each of the Bank and the Guarantor LP will use all reasonable endeavors

to procure as soon as reasonably practicable a new bond trustee that is a trust corporation whose appointment complies with the Guide. If no such appointment has become effective within 60 days of the date of such notice or Extraordinary Resolution, the Bond Trustee is entitled to appoint a trust corporation, whose appointment complies with the Guide, as bond trustee, but no such appointment shall take effect unless previously approved by an Extraordinary Resolution.

### ***Trust Indenture Act***

The Trust Deed includes certain provisions required by the U.S. Trust Indenture Act of 1939, as amended (the “**Trust Indenture Act**”) to facilitate the issuance of covered bonds (“**U.S. Registered Covered Bonds**”) under the Programme under a registration statement with the Securities Exchange Commission (“**SEC**”) in the United States. Certain of these provisions relate to all Covered Bonds so long as there are U.S. Registered Covered Bonds outstanding, and include, but are not limited to:

- maintenance of a covered bondholder list by the Bond Trustee;
- provision of annual reports and other information by the issuing entity to the Bond Trustee;
- ability of covered bondholders to waive certain past defaults of the issuing entity;
- duty of the Bond Trustee (following an Issuer Event of Default) to use the same degree of care in exercising its responsibilities as would be exercised by a prudent person conducting their own affairs;
- duty of the Bond Trustee to notify all covered bondholders of any Issuer Event of Default of which it has actual knowledge; and
- right of each covered bondholder to receive payments of principal and interest on a covered bond on or after the respective due dates expressed in the covered bond, or to bring suit for enforcement of any such payment on or after such respective dates.

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

### ***Trust Indenture Act Prevails***

The Trust Deed contains a stipulation that, if any provision of the Trust Deed limits, qualifies or conflicts with another provision which is required to be included in the Trust Deed by, and is not subject to a contractual waiver under, the Trust Indenture Act, the required provision of the Trust Indenture Act will be deemed to be incorporated into the Trust Deed and prevail.

### ***Covered Bond Guarantee***

Under the terms of the Covered Bond Guarantee (contained in the Trust Deed), the Guarantor LP has agreed to, following the occurrence of a Covered Bond Guarantee Activation Event, unconditionally and irrevocably pay or procure to be paid to or to the order of the Bond Trustee (for the benefit of the holders of the Covered Bonds), 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, Extended Due for Payment Date, by the Bank. Under the Covered Bond Guarantee, the Guaranteed Amounts will become due and payable on any earlier date on which a Guarantor LP Acceleration Notice is served.

The Issuer has covenanted under the Trust Deed that each series of Covered Bonds shall include an Extended Due For Payment Date until such time as the Guarantor LP Agreement is amended to provide for a pre-maturity test to be conducted, in respect of any series of Covered Bonds that does not include an Extended Due For Payment Date, to ensure that the assets of the Guarantor LP include sufficient cash to satisfy obligations to make principal payments on any such series of Covered Bonds at the Final Maturity Date for such Covered Bonds and such pre-maturity test complies with the provisions of the Guide, and corresponding provisions in the Priority of Payments are made to facilitate satisfaction of such a pre-maturity test.

The Covered Bond Guarantee by the Guarantor LP is secured by the pledge of the Covered Bond Portfolio to the Bond Trustee under the Security Agreement. This security interest has been perfected under Ontario law by all necessary regulations.

Following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice, the Bond Trustee will serve a Notice to Pay on the Guarantor LP. Payment by the Guarantor LP of the Guaranteed Amounts pursuant to the Covered Bond Guarantee will be made on the later of: (i) the day which is two London business days after service of a Notice to Pay on the Guarantor LP, or (ii) the day on which the Guaranteed Amounts are otherwise Due for Payment.

All payments of Guaranteed Amounts by or on behalf of the Guarantor LP will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments, or other governmental charges of whatever nature, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by the laws, regulations or administrative practice of any jurisdiction. In the event such withholdings or deductions are so required, the Bank (but not the Guarantor LP) shall (subject to customary exceptions) be required to pay such additional amounts as will result in the holders of Covered Bonds receiving such amounts as they would have received in respect of such Covered Bonds had no such withholding or deduction been required.

Under the terms of the Covered Bond Guarantee, the Guarantor LP agrees that its obligations under the Covered Bond Guarantee will be as guarantor and will be absolute and unconditional, irrespective of, and unaffected by, any invalidity, irregularity or unenforceability of, or defect in, any provisions of the Trust Deed or the Covered Bonds or the absence of any action to enforce the same or the waiver, modification, or consent by the Bond Trustee or any of the holders of the Covered Bonds, in respect of any provisions of the same or the obtaining of any judgment or decree against the Bank or any action to enforce the same or any other circumstances which might otherwise constitute a legal or equitable discharge or defense of a guarantor. As consideration for providing the Covered Bond Guarantee, the Guarantor LP will be entitled to receive guarantee fees from the Bank in accordance with the terms of the Covered Bond Guarantee. Any failure on the part of the Bank to pay all or any part of the guarantee fees will not affect the obligations of the Guarantor LP under the Covered Bond Guarantee.

Subject to the grace period specified in Condition 7.02 of the Conditions, failure by the Guarantor LP to pay the Guaranteed Amounts when Due for Payment will result in a Guarantor LP Event of Default.

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

Following the occurrence of an Issuer Event of Default and delivery of an Issuer Acceleration Notice, the Bond Trustee may receive Excess Proceeds. The Excess Proceeds will be paid by the Bond Trustee, as soon as practicable after receipt thereof by the Bond Trustee, on behalf of the holders of the covered bonds of the relevant series outstanding under the Programme, to the Guarantor LP for the account of the Guarantor LP. All such Excess Proceeds will be held by the Guarantor LP in the Guarantor LP Accounts and will thereafter form part of the Security granted pursuant to the Security Agreement and will be used by the Guarantor LP in the same manner as all other moneys from time to time standing to the credit of the Guarantor LP Accounts. Any Excess Proceeds received by the Bond Trustee will discharge *pro tanto* the obligations of the Bank in respect of the covered bonds outstanding under the Programme (subject to restitution of the same if such Excess Proceeds will be required to be repaid by the Guarantor LP). However, the obligations of the Guarantor LP under the Covered Bond Guarantee are (following service of a Notice to Pay on the Guarantor LP) unconditional and irrevocable and the receipt by the Bond Trustee of any Excess Proceeds will not reduce or discharge any such obligations.

By subscribing for Covered Bond(s), each holder of the Covered Bonds will be deemed to have irrevocably directed the Bond Trustee to pay the Excess Proceeds to the Guarantor LP in the manner as described above.

#### ***Changes to the Trust Deed***

The provisions in the Trust Deed may be amended or modified only by written agreement of all of the parties thereto, provided that the Bond Trustee may require the prior approval of the Secured Creditors for certain amendments or modifications. Where the Guarantor LP determines that any such amendment or waiver is material, Rating Agency Confirmation shall be required in respect of such amendment. Pursuant to the terms of the Trust Deed, the Bond Trustee may also, without the consent or sanction of any of the holders of the Covered Bonds or any of the other Secured Creditors, concur with the Guarantor LP and the Issuer in making or sanctioning any modification to the Transaction Documents:

- provided that the Bond Trustee is of the opinion that such modification will not be materially prejudicial to the interest of any of the holders of the covered bonds of any series outstanding under the Programme; or
- which in the opinion of the Bond Trustee are made to correct a manifest error or are of a formal, minor, or technical nature or are made to comply with mandatory provisions of law.

## **Agency Agreement**

The Agency Agreement between the Bank, the Guarantor LP, the Agents and the Bond Trustee, is the governing agreement with respect to the rights and obligations of the Agents under the Programme. Under the terms of the Agency Agreement, the Bank and the Guarantor LP have appointed the Agents for the specified purposes set out in the Agency Agreement, and the Agents act solely in their capacity as Agents of the Bank (or the Bond Trustee as applicable) and do not assume any obligation or responsibility towards the holders of the Covered Bonds.

In order to provide for payment of interest and principal on the Covered Bonds, the Bank (or the Guarantor LP) pays to the Issuing and Paying Agent on or before the date on which the payment becomes due an amount equal to the amount of principal, or as the case may be, interest then becoming due.

Following receipt of funds from the Bank (or Guarantor LP), each Paying Agent or the Registrar, as applicable, shall make payments of interest, provided that the Paying Agent or the Registrar, as applicable, shall not be obliged to make such payments if it is not able to establish that it has received the full amount of relevant payment due to it, or it has been notified that the Bank (or Guarantor LP) has not given irrevocable instructions providing for the transfer of the relevant funds prior to the date on which payment is to be made to the Issuing and Paying Agent or, as the case may be, the Registrar and the name and the account of the bank through which such payment is being made. The Paying Agent and Registrar are not entitled to exercise any lien, right of set-off or similar claim against any person to whom it makes any payment.

### ***Representations and Warranties***

Each Agent represents and warrants in favour of the Bank, the Guarantor LP and the Bond Trustee, that it is, among other things, experienced, qualified, in regulatory good standing, in material compliance with all internal policies and procedures and all applicable laws and regulations, and that it satisfies certain minimum standards. Further, the Agency Agreement contains a covenant on the part of each of the Agents to comply with, and perform its obligations under, the provisions of the Guide, and the Transaction Documents to which it is a party, in each case applicable to it.

### ***Agents of Bond Trustee***

The Bond Trustee may, at its option upon the occurrence of an Issuer Event of Default or Potential Issuer Event of Default, require the Agents to act as Agents of the Bond Trustee in relation to payments of moneys to be made by or on behalf of the Bond Trustee, and thereafter to hold all Covered Bonds on behalf of the Bond Trustee. Following an Issuer Event of Default the Bond Trustee may require the Issuer to make all payments in respect of the Covered Bonds to the Bond Trustee and not to the Agents and following a Guarantor LP Event of Default, may require the Guarantor LP to make payments to be made by it under the Covered Bond Guarantee to the Agents as opposed to the Bond Trustee.

### ***Additional Duties***

The Issuing and Paying Agents, and the Paying Agents are subject to various additional duties including maintaining records, making documents available for inspection, issuing voting certificates, and making all necessary notifications and filings as may be required. The Registrars are subject to various additional duties including maintaining a central securities register, cancelling registered Covered Bonds where applicable, maintaining proper records, making available forms of proxy, and making documents available for inspection. Pursuant to the terms of the Agency Agreement, the Transfer Agents are subject to various additional duties including accepting registered Covered Bonds transferred to it, keeping a stock of the forms of transfer, and authenticating and delivering Covered Bonds where applicable.

### ***Changes to the Agency Agreement***

The provisions of the Agency Agreement may be amended or modified by further agreement among the parties thereto and without the consent of the holders of any of the Covered Bonds. Where the Guarantor LP determines that any such amendment or waiver is material, Rating Agency Confirmation shall be required in respect of such amendment.

## **Intercompany Loan Agreement**

The Intercompany Loan Agreement between the Bank and the Guarantor LP is the governing agreement with respect to the Intercompany Loan. Under the terms of the Intercompany Loan Agreement, the Bank has made available to the Guarantor LP, on an unsecured basis, an interest-bearing intercompany loan (the “**Intercompany Loan**”), comprised of a guarantee loan (the “**Guarantee Loan**”) and a revolving demand loan (the “**Demand Loan**”), in a combined aggregate amount equal to the Total Credit Commitment, subject to increases and decreases as described below.

Advances under the Intercompany Loan have been used to acquire Loans and their Related Security for the Covered Bond Portfolio, in excess of the requirements of the Asset Coverage Test for the outstanding series of Covered Bonds issued under the Programme. The Intercompany Loan is denominated in Canadian dollars. The interest rate on the Intercompany Loan is a Canadian dollar floating rate determined by the Bank from time to time, provided that the amount of interest payable shall not exceed the amount received by the Guarantor LP under the Interest Rate Swap Agreement less the sum of a minimum spread and an amount for certain expenses of the Guarantor LP.

The Guarantee Loan is in an amount equal to the balance of outstanding Covered Bonds at any relevant time plus that portion of the Covered Bond Portfolio required as over-collateralization for the Covered Bonds to ensure that the Asset Coverage Test is met (see “*Summary of Principal Documents – Guarantor LP Agreement – Asset Coverage Test*”). The Demand Loan is a revolving credit facility, the outstanding balance of which is equal to the difference between the balance of the Intercompany Loan and the balance of the Guarantee Loan at any relevant time, except where the ratings of the Covered Bond Swap Provider have fallen below the thresholds described under “*Summary of Principal Documents – Covered Bond Swap Agreement*” or there has been an Issuer Event of Default and the Bank has delivered the notice described thereunder in which case the amount of the mark to market exposure that would exist if cashflows were being exchanged under the Covered Bond Swap Agreement will be excluded from the Demand Loan and therefore form part of the Guarantee Loan while such circumstances exist. The balance of the Guarantee Loan and Demand Loan will fluctuate with the issuances and redemptions of Covered Bonds and the requirements of the Asset Coverage Test.

At any time prior to a Demand Loan Repayment Event, the Guarantor LP may re-borrow any amount repaid by the Guarantor LP under the Intercompany Loan for a permitted purpose provided, among other things: (i) such drawing does not result in the Intercompany Loan exceeding the Total Credit Commitment, (ii) no Issuer Event of Default or Guarantor Event of Default has occurred and is continuing, and (iii) such drawing does not result in the Guarantor LP being unable to satisfy the Asset Coverage Test (on a *pro forma* basis) and (iv) the Bank shall have received a certified copy of the resolution authorizing the Intercompany Loan Agreement by the managing partner of the Guarantor LP. Unless otherwise agreed by the Bank, no further advances will be made to the Guarantor LP under the Intercompany Loan following the occurrence of a Demand Loan Repayment Event.

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

The Demand Loan or any portion thereof is repayable on the first Business Day following 60 days after a demand therefor is served on the Guarantor LP, subject to a Demand Loan Repayment Event (see below) having occurred and the Asset Coverage Test being met on the date of repayment after giving effect to such repayment. At any time the Guarantor LP makes a repayment on the Demand Loan, in whole or in part, the Cash Manager will calculate the Asset Coverage Test, as of the date of repayment, to confirm the then outstanding balance on the Demand Loan and that the Asset Coverage Test will be met on the date of repayment after giving effect to such repayment.

If (i) the Bank is required to assign the Interest Rate Swap Agreement to a third party (due to a failure by the Bank to meet the ratings of the Rating Agencies specified in the Interest Rate Swap Agreement (or while Fitch is a Rating Agency, the Bank fails to meet the ratings (being F2 short-term or BBB+ long-term in respect of the unsecured, unguaranteed and unsubordinated debt obligations or issuer default ratings, as applicable, of the Bank) or otherwise); or (ii) an Issuer Event of Default has occurred, notice of an Issuer Acceleration Notice has been given to the Bank and a Notice to Pay has been served on the Guarantor LP (each of (i) and (ii) above a “**Demand Loan Repayment Event**”), the Guarantor LP will be required to repay any amount of the Demand Loan that exceeds the Demand Loan Contingent Amount on the first Guarantor LP Payment Date following 60 days after the occurrence of such Demand Loan Repayment Event. Following such Demand Loan Repayment Event, the Guarantor LP will be required to repay the full amount of the then outstanding Demand Loan on the date on which the Asset Percentage is calculated (whether or not such calculation is a scheduled calculation or a calculation made at the request of the Bank) provided that the Asset Coverage Test will be met on the date of repayment after giving effect to such repayment. For 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. In calculating the Asset Coverage Test following an Issuer Event of Default, the amount of any Excess Proceeds received by the Guarantor LP from the Bond Trustee will be deducted from the Adjusted Aggregate Loan Amount.

For the purposes of the foregoing, the “**Demand Loan Contingent Amount**” will be equal to the lesser of:

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

- (b) 1 percent of the amount of the Guarantee Loan then outstanding (as determined by an Asset Coverage Test run on the relevant repayment date), provided, for greater certainty, that in calculating the amount of the Guarantee Loan and the Demand Loan for purposes of determining the Demand Loan Contingent Amount, no credit shall be given to the Guarantor LP in the Asset Coverage Test for any Excess Proceeds received by the Guarantor LP from the Bond Trustee.

The Guarantor LP may repay the principal on the Demand Loan in accordance with the Priorities of Payment and the terms of the Intercompany Loan Agreement, using (i) funds being held for the account of the Guarantor LP by its service providers and/or funds in the Guarantor LP Accounts; (ii) proceeds from the sale of Substitute Assets; (iii) proceeds from the sale, pursuant to the Guarantor LP Agreement, 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; or (iv) by selling, transferring and assigning to the Seller all of the Guarantor LP's right, title and interest in and to Loans and their Related Security, and any collections in respect of such Loans and their Related Security ("**Payment in Kind**"), or any combination thereof. The Guarantor LP is restricted from paying the Demand Loan with amounts received from the sale of Loans for less than their True Balance. Except for Non-Performing Loans, upon a Payment in Kind, the outstanding amount of the Demand Loan will be reduced by the fair market value of such Loans, provided that following a Covered Bond Guarantee Activation Event, the Demand Loan will be reduced by the True Balance of such Loans. For Non-Performing Loans, such reduction will always be based on the fair market value. The fair market value of such Loans will be determined at the relevant time based on the amount expressed in terms of the amount a willing, prudent and informed buyer would pay in an open and unrestricted market to a willing, prudent and informed seller, each acting at arms' length, where neither party is under any compulsion to enter into the transaction, as part of the acquisition of such Loans at the relevant time.

If the Demand Loan is reduced by the True Balance of the Loans which are the subject of the Payment in Kind, then a portfolio adjustment under the Interest Rate Swap Agreement will occur and breakage fees may become payable to or from the Bank or the Guarantor LP. If the Bank, or an affiliate of the Bank is the Interest Rate Swap Provider, pursuant to the terms of the Intercompany Loan Agreement, the Bank has agreed that no breakage fees will be payable in respect of such a portfolio adjustment. If the Bank or an affiliate of the Bank is not the Interest Rate Swap Provider, breakage fees (if any) will be paid by, or to, the Bank, as applicable as agreed between the Bank and the Guarantor LP pursuant to the terms of the Intercompany Loan Agreement.

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

The Guarantor LP has used advances from the Intercompany Loan to purchase the Loans and their Related Security for the Covered Bond Portfolio from the Seller pursuant to the terms of the Mortgage Sale Agreement and may use additional advances (i) to purchase New Loans and their Related Security pursuant to the terms of the Mortgage Sale Agreement; and/or (ii) to invest in Substitute Assets in an amount not exceeding the prescribed limit; and/or (iii) subject to complying with the Asset Coverage Test to make capital distributions to the Limited Partner; and/or (iv) to make deposits of the proceeds in the Guarantor LP Accounts (including, without limitation, to fund the Reserve Fund to an amount not exceeding the prescribed limit) and make investments in Substitute Assets.

Subject to the Bond Trustee's rights pursuant to the terms of the Security Agreement, the provisions of the Intercompany Loan Agreement may be amended or modified only with the prior written consent of each party thereto provided, for certainty, no such consent shall be required in connection with the amendment or other change to the rate of interest on advances payable pursuant to the Intercompany Loan Agreement. Where the Guarantor LP determines that any such amendment or waiver is material, Rating Agency Confirmation shall be required in respect of such amendment.

## **Mortgage Sale Agreement**

### ***The Seller***

Loans and their Related Security have been and may from time to time be sold by the Seller to the Guarantor LP on a fully-serviced basis pursuant to the terms of the Mortgage Sale Agreement entered into on the Programme Establishment Date by and among the Seller, the Guarantor LP, and the Bond Trustee. The terms of such Mortgage Sale Agreement will apply (with necessary modification) to any Capital Contribution in Kind made by the Seller in its capacity as Limited Partner. A "**Capital Contribution in Kind**" is a contribution of Loans and their Related Security on a fully-serviced basis to the Guarantor LP in an amount equal to the aggregate of the fair market value of those Loans as at the relevant Transfer Date, less any cash payment paid by the Guarantor LP for such Loans and their Related Security on the date of transfer.

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

The Covered Bond Portfolio consists of Loans and their Related Security sold for cash by the Seller to the Guarantor LP. From time to time the Guarantor LP may acquire New Loans and their Related Security from the Seller in the two circumstances described below.

- (a) *First*, the Guarantor LP may use the proceeds of the Intercompany Loan (which may be applied in whole or in part by the Guarantor LP) and/or Available Principal Receipts to acquire Loans and their Related Security from the Seller. As consideration for the sale of the Loans and their Related Security to the Guarantor LP, the Seller will receive a cash payment equal to the fair market value of those Loans sold by it as at the relevant Transfer Date; and
- (b) *Second*, the Guarantor LP may receive Capital Contributions in Kind. As consideration for the sale by way of capital contributions of the Loans and their Related Security to the Guarantor LP, the Seller will receive an additional interest in the capital of the Guarantor LP equal to the fair market value of those Loans sold by it as at the relevant Transfer Date.

If Loans and their Related Security are sold by or on behalf of the Guarantor LP as described below under “*Guarantor LP Agreement – Sale of Loans and their Related Security at any time no Asset Coverage Test Breach Notice is outstanding and no Notice to Pay has been served on the Guarantor LP*”, the obligations of the Seller insofar as they relate to such 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 Guarantor LP in the circumstances described below under “*Repurchase of Loans*”.

### ***Selection Criteria***

Loans selected for sale to the Guarantor LP and inclusion in the Covered Bond Portfolio are selected from the Bank’s portfolio of mortgage loans on a random basis. This is accomplished by assigning a random number generated by a computer program to each mortgage loan in the Bank’s portfolio. The mortgage loans are sorted in order of the random number assigned to them and mortgage loans that satisfy the Eligibility Criteria and the Representations and Warranties required of the Seller are selected sequentially from the list of candidate loans until the required amount of mortgage loans has been selected.

### ***Eligibility Criteria***

The sale of Loans and their Related Security to the Guarantor LP is subject to various conditions (the “**Eligibility Criteria**”), (which are all subject to amendment and replacement from time to time provided Rating Agency Confirmation is received) being satisfied on the relevant Transfer Date, including that:

- (a) no Issuer Event of Default or Guarantor LP Event of Default under the Transaction Documents shall have occurred which is continuing as at the relevant Transfer Date;
- (b) the Guarantor LP, acting on the advice of the Cash Manager, is not aware, and could not reasonably be expected to be aware, that the purchase of the Loans and their Related Security, would adversely affect the then current ratings of the covered bonds by the Rating Agencies;
- (c) no Loan has a Current Balance of more than \$3,000,000 as at the relevant Cut-off Date;
- (d) no Loan relates to a Property which is not a residential Property or consists of more than four residential units;
- (e) no Loan constitutes a New Loan Type in respect of which Rating Agency Confirmation has not been received by the Bond Trustee as required in order for the sale of such Loan to the Guarantor in accordance with the terms of the Mortgage Sale Agreement, and confirmation that the sale of such New Loan Types complies with the requirements applicable to a covered bond programme registered under the National Housing Act (Canada) and is otherwise in accordance with the terms of the Guide has been received by the Bond Trustee in accordance with the terms of the Mortgage Sale Agreement;
- (f) each Loan is payable in Canada only and is denominated in Canadian dollars;
- (g) one or more payments of principal or interest due pursuant to the relevant Mortgage Terms for the Loan has been paid;
- (h) no Loan is in arrears in respect of one or more payments of principal or interest payable thereunder;



- (i) no Loan is subject to any dispute, set-off, counterclaim or defence, whatsoever, and the Seller shall not have given any consents, approvals or waivers or have postponed any of its rights under or in respect of any such Loan except in the ordinary course of business and any such permitted extension, modification, consent, approval, waiver or postponement is reflected in the Loan and Related Security Files;
- (j) no Loan being purchased, and where such Loan is a Related Loan none of its Related Loans, has been insured by CMHC, Canada Guaranty Mortgage Insurance Company, the Genworth Financial Mortgage Insurance Company of Canada, the PMI Mortgage Insurance Company Canada, any other private mortgage insurer recognized by CMHC for purposes hereof or otherwise identified in the Protection of Residential Mortgage or Hypothecary Insurance Act (Canada), or any successor to any of them;
- (k) no Loan expressly affords the Borrower a right of set-off;
- (l) the Related Security in respect of each Loan includes a mortgage or other hypothecary instrument charging the related Property that represents a first priority perfected security interest, subject to certain permitted encumbrances;
- (m) each Loan was originated or otherwise complies with the Bank's or its affiliates' approved underwriting policies (in effect or otherwise applicable at the time the Loan was originated);
- (n) each Loan that is a Related Loan and each of its Related Loans has the benefit of provisions pursuant to which a default by the Borrower in respect of any such Related Loan constitutes a default under all such Related Loans;
- (o) where the Loan being purchased is a Related Loan it and each of its Related Loans has the benefit of an express waiver of set-off in favour of the Bank, as lender, from the Borrower;
- (p) if extended, advanced or renewed on or after July 1, 2014, the Loan has the benefit of an express waiver of set-off in favour of the Bank, as lender, from the Borrower;
- (q) the Seller is the legal and beneficial owner of each Loan and its Related Security being purchased, free and clear of any ownership, security interest or other encumbrance, other than certain customary permitted interests and encumbrances that will cease to apply upon such purchase by the Guarantor LP and, immediately following such purchase, such Loan, its Related Security and all collections in respect thereof to which the Guarantor LP is entitled will be owned by the Guarantor LP, free and clear of any such interests or encumbrances, other than interests and encumbrances created, acknowledged or provided for by the Guarantor LP including under the terms of the Transaction Documents; and
- (r) where the Loan being purchased is a Related Loan, the Seller is the legal and beneficial owner of all of the Related Loans of such Loan.

On the relevant Transfer Date, the Representations and Warranties (described below in "*Representations and Warranties*") are given by the Seller in respect of the Loans and their Related Security sold by the Seller to the Guarantor LP. If the Seller accepts an application from or makes an offer (which is accepted) to a Borrower for a Product Switch or Additional Loan Advance, then if the Eligibility Criteria referred to in paragraphs (c) and (d) above relating to the Loan subject to that Product Switch or Additional Loan Advance is not satisfied on the next following Calculation Date, the Guarantor LP is entitled to rectify such breach of the Eligibility Criteria by requiring the Seller to repurchase such Loan.

