

PROSPECTUS DATED 25 JULY 2011



**THE BANK OF NOVA SCOTIA**

*(a Canadian chartered Bank)*

**U.S.\$15,000,000,000**

**Global Public Sector Covered Bond Programme  
guaranteed as to payments of interest and principal by  
SCOTIA COVERED BOND TRUST**

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

Under this U.S.\$15 billion global public sector covered bond programme, The Bank of Nova Scotia (the "**Bank**"), as issuer (the "**Issuer**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue Covered Bonds denominated in any currency agreed between the Issuer and the relevant Dealers. This prospectus replaces and supercedes any prospectus or supplement with an earlier date.

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

The Covered Bonds may be issued on a continuing basis to one or more of the Dealers as specified under *Plan of Distribution* herein and any additional Dealers appointed under the Programme from time to time by the Issuer, which appointment may be for a specific issue or on an ongoing basis. References in this prospectus (the "**Prospectus**") to the "relevant Dealers" will, in the case of an issue of Covered Bonds which are to be subscribed for or purchased by one or more Dealers, be to all Dealers agreeing to subscribe for or purchase such Covered Bonds.

The aggregate principal amount of Covered Bonds outstanding will not exceed U.S.\$15 billion or the equivalent in other currencies. The Issuer and the Guarantor may increase the Programme Size in accordance with the terms of the Programme Agreement and applicable regulatory requirements.

Application has been made to the Financial Services Authority (the "**FSA**" or the "**UK Listing Authority**", as applicable) in its capacity as competent authority under the Directive 2003/71/EC and the *Financial Services and Markets Act 2000*, as amended (the "**FSMA**") for Covered Bonds issued under the Programme during the period of 12 months from the date of this Prospectus to be admitted to the official list of the UK Listing Authority (the "**Official List**") and to London Stock Exchange plc (the "**London Stock Exchange**") for such Covered Bonds to be admitted to trading on the London Stock Exchange's Regulated Market (the "**Market**") and/or on the London Stock Exchange's Professional Securities Market (the "**PSM**"). The Market is a regulated market for the purposes of Directive 2004/39/EC (the "**Markets in Financial Instruments Directive**"). The PSM is not a regulated market for the purposes of the Markets in Financial Instruments Directive. References in this Prospectus to Covered Bonds being listed (and all related references) will mean that such Covered Bonds have been admitted to trading on the Market and/or the PSM and have been admitted to the Official List.

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

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

The Programme provides that Covered Bonds may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or regulated or unregulated markets as may be agreed between the Issuer, the Guarantor, the Bond Trustee and the relevant Dealers. The Issuer may also issue unlisted Covered Bonds and/or Covered Bonds not admitted to trading on any regulated or unregulated market.

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

The Covered Bonds will constitute deposit liabilities of the Issuer for purposes of the *Bank Act (Canada)*, except in certain limited circumstances: see *Terms and Conditions of the Covered Bonds—Events of Default, Acceleration and Enforcement—Issuer Event of Default and—Meetings of Covered Bondholders, Modifications, Waiver and Substitution*. The Covered Bonds will rank *pari passu* with all deposit liabilities of the Issuer without any preference among themselves and (save for any obligations required to be preferred by law) at least *pari passu* with all other present and future unsubordinated and unsecured obligations of the Issuer from time to time outstanding. The Covered Bonds will not be deposits insured under the *Canada Deposit Insurance Corporation Act* or under any other governmental insurance scheme of any country. The Covered Bonds will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer, except in certain limited circumstances: see *Terms and Conditions of the Covered Bonds—Events of Default, Acceleration and Enforcement—Issuer Event of Default and—Meetings of Covered Bondholders, Modifications, Waiver and Substitution*. The Covered Bonds will be secured by a pool of Loans that is insured by the *Canada Mortgage and Housing Corporation*: see *Structure Overview—Structure Overview—Portfolio*.

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

The Covered Bonds issued under the Programme are expected on issue to be assigned a "AAA" rating by Fitch Inc., a "Aaa" rating by Moody's Investors Service, Inc and a "AAA" rating by DBRS Limited. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

Fitch Inc., Moody's Investors Service, Inc and DBRS Limited are not established in the European Union. Their ratings will be endorsed by Fitch Ratings Limited, Moody's Investors Service Ltd and DBRS Ratings Limited, respectively (the "**Endorsing Rating Agencies**"). Each Endorsing Rating Agency has applied for registration under Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (as amended) (the "**CRA Regulation**"). Each of the Endorsing Rating Agencies operated in the European Community before 7 June 2010 and has submitted an application for registration in accordance with the CRA Regulation and such application for registration has not been refused.

*Arrangers for the Programme*

**Barclays Capital and Scotia Capital**

*Dealers*

**BARCLAYS CAPITAL**

**BNP PARIBAS**

**BofA MERRILL LYNCH**

**CITI**

**DEUTSCHE BANK**

**HSBC**

**MORGAN STANLEY**

**SCOTIA CAPITAL**

The date of this Prospectus is 25 July 2011.