***Notice to Borrower of the sale, assignment and transfer of the Loans and their Related Security and registration of transfer of title to the Mortgages***

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

Notice of the sale, assignment and transfer of the Loans and their Related Security and a direction to make all future repayments of the Loans to the Standby Account Bank for the account of the Guarantor LP will be sent by the Seller, or, as necessary, by the Guarantor LP (or the Servicer on behalf of the Guarantor LP) on behalf of the Seller (under a power of attorney granted by the Seller to the Guarantor LP pursuant to the terms of the Mortgage Sale Agreement), and where

required, registration of the transfer of legal title to the Mortgages will be made in the appropriate land registry or land titles offices, on or before the 60th day following the earliest to occur of:

- (a) a Servicer Event of Default (other than a material breach or default of the Servicing Agreement);
- (b) a material breach or default (other than an impending or actual insolvency), on the part of the Servicer under the terms of the Servicing Agreement (which breach or default has not been remedied within 30 days or such shorter period prescribed therefor by the Servicing Agreement) after the earlier of the Servicer becoming aware of such breach or default and receipt by the Servicer of written notice from the Guarantor LP and the Bond Trustee requiring the same to be remedied;
- (c) the occurrence of a Covered Bond Guarantee Activation Event;
- (d) the acceptance of any offer to sell Loans and their Related Security (only in respect of the Loans being sold and their Related Security) to any person who is not the Seller, unless otherwise agreed by the Purchaser and the Guarantor LP, with the consent of the Bond Trustee, which consent will not be unreasonably withheld; and
- (e) the Seller and/or the Guarantor LP being required: (i) by law; (ii) by an order of a court of competent jurisdiction; or (iii) by a regulatory authority which has jurisdiction over the Seller or by an organization whose members include mortgage lenders and with whose instructions it is customary for the Seller to comply; to effect such notice and registration.

Except where lodged with the relevant registry in relation to any registration or recording which may be pending, the Loan and Related Security Files relating to the Loans in the Covered Bond Portfolio will be held by or to the order of the Seller or the Servicer, as the case may be, or by solicitors or licensed conveyancers acting for the Seller in connection with the creation of the Loans and their Related Security. The Seller or the Servicer, as the case may be, has undertaken that all the Loan and Related Security Files relating to the Loans in the Covered Bond Portfolio which are at any time in their possession or under their control or held to their order are held to the order of the Bond Trustee or as the Bond Trustee may direct and the right, interest and title of the Guarantor LP to the Loans and their Related Security will be secured by an irrevocable power of attorney granted by the Seller, as of the Transfer Date, in favour of the Guarantor LP and the Bond Trustee in respect of the Loans and their Related Security. Such powers of attorney will be provided to the Custodian together with an opinion as to their enforceability and details of the Loans forming part of the Covered Bond Portfolio. In addition, the Bank is required to deliver updated powers of attorney, executed registrable forms of mortgage assignment for mortgages in Québec and opinions in respect thereof periodically and in the event of a change in law which renders such delivered powers of attorney and mortgage assignments invalid.

### ***Representations and Warranties***

Neither the Guarantor LP nor the Bond Trustee has made or has caused to be made or intends to make or cause to be made on its behalf any inquiries, searches or investigations in respect of the Loans and their Related Security to be sold to the Guarantor LP. Instead, each is relying entirely on the Representations and Warranties by the Seller contained in the Mortgage Sale Agreement. The parties to the Mortgage Sale Agreement may, with the prior written consent of the Bond Trustee (which shall be given if Rating Agency Confirmation has been received) amend the Representations and Warranties in the Mortgage Sale Agreement.

Compliance with the material Representations and Warranties results in the Loans and their Related Security meeting the Eligibility Criteria (see "*Eligibility Criteria*", above) and the Representations and Warranties include the following additional Representations and Warranties:

- each Loan was originated by the Seller, in compliance with all material laws applicable thereto, in the ordinary course of business (and kept on its books for a minimum of one month prior to the Cut-off Date);
- each Loan (other than those that are home equity lines of credit) has a remaining amortization period of less than 50 years as at the relevant Cut-off Date;
- prior to the making of each advance under a Loan, the Lending Criteria, the Seller's underwriting policies (in effect or otherwise applicable at the time the Loan was originated) and all preconditions to the making of any Loan were satisfied in all material respects subject only to such exceptions as would be acceptable to reasonable and prudent institutional mortgage lenders in the Seller's market;

- the Lending Criteria is consistent with the Seller's underwriting policies (in effect or otherwise applicable at the time the Loan was originated) and the criteria that would be used by reasonable and prudent institutional mortgage lenders in the Seller's market;
- no Loan is guaranteed by a third party save where the guarantee and any security related to such guarantee constitutes legal, valid and binding obligations of the guarantor enforceable in accordance with their terms and are assignable to the Guarantor LP and its assigns, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally or by general principles of equity;
- the whole of the Current Balance on each Loan is secured by a Mortgage over residential property in Canada;
- the True Balance on each Loan (other than any agreement for Additional Loan Advances (if any) or any home equity lines of credit which is secured on the same Property as the Borrower's existing Loan and which may permit the Borrower to make further draws from time to time up to an amount fixed at the inception of the Loan and corresponding home equity line of credit) constitutes a legal, valid, binding and enforceable debt due to the Seller from the relevant Borrower and the terms of each Loan and its related Mortgage constitute valid and binding obligations of the Borrower enforceable in accordance with their terms except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally or by general principles of equity;
- other than (i) registrations in the appropriate land registry or land titles offices in respect of the sale, transfer and assignment of the relevant Loans from the Seller to the Guarantor LP effected by the Mortgage Sale Agreement, and (ii) the provision to Borrowers under the related Loans or the obligors under their Related Security of actual notice of the sale, transfer and assignment thereof to the Guarantor LP, all material filings, recordings, notifications, registrations or other actions under all applicable laws have been made or taken in each jurisdiction where necessary or appropriate (and where permitted by applicable law) to give legal effect to the sale, transfer and assignment of the Loans and their Related Security and the right to transfer servicing of such Loans as contemplated by the Mortgage Sale Agreement, and to validate, preserve, perfect and protect the Guarantor LP ownership interest in and rights to collect any and all of the related Loans being purchased on the relevant Transfer Date, including the right to service and enforce such Loans and their Related Security;
- there is no requirement in order for a sale, transfer and assignment of the Loans and their Related Security to be effective to obtain the consent of the Borrower to such sale, transfer or assignment and such sale, transfer and assignment shall not give rise to any claim by the Borrower against the Guarantor LP, the Bond Trustee, or any of their successors in title or assigns;
- not more than 12 months (or a longer period as may be acceptable to reasonable and prudent institutional mortgage lenders in the Seller's market) prior to the granting of each Loan, the Seller obtained information on the relevant Property from an independently maintained valuation model, acceptable to reasonable and prudent institutional mortgage lenders in the Seller's market, or received a valuation report on the relevant Property, which would be, and the contents or confirmation, as applicable, of which, were such as would be, acceptable to reasonable and prudent institutional mortgage lenders in the Seller's market or obtained such other form of valuation of the relevant Property which has received Rating Agency Confirmation;
- prior to the taking of Related Security (other than a re-mortgage) in respect of each Loan, the Seller instructed lawyers to conduct a search of title to the relevant Property and to undertake such other searches, investigations, inquiries and actions on behalf of the Seller as would be acceptable to reasonable and prudent institutional mortgage lenders in the Seller's market or the Borrower was required as a condition to granting the relevant Loan to obtain title insurance in respect of the relevant Property from an insurer acceptable to reasonable and prudent institutional mortgage lenders in the Seller's market;
- each Loan contains a requirement that the relevant Property be covered by property insurance maintained by the Borrower or in the case of a leasehold property under a policy arranged by a relevant landlord or property management company;

- the Seller has, since the making of each Loan, kept or procured the keeping of full and proper accounts, books and records showing clearly all transactions, payments, receipts, proceedings and notices relating to such Loans; and
- there are no governmental authorizations, approvals, licences or consents required as appropriate for the Seller to enter into or to perform its obligations under the Mortgage Sale Agreement or to make the Mortgage Sale Agreement legal, valid, binding, enforceable and admissible into evidence in a court of competent jurisdiction.

The Representations and Warranties are given on the relevant Transfer Date in respect of the Loans and their Related Security to be sold to the Guarantor LP only on that date and on the Calculation Date following the making of any Further Advance or Product Switch in respect of the Loan to which the Further Advance or Product Switch relates only.

If New Loan Types are to be sold to the Guarantor LP, then the Representations and Warranties in the Mortgage Sale Agreement will be modified as required to accommodate these New Loan Types. The prior consent of the holders of the Covered Bonds to the requisite amendments will not be required. If a proposed amendment is considered by the Guarantor LP to be material, such amendment will be subject to Rating Agency Confirmation, and notice of any amendment that does not require Rating Agency Confirmation will be delivered to the Rating Agencies. On each Transfer Date, the Guarantor LP shall be entitled to collections in respect of the Loans purchased on such Transfer Date during the period from the Cut-off Date to the Transfer Date.

### ***Repurchase of Loans***

If the Seller receives a Loan Repurchase Notice from the Guarantor LP (or the Cash Manager on its behalf) identifying a Loan or its Related Security in the Covered Bond Portfolio which, as at the relevant Transfer Date or relevant Calculation Date (in the case of an Additional Loan Advance), (i) does not comply with the representations warranties or covenants set out in the Mortgage Sale Agreement or in any other purchase document which materially and adversely affects the interest of the Purchaser in such Loan or the value of the affected Loan, or (ii) is subject to an adverse claim other than certain customary permitted interests and encumbrances that will cease to apply upon such purchase by the Purchaser and interests and encumbrances created, acknowledged or provided for by the Purchaser including under the terms of the Transaction Documents, which is not cured by the 28<sup>th</sup> Business Day following receipt of a notice requiring such repurchase, 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 Loan is an amount (not less than zero) equal to the purchase price paid by the Guarantor LP for such Loan and its Related Security plus expenses as at the relevant repurchase date, less any amounts received from the Borrower since the Transfer Date in respect of principal on such Loan. The repurchase proceeds received by the Guarantor will be applied (other than Accrued Interest and Arrears of Interest) in accordance with the Pre-Acceleration Principal Priority of Payments (see “*Cashflows*”, above).

### ***Non-Performing Loans***

The Cash Manager is responsible for identifying any Non-Performing Loans in the Covered Bond Portfolio and upon identification serving a Non-Performing Loans Notice on the Bank, the Servicer, and the Asset Monitor. Non-Performing Loans are attributed no weight in the Asset Coverage Test or the Amortization Test, as applicable.

### ***General ability to repurchase***

Prior to the occurrence of an Issuer Event of Default, the Seller may from time to time offer to repurchase a Loan (or Loans) and their Related Security from the Guarantor LP for a purchase price of not less than the fair market value of the relevant Loan. The Guarantor LP may accept such offer at its discretion, provided that any such sale will be subject to the Asset Coverage Test or Amortization Test, as applicable, being met on the date of such sale, after giving effect to the sale.

### ***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, by the Guarantor LP of Loans and their Related Security. In connection with any sale of Loans and their Related Security by the Guarantor LP, except where such Loans and their Related Security are being sold to the Seller pursuant to an offer from the Seller, the Guarantor LP will serve on the Seller a Loan Offer Notice offering to sell Loans and their Related Security for a price determined in accordance with the Guarantor LP Agreement (see “*Guarantor LP Agreement*”, below), subject to the offer being accepted by the Seller within ten Business Days.

If an Issuer Event of Default has occurred but no receiver, liquidator or administrator has been appointed in relation to the Seller, the Seller's right to accept the offer (and therefore its right of pre-emption) will be conditional upon the delivery by the Seller of a solvency certificate to the Guarantor LP and the Bond Trustee. If the Seller rejects the Guarantor LP's offer or fails to accept it in accordance with the foregoing within the time specified, the Guarantor LP may offer to sell such Loans and their Related Security to other Purchasers in accordance with the terms of the Guarantor LP Agreement (see "*Guarantor LP Agreement*", below).

If the Seller accepts the Guarantor LP's offer to sell such Loans and their Related Security as specified above, the Guarantor LP will, within three Business Days of such acceptance, serve a Loan Repurchase Notice on the Seller. The Seller will sign and return a duplicate copy of such Loan Repurchase Notice and will repurchase from the Guarantor LP free from the Security created by the Security Agreement the relevant 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 Loan Repurchase Notice. Completion of the purchase of such Loans and their Related Security by the Seller will take place, upon satisfaction of any applicable conditions to the purchase and sale, on the first Guarantor LP Payment Date following receipt of the relevant Loan Repurchase Notice(s) or such other date as the Guarantor LP may direct in the Loan Repurchase Notice (provided that such date is not later than the earlier to occur of the date which is: (a) ten Business Days after returning the Loan Repurchase Notice to the Guarantor LP; and (b) the Final Maturity Date of the Earliest Maturing Covered Bonds).

### ***Further drawings under Loans***

The Seller is solely responsible for funding all Further Advances, if any, in respect of Loans sold by the Seller to the Guarantor LP. The amount of the Intercompany Loan will increase by the amount of such funded Further Advances, provided that, if for any reason, the Intercompany Loan is not increased at any relevant time such amount shall be deemed to constitute a Capital Contribution by the Seller and the Seller's interest, as a limited partner in the Guarantor LP, shall be increased by such amount.

### ***Authorized Underpayments***

In the event that the Servicer permits a Borrower to make an Authorized Underpayment, the Seller of such Loan will be required to pay to the Guarantor LP an amount equal to the unpaid interest associated with that Authorized Underpayment and the amount of any such payment representing Capitalized Interest in respect of that Authorized Underpayment shall constitute a cash Capital Contribution by the Seller to the Guarantor LP.

### ***New Sellers***

In the future, any New Seller that wishes to sell loans and their Related Security to the Guarantor LP will accede to, *inter alia*, the Mortgage Sale Agreement. The sale of New Loans and their Related Security by New Sellers to the Guarantor LP will be subject to certain conditions, including the following:

- each New Seller accedes to the terms of the Guarantor LP Agreement as a Limited Partner (with such subsequent amendments as may be agreed by the parties thereto) so that it has, in relation to those New Loans and their Related Security to be sold by the relevant New Seller, substantially the same rights and obligations as the Seller had in relation to those Loans and their Related Security comprised in the Covered Bond Portfolio under the Guarantor LP Agreement;
- each New Seller accedes to the terms of the Mortgage Sale Agreement (with such subsequent amendments as may be agreed by the parties thereto) or enters into a new mortgage sale agreement with the Guarantor LP and the Bond Trustee, in each case so that it has, in relation to those New Loans and their Related Security to be sold by the relevant New Seller, substantially the same rights and obligations as the Seller had in relation to those Loans and their Related Security comprised in the Covered Bond Portfolio under the Mortgage Sale Agreement;
- each New Seller accedes to the Dealership Agreement, and enters into such other documents as may be required by the Bond Trustee and/or the Guarantor LP to give effect to the addition of a New Seller to the transactions contemplated under the Programme;
- any New Loans and their Related Security sold by a New Seller to the Guarantor LP comply with the Eligibility Criteria set out in the Mortgage Sale Agreement;
- either the Servicer services the New Loans and their Related Security sold by a New Seller on the terms set out in the Servicing Agreement (with such subsequent amendments as may be agreed by the parties thereto) or the New Seller (or its nominee) enters into a servicing

agreement with the Guarantor LP and the Bond Trustee which sets out the servicing obligations of the New Seller (or its nominee) in relation to the New Loans and their Related Security and which is on terms substantially similar to the terms set out in the Servicing Agreement (in the event the New Loans and their Related Security are not purchased on a fully serviced basis, the servicing agreement shall set out fees payable to the Servicer or the New Seller (or its nominee) acting as servicer of such New Loans and their Related Security which may be determined on the date of the accession of the New Seller to the Programme);

- the Bond Trustee is satisfied that any accession of a New Seller to the Programme will not prejudice the Asset Coverage Test; and
- the Bond Trustee is satisfied that the accession of a New Seller to the Programme is not materially prejudicial to holders of the Covered Bonds and has received a Rating Agency Confirmation in relation thereto.

If the above conditions are met, the consent of holders of the Covered Bonds will not be required or obtained to the accession of a New Seller to the Programme.

### ***Changes to the Mortgage Sale Agreement***

The provisions of the Mortgage Sale Agreement may be amended or modified only by written agreement between the Purchaser, the Seller, and with respect to amendments or waivers of the Seller's Representations and Warranties, consented to by the Bond Trustee (which consent shall be given by the Bond Trustee if Rating Agency Confirmation has been received for such amendment or waiver). Each proposed amendment or waiver of the Mortgage Sale Agreement that is considered by the Purchaser to be a material amendment or waiver shall be subject to Rating Agency Confirmation.

### **Security Sharing Agreement**

The Seller, the Guarantor LP, the Bond Trustee and the Custodian entered into a Security Sharing Agreement in connection with Loans and their Related Security that have been and will be sold by the Bank to the Guarantor LP where the Mortgage also secures or may from time to time secure loans, indebtedness or liabilities ("**Retained Loans**" and together with the Loans secured by the same Mortgage, "**Related Loans**") that do not form part of the Covered Bond Portfolio.

The Security Sharing Agreement:

- confirms that the Bank retains an interest in the Mortgage securing the Related Loans;
- provides for the priority of payments in respect of Collections received in respect of any Related Loans following a default under or breach of such Related Loans that is not remedied or waived in accordance with the terms of the agreements with the Borrower in respect of such Related Loans ("**Post-Default Collections**") including from the enforcement of the Mortgages securing Related Loans ("**Enforcement Proceeds**");
- requires Post-Default Collections to be held in trust in a separate account for the benefit of, and to be promptly transferred to, the person entitled to such amounts;
- provides for Related Loans to be serviced by the same servicer;
- provides the Bank with certain rights to purchase Related Loans from the Guarantor LP; and
- provides for the delivery by the Bank of a release in respect of its interest in the Mortgage securing the Related Loans to the Custodian and the circumstances under which such release can be used or relied upon.

The Security Sharing Agreement will cease to apply in respect of any Related Loans upon all such Related Loans being held by a single person and provides that upon payment in full of the Loans forming part of the Related Loans, the Mortgage will be transferred to the beneficial owner (or owner) of the Retained Loans.

### ***Priority of Payments in respect of Enforcement Proceeds***

The Bank and the Guarantor LP have agreed that notwithstanding the terms of the Related Loans, which provide for the application of Enforcement Proceeds amongst such Related Loans, Post-Default Collections, including Enforcement Proceeds, will be applied as follows:

- first, in or towards payment of all taxes, reasonable costs and expenses incurred or to be incurred in relation to the enforcement of the Mortgage;
- second, in or towards payment of all amounts owing by the Borrower in respect of the Loans secured by such Mortgage until such amounts have been paid in full;
- third, in or towards payment of all amounts owing by the Borrower in respect of the Retained Loans secured by such Mortgage until such amounts have been paid in full; and
- lastly, in paying the surplus (if any) to the persons entitled thereto.

In connection with the above, to the extent a beneficial owner (or owner) of Related Loans receives Post-Default Collections while amounts are payable in priority to the amounts to which such person is entitled under the above priority of payments, such amounts are to be held in trust in a separate account for the benefit of, and to be promptly transferred to, the person entitled to such amounts. Such payments will not be subject to the Priorities of Payment or any set-off or counterclaim.

### ***Single Servicer for Related Loans***

For so long as the Bank is the Servicer, it will service the Related Loans. In the event that the Servicer ceases to be the Bank, the Guarantor LP is required to enter into a servicing agreement with a replacement servicer (a “**Replacement Servicer**”) to arrange for the servicing of the Related Loans in a manner that ensures continuity of servicing and the Bank has granted a power of attorney in favour of the Guarantor LP for this purpose. The Replacement Servicer must satisfy certain requirements with respect to its capacity to carry out the servicing obligations and will be required to make representations consistent with the requirements represented and warranted to by the current Servicer (see “*Servicing Agreement – Representations and Warranties of the Servicer*”). A servicing agreement will be required to be entered into for the servicing with the Replacement Servicer and must, among other things:

- be commercially reasonable having regard to the interest of each of the Guarantor LP and the Bank in the Related Loans and Mortgages being serviced, including with respect to the allocation of costs;
- provide for the servicing of the Retained Loans in accordance with the Seller’s policies and otherwise in accordance with the standards of a reasonable and prudent institutional mortgage lender and in compliance with applicable laws;
- restrict the ability of the Replacement Servicer to authorize, approve, accept or make product switches or additional advances in respect of Retained Loans without the consent of the Bank;
- require the Replacement Servicer to hold funds received in respect of the Retained Loans in trust for the Bank in a separate account and transfer such funds to the Bank on a daily basis; and
- require the prior written consent of the Guarantor LP and the Bank to any amendment or waiver.

A Replacement Servicer will be entitled to take such enforcement procedures in respect of the Mortgages it is servicing as it would be reasonable to expect a reasonable and prudent institutional mortgage lender to take in administering its own loans and their security and each of the holders of the Related Loans will refrain from taking any enforcement procedures except at the direction of the Replacement Servicer.

A third party purchaser or the Guarantor LP can terminate the Servicing Agreement in respect of Related Loans and their Related Security sold to the third party purchaser, provided that the purchaser services or appoints a servicer for the Related Loans that include the purchased Loans and enters into a servicing agreement that meets the requirements applicable to a Replacement Servicer.

### ***Purchase and Sale***

Under the Security Sharing Agreement, in addition to the pre-emptive rights the Seller has under the Mortgage Sale Agreement (see “*Mortgage Sale Agreement*”, above), if the Guarantor LP intends to sell any Related Loan, the Bank may, upon notice to the Guarantor LP, purchase such Related Loan and its Related Security. In addition, in the event the Bank desires to acquire any Loans and their Related Security forming part of the Related Loans, for any reason, including to institute enforcement procedures or upon becoming aware that enforcement procedures have been or are to be instituted in respect of any Mortgage securing Related Loans, the Bank may, upon notice to the Guarantor LP and the Custodian, purchase such Related Loans and their Related Security from the Guarantor LP provided that the Asset Coverage Test, or at such time as the Amortization Test is being conducted, the Amortization Test, as applicable, is met following such sale and

such sale would not (or would not reasonably be expected to) adversely affect the interests of Covered Bondholders. In each case, the purchase price for such Related Loans and their Related Security will be a price determined in accordance with the Guarantor LP Agreement (see “*Guarantor LP Agreement – Sale of Loans and their Related Security at any time an Asset Coverage Test Breach Notice is outstanding or a Notice to Pay has been served on the Guarantor LP*” and “*Sale of Loans and their Related Security at any time no Asset Coverage Test Breach Notice is outstanding and a Notice to Pay has not been served on the Guarantor LP*”) and will be payable in a form of consideration permitted under the Guide, which includes the substitution of assets. The Bank’s right to purchase Related Loans will cease upon a sale of such Related Loans and their Related Security by the Guarantor LP to a third party.

### **Release of Security**

In connection with entering into the Security Sharing Agreement, the Bank delivered a release of security to the Custodian in respect of its interest in the Mortgages securing the Related Loans and agreed to deliver a release of security upon each sale or contribution of Related Loans to the Guarantor LP. The Custodian will hold any such releases of security, including any delivered by a purchaser of Retained Loans, as Custodial Documents (see “*Custodial Agreement*”, below), and will only deliver a release of security in order for it to be used or relied upon in respect of any affected Related Loans if the following conditions are met:

- the Servicer of the affected Related Loans has provided notice to the parties to the Security Sharing Agreement under the Servicing Agreement or any corresponding agreement with a Replacement Servicer or the Custodian has otherwise received evidence satisfactory to it (acting reasonably) that any of the following has occurred:
  - (a) the Bank or any beneficial owner (or owner) of any Retained Loan breached or caused a breach of or provided written advice to the Servicer or the Replacement Servicer, as applicable, to breach (i) the priority of payments for the application of Post-Default Collections; (ii) its obligation to hold the Post-Default Collections in trust and transfer them to the person entitled to such amounts; or (iii) the requirement that Related Loans be serviced by the same servicer, where any such breach or advice, as applicable, is not remedied or withdrawn, as the case may be, within 60 days (or after an Issuer Event of Default, 10 Business Days) of receiving notice thereof;
  - (b) any Retained Loan has been sold, transferred or assigned to a third party that has not agreed to be bound by the obligations of the Bank under the Security Sharing Agreement with respect to such Retained Loans and delivered a release of security to the Custodian in respect of the Mortgages for such Retained Loans (unless such sale, transfer or assignment results in a single person beneficially owning (or owning) all of the Related Loans); or
  - (c) the Bank or a third party purchaser of any Retained Loan commences a challenge to the validity, legality or enforceability of (i) the priority of payments for the application of Post-Default Collections; (ii) the obligation to hold Post-Default Collections in trust and transfer them to the person entitled to such amounts; or (iii) the requirement to maintain a single servicer for Related Loans;
- the beneficial owner (or owner) of the Related Loans that formed part of the Covered Bond Portfolio delivers a request to the Custodian to deliver to it the release of security in respect of the affected Related Loans; and
- following receipt of the request to deliver the release of security in respect of the affected Related Loans, the Custodian receives an opinion of independent legal counsel (as such term is used in the Guide), acceptable to the Custodian, confirming notice from the servicer was properly delivered or that the Custodian otherwise received evidence satisfactory to it (acting reasonably) that one of the circumstances in (a) to (c) above occurred (which opinion may make assumptions and rely on statements of fact from the Servicer, or the Replacement Servicer, as applicable, and appropriate officers or directors of a person reasonably expected to have knowledge of such matters) and the notice from the Servicer or the Replacement Servicer, as applicable, (or other evidence) and request to deliver the release of security was properly given to the Custodian.

Upon the above conditions being satisfied, the Custodian will deliver the release of security in respect of the affected Related Loans to the Guarantor LP or third party purchaser, as the case may be, of the Related Loans that formed part of the Covered Bond Portfolio.

### **Servicing Agreement**

Pursuant to the terms of the Servicing Agreement between the Guarantor LP, the Servicer, the Seller, the Cash Manager, and the Bond Trustee, the Servicer services on behalf of the Guarantor LP the Loans and their Related Security sold by the Seller to the Guarantor LP in the Covered Bond Portfolio.



The Servicer is required to administer the Loans in accordance with the Servicing Agreement:

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

The Servicer's actions in servicing the Loans in accordance with its procedures will be binding on the Guarantor LP and the Secured Creditors. The Servicer has the power to exercise the rights, powers and discretions and to perform the duties of the Guarantor LP 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 or convenient or incidental to the administration of those Loans and their Related Security.

### ***Representations and Warranties of the Servicer***

Pursuant to the terms of the Servicing Agreement, the Servicer represents and warrants in favour of the Guarantor LP and the Bond Trustee, that it is, among other things, experienced, qualified, in regulatory good standing, in material compliance with all internal policies and procedures and all applicable laws and regulations, and that it satisfies certain minimum standards. Further, the Servicing Agreement contains a covenant of the Servicer to comply with, and perform its obligations under, the provisions of the Guide, and the Transaction Documents to which it is a party, in each case applicable to it.