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This Prospectus (excluding the documents incorporated by reference at paragraphs 5 to 7 under the heading *Documents Incorporated By Reference*) has been approved by the UK Listing Authority as a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the "**Prospectus Directive**") and constitutes listing particulars for the purposes of L.R 2.2.11 of the listing rules and has been published in accordance with the prospectus rules made under the FSMA. This Prospectus is not a prospectus for the purposes of Section 12(a)(2) or any other provision or order under the Securities Act.

The Issuer and the Guarantor (the "**Responsible Persons**") each accept responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of each of the Responsible Persons (each having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Copies of each Final Terms Document (in the case of Covered Bonds to be admitted to the Official List) will be available from the registered office of the Issuer and from the specified office of each of the Paying Agents. Final Terms Documents relating to the Covered Bonds which are admitted to trading on the Market or the PSM will also be available for inspection on the website of the Regulatory News Service operated by the London Stock Exchange at [www.londonstockexchange.com/engb/pricesnews/marketnews/](http://www.londonstockexchange.com/engb/pricesnews/marketnews/).

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

The information contained in this Prospectus was obtained from the Issuer, the Guarantor and other sources, but no assurance can be given by the Dealers, the Guarantor Trustee, the Bond Trustee or the Security Trustee as to the accuracy or completeness of this information. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers, the Guarantor Trustee, the Bond Trustee or the Security Trustee as to the accuracy or completeness of the information contained or incorporated by reference in this Prospectus or any other information provided by the Issuer or the Guarantor in connection with the Programme or any Covered Bonds. None of the Dealers, the Guarantor Trustee, the Bond Trustee or the Security Trustee accepts any liability in relation to the information contained or incorporated by reference in this Prospectus or any other information provided by the Issuer or the Guarantor in connection with the Programme or any Covered Bonds.

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

No Person is or has been authorised by the Issuer, the Guarantor, the Guarantor Trustee, any of the Dealers, the Bond Trustee or the Security Trustee to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the Programme or any Covered Bonds and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Guarantor, the Guarantor Trustee, any of the Dealers, the Bond Trustee or the Security Trustee.

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

Neither this Prospectus, including the documents which are deemed to be incorporated herein by reference, nor any other information supplied in connection with the Programme or any Covered Bonds (i) is intended to provide the basis of any credit or other evaluation, or (ii) should be considered as a recommendation by the Issuer, the Guarantor, the Guarantor Trustee, any of the Dealers, the Bond Trustee or the Security Trustee that any recipient of this Prospectus or any other information supplied in connection with the Programme or any Covered Bonds should purchase any Covered Bonds. Each investor contemplating purchasing any Covered Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the Guarantor. Neither this Prospectus nor any other information supplied in connection with the

Programme or the issue of any Covered Bonds constitutes an offer or invitation by or on behalf of the Issuer, the Guarantor, the Guarantor Trustee, any of the Dealers, the Bond Trustee or the Security Trustee to any Person to subscribe for or to purchase any Covered Bonds.

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

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

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

This base prospectus has been prepared on the basis that any offer of Covered Bonds in any member state of the European Economic Area (each, a "**Member State**") which has implemented the Prospectus Directive (each, a "**Relevant Member State**") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of any Covered Bonds. Accordingly, any Person making or intending to make an offer in that Relevant Member State of any Covered Bonds which are the subject of an offering contemplated in this Prospectus as completed by a Final Terms Document in relation to the offer of those Covered Bonds may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer have authorised, nor do they authorise, the making of any offer of any Covered Bonds in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

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

In connection with the issue of any Tranche of Covered Bonds, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or any Persons acting on behalf of any Stabilising Manager) in the applicable Final Terms Document may over-allot Covered Bonds or effect transactions with a view to supporting the market price of the

Covered Bonds of the Series (as defined below) of which such Tranche forms part at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or Persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Covered Bonds is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the Issue Date of the relevant Tranche of Covered Bonds and 60 days after the date of the allotment of the relevant Tranche of Covered Bonds. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or Person(s) acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

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

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

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

Scotia Capital is the division of the Bank which conducts its wholesale banking activities, including through various subsidiaries. Scotia Capital Inc. is authorised and regulated by the FSA with respect to its activities in the United Kingdom.

The Guarantor Trustee is an indirect, wholly-owned Canadian subsidiary of the Bank. The Bank holds, indirectly, all of the voting shares of the Guarantor Trustee, which is an Affiliate of the Bank.

## **U.S. INFORMATION**

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

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

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

Notwithstanding anything herein to the contrary, from the commencement of discussions with respect to any transaction contemplated by this Prospectus, all persons may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of any transaction contemplated by this Prospectus and all materials of any kind (including opinions and other tax analyses) that are provided to such persons relating to such tax treatment and tax structure, except to the extent that any such disclosure could reasonably be expected to cause any offering pursuant to the Programme not to be in compliance with securities laws.

For purposes of this paragraph, the tax treatment of a transaction is the purported or claimed U.S. federal income tax treatment of that transaction and the tax structure of a transaction is any fact that may be relevant to understanding the purported or claimed U.S. federal income tax treatment of that transaction.