### ***Undertakings of the Servicer***

Pursuant to the terms of the Servicing Agreement, the Servicer has undertaken in relation to those Loans and their Related Security in the Covered Bond Portfolio that it is servicing, among other things, to:

- keep records and accounts on behalf of the Guarantor LP in relation to the Loans and their Related Security in the Covered Bond Portfolio;
- keep the Loan and Related Security Files in its possession or under its control in safe custody and maintain records necessary to enforce each Mortgage and to provide the Guarantor LP and the Bond Trustee with access to the Loan and Related Security Files and other records relating to the administration of the Loans and their Related Security;
- maintain a register in respect of the Covered Bond Portfolio to include such records as are necessary to enforce each Mortgage in the Covered Bond Portfolio and, where relevant, any other Related Security;
- make available upon request to the Guarantor LP and the Bond Trustee a report on a monthly basis containing information about the Loans and their Related Security comprised in the Covered Bond Portfolio;
- assist the Cash Manager in the preparation of a monthly asset coverage report in accordance with the Cash Management Agreement;
- take all reasonable steps to recover all sums due to the Guarantor LP, including instituting proceedings and enforcing any relevant Loan or Mortgage using the discretion of reasonable and prudent institutional mortgage lenders in the Seller's market in applying the enforcement procedures forming part of the Seller's policy;
- enforce any Loan which is in default in accordance with the Seller'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 usual procedures undertaken by reasonable and prudent institutional mortgage lenders in the Seller's market on behalf of the Guarantor LP;
- comply and, as applicable, cause any person to which it sub-contracts or delegates the performance of all or any of its powers and obligations to comply, with the provisions of the Security Sharing Agreement applicable to the Servicer and not take any action in contravention of the Security Sharing Agreement, except pursuant to a written notice or direction in which case it will provide notice to the parties to the Security Sharing Agreement; and

- to provide notice to each party to the Security Sharing Agreement in the event that it receives advice or is provided or comes into possession of written evidence, as applicable, of any of the circumstances which could give rise to an obligation on the part of the Custodian to deliver a release of security in respect of any affected Related Loans following receipt of such notice, a request by a beneficial owner (or owner) of such affected Related Loans and delivery of an independent legal counsel opinion (see “*Security Sharing Agreement*”, above).

The Servicer undertakes that, on the Servicer being assigned a rating on its unsecured, unguaranteed and unsubordinated debt obligations or issuer default ratings, as applicable, by the Rating Agencies below the ratings specified in the Servicing Agreement, the Servicer and the Bond Trustee will use reasonable efforts to enter into a new or a master servicing agreement (in such form as the Guarantor LP and the Bond Trustee may reasonably require) with a third party within 60 days under which such third party will undertake the servicing obligations in relation to the Covered Bond Portfolio. In connection with the foregoing, upon entering into the new or master servicing agreement with such third party, the Servicer or replacement Servicer, as agreed between the parties to the Servicing Agreement, will (on behalf of the Guarantor LP) deliver notice of the sale, assignment and transfer of the Loans and their Related Security and direct Borrowers to make all future repayments on the Loans to the Standby Account Bank for the account of the Guarantor LP.

The Servicer is required to hold any funds it receives to which the Guarantor LP is entitled in trust for the Guarantor LP and, following a downgrade in the ratings of the Servicer’s unsecured, unguaranteed and unsubordinated debt obligations or issuer default ratings, as applicable, assigned by the Rating Agencies below the Cash Manager Deposit Ratings or the occurrence of a Covered Bond Guarantee Activation Event, to hold such funds in a separate account for the Guarantor LP and to transfer such funds to the Cash Manager, or if the ratings of the Cash Manager are below the Cash Manager Deposit Ratings, to the GDA Account. The Servicer is required to transfer such funds to the Cash Manager or the GDA Account, as applicable, within five Business Days and, following a downgrade in the ratings of the Servicer’s unsecured, unguaranteed and unsubordinated debt obligations or issuer default ratings, as applicable, assigned by the Rating Agencies below the Cash Manager Deposit Ratings, within two Business Days.

The Servicer has no obligation itself to advance payments that Borrowers fail to make in a timely fashion. Holders of the Covered Bonds will have no right to consent to or approve of any actions taken by the Servicer under the Servicing Agreement.

***Setting of variable rate and other discretionary rates and margins***

Pursuant to the terms of the Mortgage Sale Agreement and in accordance with Mortgage Conditions applicable to certain Loans, the Seller has prescribed policies relating to interest rate setting, arrears management and handling of complaints which the Guarantor LP (and any subsequent purchaser thereof) will be required to adhere to following the transfer of Loans and their Related Security. Such arrears management and handling of complaints policies are consistent with those to be applied by the Servicer under the terms of the Servicing Agreement. The interest rate setting policy specified in the Mortgage Sale Agreement is only applicable to Loans with interest rates which may be varied from time to time in the discretion of the lender under the relevant Loan.

In addition to the undertakings described above, the Servicer has also undertaken in the Servicing Agreement to determine and set the variable rate and any other discretionary rates and margins in relation to any applicable Loans in the Covered Bond Portfolio for which the Guarantor LP is entitled to set the variable rate and any other discretionary rates and margins pursuant to the terms of such Loans. The Servicer shall set such rates and margins in accordance with the policy to be adhered to by the Guarantor LP above, at such times as the Guarantor LP would be entitled to set such rates and margins, except in the limited circumstances described below, when the Guarantor LP will be entitled to set such rates and margins. The Servicer will not at any time prior to the earlier of (i) the occurrence of a Covered Bond Guarantee Activation Event, or (ii) a Servicer Event of Default having occurred, without the prior consent of the Guarantor LP, set or maintain any such discretionary rates or margins at rates or margins which are higher than (although they may be lower than or equal to) the applicable then prevailing discretionary rates or margins of the Seller for loans owned by the Seller which have a similarly determined variable rate or margin to the relevant Loan in the Covered Bond Portfolio sold by the Seller to the Guarantor LP.

In particular, the Servicer will determine on each Calculation Date, having regard to:

- (a) the income which the Guarantor LP would expect to receive during the next succeeding Guarantor LP Payment Period (the relevant Guarantor LP Payment Period);
- (b) any discretionary rates and margins in respect of the Loans which the Servicer proposes to set under the Servicing Agreement for the relevant Guarantor LP Payment Period; and

- (c) the other resources available to the Guarantor LP including the Interest Rate Swap Agreement, the Covered Bond Swap Agreement and the Reserve Fund,

whether the Guarantor LP would receive an amount of income during the relevant Guarantor LP Payment Period which, when aggregated with the funds otherwise available to it, is less than the amount which is the aggregate of (i) the amount of interest which would be payable (or provisioned to be paid) under the Covered Bond Guarantee on each Guarantor LP Payment Date falling at the end of the relevant Guarantor LP Payment Period and amounts which would be payable (or provisioned to be paid) to the Covered Bond Swap Provider under the Covered Bond Swap Agreement in respect of all Covered Bonds on each Guarantor LP Payment Date of each series of Covered Bonds falling at the end of the relevant Guarantor LP Payment Period and (ii) the other senior expenses payable by the Guarantor LP ranking in priority thereto in accordance with the relevant Priorities of Payment applicable prior to a Guarantor LP Event of Default.

If the Servicer determines that there will be a shortfall in the foregoing amounts, it will give written notice to the Guarantor LP and the Bond Trustee, within one Business Day, of the amount of the shortfall. If the Guarantor LP and the Bond Trustee notifies the Servicer and the Bank that, having regard to the obligations of the Guarantor LP and the amount of the shortfall, further Loans and their Related Security should be sold to the Guarantor LP, the Bank will use all reasonable efforts to ensure that the obligations of the Guarantor LP for such period will be met. This may include making advances under the Intercompany Loan, selling Loans and their Related Security to the Guarantor LP or making a Capital Contribution on or before the next Calculation Date in amounts and with rates or margins, as applicable, sufficient to avoid such shortfall on future Calculation Dates.

In addition, the Servicer will determine on each Calculation Date following an Issuer Event of Default, having regard to the aggregate of:

- (a) any discretionary rate or margin, in respect of the Loans which the Servicer proposes to set under the Servicing Agreement for the relevant Guarantor LP Payment Period; and
- (b) the other resources available to the Guarantor LP under the Interest Rate Swap Agreement, whether the Guarantor LP would receive an aggregate amount of interest on the Loans sufficient to pay the full amounts payable under the Interest Rate Swap Agreement during the relevant Guarantor LP Payment Period (the “**Post Issuer Event of Default Yield Shortfall Test**”).

If the Servicer determines that the Post Issuer Event of Default Yield Shortfall Test will not be met, it will give written notice to the Guarantor LP and the Bond Trustee, prior to the Guarantor LP Payment Date immediately following such Calculation Date, of the amount of the shortfall and the rates or margins, for any discretionary rates or margins which the Guarantor LP is entitled to set with respect to Loans in the Covered Bond Portfolio pursuant to the terms of such Loans, which in the Servicer’s opinion, need to be set in order for no shortfall to arise, and the Post Issuer Event of Default Yield Shortfall Test to be met, having regard to the date(s) on which the change to such discretionary rates or margins would take effect and at all times acting in accordance with the standards of reasonable and prudent institutional mortgage lenders in the Seller’s market. If the Guarantor LP or the Bond Trustee notifies the Servicer that, having regard to the obligations of the Guarantor LP, such discretionary rates or margins should be increased, the Servicer or replacement Servicer, as the case may be, will take all steps which are necessary to increase such discretionary rates or margins including publishing any notice which is required in accordance with the Mortgage Terms.

The Guarantor LP and the Bond Trustee may terminate the authority of the Servicer to determine and set any such discretionary rates or margins on the occurrence of a Servicer Event of Default as defined under “*Removal or resignation of the Servicer*”, in which case the Guarantor LP and the Bond Trustee will agree to appoint the replacement Servicer to set such discretionary rates or margins itself in the manner described above.

#### ***Removal or resignation of the Servicer***

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

- (a) the Servicer’s unsecured, unguaranteed and unsubordinated debt obligations or issuer default ratings, as applicable, are assigned a rating from the Rating Agencies below the threshold ratings Baa3, F2 or BBB(low) long-term (in respect of Moody’s, Fitch and DBRS, respectively), as applicable (the “**Servicer Replacement Ratings**”), 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;

- (b) the Servicer defaults in the payment of any amount due to the Guarantor LP under the Servicing Agreement, including the timely transfer of funds to the Cash Manager or the GDA Account, or the obligation to hold amounts to which the Guarantor LP is entitled in trust and as applicable in a separate account for the Guarantor LP, and fails to remedy that default for a period of five Business Days and, following a downgrade in the ratings of the Servicer's unsecured, unguaranteed and unsubordinated debt obligations or issuer default ratings, as applicable, assigned by the Rating Agencies below the Cash Manager Deposit Ratings, within three Business Days after the earlier of the Servicer becoming aware of the default and receipt by the Servicer of written notice from the Bond Trustee or the Guarantor LP requiring the same be remedied;
- (c) the Servicer fails to comply with any of its other obligations under the Servicing Agreement (including its representations, warranties and covenants) which failure in the opinion of the Bond Trustee is materially prejudicial to holders of the Covered Bonds and does not remedy that failure within the earlier of 30 Business Days after becoming aware of the failure and receipt by the Servicer of written notice from the Bond Trustee or the Guarantor LP requiring the same be remedied;
- (d) an Insolvency Event occurs in relation to the Servicer or any credit support provider, and certain insolvency-related events in respect of the Guarantor LP or the merger of the Servicer without an assumption of the obligations under the Servicing Agreement;
- (e) an Issuer Event of Default when the Bank is the Servicer; or
- (f) the Guarantor LP resolves that the appointment of the Servicer should be terminated,

The Guarantor LP is required to exercise its right to terminate the Bank as Servicer upon the ratings of the Bank falling below the Servicer Replacement Ratings unless the Liquidation GP is the managing general partner of the Guarantor LP at such time in which case it will have the discretion to exercise such right.

The appointment of the Servicer may also be terminated in respect of any Loans and their Related Security following a sale, transfer or assignment of such Loans and their Related Security by the Guarantor LP or the purchaser of such Loans and their Related Security upon 30 days prior written notice to the Servicer, and in the case of Loans that are Related Loans, to the Seller of such Related Loans, or such shorter period otherwise agreed to between the party delivering such notice and the recipients of such notice, provided that, in respect of any Related Loans, the Related Loans continue to be serviced by a single servicer in accordance with the terms of the Security Sharing Agreement.

Subject to the fulfillment of a number of conditions, the Servicer may voluntarily resign by giving not less than 12 months' notice to the Bond Trustee and the Guarantor LP provided that a substitute servicer qualified to act as such with a management team with experience of administering mortgages in Canada has been appointed and enters into a servicing agreement with the Guarantor LP substantially on the same terms as the Servicing Agreement, except as to fees. 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 holders of the Covered Bonds agree otherwise by Extraordinary Resolution.

If the appointment of the Servicer is terminated, the Servicer must deliver the Loan and Related Security Files relating to the Loans in the Covered Bond Portfolio administered by it to, or at the direction of, the Guarantor LP. The Servicing Agreement will terminate at such time as the Guarantor LP has no further interest in any of the Loans or their Related Security sold to the Guarantor LP and serviced under the Servicing Agreement that have been comprised in the Covered Bond Portfolio.

The Servicer may sub-contract or delegate the performance of its duties under the Servicing Agreement provided that it meets conditions as set out in the Servicing Agreement. The Servicer has made arrangements for the subcontracting of certain administrative services to be provided by the Servicer under the Servicing Agreement and has obtained the required consents and has delivered notices to the Rating Agencies for such subcontracting in accordance with the terms of the Servicing Agreement. In connection with entering into such arrangements, the sub-contractor has waived any security interest it may obtain in the Covered Bond Portfolio, provided a release of liability in favour of the Guarantor LP and the Bond Trustee among others and acknowledged it will hold all Loan and Related Security Files in accordance with the terms of the Servicing Agreement.

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

The provisions of the Servicing Agreement may only be amended or modified by written agreement of the parties thereto. Where the Guarantor LP determines that any such amendment or waiver is material, Rating Agency Confirmation shall be required in respect of such amendment.

## Asset Monitor Agreement

Under the terms of the Asset Monitor Agreement between the Bank, the Asset Monitor, the Guarantor LP, the Cash Manager, and the Bond Trustee, the Asset Monitor, subject to due receipt of the information to be provided by the Cash Manager to the Asset Monitor, shall perform the services to be performed by a cover pool monitor set out in Section 7.3 of the Guide. The services include, but are not limited to, reporting on (i) the accuracy of records maintained in relation to the Loans and their Related Security (including those records deposited with the Custodian) and (ii) the arithmetical accuracy of, the calculations performed by the Cash Manager annually and more frequently if the ratings of the Cash Manager fall below the threshold ratings Baa3, BBB-, or R-1(middle) short-term and A(low) long-term (in respect of Moody's, Fitch and DBRS respectively), as applicable, of the unsecured, unsubordinated and unguaranteed debt obligations or issuer default ratings, as applicable, of the Cash Manager by the Rating Agencies ("**Asset Monitor Oversight Ratings**"), and in other certain circumstances including prior to an issuance of Covered Bonds with a view to confirming that the Asset Coverage Test, and/or the Amortization Test, is met on any relevant Calculation Date.

In accordance with the Guide, the Asset Monitor is required to be engaged in the practice of accounting and qualified to be an auditor of the Bank under both the *Bank Act* (Canada) and Canadian auditing standards. The Guide requires the Asset Monitor to prepare and deliver to the Bank, CMHC and the Bond Trustee (i) an annual report detailing the scope of the Asset Monitor's work and prescribed procedures undertaken in performing its responsibilities under Section 7.3.1 of the Guide, and confirming that the sampling methodology used to assess the accuracy of records maintained in relation to the Loans and their Related Security, including a description of the pool sample and population used in accordance with the industry standard sampling size; and (ii) a report detailing the material negative findings of the Asset Monitor as a result of performing such procedures pursuant to Section 7.3.2 of the Guide. The Asset Monitor is also responsible for advising the Bank, CMHC and the Bond Trustee as soon as practicable after it has become aware or reasonably believes (as a consequence of, or in the course of, the performance of its obligations set forth in the Guide) that the Bank, the Guarantor LP and/or the Programme are non-compliant with certain requirements under the Guide.

The Asset Monitor is entitled to assume that all information and records provided to the Asset Monitor are true and correct, complete and authentic and not misleading, and is not required to conduct an audit or other similar examination in respect of or otherwise take steps to verify the accuracy, authenticity or completeness of such information or records save that the Asset Monitor will be required to advise the Cash Manager if it is not or has not been provided with any information required to be provided to it in accordance with the terms of the Asset Monitor Agreement and the Asset Monitor will be required to verify the accuracy of such information and records and arithmetical accuracy of tests and calculations, as required in performing the services under the Asset Monitor Agreement and pursuant to the Guide.

The Guarantor LP (or the Cash Manager on its behalf) will pay to the Asset Monitor a fee for each report provided by the Asset Monitor (exclusive of HST), equal to the amount set out in the Asset Monitor Agreement.

The Guarantor LP may, at any time, with the prior written consent of the Bond Trustee, upon 60 days' prior written notice to the Asset Monitor or unilaterally upon notice following a default by the Asset Monitor in the performance or observance of any of its covenants and obligations under the Asset Monitor Agreement, if such breach continues unremedied for 30 days following the Asset Monitor becoming aware of or receiving notice of such default, terminate the appointment of the Asset Monitor, and the Asset Monitor may, at any time, resign by giving at least 60 days' prior written notice (and immediately if continuing to perform its obligations under the Asset Monitor Agreement becomes unlawful or conflicts with independence or professional rules applicable to the Asset Monitor) to the Guarantor LP (or the Cash Manager on its behalf) and the Bond Trustee.

Upon giving notice of resignation, the Asset Monitor will use reasonable efforts to assist the Guarantor LP in appointing a replacement Asset Monitor approved by the Bond Trustee (such approval to be granted if the replacement is an accounting firm of national standing that agrees to perform the duties (or substantially similar 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 on which a service is to be conducted by the Asset Monitor, in accordance with the terms of the Asset Monitor Agreement, then the Guarantor LP will use all reasonable efforts to appoint an accounting firm of national standing to carry out the relevant services on a one-off basis, provided that notice of such appointment is given to the Bond Trustee and the Guarantor LP continues to use reasonable efforts to find a replacement approved by the Bond Trustee, which replacement agrees to perform the duties (or substantially similar duties) of the Asset Monitor set out in the Asset Monitor Agreement.

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

### ***Changes to the Asset Monitor Agreement***

The provisions of the Asset Monitor Agreement may only be amended or modified by written agreement of the parties thereto. Where the Guarantor LP determines that any such amendment or waiver is material, Rating Agency Confirmation shall be required in respect of such amendment.

### **Guarantor LP Agreement**

The general and limited partners of the Guarantor LP operate the business of the Guarantor LP in accordance with the terms of the Guarantor LP Agreement between the Managing GP, as managing general partner, the Liquidation GP, as liquidation general partner, and the Bank, as Limited Partner, together with such other persons as may become partners of the Guarantor LP.

### ***General Partner and Limited Partners of the Guarantor LP***

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

Upon the occurrence of an event of insolvency, including the approval of the bankruptcy, dissolution or winding-up of or an assignment for the benefit of creditors or appointment of a receiver for its assets, on the part of the Managing GP, or the occurrence of an Issuer Event of Default, the Managing GP will cease to be the managing general partner of the Guarantor LP and the Liquidation GP will automatically become the managing general partner of the Guarantor LP. Where such Issuer Event of Default is cured or remedied, provided a Notice to Pay has not been delivered and the Guarantor LP is not then required to make payments under the Covered Bond Guarantee, the Managing GP will resume its role as the managing general partner of the Guarantor LP. While the Liquidation GP is the managing general partner of the Guarantor LP it will not retain any administrative agent or other analogous entity to fulfil the managing general partner's responsibility or role to carry on, oversee, manage or otherwise administer the business, activities or assets of the Guarantor LP, that would result in the Guarantor LP ceasing to be Independently Controlled and Governed as such term is defined in the Guide.

No new limited partner may be otherwise appointed, and no new general partner may be added or general partner replaced without the consent of the Limited Partner and, while there are covered bonds outstanding under the Programme, the Bond Trustee, and receipt by the Bank and/or the Bond Trustee of Rating Agency Confirmation (also see "*New Limited Partners*", below).

### ***Capital Contributions***

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

### ***New Limited Partners***

In the future, any person that wishes to become a new Limited Partner must be an affiliate of the Bank, will require the consent of the Partners and the Bond Trustee, and will be required to accede to the Mortgage Sale Agreement and any other Transaction Documents to which the Limited Partner is a party and deliver such other agreements and provide such other assurances as may be required by the Guarantor LP and/or the Bond Trustee (acting reasonably). The admission of a new Limited Partner will also require Rating Agency Confirmation. Subject to compliance with the foregoing, the consent of the covered bondholders will not be required to the accession of a new Limited Partner to the Guarantor LP. The Limited Partner may assign all or some portion of its interest in the Guarantor LP to any Subsidiary by giving written notice of such assignment to the Partners and the Bond Trustee, and the assignee of such interest acceding to the Guarantor LP Agreement. Any such assignment shall not relieve the Limited Partner of its obligations under the Guarantor LP Agreement or require the consent of the General Partners, the Bond Trustee, the holders of the Covered Bonds or, if applicable, any other Limited Partner.

## Capital Distributions

Provided the Asset Coverage Test or the Amortization Test, as applicable, will be met after giving effect to any capital distribution, the Managing GP may from time to time, in its discretion, make capital distributions to the Partners. Pursuant to the terms of the Guarantor LP Agreement the Liquidation GP's share of net income will be limited to an amount which may be less than the Liquidation GP's *pro rata* interest in the Guarantor LP (prior to the Liquidation GP assuming the duties of the Managing GP).

## Asset Coverage Test

Under the terms of the Trust Deed, the Guarantor LP (or the Cash Manager or Asset Monitor on its behalf) must ensure that on each Calculation Date, the Adjusted Aggregate Asset Amount is in an amount at least equal to the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated at the relevant Calculation Date.

If on any Calculation Date, the Adjusted Aggregate Asset Amount is less than the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of all Covered Bonds as calculated at the relevant Calculation Date, then the Guarantor LP (or the Cash Manager on its behalf) will notify the Partners and the Bond Trustee thereof. The Bank will use all reasonable efforts to ensure that the Asset Coverage Test is met. This may include making advances under the Intercompany Loan, selling New Loans and their Related Security to the Guarantor LP or making a Capital Contribution on or before the next Calculation Date in amounts and with rates or margins, as applicable, sufficient to avoid such shortfall on future Calculation Dates. If the Adjusted Aggregate Asset Amount is less than the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of all Covered Bonds on the next following Calculation Date, the Asset Coverage Test will be breached and the Guarantor LP (or the Cash Manager on its behalf) will serve an Asset Coverage Test Breach Notice on the Partners and the Bond Trustee. The Asset Coverage Test Breach Notice will be revoked if the Asset Coverage Test is satisfied on the next Calculation Date following service of an Asset Coverage Test Breach Notice provided no Covered Bond Guarantee Activation Event has occurred.

At any time there is an Asset Coverage Test Breach Notice outstanding:

- (a) the Guarantor LP may need to sell Selected Loans to satisfy its obligations under the Covered Bond Guarantee (as described further under "*Guarantor LP Agreement – Sale of Loans and their Related Security at any time an Asset Coverage Test Breach Notice is outstanding or a Notice to Pay has been served on the Guarantor LP*"); and
- (b) prior to the occurrence of a Covered Bond Guarantee Activation Event, 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 when an Asset Coverage Test Breach Notice is outstanding but no Covered Bond Guarantee Activation Event has occurred*" below.

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

For the purposes hereof:

**"Adjusted Aggregate Asset Amount"** means the amount calculated as at each Calculation Date as follows:

$$A+B+C+D+E - F$$

where,

- A = the lower of (i) and (ii), where:
- (i) = the sum of the "**LTV Adjusted True Balance**" of each Loan in the Covered Bond Portfolio, which shall be the lower of (1) the actual True Balance of the relevant Loan in the Covered Bond Portfolio on such Calculation Date, and (2) the Market Value of the Property subject to the Mortgage forming part of the Related Security relating to that Loan multiplied by M (where for all Eligible Loans that are Performing Loans M = 80% and for all Loans that are Non-Performing Loans or Non-Eligible Loans M = 0);

*minus*

the aggregate sum of the following deemed reductions to the aggregate LTV Adjusted True Balance of the Loans in the Covered Bond Portfolio if any of the following occurred during the previous Calculation Period:

- (1) a Loan (other than a Non-Performing Loan or Non-Eligible Loan) or its Related Security was, in the immediately preceding Calculation Period, in breach of the 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 such Loan or Loans of the relevant Borrower and its or their Related Security to the extent required by the terms of the Mortgage Sale Agreement. In this event, the aggregate LTV Adjusted True Balance of the Loans in the Covered Bond Portfolio on such Calculation Date will be deemed to be reduced by an amount equal to the LTV Adjusted True Balance of such Loan or Loans on such Calculation Date; and/or
- (2) the Seller, in any preceding Calculation Period, was in breach of any other material warranty under the Mortgage Sale Agreement and/or the Servicer was, in any preceding Calculation Period, in breach of a material term of the Servicing Agreement. In this event, the aggregate LTV Adjusted True Balance of the Loans in the Covered Bond Portfolio on such Calculation Date will be deemed to be reduced, by an amount equal to the resulting financial loss incurred by the Guarantor LP in the immediately preceding Calculation Period (such financial loss to be calculated by the Cash Manager without double counting and to be reduced by any amount paid (in cash or in kind) to the Guarantor LP by the Seller to indemnify the Guarantor LP for such financial loss);

AND

- (ii) = the aggregate “**Asset Percentage Adjusted True Balance**” of the Loans in the Covered Bond Portfolio which in relation to each Loan shall be the lower of (1) the actual True Balance of the relevant Loan on such Calculation Date, and (2) the Market Value of the Property subject to the Mortgage forming part of the Related Security relating to that Loan multiplied by N (where for all Eligible Loans that are Performing Loans, N = 1 and for all Loans that are Non-Performing Loans N = 0);

*minus*

the aggregate sum of the following deemed reductions to the aggregate Asset Percentage Adjusted True Balance of the Loans in the Covered Bond Portfolio if any of the following occurred during the previous Calculation Period:

- (1) a Loan (other than a Non-Performing Loan or Non-Eligible Loan) or its Related Security was, in the immediately preceding Calculation Period, in breach of the 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 such 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 True Balance of the Loans in the Covered Bond Portfolio on such Calculation Date will be deemed to be reduced by an amount equal to the Asset Percentage Adjusted True Balance of such Loan or Loans on such Calculation Date; and/or
- (2) the Seller, in any preceding Calculation Period, was in breach of any other material warranty under the Mortgage Sale Agreement and/or the Servicer was, in any preceding Calculation Period, in breach of a material term of the Servicing Agreement. In this event, the aggregate Asset Percentage Adjusted True Balance of the Loans in the Covered Bond Portfolio on such Calculation Date will be deemed to be reduced by an amount equal to the resulting financial loss incurred by the Guarantor LP in the immediately preceding Calculation Period (such financial loss to be calculated by the Cash Manager without double counting and to be reduced by any amount paid (in cash or in kind) to the Guarantor LP by the Seller to indemnify the Guarantor LP for such financial loss),



*the result of the calculation in this paragraph (ii) being multiplied by the Asset Percentage (as defined below); and*

(iii) With respect to any such calculations, any Loan included in the Covered Bond Portfolio secured on a Property which also secures one or more other Loans included in the Covered Bond Portfolio, any breach of the Loan Representations and Warranties in respect of one such Loan will be deemed to be a breach in respect of all such Loans in the Covered Bond Portfolio secured on the same Property;

B = the aggregate amount of any Principal Receipts on the Loans in the Covered Bond Portfolio (excluding proceeds from any sale of such Loans) up to such Calculation Date (as recorded in the Principal Ledger) which have not been applied as at such Calculation Date to acquire further Loans and their Related Security or otherwise applied;

C = the aggregate amount of any cash capital contributions made by the Partners (as recorded in the Capital Account Ledger for each Partner of the Guarantor LP) or proceeds advanced under the Intercompany Loan Agreement or proceeds from any sale of Loans or other cash exclusive of Revenue Receipts which have not been applied as at such Calculation Date provided such amount is not greater than the sum of (i) any such amounts received within such Calculation Period; and (ii) the amount necessary to meet the Guarantor LP's payment obligation in the six months immediately succeeding such Calculation Date pursuant to the provisions of the Transaction Documents or such greater amount as CMHC may permit;

D = the aggregate outstanding principal balance of any Substitute Assets;

E = the Reserve Fund balance, if applicable; and

F = the amount equal to the sum of:

(i) the greater of the following amounts determined in respect of covered bonds outstanding under the Programme issued prior to the CMHC Programme Registration Date: (A) the weighted average remaining maturity expressed in years of such covered bonds multiplied by the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of such covered bonds multiplied by the Pre-Registration Negative Carry Factor; and (B) the amount determined in respect of such covered bonds pursuant to (ii) immediately below (without regard to such covered bonds having been issued prior to the CMHC Programme Registration Date); and

(ii) (A) nil, where cashflows are being exchanged under the Covered Bond Swap Agreement; and (B) where cashflows are not being exchanged under the Covered Bond Swap Agreement, the weighted average remaining maturity expressed in years of the covered bonds outstanding under the Programme issued after the CMHC Programme Registration Date then outstanding (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) multiplied by the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of such covered bonds multiplied by the Negative Carry Factor. "Negative Carry Factor" means, if the weighted average margin of the interest rate payable on the covered bonds relative to the interest rate receivable on the Covered Bond Portfolio is (i) less than or equal to 0.1% per annum, 0.5%, or (ii) greater than 0.1% per annum, then 0.5% plus such margin minus 0.1%.

**"Asset Percentage"** means 93 percent or such lesser percentage figure as necessary to ensure that there is sufficient credit enhancement to, in connection with any other factors considered in the various methodologies of the Rating Agencies, maintain the initial rating assigned to the covered bonds of any series outstanding under the Programme by each Rating Agency, provided that the Asset Percentage will not be less than 80 percent unless otherwise agreed by the Bank (and following an Issuer Event of Default, the Guarantor LP for the purposes of making certain determinations in respect of the Intercompany Loan). If at any time the Asset Percentages that would be required, in connection with any other factors considered in the various methodologies of the Rating Agencies, to maintain the initial rating assigned to the covered bonds of any series outstanding under the Programme by the Rating Agencies are not the same, the lowest such figure will be applied as the Asset Percentage. For greater certainty, 93 percent is the maximum Asset Percentage and shall not be increased except with the consent of the Bond Trustee (without the consent of the holders of the Covered Bonds of any series) or the holders of Covered Bonds by Extraordinary Resolution (without the consent of the Bond Trustee) in accordance with Condition 13.

The Asset Percentage will be determined by the Managing GP (or the Cash Manager on its behalf) in accordance with the terms of the Guarantor LP Agreement, and in accordance with the various methodologies of the Rating Agencies,

prior to the Guarantor LP Payment Date immediately following the Calculation Date falling in February, May, August and November of each year and on such other date as the Bank may request following the date on which the Bank is required to assign the Interest Rate Swap Agreement to a third party, on the basis of the values of the Loans in the Covered Bond Portfolio as at such Calculation Date (being such values for the Loans on the Calculation Date in January, April, July or October, as applicable) taking the Loans in the Covered Bond Portfolio as a whole or on the basis of a sample of Randomly Selected Loans in the Covered Bond Portfolio.

**“Pre-Registration Negative Carry Factor”** means (i) 0.5% if the weighted average margin of the interest rate payable on the covered bonds is less or equal to 0.1% per annum, or (ii) 0.5% plus that margin minus 0.1%, if that margin is greater than 0.1% 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).

### ***Amortization Test***

The Guarantor LP will use all reasonable efforts to ensure that on each Calculation Date following service of a Notice to Pay on the Guarantor LP (but prior to service of a Guarantor LP Acceleration Notice) that the Amortization Test Aggregate Asset Amount will be in an amount at least equal to the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of the covered bonds outstanding under the Programme as calculated on the relevant Calculation Date; provided that the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of any covered bonds outstanding under the Programme not covered by or the subject of the Covered Bond Swap Agreement shall be the product of the Principal Amount Outstanding of the covered bonds outstanding under the Programme multiplied by the spot foreign exchange rate posted by the Bank of Canada at the end of such Calculation Date for converting Canadian Dollars into the currency in which such covered bonds are denominated.

Following service of a Notice to Pay on the Guarantor LP, if on any Calculation Date the Amortization Test Aggregate Loan Amount is less than the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of the covered bonds outstanding under the Programme as calculated on the relevant Calculation Date, then the Amortization Test will be deemed to be breached and a Guarantor LP Event of Default will occur. The Guarantor LP, the Cash Manager or the Asset Monitor, as the case may be, will immediately and in any event prior to the Guarantor LP Payment Date immediately following such Calculation Date, notify the Partners, and while there are covered bonds outstanding under the Programme, the Bond Trustee, of any breach of the Amortization Test and the Bond Trustee will be entitled to serve a Guarantor LP Acceleration Notice in accordance with the Conditions.

The **“Amortization Test Aggregate Asset Amount”** will be calculated as at each Calculation Date as follows:

$$A+B+C-D$$

where,

A = the aggregate **“Amortization Test True Balance”** of each Loan, which shall be the lower of (1) the actual True Balance of the relevant Loan in the Covered Bond Portfolio on such Calculation Date, and (2) the Market Value of the Property subject to the Mortgage forming part of the Related Security relating to that Loan multiplied by M (where for all Eligible Loans that are Performing Loans M = 80% and for all Loans that are Non-Performing Loans or Non-Eligible Loans M = 0).

B = the sum of the amount of any cash standing to the credit of the Guarantor LP Accounts (excluding any Revenue Receipts received in the immediately preceding Calculation Period);

C = the aggregate outstanding principal balance of any Substitute Assets; and

D = the amount equal to the sum of:

(i) the greater of the following amounts determined in respect of covered bonds outstanding under the Programme issued prior to the CMHC Programme Registration Date: (A) the weighted average remaining maturity of such covered bonds then outstanding multiplied by the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of the covered bonds outstanding under the Programme multiplied by the Pre-Registration Negative Carry Factor; and (B) the amount determined in respect of such covered bonds pursuant to (ii) immediately below (without regard to such covered bonds having been issued prior to the CMHC Programme Registration Date); and

(ii) the weighted average remaining maturity of all covered bonds outstanding under the Programme issued after the CMHC Programme Registration Date (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) multiplied by the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of such covered bonds; provided that the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of such covered bonds for any covered bonds not covered by or the subject of the Covered Bond Swap Agreement shall be the product of the Principal Amount Outstanding of the covered bonds multiplied by the spot foreign exchange rate posted by the Bank of Canada at the end of such Calculation Date for converting Canadian Dollars into the currency in which such covered bonds are denominated, multiplied by the Negative Carry Factor.

### **Valuation Calculation**

The “**Valuation Calculation**” shall be the sum of the Present Value Adjusted Aggregate Asset Amount less the Trading Value (as defined below) of the covered bonds outstanding under the Programme as calculated on the relevant Calculation Date. For greater certainty, references in this Schedule 3 to “**immediately preceding Calculation Date**” and “**previous Calculation Date**” are to the Calculation Period ending on the Calculation Date. The Valuation Calculation is a disclosure item, which is required to be conducted to comply with the Guide, for the benefit of investors in covered bonds under the Programme, the result of which does not have any specified consequences under the Transaction Documents.

For the purposes of the Valuation Calculation, the “**Present Value Adjusted Aggregate Asset Amount**” shall be calculated based on the following formula:

$$A + B + C + D + E + F$$

where,

A = the sum of the “**LTV Adjusted Present Value**” of each Loan in the Covered Bond Portfolio, which shall be the lower of (1) the value of the actual True Balance of the relevant Loan in the Covered Bond Portfolio on such Calculation Date, calculated by discounting the expected future cashflow on such Loan using current market interest rates for mortgage loans with credit risks similar to those of such Loan (using the same discounting methodology as that used as part of the fair value disclosure in the Bank’s audited financial statements), or using publicly posted mortgage rates, as determined by the Bank, and (2) the Market Value of the Property subject to the Mortgage forming part of the Related Security relating to that Loan multiplied by M (where for all Eligible Loans that are Performing Loans M = 80% and for all Loans that are Non-Performing Loans or Non-Eligible Loans M = 0);

*minus*

the aggregate sum of the following deemed reductions to the aggregate LTV Adjusted True Balance of the Loans in the Covered Bond Portfolio if any of the following occurred during the previous Calculation Period:

- (1) a Loan (other than a Non-Performing Loan or Non-Eligible Loan) or its Related Security was, in the immediately preceding Calculation Period, in breach of the 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 such Loan or Loans of the relevant Borrower and its or their Related Security to the extent required by the terms of the Mortgage Sale Agreement. In this event, the aggregate LTV Adjusted Present Value of the Loans in the Covered Bond Portfolio on such Calculation Date will be deemed to be reduced by an amount equal to the LTV Adjusted Present Value of such Loan or Loans on such Calculation Date; and/or
- (2) the Seller, in any preceding Calculation Period, was in breach of any other material warranty under the Mortgage Sale Agreement and/or the Servicer was, in any preceding Calculation Period, in breach of a material term of the Servicing Agreement. In this event, the aggregate LTV Adjusted Present Value of the Loans in the Covered Bond Portfolio on such Calculation Date will be deemed to be reduced by an amount equal to the resulting financial loss incurred by the Guarantor LP in the immediately preceding Calculation Period (such financial loss to be calculated by the Cash Manager without double counting and to be reduced by any amount paid (in cash or in kind) to the Guarantor LP by the Seller to indemnify the Guarantor LP for such financial loss);

B = the aggregate amount of any Principal Receipts on the Loans in the Covered Bond Portfolio (excluding proceeds from any sale of such Loans) up to such Calculation Date (as recorded in the Principal Ledger) which have not been applied as at such Calculation Date to acquire further Loans and their Related Security or otherwise applied;

C = the aggregate amount of any cash capital contributions made by the Partners (as recorded in the Capital Account Ledger for each Partner of the Guarantor LP) or proceeds advanced under the Intercompany Loan Agreement or proceeds from any sale of Loans or other cash exclusive of Revenue Receipts which have not been applied as at such Calculation Date provided such amount is not greater than the sum of (i) any such amounts received within such Calculation Period; and (ii) the amount necessary to meet the Guarantor LP's payment obligations in the six months immediately succeeding such Calculation Date pursuant to the provisions of the Transaction Documents or such greater amount as CMHC may permit;

D = Trading Value of any Substitute Assets;

E = Reserve Fund balance, if applicable

F = Trading Value of any Swap Collateral.

**"Trading Value"** means the value determined by the Bank with reference to that methodology hereinafter set forth which can reasonably be considered by the most accurate indicator of institutional market value in the circumstances (with the determination of value, methodology selected and reasons therefor duly documented):

- (i) the last selling price;
- (ii) the average of the high and low selling price on the Calculation Date;
- (iii) the average selling price over a prescribed period of days (not exceeding 30) preceding the Calculation Date;
- (iv) the close of day bid price on the Calculation Date (in the case of an asset);
- (v) the close of day ask price on the Calculation Date (in the case of a liability);
- (vi) such other value as may be indicated by at least two actionable quotes obtained from appropriate market participants instructed to have regard for the nature of the asset or liability, its liquidity and the current interest rate environment,

plus accrued return where applicable (with currency translations undertaken using or at the average close of day foreign exchange rates posted on the Bank of Canada website for the month in relation to which the calculation is made).

***Sale of Loans and their Related Security at any time no Asset Coverage Test Breach Notice is outstanding and no Notice to Pay has been served on the Guarantor LP***

At any time an Asset Coverage Test Breach Notice is not outstanding and no Notice to Pay has been served on the Guarantor LP, the Guarantor LP may, without the consent of the Bond Trustee, sell Randomly Selected Loans for their fair market value subject to the rights of pre-emption enjoyed by the Seller to buy such Randomly Selected Loans pursuant to the terms of the Mortgage Sale Agreement (see "*Mortgage Sale Agreement*", above), including in connection with a Payment in Kind, provided that following such sale the Guarantor LP remains in compliance with the Asset Coverage Test. The proceeds from such sale may be cash or such other consideration as is permitted under the Guide including substitution of assets. Where such proceeds are cash, they will be held in accordance with the requirements of the Cash Management Agreement (see "*Cash Management Agreement*", above) and following a downgrade in the ratings of the Cash Manager below the Cash Manager Deposit Ratings, deposited directly into the GDA Account to be applied as set out in the Priorities of Payments (see "*Cashflows*" above).

***Indexation Methodology***

The Market Value of the Properties which are used in calculating the Asset Coverage Test, the Valuation Calculation and the Amortization Test (except in respect of Calculation Dates prior to June 30, 2014) is adjusted, at least quarterly, for subsequent price developments with respect to the Property subject to the Related Security in respect of each such Loan by adjusting the Latest Valuation for such Property by a rate of change determined by the Index. The Index is an independently developed representation of monthly average home price changes in the following eleven Canadian metropolitan areas: Victoria, Vancouver, Calgary, Edmonton, Winnipeg, Hamilton, Toronto, Ottawa, Montréal, Québec and Halifax. These metropolitan areas are combined to form a national composite 11 index. The national composite 11 index is the weighted average of these eleven metropolitan areas. Further details on the Index including a description of the method used to calculate the Index is available at [www.housepriceindex.ca](http://www.housepriceindex.ca).

A three-step process is used to determine the Market Value for each Property subject to the Related Security in respect of a Loan. First, a code (the Forward Sortation Area ("**FSA**")) which identifies the location of the Property is compared to corresponding codes maintained by Teranet Inc. to confirm whether the Property is located within any of the Canadian metropolitan areas covered by the Index. Second, to the extent an FSA match is not found, the name of the city in

which such Property is located is used to confirm whether such city matches any of the Canadian metropolitan areas covered by the Index. The Market Value is then determined by adjusting the Latest Valuation for such Property, at least quarterly, by the rate of change for the corresponding Canadian metropolitan area, and where there is no corresponding Canadian metropolitan area, the rate of change indicated in the composite 11 index, from the date of the Latest Valuation to the date on which the Latest Valuation is being adjusted for purposes of determining the Market Value for such Property. Where the Latest Valuation in respect of such Property pre-dates the first available date for the relevant rate of change in the Index, the first available date for such rate of change is used to determine the rate of change to apply to adjust the Latest Valuation for purposes of determining the Market Value for such Property.

The Issuer and the Guarantor LP may from time to time determine to use a different index or indices or a different indexation methodology to adjust the Latest Valuation for subsequent price developments to determine Market Value for example, to obtain rates of changes in home prices for metropolitan or geographic areas not covered by the Index, or to use an index or indices that the Issuer and Guarantor LP believe will produce better or more reliable Market Value results or that is more cost effective. Any such change in the Index or Index Methodology used to determine Market Value will be disclosed to Covered Bondholders in accordance with the definition of “Market Value” in the Master Definition and Construction Agreement and be required to meet the requirements in the Guide. In addition, the Issuer is required, pursuant to the Guide, to provide CMHC notice upon becoming aware of any change or proposed change in the method used to calculate the Index and prior notice of any change in the index or indices used to adjust the Latest Valuation in determining Market Value of the Property subject to the Related Security in respect of each Loan.

***Sale of Loans and their Related Security at any time an Asset Coverage Test Breach Notice is outstanding or a Notice to Pay has been served on the Guarantor LP***

At any time an Asset Coverage Test Breach Notice is outstanding or a Notice to Pay has been served on the Guarantor LP, the Guarantor LP may sell Randomly Selected Loans in the Covered Bond Portfolio, subject to the rights of pre-emption enjoyed by the Seller to buy the Randomly Selected Loans pursuant to the terms of the Mortgage Sale Agreement (see “*Mortgage Sale Agreement*”, above) and the requirements described below under “*Method of Sale of Selected Loans*” provided that such requirements shall not apply to a Payment in Kind pursuant to the terms of the Intercompany Loan Agreement (see “*Intercompany Loan Agreement*”, above). The proceeds from such sale may be cash or such other consideration as is permitted under the Guide including substitution of assets. Where such proceeds are cash, the proceeds from any such sale will be credited to the GDA Account to be applied as set out in the Priorities of Payments (see “*Cashflows*”, above). Randomly Selected Loans sold following the service of an Asset Coverage Test Breach Notice (if not revoked) or a Notice to Pay on the Guarantor LP are referred to as “**Selected Loans**”.

***Method of Sale of Selected Loans***

In connection with any sale of Selected Loans, the Guarantor LP will through a tender process appoint a portfolio manager of recognized standing on a basis intended to incentivize the portfolio manager to achieve the best price for the sale of the 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 pursuant to its right of pre-emption in the Mortgage Sale Agreement). The terms of the agreement giving effect to such appointment will be approved by the Bond Trustee and such sale will not include representations and warranties by the Guarantor LP or the Seller unless agreed to by the Bond Trustee and the Seller in the case of representations and warranties by the Seller.

Before offering the Selected Loans for sale, the Guarantor LP will ensure that the Selected Loans have an aggregate True Balance in an 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 on the Guarantor LP), such amount that would ensure that, if the Loans were sold at their True Balance, the Asset Coverage Test would be satisfied on the next Calculation Date taking into account the payment obligations of the Guarantor LP on the Guarantor LP Payment Date following that Calculation Date (assuming for this purpose that the Asset Coverage Test Breach Notice is not revoked on the next Calculation Date); or
- (ii) following service of a Notice to Pay on the Guarantor LP:

$$N \times \frac{\text{True Balance of all the Loans in the Covered Bond Portfolio}}{\text{the Canadian Dollar Equivalent of the Required Redemption Amount in respect of each series of covered bonds then outstanding under the Programme}}$$

where “N” is an amount equal to the Canadian Dollar Equivalent of the Required Redemption Amount of the Earliest Maturing Covered Bonds less amounts standing to the credit of the Guarantor LP Accounts and the

principal amount of any Substitute Assets (excluding all amounts to be applied on the next following Guarantor LP Payment Date to repay higher ranking amounts in the Guarantee Priority of Payments and those amounts that are required to repay any series of covered bonds under the Programme which mature prior to or on the same date as the relevant series of covered bonds).

The Guarantor LP will offer the Selected Loans and their Related Security for sale to Purchasers for the best price reasonably available but in any event:

- (a) following the service of an Asset Coverage Test Breach Notice (but prior to the service of a Notice to Pay on the Guarantor LP), for an amount not less than the True Balance of the Loans; and
- (b) following service of a Notice to Pay on the Guarantor LP, for an amount not less than the Adjusted Required Redemption Amount.

For the purposes hereof:

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

**“Required Redemption Amount”** means, in respect of a series of covered bonds, the amount calculated as follows:

[the Principal Amount Outstanding of the relevant series of covered bonds] × [1+ Negative Carry Factor X (days to maturity of the relevant series of covered bonds/365)]

provided that for purposes of the Required Redemption Amount in respect of a series of covered bonds issued prior to the CMHC Programme Registration Date, Negative Carry Factor shall be the greater of (i) the Pre-Registration Negative Carry Factor; and (ii) the Negative Carry Factor, as determined in respect of such series of covered bonds.

Following the service of a Notice to Pay on the Guarantor LP, if the Loans and their Related Security have not been sold (in whole or in part) in an amount equal to the Adjusted Required Redemption Amount by the date which is six months prior to, as applicable, if the covered bonds are not subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the Final Maturity Date or, if the covered bonds are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the Extended Due for Payment Date in respect of the Earliest Maturing Covered Bonds (after taking into account all payments, provisions and credits to be made in priority thereto), then the Guarantor LP will offer the Loans for sale for the best price reasonably available notwithstanding that such amount may be less than the Adjusted Required Redemption Amount.

In respect of any sale of Selected Loans at any time an Asset Coverage Test Breach Notice is outstanding or a Notice to Pay has been served on the Guarantor LP, the Guarantor LP will instruct the portfolio manager to use all reasonable efforts 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 the scheduled repayment dates of the covered bonds and the terms of the Guarantor LP Agreement.

Following the service of a Notice to Pay on the Guarantor LP, if Purchasers accept the offer or offers from the Guarantor LP so that some or all of the Selected Loans will be sold prior to the next following Final Maturity Date or, if the covered bonds are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the next following Extended Due for Payment Date in respect of the Earliest Maturing Covered Bonds, then the Guarantor LP will, subject to the foregoing paragraph, enter into a sale and purchase agreement with the relevant Purchasers which will require among other things a cash payment from the relevant Purchasers.

### ***Covenants of the General Partner and Limited Partner of the Guarantor LP***

Each of the Partners covenants that, subject to the terms of the Transaction Documents, it will not sell, transfer, convey, create or permit to arise any security interest on, declare a trust over, create any beneficial interest in or otherwise dispose of its interest in the Guarantor LP without the prior written consent of the Managing GP and, while the Covered Bonds are outstanding, the Bond Trustee.

The Guarantor LP covenants that it will not, save with the prior written consent of the Limited Partner (and, for so long as any Covered Bonds are outstanding, the consent of the Bond Trustee) or as envisaged by the Transaction Documents:

- (a) have an interest in a bank account;
- (b) have any employees, premises or subsidiaries;
- (c) acquire any material assets;
- (d) sell, deal with, or grant any option, present, or future right to acquire any of the assets or undertakings of the Guarantor LP, or any interest therein or thereto;
- (e) enter into any contracts, agreements, or other undertakings;
- (f) incur any indebtedness or give any guarantee or indemnity in respect of any such indebtedness;
- (g) create or permit to subsist any security interest over the whole or any part of the assets or undertakings, present or future of the Guarantor LP;
- (h) change the name or business of the Guarantor LP or do any act in contravention of, or make any amendment to, the Guarantor LP Agreement;
- (i) do any act which makes it impossible to carry on the business of the Guarantor LP, including dissolving, terminating, winding-up or otherwise discontinuing the Guarantor LP;
- (j) compromise, compound, or release any debt due to it;
- (k) commence, defend, settle, or compromise any litigation or other claims relating to it or any of its assets;
- (l) permit a person to become a general or limited partner (except in accordance with the terms of the Guarantor LP Agreement); or
- (m) consolidate or merge with another person or convey or transfer its properties or assets substantially as an entirety to any other person.

### ***Limit on investing in Substitute Assets***

At any time that no Asset Coverage Test Breach Notice is outstanding and prior to a Notice to Pay having been served on the Guarantor LP, the Guarantor LP will be permitted to hold Substitute Assets provided that the aggregate value of the Substitute Assets does not at any time exceed an amount equal to 10 percent of the total assets of the Guarantor LP and provided that investments in Substitute Assets are made in accordance with the terms of the Cash Management Agreement and subject to the applicable Priority of Payments. Neither the Guarantor LP nor the Cash Manager on its behalf will invest in Substitute Assets unless the Guarantor LP has entered into a securities account agreement in a form acceptable to the Guarantor LP and the Bond Trustee providing for the holding of Substitute Assets in the name of the Guarantor LP and following the entering into of such agreement any such Substitute Assets will be held in the name of the Guarantor LP in accordance with the terms of such agreement.

### ***Other Provisions***

All cash belonging to the Guarantor LP is to be held in the Guarantor LP Accounts except for amounts held outside of the Guarantor LP Accounts pursuant to the terms of the Transaction Documents, such as cash held by the Cash Manager or Servicer on behalf of the Guarantor LP pursuant to the terms of the Cash Management Agreement and Servicing Agreement, respectively.

The allocation and distribution of Revenue Receipts, Principal Receipts and all other amounts received by the Guarantor LP is described under “*Cashflows*”, above. For so long as any Covered Bonds are outstanding, each of the

Partners has agreed that it will not terminate or purport to terminate the Guarantor LP or institute any winding-up, administration, insolvency or other similar proceedings against the Guarantor LP. Furthermore, each of the Partners have agreed, among other things, not to demand or receive payment of any amounts payable to such Partners by the Guarantor LP (or the Cash Manager on its behalf) or the Bond Trustee unless all amounts then due and payable by the Guarantor LP to all other creditors ranking higher in the relevant Priorities of Payments have been paid in full.

Each of the Partners will be responsible for the payment of its own tax liabilities and will be required to indemnify the other from any liabilities which they incur as a result of the relevant partner's non-payment. Following the appointment of a liquidator to any partner, any decisions of the Guarantor LP that are reserved to the Partners or a unanimous decision of the Partners in the Guarantor LP Agreement will be made by the Partner(s) not in liquidation only.

Under the terms of the Guarantor LP Agreement, the Guarantor LP has agreed to comply with the terms of the Guide.