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

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

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

Each purchaser or holder of Covered Bonds represented by a Rule 144A Global Covered Bond (as defined herein), or any Covered Bond issued in registered form in exchange or substitution therefor, will be deemed by its acceptance or purchase of any such Covered Bond to have made certain representations and agreements intended to restrict the resale or other transfer of such Covered Bonds as set out in *Plan of Distribution*. Unless otherwise stated, terms used in this paragraph have the meanings given to them in Form of the Covered Bonds.

### **NOTICE TO NEW HAMPSHIRE RESIDENTS**

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

### **AVAILABLE INFORMATION**

To permit compliance with Rule 144A in connection with any resales or other transfers of Covered Bonds, the Issuer and Guarantor have undertaken in the Trust Deed to furnish, upon the request of a holder of such Covered Bonds or any beneficial interest therein, to such holder or to a prospective purchaser designated by him, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, the Issuer and Guarantor are neither subject to reporting under Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder. The Issuer and Guarantor are Foreign Private Issuers under the Exchange Act.

## SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

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

## FORWARD-LOOKING STATEMENTS

From time to time, the Issuer or the Guarantor may make written or oral forward-looking statements. Statements of this type are included in this Prospectus and the documents incorporated by reference in this Prospectus, and may be included in other filings with Canadian securities regulators or the U.S. Securities and Exchange Commission, or in other communications. All such statements are made pursuant to the "safe harbour" provisions of the United States Private Securities Litigation Reform Act of 1995 and any applicable Canadian securities legislation. Forward-looking statements may include comments with respect to the Bank's objectives, strategies to achieve those objectives, expected financial results (including those in the area of risk management), and the outlook for the Bank's businesses and for the Canadian, United States and global economies. Such statements are typically identified by words or phrases such as "believe," "expect," "anticipate," "intent," "estimate," "plan," "may increase," "may fluctuate," and similar expressions of future or conditional verbs, such as "will," "should," "would" and "could."

By their very nature, forward looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, and the risk that predictions and other forward looking statements will not prove to be accurate. Do not unduly rely on forward looking statements, as a number of important factors, many of which are beyond the control of the Bank and the Guarantor, could cause actual results to differ materially from the estimates and intentions expressed in such forward looking statements. These factors include, but are not limited to: the economic and financial conditions in Canada and globally; fluctuations in interest rates and currency values; liquidity; significant market volatility and interruptions; the failure of third parties to comply with their obligations to the Bank and its affiliates; the effect of changes in monetary policy; legislative and regulatory developments in Canada and elsewhere, including changes in tax laws; the effect of changes to the Bank's credit ratings; amendments to, and interpretations of, risk-based capital guidelines and reporting instructions and liquidity regulatory guidance; operational and reputational risks; the risk that the Bank's risk management models may not take into account all relevant factors; the accuracy and completeness of information the Bank receives on customers and counterparties; the timely development and introduction of new products and services in receptive markets; the Bank's ability to expand existing distribution channels and to develop and realise revenues from new distribution channels; the Bank's ability to complete and integrate acquisitions and its other growth strategies; changes in accounting policies and methods the Bank uses to report its financial condition and the results of its operations, including uncertainties associated with critical accounting assumptions and estimates; the effect of applying future accounting changes; global capital markets activity; the Bank's ability to attract and retain key executives; reliance on third parties to provide components of the Bank's business infrastructure; unexpected changes in consumer spending and saving habits; technological developments; fraud by internal or external parties, including the use of new technologies in unprecedented ways to defraud the Bank or its customers; consolidation in the Canadian financial services sector; competition, both from new entrants and established competitors; judicial and regulatory proceedings; acts of God, such as earthquakes and hurricanes; the possible impact of international conflicts and other developments, including terrorist acts and war on terrorism; the effects of disease or illness on local, national or international economies; disruptions to public infrastructure, including transportation, communication, power and water; and the Bank's anticipation of and success in managing the risks implied by the foregoing. A substantial amount of the Bank's business involves making loans or otherwise committing resources to specific companies, industries or countries. Unforeseen events affecting such borrowers, industries or countries could have a material adverse effect on the Bank's financial results, businesses, financial condition or liquidity. These and other factors may cause the Bank's actual performance to differ materially from that contemplated by forward looking statements. For more

information see the management's discussion and analysis of financial condition and results of operation starting on page 62 of the Bank's 2010 Annual Report incorporated herein by reference.

The preceding list of important factors is not exhaustive. When relying on forward-looking statements to make decisions with respect to the Bank and its securities or the Guarantor, investors and others should carefully consider the preceding factors, other uncertainties and potential events. The Bank and the Guarantor do not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by or on their behalf.