In the event that a right on the part of the Guarantor LP arises to terminate a counterparty under a Transaction Document, other than the Swap Agreements (see "*Covered Bond Swap Agreement* and *Interest Rate Swap Agreement*" below) as a result of a change or withdrawal in the ratings of such counterparty or a failure on the part of the counterparty to satisfy such other financial test as may reasonably be expected to confirm financial soundness as may be provided for in respect of such counterparty in the relevant Transaction Document, the managing general partner of the Guarantor LP is required (on behalf of the Guarantor LP) to exercise such right if the circumstances giving rise to such right have not been cured within the time period prescribed by such Transaction Document, or, if no time period is prescribed, within 30 days or such longer period as the Bond Trustee may permit, provided that when the Liquidation GP is the managing general partner it shall have the discretion as to whether to exercise such right except with respect to the Bank Account Agreement, the Guaranteed Deposit Account Contract, the Standby Bank Account Agreement and the Standby Guaranteed Deposit Account Contract where it shall be required to exercise such right to terminate the counterparty in accordance with the terms of such Transaction Document.

In the event that the Cash Manager breaches its obligation to deposit funds in accordance with the Cash Management Agreement following a downgrade of the ratings of the Cash Manager's unsecured, unsubordinated, and unguaranteed debt obligations or issuer default ratings, as applicable, falling below the Cash Manager Deposit Ratings and such breach remains uncured in a manner which gives rise to a right of the Guarantor LP to terminate the Cash Management Agreement, the Guarantor LP is required to so terminate the Cash Manager.

For so long as there are covered bonds outstanding under the Programme, the managing general partner of the Guarantor LP is prohibited from consenting on behalf of the Guarantor LP to any amendment or waiver to any provision in any Transaction Document to lower the minimum rating of any counterparty, modify any financial test that is intended to confirm the financial soundness of any counterparty or modify the remedial action required by the downgrade or withdrawal of ratings in respect of a counterparty, unless it has received Rating Agency Confirmation and the prior written consent of the Bond Trustee, provided that the Bond Trustee's consent shall only be withheld if the Bond Trustee is of the opinion that the interest of the holders of the Covered Bonds of any one or more series would be materially prejudiced by such amendment or waiver.

Subject to the Managing GP's right to sanction certain modifications outlined below, the Guarantor LP Agreement may be amended only in writing and only by a unanimous resolution of the Partners and while there are Covered Bonds outstanding, with the consent of the Bond Trustee and each such proposed amendment or waiver of this Agreement requiring the consent of the Partners shall be subject to Rating Agency Confirmation. The Managing GP may make amendments to the Guarantor LP Agreement (subject to the consent of the Limited Partner, the Liquidation GP, or, while there are Covered Bonds outstanding the Bond Trustee, in each case if such person's interests would be adversely affected) to reflect changes concerning, the name and location of the Guarantor LP, the admission, substitution, withdrawal or removal of the Limited Partner, applicable limited partnership laws, tax laws or to cure ambiguities or inconsistencies with the other Transaction Documents or the disclosure contained in this prospectus.

### **Cash Management Agreement**

The Cash Manager provides certain cash management services to the Guarantor LP pursuant to the terms of the Cash Management Agreement between the Guarantor LP, the Bank in its capacities as the Cash Manager, Seller and Servicer, and the Bond Trustee.

The Cash Manager's services include but are not limited to:

- (a) maintaining the Ledgers on behalf of the Guarantor LP;



- (b) collecting the Revenue Receipts and the Principal Receipts from the Servicer and distributing and/or depositing or investing the Revenue Receipts and the Principal Receipts, and other amounts held for the Guarantor LP, in accordance with the Priorities of Payment described under “*Cashflows*”, above;
- (c) determining whether the Asset Coverage Test is satisfied on each Calculation Date in accordance with the Guarantor LP Agreement;
- (d) determining whether the Amortization Test is satisfied on each Calculation Date following an Issuer Event of Default and Service of a Notice to Pay in accordance with the Guarantor LP Agreement; and
- (e) preparation of Investor Reports in respect of the Covered Bonds for the Bank, the Guarantor LP, the Bond Trustee, the Rating Agencies and the covered bondholders, as applicable.

Pursuant to the terms of the Cash Management Agreement, the Cash Manager represents and warrants in favour of the Guarantor LP and the Bond Trustee, among other things, that it is experienced, qualified, satisfies certain minimum standards, is in regulatory good standing and is in material compliance with all internal policies and procedures and all applicable laws and regulations. Further, the Cash Management Agreement contains a covenant of the Cash Manager to comply with, and perform its obligations under, the provisions of the Guide, and the Transaction Documents to which it is a party, in each case applicable to it.

The Cash Manager will not invest in Substitute Assets on behalf of the Guarantor LP until the Guarantor LP has entered into a securities account agreement in a form acceptable to the Guarantor LP and the Bond Trustee providing for the holding of Substitute Assets in the name of the Guarantor LP and following the entering into of such agreement any such Substitute Assets will be held in the name of the Guarantor LP in accordance with the terms of such agreement.

In the event of a downgrade in the ratings of the unsecured, unsubordinated, and unguaranteed debt obligations or issuer default ratings, as applicable, of the Cash Manager by the Rating Agencies below the threshold ratings P-1, F1 short-term and A long-term, or R-1(middle) short term and AA(low) long-term (in respect of Moody’s, Fitch and DBRS respectively) (the “**Cash Manager Deposit Ratings**”), the Cash Manager will be required to direct the Servicer to deposit all Revenue Receipts and Principal Receipts received by the Servicer directly into the GDA Account.

In the event of a further downgrade in the ratings of the unsecured, unsubordinated, and unguaranteed debt obligations or issuer default ratings, as applicable, of the Cash Manager by the Rating Agencies below the threshold ratings P-2, BBB+ long-term or F2 short-term, or BBB(low) long-term (in respect of Moody’s, Fitch and DBRS respectively) (the “**Cash Manager Ratings**”), the Cash Manager will be required to assign the Cash Management Agreement to a third party service provider acceptable to the Bond Trustee and for which Rating Agency Confirmation has been received. In addition to the foregoing, the Guarantor LP and/or the Bond Trustee will, in certain circumstances, including an Issuer Event of Default when the Cash Manager is the Bank, each have the right to terminate the appointment of the Cash Manager in which event the Guarantor LP will appoint a substitute (the identity of which will be subject to the Bond Trustee’s written approval). The Guarantor LP is required to exercise its right to terminate the Bank as Cash Manager upon the ratings of the Bank falling below the Cash Manager Ratings unless the Liquidation GP is the managing general partner of the Guarantor LP at such time in which case it will have the discretion to exercise such right. 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 provisions of the Cash Management Agreement may only be amended or modified by written agreement of the parties thereto. Where the Guarantor LP determines that any such amendment or waiver is material, Rating Agency Confirmation shall be required in respect of such amendment.

### **Interest Rate Swap Agreement**

To provide a hedge against possible variances in the rates of interest payable on the Loans in the Covered Bond Portfolio (which may, for instance, include variable rates of interest or fixed rates of interest) and the interest amounts payable on the Intercompany Loan and (following the occurrence of a Covered Bond Guarantee Activation Event) the Covered Bond Swap Agreement the Guarantor LP has entered into the Interest Rate Swap Agreement with the Interest Rate Swap Provider. The Guarantor LP and the Interest Rate Swap Provider have agreed to swap the amount of interest received by the Guarantor LP from Borrowers in exchange for an amount sufficient to pay the interest payable on the Intercompany Loan and, following a Covered Bond Guarantee Activation Event, the amounts payable by the Guarantor LP under the Covered Bond Swap Agreement, in each case plus a certain amount for expenses.

Interest payable under the Intercompany Loan Agreement is payable at a variable rate determined by the Bank from time to time, provided that the amount of interest payable in any interest period shall not exceed the amount received by the Guarantor LP under the Interest Rate Swap Agreement less the sum of a minimum spread and an amount for certain

expenses of the Guarantor LP. The notional balance under the Interest Rate Swap Agreement is equal to the average daily outstanding principal balance of Loans in the Covered Bond Portfolio during each month multiplied by a fraction, the numerator of which is the amount of interest received on the Loans during such period and the denominator of which is the amount of interest that was due to be paid in the period.

The representations and warranties provided by each of the Guarantor LP and the Interest Rate Swap Provider in favour of the other relate to, among other things: (a) organization and qualification; (b) corporate authority; (c) no conflicts with constating documents or agreements; (d) consents; (e) enforceability of obligations; (f) no event of default; (g) no litigation; (h) accuracy of applicable information; (i) payer tax representation; (j) payee tax representation; (k) entering the Interest Rate Swap Agreement as principal; and (l) sole ownership and right to transfer.

The Interest Rate Swap Agreement will terminate (unless terminated earlier by an Interest Rate Swap Early Termination Event) on the earlier of:

- (a) the Final Maturity Date for the final tranche or series of Covered Bonds then outstanding (provided that the Bank has not given prior written notice to the Interest Rate Swap Provider and the Guarantor LP that it intends to issue additional Covered Bonds following such date) or, if the Guarantor LP notifies the Interest Rate Swap Provider, prior to the Final Maturity Date for such final tranche or series of Covered Bonds then outstanding, of the inability of the Guarantor LP to pay in full Guaranteed Amounts corresponding to the Final Redemption Amount in respect of such final tranche or series of Covered Bonds then outstanding, the final Interest Payment Date on which an amount representing the Final Redemption Amount for such final tranche or series of Covered Bonds then outstanding is paid (but in any event not later than the Extended Due for Payment Date for such tranche or series of Covered Bonds);
- (b) the date designated therefor by the Bond Trustee and notified to the Interest Rate Swap Provider and the Guarantor LP for purposes of realizing the Security in accordance with the Security Agreement and distributing the proceeds therefor in accordance with the Post-Enforcement Priority of Payments following the enforcement of the Security pursuant to Condition 7.03 (*Enforcement*);
- (c) the date on which the notional amount under the Interest Rate Swap Agreement reduces to zero (as a result of the reduction for the amount of any Early Redemption Amount paid pursuant to Condition 6.02 (*Early Redemption for Tax Reasons*) in respect of the final tranche or series of Covered Bonds then outstanding or any Final Redemption Amount paid pursuant to Condition 6.01 (*Redemption at Maturity*) in respect of the final tranche or series of Covered Bonds then outstanding following the Final Maturity Date for such tranche or series of Covered Bonds, provided in each case that the Bank has not given prior written notice to the Interest Rate Swap Provider that it intends to issue additional Covered Bonds following such date); and
- (d) the date of redemption pursuant to Conditions 6.02 (*Early Redemption for Taxation Reasons*) or 6.15 (*Redemption due to Illegality*) in respect of any final tranche or series of Covered Bonds then outstanding (provided that the Bank has not given prior written notice to the Interest Rate Swap Provider that it intends to issue additional Covered Bonds following such date).

The Interest Rate Swap Agreement may also be terminated in certain other circumstances (each referred to as an “**Interest Rate Swap Early Termination Event**”), including:

- (a) 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 (for the avoidance of doubt, no such failure to pay by the Guarantor LP will entitle the Interest Rate Swap Provider to terminate the Interest Rate Swap Agreement, if such failure is due to the assets available at such time to the Guarantor LP being insufficient to satisfy such payment obligations);
- (b) at the option of the Guarantor LP, in the event that (i) the ratings of the unsecured, unsubordinated, and unguaranteed debt obligations or issuer default ratings, as applicable, of the Interest Rate Swap Provider are downgraded below the Swap Event Ratings and the remedial measures specified in such circumstances, including as applicable, transferring for credit support pursuant to the Interest Rate Swap Agreement, arranging for its obligations under the Interest Rate Swap Agreement to be guaranteed by a suitably rated entity, or transferring its rights and obligations to a suitably rated entity, have not been satisfied in each case in accordance with the provisions of the Interest Rate Swap Agreement, or (ii) while the Bank is the Interest Rate Swap Provider there is an Issuer Event of Default unless the Guarantor LP

provides that Bank may transfer its rights and obligations to a suitably rated entity for which Rating Agency Confirmation has been received and the Bank does so transfer its rights and obligations;

- (c) upon the occurrence of the insolvency of the Interest Rate Swap Provider, or any credit support provider and certain insolvency related events in respect of the Guarantor LP; and
- (d) upon the merger of the Interest Rate Swap Provider without an assumption of the obligations under the Interest Rate Swap Agreement.

Unless the Liquidation GP is the managing general partner of the Guarantor LP or to the extent and in the circumstances in which such waiver is otherwise permitted in accordance with the Guide, the Guarantor LP is not permitted to waive a requirement to take the remedial measures specified in (b)(i) above and must terminate the Interest Rate Swap Agreement in the circumstances in (a) and (b) above where any remedial actions contemplated therein, as applicable, has not been taken in accordance with the terms of the Interest Rate Swap Agreement.

Upon the termination of the Interest Rate Swap Agreement pursuant to an Interest Rate Swap Early Termination Event, the Guarantor LP 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 under the Interest Rate Swap Agreement, the Interest Rate Swap Provider will always be obliged to gross up these payments. If withholding taxes are imposed on payments made by the Guarantor LP to the Interest Rate Swap Provider under the Interest Rate Swap Agreement, the Guarantor LP shall not be obliged to gross up those payments.

The Interest Rate Swap Agreement is in the form of an ISDA Master Agreement, including a schedule and confirmation thereto and credit support annex, if applicable. Under the Interest Rate Swap Agreement, the Guarantor LP's obligations are limited in recourse to the Charged Property. The Interest Rate Swap Agreement is governed by and construed in accordance with English law. Any future Interest Rate Swap Agreement entered into by the Guarantor LP may be governed by Ontario law or English law, as specified in the Interest Rate Swap Agreement.

The provisions of the Interest Rate Swap Agreement may be amended or modified only by written agreement of the parties thereto provided that, such amendment, modification or waiver complies with the Guide and Rating Agency Confirmation and, in respect of any reduction in the ratings specified in respect of any ratings event as contemplated in the Guide, consent of the Bond Trustee, has been obtained with respect thereto.

### **Covered Bond Swap Agreement**

To provide a hedge against currency risks, interest rate risks and timing risk in respect of amounts received by the Guarantor LP under the Interest Rate Swap Agreement and amounts payable in respect of its obligations under the Covered Bond Guarantee, the Guarantor LP has entered into the Covered Bond Swap Agreement with the Covered Bond Swap Provider, and has and may from time to time enter into a new schedule and confirmation(s) for each tranche and/or series of Covered Bonds issued at the time such Covered Bonds are issued. The Covered Bond Swap Provider and the Guarantor LP have agreed to swap Canadian dollar floating rate amounts received by the Guarantor LP under the Interest Rate Swap Agreement (described above) into the exchange rate specified in the Covered Bond Swap Agreement relating to the relevant tranche or series of Covered Bonds to hedge certain currency and/or other risks in respect of amounts received by the Guarantor LP under the Interest Rate Swap Agreement and amounts payable or that may become payable in respect of its obligations under the Covered Bond Guarantee. Cashflows will be exchanged under the Covered Bond Swap Agreement no later than the occurrence of a Covered Bond Guarantee Activation Event. Cashflows may be exchanged earlier under the Covered Bond Swap Agreement in the event of an Issuer Event of Default that is impending or actual insolvency or on the Trigger Event Date.

If prior (i) to the Final Maturity Date in respect of the relevant series or tranche of Covered Bonds, or (ii) any Interest Payment Date or the Extended Due for Payment Date following a deferral of the Due for Payment Date to the Extended Due for Payment Date by the Guarantor LP pursuant to Condition 6.01 (if an Extended Due for Payment Date is specified for a series of Covered Bonds and the payment of the Final Redemption Amount or any part of it by the Guarantor LP under the Covered Bond Guarantee is deferred pursuant to Condition 6.01), the Guarantor LP notifies the Covered Bond Swap Provider (pursuant to the terms of the Covered Bond Swap Agreement) of the amount in the Specified Currency to be paid by such Covered Bond Swap Provider on such Final Maturity Date or Interest Payment Date thereafter (such amount being equal to the Final Redemption Amount or the relevant portion thereof payable by the Guarantor LP on such Final Maturity Date or Interest Payment Date under the Covered Bond Guarantee in respect of the relevant series or tranche of Covered Bonds), then the Covered Bond Swap Provider will pay the Guarantor LP such amount and the Guarantor LP will pay the Covered Bond Swap Provider the Canadian Dollar Equivalent of such amount. Further, if on any day an Early Redemption Amount is payable pursuant to Condition 7.02, the Covered Bond Swap Provider will pay the Guarantor LP

such Amount (or the relevant portion thereof) and the Guarantor LP will pay the Covered Swap Provider the Canadian Dollar Equivalent thereof, following which the notional amount of the Covered Bond Swap Agreement will reduce accordingly.

The representations and warranties provided by each of the Guarantor LP and the Covered Bond Swap Provider in favour of the other relate to, among other things: (a) organization and qualification; (b) corporate authority; (c) no conflict between obligations under the Covered Bond Swap Agreement and any constating documents or agreements; (d) consents; (e) enforceability of obligations; (f) no Event of Default; (g) no litigation; (h) accuracy of applicable information; (i) payer tax representation; (j) payee tax representation; (k) entering the Covered Bond Swap Agreement as principal; and (l) sole ownership and right to transfer

The Covered Bond Swap Agreement will (unless terminated earlier by a Covered Bond Swap Early Termination Event) terminate in respect of any relevant tranche or series of Covered Bonds, on the earlier of:

- (a) the Final Maturity Date for, or if earlier, the date of redemption in whole of, such series of Covered Bonds or, if the Guarantor LP notifies the Covered Bond Swap Provider, prior to the Final Maturity Date for such tranche or series of Covered Bonds, of the inability of the Guarantor LP to pay in full Guaranteed Amounts corresponding to the Final Redemption Amount in respect of such tranche or series of Covered Bonds, the final Interest Payment Date on which an amount representing the Final Redemption Amount for such tranche or series of Covered Bonds is paid (but in any event not later than the Extended Due for Payment Date for such tranche or series of Covered Bonds); and
- (b) the date designated therefor by the Bond Trustee and notified to the Covered Bond Swap Provider and the Guarantor LP for purposes of realizing the Security in accordance with the Security Agreement and distributing the proceeds therefor in accordance with the Post-Enforcement Priority of Payments following the enforcement of the Security pursuant to Condition 7.03 (*Enforcement*).

The Covered Bond Swap Agreement may also be terminated in certain other circumstances (each referred to as a “**Covered Bond Swap Early Termination Event**”), including:

- (a) at the option of any party to the Covered Bond Swap Agreement, if there is a failure by the other party to pay any amounts due under the Covered Bond Swap Agreement (for the avoidance of doubt, no such failure to pay by the Guarantor LP will entitle the Covered Bond Swap Provider to terminate the Covered Bond Swap Agreement, if such failure is due to the assets available at such time to the Guarantor LP being insufficient to satisfy such payment obligations);
- (b) at the option of the Guarantor LP, in the event that (i) the ratings of the unsecured, unsubordinated, and unguaranteed debt obligations or issuer default ratings, as applicable, of the Covered Bond Swap Provider are downgraded below the Swap Event Ratings and the remedial measures specified in such circumstances, including as applicable, transferring for credit support pursuant to the Covered Bond Swap Agreement, arranging for its obligations under the Covered Bond Swap Agreement to be guaranteed by a suitably rated entity, or transferring its rights and obligations to a suitably rated entity, have not been satisfied in each case in accordance with the provisions of the Covered Bond Swap Agreement, or (ii) while the Bank is the Covered Bond Swap Provider there is an Issuer Event of Default unless the Guarantor LP provides that Bank may transfer its rights and obligations to a suitably rated entity for which Rating Agency Confirmation has been received and the Bank does so transfer its rights and obligations;
- (c) upon the occurrence of the insolvency of the Covered Bond Swap Provider, or any credit support provider and certain insolvency related events in respect of the Guarantor LP; and
- (d) upon the merger of the Covered Bond Swap Provider without an assumption of the obligations under the Covered Bond Swap Agreement.

Unless the Liquidation GP is the managing general partner of the Guarantor LP or to the extent and in the circumstances in which such waiver is otherwise permitted in accordance with the Guide, the Guarantor LP is not permitted to waive a requirement to take the remedial measures specified in (b)(i) above and must terminate the Covered Bond Swap Agreement in the circumstances in (a) and (b) above where any remedial actions contemplated therein, as applicable, has not been taken in accordance with the terms of the Covered Bond Swap Agreement.

Upon the termination of the Covered Bond Swap Agreement pursuant to a Covered Bond Swap Early Termination Event, the Guarantor LP or the Covered Bond Swap Provider may be liable to make a termination payment to the other in accordance with the provisions of the Covered Bond Swap Agreement. Any termination payment made by the Covered

Bond Swap Provider to the Guarantor LP in respect of the Covered Bond Swap Agreement will first be used to the extent necessary (prior to the occurrence of a Guarantor LP Event of Default and service of a Guarantor LP Acceleration Notice) to pay a replacement Covered Bond Swap Provider to enter into a replacement Covered Bond Swap with the Guarantor LP, unless a replacement Covered Bond Swap Agreement has already been entered into on behalf of the Guarantor LP. Any premium received by the Guarantor LP from a replacement Covered Bond Swap Provider entering into a Covered Bond Swap Agreement will first be used to make any termination payment due and payable by the Guarantor LP with respect to the Covered Bond Swap Agreement, unless such termination payment has already been made or behalf of the Guarantor LP.

Swap Collateral Excluded Amounts, if applicable, 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 Guarantor LP under the Covered Bond Swap Agreement, the Covered Bond Swap Provider will always be obliged to gross up those payments. If withholding taxes are imposed on payments made by the Guarantor LP to the Covered Bond Swap Provider under the Covered Bond Swap Agreement, the Guarantor LP will not be obliged to gross up those payments.

The Covered Bond Swap Agreement is in the form of an ISDA Master Agreement, including a schedule and confirmation and credit support annex, if applicable, in relation to each particular tranche or series of Covered Bonds, as the case may be.

Under the Covered Bond Swap Agreement, the Guarantor LP's obligations are limited in recourse to the Charged Property. The Covered Bond Swap Agreement may be governed by, and construed in accordance with English law or Ontario law, as specified in the relevant schedule to the Covered Bond Swap Agreement entered into at the time the Covered Bonds are issued.

The provisions of the Covered Bond Swap Agreement may be amended or modified only by written agreement of the parties thereto provided that such amendment, modification or waiver complies with the Guide and Rating Agency Confirmation and, in respect of any reduction in the ratings specified in respect of any ratings event as contemplated in the Guide or any extension of the date on which cashflows are to be exchanged under the Covered Bond Swap Agreement, consent of the Bond Trustee, has been obtained with respect thereto.

### **Bank Account Agreement**

Pursuant to the terms of the Bank Account Agreement between the Guarantor LP, the Account Bank, the GDA Provider, the Cash Manager, and the Bond Trustee, the Guarantor LP maintains with the Account Bank the accounts described below, which is operated in accordance with the Cash Management Agreement, the Guarantor LP Agreement and the Security Agreement:

- (a) the GDA Account into which amounts may be deposited by the Guarantor LP (including, following the occurrence of an Issuer Event of Default which is not cured within the applicable grace period, all amounts received from Borrowers in respect of Loans in the Covered Bond Portfolio). On each Guarantor LP Payment Date as applicable, amounts required to meet the Guarantor LP's various creditors and amounts to be distributed to the Partners under the Guarantor LP Agreement will be transferred to the Transaction Account (to the extent maintained); and
- (b) the Transaction Account (to the extent maintained) into which, amounts may be deposited by the Guarantor LP in respect of amounts to be made *on each Guarantor LP Payment Date* following the unsecured, unsubordinated, and unguaranteed debt obligations or issuer default ratings, as applicable, of the Cash Manager falling below the Cash Manager Deposit Ratings. Moneys standing to the credit of the Transaction Account will be applied by the Cash Manager in accordance with the Priorities of Payments described above "*Cashflows*".

If the unsecured, unsubordinated, and unguaranteed debt obligations or issuer default ratings, as applicable, of the Account Bank cease to be rated by the Rating Agencies above the threshold ratings P-1, F1 short-term and A long-term, or R-1(middle) short term and AA(low) long-term (in respect of Moody's, Fitch and DBRS respectively), as applicable, of the unsecured, unsubordinated and unguaranteed debt obligations or issuer default ratings, as applicable, of the Account Bank by the Rating Agencies (the "**Account Bank Ratings**"), then within two Business Days after such occurrence the Guarantor LP (or the Cash Manager on its behalf) is required to serve a written notice of termination on the Account Bank (such termination to be effective three Business Days following service of such notice) directing the Account Bank to transfer all funds standing in the Guarantor LP Accounts maintained by the Account Bank (including the Transaction Account and the GDA Account) to the Standby Account Bank. In addition, the Account Bank Agreement will terminate

automatically, and the funds will be transferred to the Guarantor LP Accounts maintained with the Standby Account Bank as described above, upon the occurrence of an Issuer Event of Default.

Subject to the Bond Trustee's rights pursuant to the terms of the Security Agreement, the provisions of the Bank Account Agreement may only be amended or modified upon the prior written consent of the Account Bank, and each of the parties thereto. Where the Guarantor LP determines that any such amendment or waiver is material, Rating Agency Confirmation shall be required in respect of such amendment.

### **Standby Bank Account Agreement**

Pursuant to the terms of the Standby Bank Account Agreement between the Guarantor LP, the Standby Account Bank, the Standby GDA Provider, the Cash Manager, and the Bond Trustee, the Standby Account Bank will open and maintain a standby GDA account (the "**Standby GDA Account**") and standby transaction account (the "**Standby Transaction Account**") in the name of the Guarantor LP following delivery by the Guarantor LP (or the Cash Manager on its behalf) of a standby account bank notice (the "**Standby Account Bank Notice**") to the Standby Account Bank.

Pursuant to the terms of the Cash Management Agreement, the Cash Manager will deliver a Standby Account Bank Notice to the Standby Account Bank if the funds held in the GDA Account and the Transaction Account (to the extent maintained) are required to be transferred to the Standby Account Bank pursuant to the terms of the Bank Account Agreement or the Bank Account Agreement is terminated for any reason. The Standby Bank Account Agreement provides that the Standby GDA Account and the Standby Transaction Account, when opened, will be subject to the security interest in favour of the Bond Trustee (for itself and on behalf of the Other Secured Creditors) granted under the Security Agreement and that payments of amounts owing to the Standby Account Bank in respect of fees or otherwise shall be subject to the relevant Priorities of Payment set out in the Guarantor LP Agreement and the Security Agreement.

If the unsecured, unsubordinated, and unguaranteed debt obligations or issuer default ratings, as applicable, of the Standby Account Bank cease to be rated by the Rating Agencies above the threshold ratings P-1, F1 short-term and A long-term, or AA(low) long-term and R-1(middle) short-term (in respect of Moody's, Fitch and DBRS respectively), as applicable, of the unsecured, unsubordinated and unguaranteed debt obligations or issuer default ratings, as applicable, of the Standby Account Bank by the Rating Agencies (the "**Standby Account Bank Ratings**"), then within two Business Days after such occurrence the Guarantor LP (or the Cash Manager on its behalf) is required to serve a written notice of termination on the Standby Account Bank (such termination to be effective three Business Days following service of such notice) directing the Standby Account Bank to transfer all funds standing in the Guarantor LP Accounts maintained by the Standby Account Bank (including the Transaction Account and the GDA Account) to a replacement account under the terms of a new bank account agreement and new guaranteed deposit account contract to be entered into by the parties to the Standby Bank Account Agreement (other than the Standby Account Bank).

References in this prospectus supplement to the GDA Account or the Transaction Account include, unless otherwise stated, references to the Standby GDA Account or the Standby Transaction Account when the Standby GDA Account and the Standby Transaction Account become operative.

The representations and warranties provided by the Account Bank and the Standby Account Bank, in the Bank Account Agreement and the Standby Bank Account Agreement, respectively, relate to, among other things: (a) organization and qualification; (b) corporate authority; (c) no conflicts with constating documents, applicable law or any order, writ or judgment; (d) experience, qualifications, facilities and other resources necessary to perform responsibilities under the their respective agreements; (e) regulatory good standing; (f) material compliance with internal policies and procedures; (g) material compliance with all applicable laws, regulations; and (h) compliance with, and performance of, their obligations under the provisions of the Guide and the Transaction Documents to which they are a party and which are applicable to them.

Subject to the Bond Trustee's rights pursuant to the terms of the Security Agreement, the provisions of the Standby Bank Account Agreement may only be amended or modified upon the prior written consent of the Standby Account Bank, and each of the parties thereto. Where the Guarantor LP determines that any such amendment or waiver is material, Rating Agency Confirmation shall be required in respect of such amendment.

### **Guaranteed Deposit Account Contract**

The Guarantor LP entered into the Guaranteed Deposit Account Contract with the GDA Provider, the Cash Manager, and the Bond Trustee, pursuant to which the GDA Provider has agreed to pay interest on the moneys standing to the credit of the Guarantor LP in the GDA Account at specified rates determined in accordance with the GDA during the term of the GDA. The Guarantor LP or the Bond Trustee shall terminate the GDA following the closing of the GDA Account in accordance with the Bank Account Agreement or termination of the Bank Account Agreement; and the Guarantor LP or the Bond Trustee may terminate the GDA under the following circumstances: (1) the GDA Provider

materially breaches its obligations under the Guaranteed Deposit Account Contract; or (2) the ratings of the GDA Provider by the Rating Agencies falls below the Account Bank Ratings.

Subject to the Bond Trustee's rights pursuant to the terms of the Security Agreement, the provisions of the Guaranteed Deposit Account Contract may only be amended or modified upon the prior written consent of the GDA Provider, and each of the parties thereto. Where the Guarantor LP determines that any such amendment or waiver is material, Rating Agency Confirmation shall be required in respect of such amendment.

### **Standby Guaranteed Deposit Account Contract**

The Guarantor LP entered into the Standby Guaranteed Deposit Account Contract with the Standby Account Bank, the Standby GDA Provider, the Guarantor LP, the Cash Manager, and the Bond Trustee, pursuant to which the Standby GDA Provider has agreed to pay interest on the moneys standing to the credit of the Guarantor LP in the Standby GDA Account at specified rates determined in accordance with the terms of the Standby Guaranteed Deposit Account Contract during the term of the Standby Account Agreement. The Guarantor LP or the Bond Trustee shall terminate the Standby Guaranteed Deposit Account following the closing of the Standby GDA Account in accordance with the Bank Account Agreement or termination of the Standby Bank Account Agreement; and the Guarantor LP or the Bond Trustee may terminate the GDA under the following circumstances: (1) the Standby GDA Provider materially breaches its obligations under the Standby Guaranteed Deposit Account Contract; or (2) the ratings of the Standby GDA Provider by the Rating Agencies falls below the Standby Account Bank Ratings.

The representations and warranties provided by the GDA Provider and the Standby GDA Provider, in the Guaranteed Deposit Account Contract and the Standby Guaranteed Deposit Account Contract, respectively, relate to, among other things: (a) organization and qualification; (b) corporate authority; (c) no conflicts with constating documents, applicable law or any order, writ or judgment; (d) experience, qualifications, facilities and other resources necessary to perform responsibilities under the their respective agreements; (e) regulatory good standing; (f) material compliance with internal policies and procedures; (g) material compliance with all applicable laws, regulations; and (h) compliance with, and performance of, their obligations under the provisions of the Guide and the Transaction Documents to which they are a party and which are applicable to them.

Subject to the Bond Trustee's rights pursuant to the terms of the Security Agreement, the provisions of the Standby Guaranteed Deposit Account Contract may only be amended or modified upon the prior written consent of the Standby GDA Provider, and each of the parties thereto. Where the Guarantor LP determines that any such amendment or waiver is material, Rating Agency Confirmation shall be required in respect of such amendment.

### **Security Agreement**

Pursuant to the terms of the Security Agreement entered into by the Guarantor LP, the Bond Trustee and the other Secured Creditors, the secured obligations of the Guarantor LP and all other obligations of the Guarantor LP under or pursuant to the Transaction Documents to which it is a party owed to the Bond Trustee and the other Secured Creditors are secured by a first ranking security interest (the "**Security**") over all present and after-acquired undertaking, property, and assets of the Guarantor LP (the "**Charged Property**"), including without limitation the Covered Bond Portfolio, and any other Loans and their Related Security and Substitute Assets that the Guarantor LP may acquire from time to time and funds being held for the account of the Guarantor LP by its service providers and the amounts standing to the credit of the Guarantor LP in the Guarantor LP Accounts, subject to the right of the Guarantor LP (provided the Asset Coverage Test or the Amortization Test, as applicable, is met) to sell such Charged Property.

### **Release of Security**

In the event of any sale of Loans and their Related Security by the Guarantor LP pursuant to and in accordance with the Transaction Documents, the Bond Trustee will (subject to the written request of the Guarantor LP) release those Loans from the Security created by and pursuant to the Security Agreement on the date of such sale but only if:

- (a) the Bond Trustee provides its prior written consent to the terms of such sale as described under "*Guarantor LP Agreement – Method of Sale of Selected Loans*", above; and
- (b) in the case of the sale of Loans, the Guarantor LP provides to the Bond Trustee a certificate confirming that the Loans being sold are Randomly Selected Loans.

In the event of the repurchase of a Loan and its Related Security by the Seller pursuant to and in accordance with the Transaction Documents, the Bond Trustee will release that Loan from the Security created by and pursuant to the Security Agreement on the date of the repurchase.

The representations and warranties provided by the Guarantor LP to the Bond Trustee and the Secured Creditors in the Security Agreement, relate to, among other things: (a) ownership of collateral; (b) no encumbrances on collateral; (c) perfection and control of the collateral; (d) no requirement for authorization or consents; (e) no material adverse change; (f) governmental or official investigations; (g) litigation; (h) the conduct of Managing GP as a separate entity; (i) compliance with constating documents, all applicable laws and agreements relevant to the execution, delivery and performance of the Security Agreement; (j) validity of obligations under the relevant Transaction Documents; (k) good faith in entering into Transaction Documents; (l) no breach or default under any agreement; (m) filing of any relevant Transaction Document with any court or other authority; (n) consent to enter into relevant Transaction Documents; (o) proper authorization to enter into the Security Agreement and the relevant Transaction Documents; (p) that performance will not result in breach or default or creation of a lien upon the Collateral; and (q) and creation of first priority interest in the Collateral.

### **Enforcement**

If a Guarantor LP Acceleration Notice is served on the Guarantor LP, the Bond Trustee will be entitled to appoint a Receiver, and/or enforce the Security constituted by the Security Agreement (including selling the Covered Bond Portfolio), and/or take such steps as it deems necessary, subject in each case to being indemnified and/or secured to its satisfaction. All proceeds received by the Bond Trustee from the enforcement of the Security will be applied in accordance with the Post-Enforcement Priority of Payments described under “Cashflows”.

The Security Agreement is governed by Ontario law (other than certain other provisions relating to real property located outside of the Province of Ontario which will be governed by the law of the jurisdiction in which such property is located).

Subject to the exceptions outlined below, the provisions in the Security Agreement may be amended or modified only by written agreement of all of the parties thereto. Where the Guarantor LP determines that any such amendment or waiver is material, Rating Agency Confirmation shall be required in respect of such amendment. The Bond Trustee may also, without the consent or sanction of any of the holders of the Covered Bonds or any of the other Secured Creditors, concur with the Guarantor LP and the Issuer in making or sanctioning any modification to the Transaction Documents, the Covered Bonds of any one or more series:

- provided that the Bond Trustee is of the opinion that such modification will not be materially prejudicial to the interest of any of the holders of the Covered Bonds of any series; or
- which in the opinion of the Bond Trustee are made to correct a manifest error or are of a formal, minor, or technical nature or are made to comply with mandatory provisions of law.

Pursuant to the provisions of the Security Agreement, the prior consent of the Bond Trustee and the other Secured Creditors will not be required in relation to the accession of any New Seller to the Programme provided that the relevant conditions precedent set out in the Dealership Agreement and the Mortgage Sale Agreement are satisfied at the time of the intended accession. Further, the Bond Trustee may be obliged to concur in and to effect any modifications to the Transaction Documents that are requested by the Guarantor LP or the Cash Manager to accommodate the accession of a New Seller.

### **Custodial Agreement**

Pursuant to the terms of the Custodial Agreement entered into between the Custodian, the Guarantor LP, the Bank, and the Bond Trustee, the Custodian has agreed to act as custodian to perform the services of a custodian under the Guide, including receiving, and storing and providing access to data and documents, including any replacements thereof or updates thereto, delivered by or on behalf of the Bank or the Guarantor LP to the Custodian pursuant to the terms of the Transaction Documents or the requirements set out in the Guide (the “**Custodial Documents**”).

In accordance with the Guide, the Custodian is required to be a federally or provincially chartered institution authorized to act in a fiduciary capacity with respect to, and be equipped to store safely and confidentially, valuable documents and be experienced and knowledgeable in the handling of mortgage and security documents (or such other entity as may be approved in accordance with the terms of the Guide). The Guide requires the Custodian be provided information and documentation with respect to the assets in the Covered Bond Portfolio, powers of attorney, registrable forms of mortgage assignment and opinions relating thereto and to store and provide access to such information and documentation to, among others, the Guarantor LP, the Asset Monitor and CMHC upon their reasonable requests.

Pursuant to the terms of the Custodial Agreement, the Custodian will remain responsible for the information and documentation delivered to it until the earlier of:

- (a) the termination of the Custodial Agreement in accordance with its terms and the delivery of such information and documentation to a replacement custodian (it being acknowledged that the replacement



custodian shall be responsible for the safe transfer of such information and documentation to its premises and systems);

- (b) notice from the Guarantor LP, the Bank and the Bond Trustee that the Programme has been terminated, whereupon the Custodian shall (i) release such information and documentation to the Bank (or, in the case of information and documentation related to Loans or Substitute Assets, to their owner) or as it may direct in writing, or (ii) destroy such information and documentation in accordance with procedures satisfactory to the Bank (or, in the case of data and documents related to Eligible Loans or Substitute Assets, to their owner) all in accordance with its written directions; or
- (c) in relation to a particular Loan or Substitute Asset, its disposition by the Guarantor LP or its maturity (whereupon the Custodian shall either (i) release the particular information and documentation related to such Loan or Substitute Asset to its owner (or as it may direct in writing), or (ii) destroy such information and documentation in accordance with procedures satisfactory to its owner).

The Custodial Agreement may be terminated by (a) the Custodian by resigning from its appointment with 60 days' prior written notice, or (b) by the Guarantor LP (i) with the prior written consent of the Bond Trustee, or (ii) unilaterally upon a default by the Custodian in the performance or observance of any of its covenants and obligations under the Custodial Agreement, if such breach continues unremedied for 30 days. Should the Custodian resign or be removed, a replacement Custodian approved by the Bond Trustee and qualified to act as Custodian in accordance with the terms of the Guide will be appointed.

The provisions of the Custodial Agreement may only be amended or modified by written agreement of the parties thereto.

### **Corporate Services Agreement**

Pursuant to the terms of the Corporate Services Agreement entered into between, *inter alios*, the Corporate Services Provider, the Liquidation GP, the Bank, and the Guarantor LP, the Corporate Services Provider has agreed to provide corporate services to the Liquidation GP.

The Corporate Services Agreement will terminate if the Bank and the Corporate Services Provider become affiliates (as such term is used in the *Bank Act* (Canada)) and may otherwise be terminated by the Corporate Services Provider on the one hand or the other parties to the Corporate Services Agreement on the other hand, upon a breach, which if remediable is not remedied within 30 days or upon three months prior notice by the Corporate Service Provider or the other parties to the agreement.

The provisions of the Corporate Services Agreement may only be amended or modified upon the prior written consent of each of the parties thereto. Where the Guarantor LP determines that any such amendment or waiver is material, Rating Agency Confirmation shall be required in respect of such amendment.

### **ADDITIONAL INFORMATION REGARDING CLEARING AND SETTLEMENT**

Links have been established among CDS, Clearstream and Euroclear to facilitate initial issuance of the Covered Bonds and cross-market transfers of the Covered Bonds associated with secondary market trading. CDS will be directly linked to Clearstream and Euroclear through the CDS accounts of their respective Canadian subcustodians.

### **Global Clearance and Settlement Procedures**

Initial settlement for the Covered Bonds will be made in immediately available Canadian dollar funds.

Secondary market trading between CDS participants will be in accordance with market conventions applicable to transactions in book-based Canadian domestic bonds. Secondary market trading between Clearstream participants and/or Euroclear participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream and Euroclear and will be settled using the procedures applicable to conventional Eurobonds in immediately available funds.

### **Transfers between CDS and Clearstream or Euroclear**

Cross-market transfers between persons holding directly or indirectly through CDS participants, on the one hand, and directly or indirectly through Clearstream or Euroclear participants, on the other, will be effected in CDS in accordance with CDS rules; however, such cross-market transactions will require delivery of instructions to the relevant clearing

system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines. The relevant clearing system will, if the transaction meets its settlement requirements, deliver instructions to CDS directly or through its Canadian subcustodian to take action to effect final settlement on its behalf by delivering or receiving Covered Bonds in CDS, and making or receiving payment in accordance with normal procedures for settlement in CDS. Clearstream participants and Euroclear participants may not deliver instructions directly to CDS or the Canadian subcustodians.

Because of time-zone differences, credits of Covered Bonds received in Clearstream or Euroclear as a result of a transaction with a CDS participant may be made during subsequent securities settlement processing and dated the business day following the CDS settlement date. Such credits or any transactions in such Covered Bonds settled during such processing will be reported to the relevant Clearstream participants or Euroclear participants on such business day. Cash received in Clearstream or Euroclear as a result of sales of Covered Bonds by or through a Clearstream participant or a Euroclear participant to a CDS participant will be received with value on the CDS settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlement in CDS.

## **The Clearing Systems**

### ***The Canadian Depository for Securities Limited***

CDS was incorporated in 1970 and is Canada's national securities clearing and depository services organization. Functioning as a service utility for the Canadian financial community, CDS provides a variety of computer automated services for financial institutions and investment dealers active in domestic and international capital markets. CDS participants include banks (including the Canadian subcustodians), investment dealers and trust companies and may include certain of the Dealers. Indirect access to CDS is available to other organizations that clear through or maintain a custodial relationship with a CDS participant. Transfers of ownership and other interests, including cash distributions, in Covered Bonds in CDS may only be processed through CDS participants and will be completed in accordance with existing CDS rules and procedures. CDS operates in Montreal, Toronto, Calgary and Vancouver to centralize securities clearing functions through a central securities depository.

CDS is a private corporation, owned one-third by investment dealers, one-third by banks and one-third by trust companies through their respective industry associations. CDS is the exclusive clearing house for equity trading on the Toronto Stock Exchange and also clears a substantial volume of "over the counter" trading in equities and bonds.

### ***Clearstream***

Clearstream International was incorporated as a limited liability company under Luxembourg law.

Clearstream holds securities for its customers and facilitates the clearance and settlement of securities transactions between Clearstream customers through electronic book-entry changes in accounts of Clearstream customers, thus eliminating the need for physical movement of certificates. Clearstream provides to its customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic markets in a number of countries. Clearstream has established an electronic bridge with Euroclear Bank S.A./ N.V., the operator of the Euroclear System, to facilitate settlement of trades between Clearstream and Euroclear.

As a registered bank in Luxembourg, Clearstream is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector. Clearstream customers are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. In Canada, Clearstream customers are limited to securities brokers and dealers and banks. Clearstream customers may include the Dealers. Other institutions that maintain a custodial relationship with a Clearstream customer may obtain indirect access to Clearstream. Clearstream is an indirect participant in CDS.

Distributions with respect to the Covered Bonds held beneficially through Clearstream will be credited to cash accounts of Clearstream customers in accordance with its rules and procedures, to the extent received by Clearstream.

### ***The Euroclear System***

The Euroclear System was created in 1968 to hold securities for participants of the Euroclear System and to clear and settle transactions between Euroclear participants through simultaneous electronic book-entry delivery against payment, thus eliminating the need for physical movement of certificates and risk from lack of simultaneous transfers of securities and cash. Transactions may now be settled in many currencies, including Canadian dollars, United States dollars and Euros. The Euroclear System provides various other services, including securities lending and borrowing and interfaces

with domestic markets in several countries generally similar to the arrangements for cross-market transfers with CDS described above.

The Euroclear System is operated by Euroclear Bank S.A./N.V. (the “*Euroclear Operator*”), under contract with Euroclear Clearance System, S.C., a Belgian cooperative corporation (the “*Cooperative*”). The Euroclear Operator conducts all operations, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator, not the Cooperative. The Cooperative establishes policy for the Euroclear System on behalf of Euroclear participants. Euroclear participants include banks including central banks), securities brokers and dealers and other professional financial intermediaries and may include the underwriters. Indirect access to the Euroclear System is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly. Euroclear is an indirect participant in CDS.

The Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System and applicable Belgian law govern securities clearance accounts and cash accounts with the Euroclear Operator. Specifically, these terms and conditions govern:

- transfers of securities and cash within the Euroclear System;
- withdrawal of securities and cash from the Euroclear System and
- receipts of payments with respect to securities in the Euroclear System.

All securities in the Euroclear System are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the terms and conditions only on behalf of Euroclear participants and has no record of or relationship with persons holding securities through Euroclear participants.

Distributions with respect to Covered Bonds held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with the Euroclear terms and conditions, to the extent received by the Euroclear Operator and by Euroclear.

Although the foregoing sets out the procedures of Euroclear, Clearstream and CDS in order to facilitate the transfers of interests in the Covered Bonds among participants of CDS, Clearstream and Euroclear, none of Euroclear, Clearstream or CDS is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither we, the fiscal agent, the registrar, the trustee, any paying agent, any underwriter or any affiliate of any of the above, nor any person by whom any of the above is controlled, will have any responsibility for the performance by CDS, Euroclear and Clearstream or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations or for the sufficiency for any purpose of the arrangements described above.

## **TAX CONSEQUENCES**

In the opinion of our counsel, Norton Rose Fulbright Canada LLP, the following summary describes the material Canadian federal income tax consequences under the *Income Tax Act* (Canada) (the “**Tax Act**”), generally applicable to an initial purchaser of Covered Bonds described in this prospectus supplement who acquires, as beneficial owner, such Covered Bonds from us, and who, at all relevant times and for the purposes of the Tax Act, (i) is or is deemed to be resident in Canada; (ii) deals at arm’s length and is not affiliated with us or the Guarantor LP, and (iii) acquires and holds the Covered Bonds as capital property (a “**Holder**”). Generally, the Covered Bonds will be considered capital property of a Holder provided that the Holder does not hold the Covered Bonds in the course of carrying on a business and has not acquired them as an adventure or concern in the nature of trade. Certain holders who might not otherwise be considered to hold their Covered Bonds as capital property may, in certain circumstances, be entitled to have the Covered Bonds, and all other “Canadian securities” (as defined in the Tax Act) owned by such holders, treated as capital property by making the irrevocable election permitted by Subsection 39(4) of the Tax Act. Such holders should consult their own tax advisors regarding their particular circumstances.

This summary is not applicable to a Holder (i) that is a “financial institution” as defined in the Tax Act for purposes of the “mark-to-market” rules, (ii) an interest in which would constitute a “tax shelter investment” as defined in the Tax Act, (iii) that has elected to report its “Canadian tax results” in a currency other than the Canadian currency, or (iv) that enters into, with respect to the Covered Bonds, a “derivative forward agreement” as defined in the Act. Such Holders should consult their own tax advisors.

This summary is based upon the current provisions of the Tax Act and the regulations thereunder (the “**Regulations**”), all specific proposals to amend the Tax Act or such Regulations publicly announced by the federal

Minister of Finance (Canada) prior to the date hereof (the “**Proposals**”) and our understanding of the current administrative policies and assessing practices of the Canada Revenue Agency (“**CRA**”) published in writing by it. Except for the Proposals, this summary does not take into account or anticipate any changes (including retroactive changes) in the law or the administrative policies or assessing practices of the CRA, whether by judicial, regulatory, governmental or legislative action, nor does it take into account tax laws of any province or territory of Canada, or of any jurisdiction outside Canada. Provisions of provincial income tax legislation vary from province to province in Canada and may differ from federal income tax legislation. No assurance can be given that the Proposals will be implemented in their current form, or at all.

This summary is of a general nature only and is not intended to constitute, nor should it be relied upon or construed as, tax advice to any particular Holder nor is it exhaustive of all possible Canadian federal income tax considerations. For purposes of this summary, it is assumed that a Holder will neither undertake nor arrange a transaction in respect of the Covered Bonds primarily for the purpose of obtaining a tax benefit. Holders should consult their own tax advisors as to the overall consequences of their acquisition, ownership and disposition of Covered Bonds having regard to their particular circumstances.

### **Interest on Covered Bonds**

A Holder that is a corporation, partnership, unit trust or a trust of which a corporation or partnership is a beneficiary, will be required to include in computing its income for a taxation year the entire amount of any interest (or amount considered to be interest) on the Covered Bonds that accrues or is deemed to accrue to it to the end of that taxation year or becomes receivable or is received by it before the end of that taxation year, to the extent that such amount was not included in computing the Holder’s income for a preceding taxation year.

Any other Holder, including an individual (other than a trust described in the preceding paragraph), will be required to include in computing its income for a taxation year the amount of any interest (or amount considered to be interest) on the Covered Bonds that is received or receivable by such Holder in that year (depending on the method regularly followed by the Holder in computing its income), to the extent that such amount was not included in computing the Holder’s income for a preceding taxation year. In addition, if at any time a Covered Bond should become an “investment contract” (as defined in the Tax Act) in relation to the Holder, such Holder will be required to include in computing income for a taxation year any interest that accrues to the Holder on the Covered Bond to the end of any “anniversary date” (as defined in the Tax Act) in that year, to the extent such amount was not otherwise included in the Holder’s income for that or a preceding taxation year.

To the extent that the principal amount of a Covered Bond exceeds the amount for which it is issued, the excess (the “discount”) may be required to be included in computing a Holder’s income either (i) in each taxation year in which all or a portion of such amount accrues (in circumstances where the discount is or is deemed to be interest); or (ii) in the taxation year in which the discount is received or receivable by the Holder. If the discount is (or is deemed to be) interest to a Holder, such Holder would be required to include in income annually the portion of such interest (or deemed interest) that accrues to such Holder as required by the Tax Act and the Regulations, notwithstanding that the discount will not be received or receivable until repayment. Holders should consult their tax advisors as to the tax treatment of a discount.

### **Redemption or other Disposition of Covered Bonds**

On a disposition or a deemed disposition of a Covered Bond (including a redemption or a repayment at maturity), a Holder will generally be required to include in computing its income for the taxation year in which the disposition or deemed disposition occurs, all interest (or amount considered to be interest) that accrued or is deemed to accrue on the Covered Bond from the date of the last interest payment to the date of disposition or deemed disposition, except to the extent that such amount has otherwise been included in the Holder’s income for that or a preceding taxation year.

A Holder who disposes or is deemed to have disposed of a Covered Bond (including on maturity or pursuant to a redemption or other acquisition by us) should realize a capital gain (or a capital loss) to the extent that the proceeds of disposition, net of any amounts included in income as interest and any reasonable costs of disposition, exceed (or are less than) the Holder’s adjusted cost base of the Covered Bonds. Holders who dispose of Covered Bonds prior to the maturity date thereof, particularly those who dispose of Covered Bonds shortly prior to the maturity date thereof, should consult their own tax advisors with respect to their particular circumstances.

### **Treatment of Capital Gains and Losses**

One-half of any capital gain realized will constitute a taxable capital gain that must be included in the calculation of the Holder’s income. One-half of any capital loss incurred will constitute an allowable capital loss that is deductible

against taxable capital gains of the Holder, subject to and in accordance with the provisions of the Tax Act. Capital gains realized by an individual, including most trusts, may give rise to alternative minimum tax under the Tax Act.

### **Additional Refundable Tax**

A Holder that is a “Canadian-controlled private corporation” (as defined in the Tax Act) may be subject to an additional refundable tax of 6 2/3% on investment income, including interest and taxable capital gains.

### **FOREIGN ACCOUNT TAX COMPLIANCE ACT**

FATCA impose a new reporting regime and potentially a 30% withholding tax with respect to certain payments to (i) any non-U.S. financial institution (a “foreign financial institution”, or “**FFI**” (as defined by FATCA)) that does not become a “**Participating FFI**” by entering into an agreement with the U.S. Internal Revenue Service (“**IRS**”) to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA and (ii) any investor (unless otherwise exempt from FATCA) that does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a “United States account” of the Bank (a “**Recalcitrant Holder**”). The Bank is classified as an FFI.