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

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

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

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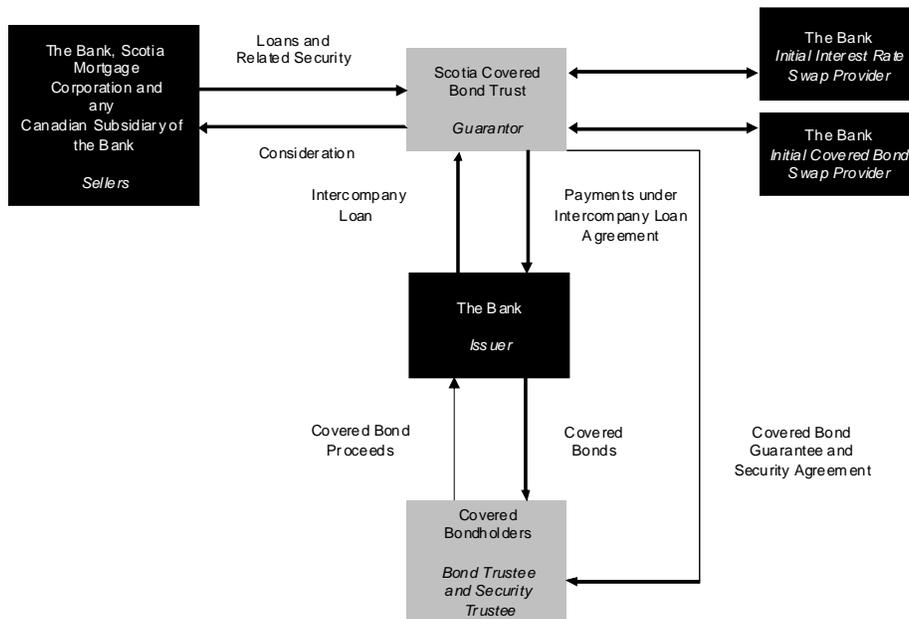
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## STRUCTURE OVERVIEW

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

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

### Structure Diagram



### Structure Overview

- Programme*: Under the terms of the Programme, the Issuer may issue a Tranche of Covered Bonds on the Issue Date set out in the applicable Final Terms Document. The Covered Bonds will constitute deposit liabilities of the Issuer for purposes of the Bank Act, except in certain limited circumstances: see *Terms and Conditions of the Covered Bonds—Events of Default, Acceleration and Enforcement—Issuer Event of Default* and *—Meetings of Covered Bondholders, Modifications, Waiver and Substitution*. The Covered Bonds will rank *pari passu* with all deposit liabilities of the Issuer without any preference among themselves and (save for any obligations required to be preferred by law) at least *pari passu* with all other present and future unsubordinated and unsecured obligations of the Issuer from time to time outstanding.

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

The Covered Bonds will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer, except in certain limited circumstances: see *Terms and Conditions of the Covered Bonds—Events of Default, Acceleration and Enforcement—Issuer Event of Default* and *—Meetings of Covered Bondholders, Modifications, Waiver and Substitution*.

- *Covered Bond Guarantee:* Under the terms of the Trust Deed, the Guarantor has provided a guarant pursuant to which it has agreed to pay an amount equal to the Guaranteed Amounts when the same becom Due for Payment but which would otherwise be unpaid by the Issuer. The obligations of the Guarant under the Covered Bond Guarantee constitute absolute and (following service of a Notice to Pay or Guarantor Acceleration Notice) unconditional and irrevocable obligations of the Guarantor, secured provided for in the Security Agreement. The Bond Trustee will be required to serve a Notice to Pay on t Guarantor following the occurrence of an Issuer Event of Default and service of an Issuer Accelerati Notice. A Guarantor Acceleration Notice may be served by the Bond Trustee on the Guarantor followi the occurrence of a Guarantor Event of Default.

If a Guarantor Acceleration Notice is served, the Covered Bonds will (if an Issuer Acceleration Notice h not already been served) become immediately due and payable as against the Issuer and the Guaranto obligations under the Covered Bond Guarantee will be accelerated. Payments made by the Guarant under the Covered Bond Guarantee will be made subject to, and in accordance with, the Guarantee Priori of Payments or the Post-Enforcement Priority of Payments, as applicable. The recourse of the Cover Bondholders to the Guarantor under the Covered Bond Guarantee will be limited to the Charged Propert and will be subject to the applicable Priority of Payments.

- *Security:* To secure its obligations under the Covered Bond Guarantee and the Transaction Documents which it is a party, the Guarantor has granted security over the Charged Property (which consi principally of the Guarantor's interest in the Portfolio, any Substitution Assets, any Authorised Investmen any amounts on deposit in the Guarantor Accounts and the Guarantor's interest in the Transacti Documents to which it is a party) in favour of the Security Trustee (for Covered Bondholders and on beh: of the other Secured Creditors) pursuant to the Security Agreement.