The new withholding regime is now in effect for payments from sources within the United States and will apply to “**foreign passthru payments**” (a term not yet defined) no earlier than January 1, 2017. This withholding would potentially apply to payments in respect of: (i) in the case of “foreign passthru payments”, any Covered Bonds having a fixed term and not characterized as equity obligations for U.S. federal tax purposes that are issued after the “**grandfathering date**”; (ii) any Covered Bonds characterized as equity obligations; and (iii) any Covered Bonds that do not have a fixed term. The grandfathering date for these purposes is either (A) with respect to Covered Bonds that give rise solely to foreign passthru payments, the date that is six months after the date on which final U.S. Treasury regulations defining the term foreign passthru payment are filed with the Federal Register, or (B) with respect to Covered Bonds that give rise to a dividend equivalent pursuant to section 871(m) of the U.S. Internal Revenue Code of 1986 (and therefore do not give rise solely to foreign passthru payments), the date that is six months after the date on which obligations of their type are first treated as giving rise to dividend equivalents. “**Grandfathered Covered Bonds**” are Covered Bonds that (i) have a fixed term; (2) are not characterized as equity obligations for U.S. federal tax purposes; and (3) are issued prior to the grandfathering date. Payments on Grandfathered Covered Bonds will cease to be exempt from withholding under FATCA if the Covered Bonds are materially modified on or after the applicable grandfathering date. If additional Covered Bonds of the same series as Grandfathered Covered Bonds are issued on or after the applicable grandfathering date, the additional Covered Bonds may not be treated as Grandfathered Covered Bonds, which may have negative consequences for the Grandfathered Covered Bonds of such series, including a negative impact on market price.

The United States and a number of other jurisdictions have announced their intention to negotiate intergovernmental agreements to facilitate the implementation of FATCA (each, an “**IGA**”). Pursuant to FATCA and the “Model 1” and “Model 2” IGAs released by the United States, an FFI in an IGA signatory country could be treated as a “**Reporting FI**” not subject to withholding under FATCA on any payments it receives. Further, an FFI in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being “**FATCA Withholding**”) from payments it makes with respect to “foreign passthru payments”. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS. The United States and Canada have entered into an agreement (the “**U.S.-Canada IGA**”) based largely on the Model 1 IGA.

The Bank expects to be treated as a Reporting FI pursuant to the U.S.-Canada IGA and does not anticipate being obliged to deduct any FATCA Withholding on payments it makes. There can be no assurance, however, that the Bank will be treated as a Reporting FI, or that it would not in the future be required to deduct FATCA Withholding from payments it makes. The Bank and financial institutions through which payments on the Covered Bonds are made may be required to withhold FATCA Withholding if (i) any FFI through or to which payment on such Covered Bonds is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA or (ii) an investor is a Recalcitrant Holder.

Whilst the Covered Bonds are in global form and held within the clearing systems, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Covered Bonds by the Bank, any paying agent and the common depositary or common safekeeper, as the case may be, given that each of the entities in the payment chain between the Bank and participants in the clearing systems is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Covered Bonds. The documentation expressly contemplates the possibility that the Covered Bonds may go into definitive form and therefore that they may be taken out of the clearing systems. If this were to happen, then a non-FATCA compliant holder could be subject to FATCA Withholding. However, definitive Covered Bonds will only be printed in remote circumstances.

If an amount in respect of FATCA Withholding were to be deducted or withheld from interest, principal or other payments made in respect of the Covered Bonds, neither the Bank nor any paying agent nor any other person would, pursuant to the conditions of the Covered Bonds, be required to pay additional amounts as a result of the deduction or withholding. As a result, investors may receive less interest or principal than expected.

**FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their tax advisers on how these rules may apply to the Bank and to payments they may receive in connection with the Covered Bonds.**

### ELIGIBILITY FOR INVESTMENT

Unless otherwise disclosed in the applicable pricing supplement, in the opinion of our counsel, Norton Rose Fulbright Canada LLP, Covered Bonds issued under our Programme, if issued on the date of this prospectus supplement, would be qualified investments under the *Income Tax Act* (Canada) (the “**Tax Act**”) and the regulations thereunder for trusts governed by registered retirement savings plans (“**RRSPs**”), registered retirement income funds (“**RRIFs**”), registered education savings plans, registered disability savings plans, deferred profit sharing plans and tax-free savings accounts (“**TFSAs**”) (other than trusts governed by deferred profit sharing plans for which any employer is the Bank, or a corporation with which we do not deal at arm’s length within the meaning of the Tax Act).

Notwithstanding that the Covered Bonds may be qualified investments, a holder of a TFSA or an annuitant of an RRSP or RRIF will be subject to a penalty tax if the Covered Bonds are “prohibited investments” (as defined in the Tax Act) for a trust governed by a TFSA, RRSP or RRIF. The Covered Bonds will generally be a prohibited investment for a trust governed by a TFSA, RRSP or RRIF if the holder of the TFSA or the annuitant of the RRSP or RRIF, as the case may be, (i) does not deal at arm’s length with the Bank for purposes of the Tax Act or (ii) has a “significant interest” (within the meaning of the Tax Act) in the Bank. Holders of TFSAs and annuitants of RRSPs or RRIFs should consult their own advisors in this regard.

### PLAN OF DISTRIBUTION

The Covered Bonds will be offered severally by one or more of the Dealers. Under the Dealer Agreement, the Covered Bonds may be purchased or offered at various times by certain of the Dealers, as agent, underwriter or principal at prices and commissions to be agreed upon, for sale to the public at prices to be negotiated with purchasers. Sale prices may vary during the distribution period and between purchasers. We may also offer the Covered Bonds to purchasers directly, pursuant to applicable law, at prices and terms to be negotiated. At the same time that a Dealer offers or Dealers offer the Covered Bonds, we may issue other debt securities.

Our wholly owned subsidiary, RBC DS, is one of the Dealers. **We are a related and connected issuer of RBC DS within the meaning of applicable securities legislation in connection with any offering of Covered Bonds hereunder.** RBC DS is expected to be involved in any decision to distribute Covered Bonds hereunder and in determining the terms of each particular offering of Covered Bonds. The terms of an offering of Covered Bonds will be settled by RBC DS as our agent. The pricing supplement applicable to each offering of Covered Bonds under our Programme will identify the specific Dealers, if any, offering the Covered Bonds and will specify at least one Dealer, other than RBC DS, that will have participated in the due diligence performed in respect of, but may not have participated in the structuring and pricing of, the offering of such Covered Bonds.

We or RBC DS, as agent on our behalf, may enter into arrangements to hedge our risks associated with our obligations under the Covered Bonds. We may agree that RBC DS may retain all or a portion of any profits, and may be required to compensate us for all or a portion of any losses, resulting from such hedging arrangements. RBC DS may also undertake to facilitate a secondary market for the Covered Bonds, if so specified in the applicable pricing supplement, including by purchasing Covered Bonds as principal and reselling such acquired Covered Bonds. RBC DS may receive a commission for acting as a Dealer in connection with the distribution of Covered Bonds hereunder and may earn a profit in connection with the acquisition or disposition of Covered Bonds acting as principal. In addition, RBC DS may receive a structuring fee in connection with structuring particular Covered Bonds, such fee to be specified in the applicable pricing supplement.

In connection with the offering of Covered Bonds, the Dealers may over-allot or effect transactions which stabilize or maintain the market price of the Covered Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

We may withdraw, cancel or modify any offer made hereby without notice and may reject orders in whole or in part (whether placed directly with us or through the Dealers). Each Dealer may, in its discretion reasonably exercised, reject in whole or in part any order to purchase Covered Bonds received by it.

## **SECONDARY MARKET FOR COVERED BONDS**

Unless otherwise indicated in any applicable Final Terms or pricing supplement, the Covered Bonds will not be listed on any securities exchange. Each of the Dealers may from time to time purchase and sell Covered Bonds in the secondary market, but no Dealer is obligated to do so, and there is no assurance that there will be a secondary market for the Covered Bonds or liquidity in the secondary market if one develops. From time to time, each of the Dealers may make a market in the Covered Bonds, but the Dealers are not obligated to do so and may discontinue any market-making activity at any time.

## **LEGAL MATTERS & INTEREST OF EXPERTS**

Certain legal matters in connection with the offering of any Covered Bonds will be passed upon on our behalf by Norton Rose Fulbright Canada LLP and on behalf of the Dealers by McCarthy Tétrault LLP. Designated professionals of each of Norton Rose Fulbright Canada LLP and McCarthy Tétrault LLP, as a group, own beneficially, directly and indirectly, as of the date hereof, less than 1% of the issued and outstanding securities of each class of the Bank or of any associate or affiliate of the Bank. The Bank's auditor, Deloitte LLP, reports that it is independent of the Bank within the meaning of the Rules of Professional Conduct of Chartered Professional Accountants of Ontario.

## GLOSSARY

<b>“Additional Loan Advance”</b>	A further drawing (including, but not limited to, Further Advances) in respect of Loans sold by the Seller to the Guarantor LP;
<b>“Agent”</b>	Each of the Paying Agents, the Registrar, the Exchange Agent and the Transfer Agent;
<b>“Agency Agreement”</b>	The amended and restated issuing and paying agency agreement dated August 1, 2014 made between the Bank, the Guarantor LP, the Issuing and Paying Agent and the other parties named therein, and includes any agreement appointing an additional agent thereunder, each as may be further amended, supplemented or replaced from time to time.
<b>“Asset Monitor Agreement”</b>	The asset monitor agreement entered into on the Programme Establishment Date and most recently amended and restated as of June 24, 2013, made by and among the Asset Monitor, the Guarantor LP, the Bank, as Cash Manager and as Issuer and the Bond Trustee, as the same may be amended, varied, supplemented, restated or extended from time to time;
<b>“Authorized Underpayment”</b>	A Borrower making either no Monthly Payment under a Loan or a payment in an amount less than the Monthly Payment then due on the Loan, in each case, where the Seller has authorized such underpayment or non-payment;
<b>“Available Principal Receipts”</b>	<p>On a relevant Calculation Date, an amount equal to the aggregate of (without double counting):</p> <ul style="list-style-type: none"><li>(a) the amount of Principal Receipts received during the immediately preceding Calculation Period and credited to the Principal Ledger (but, for the avoidance of doubt, excluding any Principal Receipts received in the Calculation Period beginning in the month in which the relevant Calculation Date falls); and</li><li>(b) any other amount standing to the credit of the Principal Ledger including (i) the proceeds of any advances under the Intercompany Loan Agreement (where such proceeds have not been applied to acquire additional Covered Bond Portfolios of Loans and their Related Security, refinance an advance under the Intercompany Loan or invest in Substitute Assets), (ii) any cash capital contributions and (iii) the proceeds from any sale of Loans pursuant to the terms of the Guarantor LP Agreement or the Mortgage Sale Agreement but excluding any amount of principal received under the Covered Bond Swap Agreement;</li></ul>
<b>“Available Revenue Receipts”</b>	<p>On a relevant Calculation Date, an amount equal to the aggregate of:</p> <ul style="list-style-type: none"><li>(a) the amount of Revenue Receipts received during the previous Calculation Period and credited to the Revenue Ledger;</li><li>(b) other net income of the Guarantor LP including all amounts of interest received on the Guarantor LP Accounts and the Substitute Assets and in the previous Calculation Period but excluding amounts received by the Guarantor LP under the Interest Rate Swap Agreement and in respect of interest received by the Guarantor LP under the Covered Bond Swap Agreement;</li><li>(c) prior to the service of a Notice to Pay on the Guarantor LP amounts standing to the credit of the Reserve Fund in excess of the Reserve Fund Required Amount;</li><li>(d) any other Revenue Receipts not referred to in paragraphs (a) to (c) (inclusive) above received during the previous Calculation Period and standing to the credit of the Revenue Ledger; and</li><li>(e) following the service of a Notice to Pay on the Guarantor LP, amounts</li></ul>



standing to the credit of the Reserve Fund;

less

(f) Third Party Amounts, which shall be paid on receipt in cleared funds to the Seller;

<b>“Bank Account Agreement”</b>	The bank account agreement entered into on the Programme Establishment Date, and most recently amended and restated as of June 24, 2013, by and among the Guarantor LP, the Account Bank, the Cash Manager and the Bond Trustee, as the same may be amended, varied, supplemented, restated or extended from time to time, and, if applicable, unless the context requires otherwise, the Stand-by Bank Account Agreement;
<b>“Borrower”</b>	In relation to a Loan, the person or persons specified as such in the relevant Mortgage together with the person or persons (if any) from time to time assuming an obligation to repay such Loan or any part of it;
<b>“Calculation Date”</b>	The last Business Day of each month;
<b>“Calculation Period”</b>	The period from, but excluding, the Calculation Date of the previous month to, and including, the Calculation Date of the month and, for greater certainty, references to the “immediately preceding Calculation Period” or the “previous Calculation Period” are references to the Calculation Period ending on the relevant Calculation Date;
<b>“Canadian Dollar Equivalent”</b>	In relation to a covered bond which is denominated in (i) a currency other than Canadian dollars, the Canadian dollar equivalent of such amount ascertained using the relevant Covered Bond Swap Rate relating to such covered bond, and (ii) Canadian dollars, the applicable amount in Canadian dollars;
<b>“Capital Account Ledger”</b>	The ledger maintained by the Cash Manager on behalf of the Guarantor LP in respect of each Partner to record the balance of each Partner’s capital contributions from time to time;
<b>“Capital Balance”</b>	For a Loan at any date, the principal balance of that Loan to which the Servicer applies the relevant interest rate at which interest on that Loan accrues;
<b>“Capital Contributions in Kind”</b>	A contribution of Loans and their Related Security on a fully-serviced basis to the Guarantor LP in an amount equal to (a) the aggregate of the fair market value of those Loans as at the relevant Transfer Date, minus (b) any cash payment paid by the Guarantor LP for such Loans and their Related Security on that Transfer Date;
<b>“Capitalized Arrears”</b>	For any Loan at any date, interest or other amounts which are overdue in respect of that Loan and which as at that date have been added to the Capital Balance of the Loan in accordance with the Mortgage Conditions or otherwise by arrangement with the relevant Borrower;
<b>“Capitalized Expenses”</b>	In relation to a Loan, the amount of any expense, charge, fee, premium or payment (excluding, however, any Arrears of Interest) capitalized and added to the Capital Balance of that Loan in accordance with the relevant Mortgage Conditions;
<b>“Capitalized Interest”</b>	For any Loan at any date, interest which is overdue in respect of that Loan and which as at that date has been added to the Capital Balance of that Loan in accordance with the Mortgage Conditions or otherwise by arrangement with the relevant Borrower (excluding for the avoidance of doubt any Arrears of Interest which have not been so capitalized on that date);
<b>“Cash Management Agreement”</b>	The cash management agreement entered into on the Programme Establishment Date, and most recently amended and restated as of June 24, 2013, by and among the Guarantor LP, the Bank, as Cash Manager, and the Bond Trustee, as the same may be amended, varied, supplemented, restated or extended from time to time;

<b>“CDS”</b>	CDS Clearing and Depository Services Inc.;
<b>“Conditions”</b>	Terms and conditions of the Covered Bonds as described under <i>“Terms and Conditions of the Covered Bonds”</i> ;
<b>“Corporate Services Agreement”</b>	The corporate services agreement entered into on the Programme Establishment Date, and most recently amended and restated as of June 24, 2013, by and among the Corporate Services Provider, the Liquidation GP and the Guarantor LP, as the same may be amended, varied, supplemented, restated or extended from time to time;
<b>“Corporate Services Provider”</b>	The means Computershare Trust Company of Canada, a trust company formed under the laws of Canada, as corporate services provider to the Liquidation GP under the Corporate Services Agreement, together with any successor corporate services provider appointed from time to time;
<b>“Covered Bond Guarantee”</b>	A direct and, following the occurrence of a Covered Bond Guarantee Activation Event, unconditional and irrevocable guarantee by the Guarantor LP in the Trust Deed for the payment of Guaranteed Amounts in respect of the Covered Bonds when the same shall become Due for Payment;
<b>“Covered Bond Guarantee Activation Event”</b>	The earlier to occur of (i) an Issuer Event of Default, service of an Issuer Acceleration Notice on the Bank and service of a Notice to Pay on the Guarantor LP; and (ii) a Guarantor LP Event of Default and service of a Guarantor LP Acceleration Notice on the Bank and the Guarantor LP (and each a <b>“Covered Bond Guarantee Activation Event”</b> as the context requires);
<b>“Covered Bond Portfolio”</b>	The portfolio of Loans and their Related Security, acquired by the Guarantor LP pursuant to the terms of the Mortgage Sale Agreement (other than Loans and their Related Security that have been redeemed in full) and each additional New Loan and its Related Security acquired by the Guarantor LP;
<b>“Covered Bond Swap Rate”</b>	In relation to a covered bond or tranche or series of Covered Bonds, the exchange rate relating to such covered bond or series of Covered Bonds disclosed in the applicable pricing supplement and specified in the Covered Bond Swap Agreement;
<b>“Current Balance”</b>	In relation to a Loan at any relevant date, means the aggregate principal balance of the Loan at such date (but avoiding double counting) including the following: (i) the Initial Advance; (ii) Capitalized Expenses; (iii) Capitalized Arrears; and (iv) any increase in the principal amount due under that Loan due to any form of Further Advance, in each case relating to such Loan less any prepayment, repayment or payment of the foregoing made on or prior to the determination date;
<b>“Custodial Agreement”</b>	The custodial agreement entered into on June 24, 2013 by and among the Custodian, the Guarantor LP, and the Bond Trustee, as the same may be amended, varied, supplemented, restated or extended from time to time;
<b>“Cut-off Date”</b>	The second Business Day following the Calculation Date preceding a relevant Transfer Date or (in the case of a Product Switch or Further Advance) Guarantor LP Payment Date, as the case may be;
<b>“Due for Payment”</b>	The requirement by the Guarantor LP to pay any Guaranteed Amounts following the service of a Notice to Pay on the Guarantor LP, <ul style="list-style-type: none"> <li>(a) prior to the occurrence of a Guarantor LP Event of Default, on: <ul style="list-style-type: none"> <li>(i) the date on which the Scheduled Payment Date in respect of such Guaranteed Amounts is reached, or, if later, the day which is two London business days following service of a Notice to Pay on the Guarantor LP in respect of such Guaranteed Amounts or if the applicable pricing supplement specified that an Extended Due for Payment Date is applicable to the relevant series of Covered Bonds,</li> </ul> </li> </ul>

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 (the “Original Due for Payment Date”); and

- (ii) in relation to any Guaranteed Amounts in respect of the Final Redemption Amount payable on the Final Maturity Date for a series of Covered Bonds only, the Extended Due for Payment Date, but only (i) if in respect of the relevant series of Covered Bonds the Covered Bond Guarantee is subject to an Extended Due for Payment Date pursuant to the terms of the applicable pricing supplement and (ii) to the extent that the Guarantor LP has been served a Notice to Pay no later than the date falling one Business Day prior to the Extension Determination Date does not pay Guaranteed Amounts equal to the Final Redemption Amount in respect of such series of Covered Bonds by the Extension Determination Date because the Guarantor LP has insufficient moneys available under the Guarantee Priority of Payments to pay such Guaranteed Amounts in full on the earlier of (a) the date which falls two London business days after service of such Notice to Pay on the Guarantor LP or, if later, the Final Maturity Date (or, in each case, after the expiry of the grace period set out in Condition 7.01 (a)) or (b) the Extension Determination Date,

or, if, in either case, such day is not a Business Day, the next following Business Day. For the avoidance of doubt, Due for Payment does not refer to any earlier date upon which payment of any Guaranteed Amounts may become due under the guaranteed obligations, by reason of prepayment, acceleration of maturity, mandatory, or optional redemption or otherwise save as provided in paragraph (ii) below; or

- (b) following the occurrence of a Guarantor LP Event of Default, the date on which a Guarantor LP Acceleration Notice is served on the Bank and the Guarantor LP;

**“Earliest Maturing Covered Bonds”**

At any time, the series of the Covered Bonds issued under the Trust Deed (other than any series which is fully collateralised by amounts standing to the credit of the Guarantor LP in the Guarantor LP Accounts and/or Substitute Assets or a combination thereof) that has or have the earliest Final Maturity Date as specified in the applicable pricing supplement (ignoring any acceleration of amounts due under the Covered Bonds prior to the occurrence of a Guarantor LP Event of Default);

**“Early Redemption Amount”**

The meaning given in the applicable pricing supplement;

**“Eligible Loan”**

A Loan which at the time of determination satisfies each of the Eligibility Criteria;

**“Excess Proceeds”**

Moneys received (following the occurrence of an Issuer Event of Default and delivery of an Issuer Acceleration Notice) by the Bond Trustee from the Bank or any administrator, administrative receiver, receiver, liquidator, trustee in sequestration, or other similar official appointed in relation to the Bank;

**“Exchange Agent”**

The Bank of New York Mellon, a New York banking corporation, in its capacity as exchange agent (which expression shall include any successor exchange agent);

**“Excluded Swap Termination Amount”**

In relation to a Swap Agreement, an amount equal to the amount of any termination payment due and payable (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;

**“Extended Due for Payment Date”**

In relation to any series of Covered Bonds, the date specified as such in the applicable pricing supplement to which the payment of all or (as applicable) part of the Final Redemption Amount payable on the Final Maturity Date will be deferred in

the event that the Final Redemption Amount is not paid in full on the Extension Determination Date;

<b>“Extension Determination Date”</b>	In respect of a 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>	Means (a) a resolution passed at a meeting of the holders of the Covered Bonds duly convened and held in accordance with the terms of the Trust Deed by a majority consisting of not less than three fourths of the persons voting thereat upon a show of hands or if a poll is duly demanded by a majority consisting of not less than three fourths of the votes cast on such poll; or (b) a resolution in writing signed by or on behalf of the holders of the Covered Bonds holding not less than 50 percent in Principal Amount Outstanding of the Covered Bonds, which resolution in writing may be contained in one document or in several documents in like form each signed by or on behalf of one or more of the holders of the Covered Bonds;
<b>“Final Maturity Date”</b>	The Interest Payment Date on which each series of Covered Bonds will be redeemed at their Principal Amount Outstanding in accordance with the Conditions;
<b>“Financial Center”</b>	The financial center or centers specified in the applicable pricing supplement;
<b>“Fixed Amounts”</b>	The meaning specified in the applicable pricing supplement;
<b>“Fixed Coupon Amount”</b>	The meaning specified in the applicable pricing supplement;
<b>“Fixed Rate Covered Bonds”</b>	Covered bonds paying a fixed rate of interest on such date or dates as may be agreed between the Bank and the relevant Dealer(s) and on redemption calculated on the basis of such day count basis as may be agreed between the Bank and the relevant Dealer(s);
<b>“Floating Rate Covered Bonds”</b>	Covered bonds which bear interest as set out in the applicable pricing supplement;
<b>“Further Advance”</b>	In relation to a Loan, any advance of further money to the relevant Borrower following the making of the Initial Advance, which is secured by the same Mortgage as the Initial Advance, excluding the amount of any retention in respect of the Initial Advance;
<b>“GDA Account”</b>	The account (to the extent maintained) designated as such in the name of the Guarantor LP held with the Account Bank and maintained subject to the terms of the Bank Account Agreement and the Security Agreement or such other account as may for the time being be in place with the prior consent of the Bond Trustee, and designated as such;
<b>“Guaranteed Amounts”</b>	Prior to the service of a Guarantor LP Acceleration Notice, with respect to any Original Due for Payment Date or, if applicable, any Extended Due for Payment Date, the sum of Scheduled Interest and Scheduled Principal, in each case, payable on that Original Due for Payment Date or, if applicable, any Extended Due for Payment Date, or after service of a Guarantor LP Acceleration Notice, an amount equal to the relevant Early Redemption Amount as specified in the Conditions plus all accrued and unpaid interest and all other amounts due and payable in respect of the Covered Bonds, including all Excluded Scheduled Interest Amounts, all Excluded Scheduled Principal Amounts (whenever the same arose) and all amounts payable by the Guarantor LP under the Trust Deed;
<b>“Guaranteed Deposit Account Contract”</b>	The amended and restated guaranteed investment contract between the Guarantor LP, the GDA Provider, the Bond Trustee and the Cash Manager entered into on June 24, 2013, as the same may be amended, varied, supplemented or restated from time to time;

<b>“Guarantor LP Acceleration Notice”</b>	The meaning given in Condition 7.02 on page 52;
<b>“Guarantor LP Accounts”</b>	The GDA Account, the Transaction Account (to the extent maintained), and any additional or replacement accounts opened in the name of the Guarantor LP, including the Standby GDA Account and the Standby Transaction Account;
<b>“Guarantor LP Agreement”</b>	The amended and restated limited partnership agreement in respect of the Guarantor LP entered into on the Programme Establishment Date, and most recently amended and restated on June 24, 2013, between the Managing GP, the Liquidation GP and the Bank and any other parties who accede thereto in accordance with its terms, as the same may be amended, varied, supplemented, restated or extended from time to time;
<b>“Guarantor LP Event of Default”</b>	The meaning given in Condition 7.02 on page 52;
<b>“Guarantor LP Payment Date”</b>	The 17 <sup>th</sup> day of each month or if not a Business Day the next following Business Day;
<b>“Guarantor LP Payment Period”</b>	The period from and including a Guarantor LP Payment Date to but excluding the next following Guarantor LP Payment Date;
<b>“HST”</b>	Goods and services tax or harmonized sales tax payable under Part IX of the <i>Excise Tax Act</i> (Canada);
<b>“Index”</b>	the meaning specified in the most recently published Investor Report;
<b>“Index Methodology”</b>	Means, at any relevant time, the indexation methodology determined by the Issuer and the Guarantor LP that complies with the Guide and is disclosed to Covered Bondholders in the Investor Report immediately preceding such time, and changes to such indexation methodology may only be made (i) upon notice to CMHC and satisfaction of any other conditions specified by CMHC in relation thereto, (ii) if such change constitutes a material change, subject to satisfaction of the Rating Agency Condition, and (iii) if such change is materially prejudicial to the Covered Bondholders, subject to the consent of the Bond Trustee;
<b>“Initial Advance”</b>	In respect of any Loan, the original principal amount advanced by the Seller to the relevant Borrower;
<b>“Insolvency Event”</b>	In respect of the Seller, the Servicer or the Cash Manager: <ul style="list-style-type: none"> <li>(a) an order is made or an effective resolution passed for the winding up of the relevant entity; or</li> <li>(b) the relevant entity stops or threatens to stop payment to its creditors generally or the relevant entity ceases or threatens to cease to carry on its business or substantially the whole of its business; or</li> <li>(c) an encumbrancer takes possession or a receiver, administrator, administrative receiver, or other similar officer is appointed to the whole or any material part of the undertaking, property and assets of the relevant entity or a distress, diligence or execution is levied or enforced upon or sued out against the whole or any material part of the chattels or property of the relevant entity and, in the case of any of the foregoing events, is not discharged within 30 days; or</li> <li>(d) the relevant entity is unable to pay its debts as they fall due,</li> </ul> other than where the Seller, Servicer or the Cash Manager is the Bank;
<b>“Intercompany Loan Agreement”</b>	The loan agreement entered into on the Programme Establishment Date, and most recently amended and restated as of August 22, 2013, by and among the Bank, as Issuer and as Cash Manager and the Guarantor LP, as the same may be amended,

varied, supplemented, restated, and has been and may be extended, from time to time;