- *Portfolio:* The Portfolio will consist solely of Loans and Related Security originated or acquired by the Sellers and sold by the Sellers to the Guarantor. The Loans are Canadian first lien residential loans insured under CMHC Mortgage Insurance as to principal and interest ("**CMHC Insured Loans**") by Canada Mortgage and Housing Corporation ("**CMHC**") under the *National Housing Act* (Canada) in accordance with the terms of CMHC Mortgage Insurance. The Related Security in respect of a Loan will include the benefit of CMHC Mortgage Insurance relating to such Loan. The Loans will be serviced by the Servicers pursuant to the terms of the Servicing Agreement (see "*Summary of the Principal Documents—Servicing Agreement*"). The Servicers, as CMHC Approved Lenders, have agreed to exercise reasonable care and prudence in the making of the Loans, in the administration of the Loans (including the filing of any claims under the applicable CMHC Mortgage Insurance), in the collection of the repayment of the Loans and in the protection of the security for each Loan, in addition to complying with all applicable eligibility, origination, servicing, realisation and other relevant criteria of CMHC.

CMHC is Canada's national housing agency, and is a Canadian federal Crown corporation, wholly owned by the Government of Canada. CMHC's obligations are those of Her Majesty The Queen in Right of Canada, and as such carry the full faith and credit of the Government of Canada. CMHC derives its authorities from the *Canada Mortgage and Housing Corporation Act* (Canada), the *National Housing Act* (Canada) and, as a federal Crown corporation, the *Financial Administration Act* (Canada). CMHC insures the payment of principal and interest on first mortgage loans on private residential properties in Canada on and subject to the terms and conditions of the applicable CMHC Mortgage Insurance. As of the date hereof, CMHC Insured Loans are considered zero per cent. credit risk weighted by OSFI (as defined below).

- *Intercompany Loan Agreement:* Under the terms of the Intercompany Loan Agreement, the Issuer agrees to make available to the Guarantor the Intercompany Loan, comprised of the Guarantee Loan and the Demand Loan in a combined aggregate amount up to the Total Credit Commitment. The Intercompany Loan will be denominated in Canadian Dollars. The interest rate on the Intercompany Loan will be a Canadian Dollar floating rate to be determined by the Issuer. Interest payments due under the Intercompany Loan will not exceed the floating amounts received by the Guarantor under the Interest Rate Swap Agreement less the sum of a minimum spread and an amount for certain expenses of the Guarantor.

The Guarantee Loan will be in an amount equal to the balance of outstanding Covered Bonds at any relevant time plus an amount equal to that portion of the Portfolio required as additional collateral for the Covered Bonds in excess of the amount of then outstanding Covered Bonds as determined in accordance with the Asset Coverage Test: see *Summary of the Principal Documents—Declaration of Trust—Asset Coverage Test*. The Guarantee Loan, together with any accrued and unpaid interest thereon, will be repaid in accordance with the applicable Priority of Payments and is subordinated to the Demand Loan and the Covered Bond Guarantee in accordance with such Priority of Payments. The Demand Loan will be a revolving credit facility, the outstanding balance of which will be equal to the difference between the balance of the Intercompany Loan and the balance of the Guarantee Loan at any relevant time. The respective balances 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 and for so long as the Asset Coverage Test is not satisfied the Demand Loan cannot have a positive balance.

At any time prior to a Demand Loan Repayment Event, the Guarantor may re-borrow any amount repaid by the Guarantor under the Intercompany Loan for a permitted purpose provided, among other things: (i) such re-borrowing does not result in the Intercompany Loan exceeding the Total Credit Commitment; (ii) such re-borrowing does not result in the Guarantor being unable to satisfy the Asset Coverage Test on a *pro forma* basis following such re-borrowing under the Intercompany Loan and the application of the proceeds thereof; and (iii) no Issuer Event of Default or Guarantor Event of Default has occurred. Unless otherwise agreed by the Issuer and subject to Rating Agency Confirmation, no further Advances will be made to the Guarantor under the Intercompany Loan following the occurrence of a Demand Loan Repayment Event.

To the extent the Portfolio increases or is required to be increased to meet the Asset Coverage Test, the Issuer may increase the Total Credit Commitment by written notice to the Guarantor in order to enable the Guarantor to acquire Additional Loans and their Related Security from any Seller.

If a Demand Loan Repayment Event has not occurred, subject to the applicable Priority of Payments, the principal amount of the Demand Loan or any portion thereof will be repayable no later than the first Guarantor Payment Date following the date that is 60 days after a demand is made therefor by the Issuer by notice in writing to the Guarantor, *provided* that the Cash Manager has determined the outstanding balance of the Demand Loan by calculating the Asset Coverage Test on the Calculation Date immediately prior to such Guarantor Payment Date having taken into account such repayment and the Cash Manager has confirmed that the Asset Coverage Test will continue to be met after giving effect to such repayment. If on such repayment date the Asset Coverage Test will not be satisfied after giving effect to such repayment, no amount will be repayable on the Demand Loan on such Guarantor Payment Date.

The Guarantor will be required to repay any amount of the Demand Loan that exceeds the Demand Loan Contingent Amount, but not more than such amount, on the first Guarantor Payment Date following 60 days after the occurrence of a Demand Loan Repayment Event. Following such Demand Loan Repayment Event, the Guarantor will be required to repay the full amount of the then outstanding Demand Loan on the date on which the Asset Percentage is next calculated (whether or not such calculation is a scheduled calculation or a calculation made at the request of the Issuer). Repayment of any amount outstanding under the Demand Loan will be subject to the Asset Coverage Test being met on the date of repayment, in the case of a repayment to be made on a Calculation Date, or on the Calculation Date immediately prior to the relevant Guarantor Payment Date, in the case of a repayment to be made on a Guarantor Payment Date, after giving effect to such repayment.

The Guarantor will repay the principal on the Demand Loan in accordance with the applicable Priority of Payments and the terms of the Intercompany Loan Agreement, using (i) funds being held for the account of the Guarantor by its service providers and/or funds in the Guarantor Accounts; and/or (ii) proceeds from the sale of Substitution Assets and/or Authorised Investments, as the case may be; and/or (iii) proceeds from the sale of Selected Loans subject to a right of pre-emption on the part of the Sellers: see *Cashflows*.

Payments by the Issuer of amounts due under the Covered Bonds are not conditional upon receipt by the Issuer of payments from the Guarantor pursuant to the Intercompany Loan Agreement. Amounts owed by

the Guarantor under the Guarantee Loan will be subordinated to amounts owed by the Guarantor under the Demand Loan and the Covered Bond Guarantee.

- *Proceeds of the Intercompany Loan:* The Guarantor will use the initial Advance to purchase the Initial Portfolio consisting of Loans and their Related Security from the relevant Seller(s) in accordance with the terms of the Mortgage Sale Agreement and use additional Advances (i) to purchase Additional Loans and their Related Security from the relevant Seller(s) pursuant to the terms of the Mortgage Sale Agreement; (ii) to make Additional Loan Advances; (iii) to invest in Substitution Assets (in an amount up to but not exceeding the prescribed limit in the Declaration of Trust) and to make investments in Authorised Investments; (iv) to make a deposit of the proceeds in the GIC Account (including, without limitation, to fund the Reserve Fund to an amount not exceeding the limit prescribed in the Declaration of Trust); (v) to make any payment required to be made to CMHC, if any, to ensure that the CMHC Mortgage Insurance in respect of each Loan in the Portfolio remains in full force and effect; and/or (vi) subject to written confirmation from the Cash Manager that the Asset Coverage Test is met on the relevant repayment date, in the case of a repayment to be made on a Calculation Date, or on the Calculation Date immediately prior to the relevant Guarantor Payment Date, in the case of a repayment to be made on a Guarantor Payment Date, both before and immediately following the making of the relevant repayment, to repay Subordinated Advances (excluding Deferred Consideration Subordinated Advances if the Subordinated Loan Provider is a Seller), if any, under the Subordinated Loan Agreement.
- *Consideration:* Under the terms of the Mortgage Sale Agreement, the consideration payable to the relevant Seller(s) for the sale of Loans and their Related Security to the Guarantor will be a combination of (i) a cash payment in Canadian Dollars made by the Guarantor in the manner that such Seller(s) directs from the proceeds of either an Advance under the Intercompany Loan Agreement or, if there has been a breach of the Asset Coverage Test, an Asset Coverage Test Subordinated Advance under the Subordinated Loan Agreement made on the date of such sale and/or Available Principal Receipts paid in accordance with the Pre-Acceleration Principal Priority of Payments, and (ii) Deferred Consideration which will be paid by the Guarantor on each Guarantor Payment Date, in accordance with the applicable Priority of Payments or by way of set-off against (as described below), or application of, Deferred Consideration Subordinated Advances in accordance with the Declaration of Trust. If the Seller is the Subordinated Loan Provider and the amount of Deferred Consideration payable to such Seller by the Guarantor is greater than the funds available to the Guarantor to make such payments, such payments will be satisfied by application of the amounts advanced by the Subordinated Loan Provider to the related Deferred Consideration Subordinated Advance. If the Seller is not the Subordinated Loan Provider and the amount of Deferred Consideration payable to such Seller by the Guarantor is greater than the funds available to the Guarantor to make such payments, such payments will be satisfied by application of the proceeds of a Deferred Consideration Subordinated Advance made for such purpose, subject in each case to the provisions of the Declaration of Trust.
- *Subordinated Loan Agreement:* Under the terms of the Subordinated Loan Agreement, the Subordinated Loan Provider will make Subordinated Advances available to the Guarantor. If, on any Guarantor Payment Date, there is a Deferred Consideration Shortfall, the Subordinated Loan Provider will make a Deferred Consideration Subordinated Advance in an amount equal to the Deferred Consideration Shortfall and any Additional Amount on such Guarantor Payment Date. If on any Calculation Date, there is a breach of the Asset Coverage Test, the Guarantor may request an Asset Coverage Test Subordinated Advance. The Guarantor may use an Asset Coverage Test Subordinated Advance, in its sole discretion: (i) to deposit into the GIC Account; (ii) to invest in Substitution Assets (in an amount not exceeding the prescribed limit in the Declaration of Trust); (iii) to purchase Additional Loans and their Related Security pursuant to the Mortgage Sale Agreement; and/or (iv) to make Additional Loan Advances. The Subordinated Loan will be subordinated to, *inter alia*, payments of principal and interest on the Covered Bonds, and all other payments or provisions ranking in priority to payments to be made to the Subordinated Loan Provider, in each case in accordance with the applicable Priority of Payments: see *Summary of the Principal Documents—Subordinated Loan Agreement*.