<b>“Interest Amount”</b>	The amount of interest payable on the Floating Rate Covered Bonds in respect of each Specified Denomination for the relevant Interest Period;
<b>“Investor Reports”</b>	The monthly report made available to the Bond Trustee, the Rating Agencies, the covered bondholders and as otherwise specified in the applicable pricing supplement, detailing, inter alia, the results of the Asset Coverage Test and other information required by the Guide;
<b>“Issue Date”</b>	Each date on which the Bank issues Covered Bonds to purchasers of the Covered Bonds;
<b>“Issue Price”</b>	The meaning specified in the applicable pricing supplement;
<b>“Issuer Acceleration Notice”</b>	The meaning given in Condition 7.01 on page 50;
<b>“Issuer Event of Default”</b>	The meaning given in Condition 7.01 on page 50;
<b>“Latest Valuation”</b>	In relation to any Property that is security for an Eligible Loan in the Covered Bond Portfolio, the value given to that Property by the most recent valuation addressed to the Seller or obtained from an independently maintained valuation or property risk assessment model, acceptable to reasonable and prudent institutional mortgage lenders in the Seller’s market (whether upon origination or renewal of such Eligible Loan or subsequently thereto) or, if not capable of determination in accordance therewith, on the basis of the most recent sale price of the Property;
<b>“Ledger”</b>	Each of the Revenue Ledger, the Principal Ledger, the Reserve Ledger and the Capital Account Ledgers;
<b>“Lending Criteria”</b>	The lending criteria of the Seller from time to time, or such other criteria as would be acceptable to reasonable and prudent institutional mortgage lenders in the Seller’s market;
<b>“Limited Partner”</b>	Royal Bank of Canada, in its capacity as a limited partner of the Guarantor LP, individually and together with such other person or persons who may from time to time, become limited partner(s) of the Guarantor LP;
<b>“Loan”</b>	Any mortgage loan, including Canadian first lien residential mortgages and home equity lines of credit referenced by its mortgage loan identifier number and comprising the aggregate of all principal sums, interest, costs, charges, expenses and other moneys (including all Additional Loan Advances) due or owing with respect to that mortgage loan under the relevant Mortgage Conditions by a Borrower on the security of a Mortgage from time to time outstanding, or, as the context may require, the Borrower’s obligations in respect of the same;
<b>“Loan and Related Security Files”</b>	The file or files relating to each Loan and its Related Security (including files kept in microfiche format or similar electronic data retrieval system or the substance of which is transcribed and held on an electronic data retrieval system) containing, among other things, the original fully executed copy of the document(s) evidencing the Loan and its Related Security, including the relevant loan agreement (together with the promissory note, if any, evidencing such Loan or, if applicable, a guarantor of the Borrower), and, if applicable, evidence of the registration thereof or filing of financing statements under the PPSA, and the mortgage documentation, Mortgage Deed and other Related Security documents in respect thereof and evidence of paper or electronic 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 a copy of other evidence, if applicable, of any applicable insurance policies in respect thereof to which the Seller or the Guarantor LP, as the case may be, is entitled to any benefit, a copy of the policy of title insurance or opinion of counsel

regarding title, priority of the Mortgage or other usual matters, in each case, if any, and any and all other documents (including all electronic documents) kept on file by or on behalf of the Seller relating to such Loan;

- “Loan Offer Notice”** A notice from the Guarantor LP served on the Seller offering to sell Loans and their Related Security for an offer price equal to the greater of the then fair market value of such Loans and the Adjusted Required Redemption Amount;
- “Loan Repurchase Notice”** A notice from the Guarantor LP to the Seller delivered pursuant to the Mortgage Sale Agreement identifying a Loan or its Related Security in the Covered Bond Portfolio which, as at the relevant Transfer Date, (i) does not comply with the Representations and Warranties set out in the Mortgage Sale Agreement, or (ii) is subject to an adverse claim other than a Permitted Security Interest or arising through the Purchaser, which materially and adversely affects the interest of the Purchaser in such Loan or the value of the affected Loan;
- “Market Value”** In respect of any Property that is security for an Eligible Loan in the Covered Bond Portfolio, means in respect of any such determination prior to June 30, 2014, its Latest Valuation, and in respect of any such determination on or after June 30, 2014, its Latest Valuation adjusted in accordance with the Indexation Methodology;
- “Mortgage”** In respect of any Loan each first fixed charge by way of legal mortgage or hypothecary instrument sold, transferred and assigned by the Seller to the Guarantor LP pursuant to the Mortgage Sale Agreement or the Guarantor LP Agreement which secures the repayment of the relevant Loan including the Mortgage Conditions applicable to it;
- “Mortgage Conditions”** All the terms and conditions applicable to a Loan, including without limitation those set out in the Seller’s relevant mortgage conditions booklet and the Seller’s relevant general conditions, each as varied from time to time by the relevant Loan agreement between the lender under the Loan and the Borrower, as the same may be amended from time to time, and the relevant Mortgage Deed;
- “Mortgage Deed”** In respect of any Mortgage, the deed or instrument, as applicable, creating that Mortgage;
- “Mortgage Sale Agreement”** The amended and restated mortgage sale agreement entered into on June 24, 2013 between the Seller, the Guarantor LP and the Bond Trustee, as the same may be amended, varied, supplemented or restated from time to time;
- “Mortgage Terms”** The terms of the applicable Mortgage;
- “New Loan Type”** A new type of mortgage loan originated or acquired by the Seller, which the Seller transfers or intends to transfer to the Guarantor LP, the terms and conditions of which are materially different (in the opinion of the Seller, acting reasonably) from the Loans. For the avoidance of doubt, a mortgage loan will not constitute a New Loan Type if it only differs from the Loans 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, cash-backs and/or rate guarantees;
- “New Loans”** Loans, other than the Loans comprised in the Covered Bond Portfolio, which the Seller may assign or transfer to the Guarantor LP pursuant to the Mortgage Sale Agreement;
- “New Seller”** Any person that accedes to the relevant Transaction Documents and sells loans and their Related Security to the Guarantor LP in the future;
- “Non-Eligible Loan”** Any Loan in the Covered Bond Portfolio that is not an Eligible Loan;

<b>“Non-Performing Loan”</b>	Any Loan in the Covered Bond Portfolio which is more than three months in arrears;
<b>“Non-Performing Loans Notice”</b>	A notice from the Cash Manager to the Seller identifying one or more Non-Performing Loans;
<b>“Notice to Pay”</b>	The meaning given in “ <i>Risk Factors</i> ” on page 14;
<b>“Optional Redemption Amount”</b>	The meaning specified in the applicable pricing supplement;
<b>“Optional Redemption Date”</b>	The meaning specified in the applicable pricing supplement;
<b>“Paying Agents”</b>	In relation to all or any tranche or series of the Covered Bonds, the several institutions (including, where the context permits, the Issuing and Paying Agent) at their respective specified offices initially appointed as paying agents in relation to such Covered Bonds by the Bank and the Guarantor LP pursuant to the Agency Agreement and/or, if applicable, any successor paying agents at their respective specified offices in relation to all or any tranche or series of the Covered Bonds;
<b>“Payment Day”</b>	The meaning given in Condition 9.12 on page 56;
<b>“Payment Ledger”</b>	The ledger of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record payments by or on behalf of the Guarantor LP in accordance with the terms of the Guarantor LP Agreement;
<b>“Performing Loan”</b>	Any Loan in the Covered Bond Portfolio which is not a Non-Performing Loan;
<b>“Principal Amount Outstanding”</b>	In respect of a Covered Bond the principal amount of that Covered Bond on the relevant Issue Date thereof less principal amounts received by the relevant holder of the Covered Bonds in respect thereof;
<b>“Principal Ledger”</b>	The ledger of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record the credits and debits of Principal Receipts held by the Cash Manager for and on behalf of the Guarantor LP and/or in the Guarantor LP Accounts;
<b>“Principal Receipts”</b>	<ul style="list-style-type: none"> <li>(a) principal repayments under the Loans (including payments of arrears, Capitalized Interest, Capitalized Expenses and Capitalized Arrears);</li> <li>(b) recoveries of principal from defaulting Borrowers under Loans being enforced (including the proceeds of sale of the relevant Property);</li> <li>(c) any repayments of principal (including payments of arrears, Capitalized Interest, Capitalized Expenses and Capitalized Arrears) received pursuant to any insurance policy in respect of a Property in connection with a Loan in the Covered Bond Portfolio; and</li> <li>(d) the proceeds of the purchase of any Loan by a Purchaser from the Guarantor LP (excluding, for the avoidance of doubt, amounts attributable to Accrued Interest and Arrears of Interest thereon as at the relevant purchase date);</li> </ul>
<b>“Priorities of Payments”</b>	The orders of priority for the allocation and distribution of amounts standing to the credit of the Guarantor LP in different circumstances;
<b>“Product Switch”</b>	<p>A variation to the financial terms or conditions included in the Mortgage Conditions applicable to a Loan other than:</p> <ul style="list-style-type: none"> <li>(a) any variation agreed with a Borrower to control or manage arrears on a Loan;</li> <li>(b) any variation in the maturity date of a Loan;</li> <li>(c) any variation imposed by statute or any variation in the frequency with which the interest payable in respect of the Loan is charged;</li> <li>(d) any variation to the interest rate as a result of the Borrowers switching to a</li> </ul>



	different rate;
	(e) any change to a Borrower under the Loan or the addition of a new Borrower under a Loan;
	(f) any change in the repayment method of the Loan;
<b>“Programme Establishment Date”</b>	October 25, 2007;
<b>“Programme Resolution”</b>	The meaning given in Condition 13 on page 57;
<b>“Property”</b>	A freehold, leasehold or commonhold property which is subject to a Mortgage;
<b>“Purchaser”</b>	Any third party or the Seller to whom the Guarantor LP offers to sell Loans and their Related Security;
<b>“Put Notice”</b>	The meaning given in Condition 6.06 on page 49;
<b>“Put Option”</b>	The meaning given in the applicable pricing supplement;
<b>“Randomly Selected Loans”</b>	Loans and, if applicable, their Related Security, in the Covered Bond Portfolio, selected on a basis that is not designed to favour the selection of any identifiable class or type or quality of Loans and their Related Security over all the Loans and their Related Security in the Covered Bond Portfolio, except with respect to (i) identifying such Loans and their Related Security as having been acquired by the Guarantor LP from a particular Seller, if applicable; (ii) identifying Non-Performing Loans and their Related Security; (iii) identifying Related Loans and their Shared Security; or (iv) otherwise identifying Loans and their Related Security on a basis that would not (or would not reasonably be expected to) adversely affect the interests of the holders of covered bonds;
<b>“Rating Agency Confirmation”</b>	The meaning given in Condition 20 on page 61;
<b>“Record Date”</b>	The meaning given in Condition 9.09 on page 55;
<b>“Register”</b>	The register of holders of the registered Covered Bonds maintained by the Registrar;
<b>“Related Security”</b>	In relation to a Loan, the security for the repayment of that Loan including the relevant Mortgage, any guarantees and any security relating to any such guarantee and all other matters applicable thereto acquired as part of the Covered Bond Portfolio;
<b>“Relevant Banking Day”</b>	The meaning given in Condition 2.07 on page 38;
<b>“Relevant Screen Page”</b>	The meaning given in the applicable pricing supplement;
<b>“Relevant Time”</b>	The meaning given in the applicable pricing supplement;
<b>“Representations and Warranties”</b>	The representations and warranties of the Seller set out in the Mortgage Sale Agreement;
<b>“Reserve Fund”</b>	The reserve fund that the Guarantor LP will be required to establish in the GDA Account which will be credited with part of an advance from the proceeds of the Intercompany Loan (in the Guarantor LP’s discretion) and the proceeds of Available Revenue Receipts up to an amount equal to the Reserve Fund Required Amount;
<b>“Reserve Fund Required Amount”</b>	Nil, unless the ratings of the Bank’s short-term, unsecured, unsubordinated and unguaranteed debt obligations or issuer default ratings, as applicable, by the Rating Agencies fall below the threshold ratings P-1, F1 short-term and A long-term, or R-1(middle) short term and A(low) long-term (in respect of Moody’s, Fitch and DBRS respectively), as applicable, of the unsecured, unsubordinated and unguaranteed debt

obligations or issuer default ratings, as applicable, of the Issuer by the Rating Agencies (the “**Reserve Fund Required Amount Ratings**”), and then, for so long as such ratings are below the Reserve Fund Required Amount Ratings, an amount equal to the Canadian Dollar Equivalent of Scheduled Interest due on any outstanding series of Covered Bonds over the next 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 (c) and if applicable (d) and/or (e) of the Pre-Acceleration Revenue Priority of Payments;

**“Reserve Fund Required Amount Ratings”**

The meaning given in the definition of “Reserve Fund Required Amount”;

**“Reserve Ledger”**

The ledger on the GDA Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement, to record the crediting of Revenue Receipts to the Reserve Fund and the debiting of such Reserve Fund in accordance with the terms of the Guarantor LP Agreement;

**“Revenue Ledger”**

The ledger of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record credits and debits of Revenue Receipts held by the Cash Manager for and on behalf of the Guarantor LP and/or in the Guarantor LP Accounts;

**“Revenue Receipts”**

- (a) payments of interest (including Accrued Interest and Arrears of Interest as at the relevant Transfer Date of a Loan) and other fees due from time to time under the Loans and other amounts received by the Guarantor LP in respect of the Loans other than the Principal Receipts;
- (b) recoveries of interest from defaulting Borrowers under Loans being enforced; and
- (c) recoveries of interest and/or principal from defaulting Borrowers under Loans in respect of which enforcement procedures have been completed;

**“Scheduled Interest”**

An amount equal to the amount in respect of interest which would have been due and payable under the Covered Bonds on each Interest Payment Date (but excluding any additional amounts relating to premiums, default interest or interest upon interest (“Excluded Scheduled Interest Amounts”) payable by the Bank following an Issuer Event of Default but including such amounts (whenever the same arose) following service of a Guarantor LP Acceleration Notice) as if the Covered Bonds had not become due and repayable prior to their maturity date and, if the applicable pricing supplement specified that an Extended Due for Payment Date is applicable to the relevant Covered Bonds, as if the Final 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), less any additional amounts the Bank would be obliged to pay as a result of any gross-up in respect of any withholding or deduction made under the circumstances set out in Condition 8.01;

**“Scheduled Payment Date”**

In relation to payments under the Covered Bond Guarantee, each Interest Payment Date or the Final Maturity Date as if the Covered Bonds had not become due and repayable prior to their Final Maturity Date;

**“Scheduled Principal”**

An amount equal to the amount in respect of principal which would have been due and repayable under the Covered Bonds on each Interest Payment Date or the Final Maturity Date (as the case may be) as specified in the applicable pricing supplement (but excluding any additional amounts relating to prepayments, early redemption, broken funding indemnities, penalties, premiums or default interest (“Excluded Scheduled Principal Amounts”) payable by the Bank following an Issuer Event of Default but including such amounts (whenever the same arose) following service of a Guarantor LP Acceleration Notice) as if the Covered Bonds had not become due and repayable prior to their maturity date and, if the applicable pricing supplement

specifies that an Extended Due for Payment Date is applicable to the relevant Covered Bonds, as if the Final Maturity Date of the Covered Bonds had been the Extended Due for Payment Date;

<b>“Secured Creditors”</b>	The Bond Trustee (in its own capacity and on behalf of the holders of the Covered Bonds), the holders of the Covered Bonds, the Bank, the Seller, the Servicer, the Account Bank, the GDA Provider, the Stand-by Account Bank, the Stand-by GDA Provider, the Cash Manager, the Swap Providers, the Corporate Services Provider, the Paying Agents and any other person which becomes a Secured Creditor pursuant to the Security Agreement except, pursuant to the terms of the Guarantor LP Agreement, to the extent and for so long as such person is a Limited Partner;
<b>“Security Agreement”</b>	The Security Agreement dated the Programme Establishment Date, and most recently amended and restated as of June 24, 2013, and made by and among the Guarantor LP, the Bond Trustee and certain other Secured Creditors, as the same may be amended, varied, supplemented, restated or extended from time to time;
<b>“Security Documents”</b>	Any documents entered into pursuant to the Security Agreement;
<b>“Security Sharing Agreement”</b>	The security sharing agreement entered into on June 24, 2013, by and among the Seller, Servicer and Cash Manager, the Guarantor LP and the Bond Trustee, as the same may be amended, varied, supplemented, restated or extended from time to time;
<b>“Seller Arranged Policy”</b>	Any property insurance policy arranged by the Seller for the purposes of the Borrower insuring the Property for an amount equal to the full rebuilding cost of the Property;
<b>“series”</b>	series as described under “ <i>Terms and Conditions of the Covered Bonds</i> ” means 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) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices;
<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 Bank, the relevant Dealer(s), the Issuing and Paying Agent, and the Bond Trustee and specified in the applicable pricing supplement;
<b>“Specified Denomination”</b>	In respect of a series of Covered Bonds, the denomination or denominations of such Covered Bonds specified in the applicable pricing supplement;
<b>“Specified Interest Payment Date”</b>	The meaning given in the applicable pricing supplement;
<b>“Specified Period”</b>	The meaning given in the applicable pricing supplement;
<b>“Stand-by Bank Account Agreement”</b>	The amended and restated standby bank account agreement entered into on June 24, 2013, between the Guarantor LP, Standby Account Bank, the Standby GIC Provider, the Cash Manager and the Bond Trustee, as the same may be amended, varied, supplemented or restated from time to time;
<b>“Standby GIC Provider”</b>	The person appointed by the Guarantor LP or the Cash Manager (on its behalf) as such pursuant to the terms the Standby Guaranteed Investment Contract, at such time and for so long as such person is appointed Standby GIC Provider or such other person for the time being acting as standby GIC provider in accordance with the Standby Guaranteed Investment Contract;
<b>“Standby Guaranteed Deposit Account Contract”</b>	The amended and restated standby guaranteed investment contract entered into on June 24, 2013 between the Standby Account Bank, the Standby GDA Provider, the Guarantor LP, the Cash Manager and the Bond Trustee, as the same may be

amended, varied, supplemented or restated from time to time;

<b>“Standby Guaranteed Investment Contract”</b>	The standby guaranteed investment contract entered into on the Programme Establishment Date, and most recently amended and restated as of June 24, 2013, between the Standby Account Bank, the Standby GIC Provider, the Guarantor LP, the Cash Manager and the Bond Trustee as the same may be amended, varied, supplemented or restated from time to time;
<b>“Subsidiary”</b>	Any company which is for the time being a subsidiary (within the meaning of the <i>Bank Act</i> (Canada));
<b>“Substitute Assets”</b>	The classes and types of assets from time to time eligible as substitute assets under the Guide, including securities issued by the Government of Canada, repos of Government of Canada securities having terms acceptable to CMHC and sums derived from Government of Canada securities or repos of Government of Canada securities;
<b>“Swap Agreements”</b>	The Covered Bond Swap Agreement together with the Interest Swap Agreement, as the same may be amended, varied, supplemented or restated from time to time, and each a “Swap Agreement”;
<b>“Swap Collateral”</b>	At any time, any asset (including, without limitation, cash and/or securities) which is paid or transferred by a Swap Provider to the Guarantor LP as collateral to secure 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;
<b>“Swap Collateral Excluded Amounts”</b>	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 Guarantor LP including Swap Collateral, which is to be returned to the relevant Swap Provider from time to time in accordance with the terms of the Swap Agreements and ultimately upon termination of the relevant Swap Agreement;
<b>“Swap Event Ratings”</b>	The ratings of the relevant Swap Provider’s unsecured, unsubordinated and unguaranteed debt obligations or issuer default ratings, as applicable, by the Rating Agencies fall below (i) the threshold ratings P-1 short-term or A-2 long-term (Moody’s), R-1 (middle) short-term and A(high) long-term (DBRS), or F1 short-term or A long-term (Fitch); or (ii) Prime-2 short-term or A3 long-term (Moody’s), R-2 (high) short-term and BBB(high) long-term (DBRS), or F3 short-term and BBB-long-term (Fitch);
<b>“Swap Provider Default”</b>	The occurrence of an Event of Default or Termination Event (each as defined in each of the Swap Agreements) where the relevant Swap Provider is the Defaulting Party or the sole Affected Party (each as defined in relevant Swap Agreement), as applicable, other than a Swap Provider Downgrade Event;
<b>“Swap Provider Downgrade Event”</b>	The occurrence of an Additional Termination Event or an Event of Default (each 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;
<b>“Swap Providers”</b>	Covered Bond Swap Provider and Interest Swap Provider, and each a “Swap Provider”;
<b>“TARGET2 Business Day”</b>	Any day in which Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System is open for business;
<b>“Third Party Amounts”</b>	Each of: (a) payments of insurance premiums, if any, due to the Seller in respect of any

Seller Arranged Policy to the extent not paid or payable by the Seller (or to the extent such insurance premiums have been paid by the Seller in respect of any Further Advance which is not purchased by the Seller to reimburse the Seller);

- (b) amounts under an unpaid direct debit which are repaid by the Seller to the bank making such payment if such bank is unable to recoup that amount itself from its customer's account;
- (c) payments by the Borrower of any fees (including early repayment fees) and other charges which are due to the Seller;
- (d) any amount received from a Borrower for the express purpose of payment being made to a third party for the provision of a service (including giving insurance cover) to any of that Borrower or the Seller or the Guarantor LP;

which amounts may be paid daily from moneys on deposit in the Guarantor LP Accounts or the proceeds of the sale of Substitute Assets;

**“Total Credit Commitment”**

The combined aggregate amount available to be drawn by the Guarantor LP under the terms of Intercompany Loan Agreement, subject to increase and decrease in accordance with the terms of the Intercompany Loan Agreement, which amount is initially \$25 billion;

**“Transaction Account”**

The account (to the extent maintained) designated as such in the name of the Guarantor LP held with the Account Bank and maintained subject to the terms of the Bank Account Agreement and the Security Agreement or such other account as may for the time being be in place with the prior consent of the Bond Trustee, and designated as such;

**“Transaction Documents”**

Means, collectively:

- (a) Mortgage Sale Agreement;
- (b) Servicing Agreement;
- (c) Asset Monitor Agreement;
- (d) Intercompany Loan Agreement;
- (e) Guarantor LP Agreement;
- (f) Cash Management Agreement;
- (g) Interest Rate Swap Agreement;
- (h) Covered Bond Swap Agreement;
- (i) Guaranteed Deposit Account Contract;
- (j) Bank Account Agreement;
- (k) Standby Guaranteed Deposit Account Contract;
- (l) Standby Bank Account Agreement;
- (m) Corporate Services Agreement;
- (n) Security Agreement and any other Security Documents;
- (o) Trust Deed;
- (p) Agency Agreement;
- (q) Dealer Agreement;
- (r) U.S. Underwriting Agreement;
- (s) Custodial Agreement;
- (t) each applicable pricing supplement in the case of each tranche of Covered Bonds;
- (u) each subscription agreement (as applicable in the case of each tranche of

Covered Bonds subscribed pursuant to a subscription agreement);

- (v) Master Definitions and Construction Agreement; and
- (w) Security Sharing Agreement.

<b>“Transfer Agent”</b>	BNY Trust Company of Canada acting through its offices located at 320 Bay Street, 11 <sup>th</sup> Floor, Toronto, Ontario, Canada M5H 4A6 together with any successor, or as otherwise specified in the applicable pricing supplement;
<b>“Transfer Date”</b>	Each date of transfer of any New Loans and their Related Security to the Guarantor LP in accordance with the Mortgage Sale Agreement;
<b>“Trigger Event Date”</b>	The date the ratings of the Covered Bond Swap Provider’s unsecured, unsubordinated and unguaranteed debt obligations or issuer default ratings, as applicable, fall below the threshold ratings Baa1, BBB+, and BBB(high) long-term (in respect of Moody’s, Fitch and DBRS respectively), as applicable, or an Issuer Event of Default occurs, unless, other than in the case of an Issuer Event of Default that is a pending or actual insolvency, the Guarantor LP (i) has Loans and their Related Security or Substitute Assets having, in the aggregate, a LTV Adjusted True Balance or being in a principal amount, respectively, that exceeds the amount of assets required to meet the Asset Coverage Test and/or Amortization Test, as applicable, by the amount of the mark-to-market exposure of the Covered Bond Swap Provider in respect of the Covered Bond Swap Agreement that would exist if cashflows were being exchanged under the Covered Bond Swap Agreement, while such circumstances exist, and (ii) the Bank has notified the Guarantor LP within ten (10) Business Days following such event that the amount of the Demand Loan will be reduced by the amount of such assets for the duration of such period;
<b>“True Balance”</b>	<p>For any Loan as at any given date, the aggregate (but avoiding double counting) of:</p> <ul style="list-style-type: none"><li>(a) the original principal amount advanced to the relevant Borrower and any further amount advanced on or before the given date to the relevant Borrower secured or intended to be secured by the related Mortgage; and</li><li>(b) any interest, disbursement, legal expense, fee, charge, rent, service charge, premium or payment which has been properly capitalized in accordance with the relevant Mortgage Conditions or with the relevant Borrower’s consent and added to the amounts secured or intended to be secured by that Loan; and</li><li>(c) any other amount (including, for the avoidance of doubt, Accrued Interest and Arrears of Interest) which is due or accrued (whether or not due) and which has not been paid by the relevant Borrower and has not been capitalized in accordance with the relevant Mortgage Conditions or with the relevant Borrower’s consent but which is secured or intended to be secured by that Loan, as at the end of the Business Day immediately preceding that given date;</li></ul> <p><i>minus</i></p> <ul style="list-style-type: none"><li>(d) any repayment or payment of any of the foregoing made on or before the end of the Business Day immediately preceding that given date and excluding any retentions made but not released and any Additional Loan Advances committed to be made but not made by the end of the Business Day immediately preceding that given date; and</li></ul>
<b>“U.S. Underwriting Agreement”</b>	The U.S. Underwriting Agreement governed by the laws of the state of New York and entered into in respect of issuances of covered bonds under the Programme which are registered with the SEC.

## **Certificate of the Dealer**

Dated: March 13, 2015

To the best of our knowledge, information and belief, the short form prospectus, together with the documents incorporated in the prospectus by reference, as supplemented by the foregoing, will, as of the date of the last supplement to the prospectus relating to the securities offered by the prospectus and the supplement, constitute full, true and plain disclosure of all material facts relating to the securities offered by the prospectus and the supplement as required by the securities legislation of all provinces and territories of Canada.

RBC DOMINION SECURITIES INC.

(signed)

*“Peter Hawkrigg”*