- *Servicing*: In their capacity as Servicers, the Sellers have, in consideration of the amounts payable to them as Sellers under the Mortgage Sale Agreement, entered into the Servicing Agreement with the Guarantor and the Security Trustee, pursuant to which they have agreed to provide administrative, collection and other servicing functions in respect of the Loans and their Related Security sold by them to the Guarantor.
- *Cashflows*: Prior to service on the Guarantor of an Asset Coverage Test Breach Notice, a Notice to Pay or a Guarantor Acceleration Notice, or following revocation of an Asset Coverage Test Breach Notice which has been previously served on the Guarantor, the Guarantor will:
  - apply Available Revenue Receipts to pay interest due under the Intercompany Loan to the Issuer, to pay interest and principal due on any Subordinated Advances to the Subordinated Loan Provider, and to pay Deferred Consideration to the relevant Seller(s) in respect of the Loans and their Related Security sold by such Seller(s) to the Guarantor. However, these payments will only be made after payment of certain items ranking higher in the Pre-Acceleration Revenue Priority of Payments (including certain expenses and amounts due to the Interest Rate Swap Provider). For further details of the Pre-Acceleration Revenue Priority of Payments see *Cashflows*; and
  - apply Available Principal Receipts towards acquiring Additional Loans and their Related Security offered by the relevant Seller(s) to the Guarantor, making deposits in the GIC Account, repaying principal due under the Intercompany Loan to the Issuer, funding any liquidity that may be required in respect of Hard Bullet Covered Bonds following any breach of the Pre-Maturity Test and paying Deferred Consideration to the relevant Seller(s) in respect of the Loans and their Related Security sold by such Seller(s) to the Guarantor. For further details of the Pre-Acceleration Principal Priority of Payments: see *Cashflows*.

Following service on the Guarantor of an Asset Coverage Test Breach Notice (which has not been revoked) but prior to service of a Notice to Pay or a Guarantor Acceleration Notice, the Guarantor will continue to apply Available Revenue Receipts and Available Principal Receipts as described above, except that, while any Covered Bonds remain outstanding:

- in respect of Available Revenue Receipts, no further amounts will be paid, amongst other things, to the Issuer under the Intercompany Loan, to the Subordinated Loan Provider under the Subordinated Loan or towards any Deferred Consideration due to the relevant Seller(s) in respect of the Loans and their Related Security sold by such Seller(s) to the Guarantor (but payments will, for the avoidance of doubt, continue to be made under the Interest Rate Swap Agreement); and
- in respect of Available Principal Receipts, no payments will be made other than into the GIC Account and, as required, credited to the Pre-Maturity Liquidity Ledger: see *Cashflows*.

Following service of a Notice to Pay on the Guarantor (but prior to service of a Guarantor Acceleration Notice) the Guarantor will use all Available Revenue Receipts and Available Principal Receipts to pay Guaranteed Amounts in respect of the Covered Bonds when the same will become Due for Payment subject to paying certain higher ranking obligations of the Guarantor in the Guarantee Priority of Payments. In such circumstances, the Issuer will only be entitled to receive payment of any amount owing in respect of the Guarantee Loan and the Subordinated Loan Provider will only be entitled to receive payment of any amount owing in respect of the Subordinated Loan after all amounts due under the Covered Bond Guarantee in respect of the Covered Bonds have been paid in full or have otherwise been provided for (such that the Required Redemption Amount has been accumulated in respect of each outstanding Series of Covered Bonds).

Following service of a Guarantor Acceleration Notice on the Guarantor, the Covered Bonds will become immediately due and payable (if not already due and payable following service of an Issuer Acceleration Notice) and the Bond Trustee will then have a claim against the Guarantor under the Covered Bond Guarantee for an amount equal to the Early Redemption Amount in respect of each Covered Bond together with accrued interest and any other amounts due under the Covered Bonds, other than additional amounts payable under Condition 7, and the Security granted by the Guarantor over the Charged Property will become enforceable. Any funds recovered by the Security Trustee from realisation of the Charged Property following enforcement of the Security created by the Guarantor in accordance with the Security Agreement will be distributed according to the Post-Enforcement Priority of Payments.

- *Asset Coverage Test:* The Programme provides that the assets of the Guarantor are subject to an Asset Coverage Test in respect of the Covered Bonds. Accordingly, the Guarantor must ensure that, as at the end of each Guarantor Calculation Period, the Adjusted Aggregate Loan Amount will be in an amount equal to or in excess of the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as at the end of such Guarantor Calculation Period as calculated on the immediately following Calculation Date. The Asset Coverage Test will be carried out by the Cash Manager on each Calculation Date and will be tested by the Asset Monitor. The Asset Coverage Test will give partial credit to Non-Performing Loans based on the long-term debt credit ratings assigned to CMHC by Moody's and DBRS and to Canada by Fitch from time to time: see *Summary of the Principal Documents—Declaration of Trust—Asset Coverage Test*. Any Loan in the Portfolio which does not have the benefit of CMHC Mortgage Insurance will not be included in calculating the Adjusted Aggregate Loan Amount. A breach of the Asset Coverage Test on a Calculation Date which is not remedied on the immediately succeeding Calculation Date will require the Bond Trustee to serve an Asset Coverage Test Breach Notice on the Guarantor. The Asset Coverage Test Breach Notice will be revoked if, on the immediately succeeding Calculation Date following service of an Asset Coverage Test Breach Notice, the Asset Coverage Test is satisfied and neither a Notice to Pay nor a Guarantor Acceleration Notice has been served.

If an Asset Coverage Test Breach Notice has been delivered by the Bond Trustee and has not been revoked:

- (a) the application of Available Revenue Receipts and Available Principal Receipts will be restricted;
- (b) the Guarantor may be required to sell Selected Loans and remit the proceeds to the GIC Account; and
- (c) the Issuer will not be permitted to make any further issuances of Covered Bonds.

See *Summary of the Principal Documents—Declaration of Trusts—Sale of Selected Loans following service of an Asset Coverage Test Breach Notice*.

If an Asset Coverage Test Breach Notice has been served by the Bond Trustee and not revoked on or before the immediately succeeding Calculation Date following service of such Asset Coverage Test Breach Notice, then an Issuer Event of Default will occur if the Bond Trustee has certified in writing to the Issuer and the Guarantor that such breach is, in its opinion, materially prejudicial to the interests of the Covered Bondholders of any Series and the Bond Trustee will be entitled (and, in certain circumstances may be required) to serve an Issuer Acceleration Notice on the Issuer. Following service of an Issuer Acceleration Notice, the Bond Trustee must serve a Notice to Pay on the Guarantor.

- *Amortisation Test:* Following the service of a Notice to Pay (but prior to service of a Guarantor Acceleration Notice) and for so long as Covered Bonds remain outstanding, the Guarantor must ensure that as at the end of each Guarantor Calculation Period, the Amortisation Test Aggregate Loan Amount will be in an amount at least equal to the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as at the end of such Guarantor Calculation Period as calculated on the immediately following Calculation Date. The Amortisation Test will be carried out by the Cash Manager on each Calculation Date following service of a Notice to Pay and will be tested by the Asset Monitor. The

Amortisation Test will give full or partial credit to Non-Performing Loans based on the long-term debt credit ratings assigned to CMHC by Moody's and DBRS and to Canada by Fitch from time to time: see *Summary of the Principal Documents—Declaration of Trust—Amortisation Test*. Any Loan in the Portfolio which does not have the benefit of CMHC Mortgage Insurance will not be included in calculating the Amortisation Test Aggregate Loan Amount. A breach of the Amortisation Test will constitute a Guarantor Event of Default if the Bond Trustee has certified in writing to the Issuer and the Guarantor that such breach is, in its opinion, materially prejudicial to the interests of the Covered Bondholders of any Series. Following the occurrence of a Guarantor Event of Default, the Bond Trustee will be entitled (and, in certain circumstances may be required) to, by service of a Guarantor Acceleration Notice, accelerate the obligations of the Issuer under the Covered Bonds and require all amounts under the Covered Bond Guarantee to become immediately due and payable. Thereafter, the Security Trustee may enforce the Security over the Charged Property.

- *Interest Rate Swap Agreement:* To provide a hedge against possible variances in the rates of interest payable on the Loans in the Portfolio (which may, for instance, include variable rates of interest or fixed rates of interest) and 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 has entered into the Interest Rate Swap Agreement with the Interest Rate Swap Provider. The Guarantor and the Interest Rate Swap Provider will agree to swap the amount of interest received by the Guarantor (net of expenses) from Borrowers in respect of the Loans in the Portfolio in exchange for an amount determined at the floating rate payable by the Guarantor under the Covered Bond Swap Agreement on a notional amount equivalent to the principal balance of the Loans on which the Guarantor received interest.
- *Covered Bond Swap Agreement:* To provide a hedge against currency and/or other risks in respect of amounts received by the Guarantor under the Interest Rate Swap Agreement and amounts payable or that may become payable in respect of its obligations under the Covered Bond Guarantee, the Guarantor has entered into the Covered Bond Swap Agreement with the Covered Bond Swap Provider, and may enter into one or more new schedules and confirmations thereunder for each Tranche and/or Series of Covered Bonds at the time such Covered Bonds are issued. The Covered Bond Swap Provider and the Guarantor will agree to swap Canadian Dollar floating rate amounts received by the Guarantor under the Interest Rate Swap Agreement into periodic amounts determined at the rate and in the currency specified and agree to exchange notional principal amount in Canadian Dollars and the currency specified in the Covered Bond Swap Agreement relating to the relevant Tranche or Series of Covered Bonds. No cash flows will be exchanged under the Covered Bond Swap Agreement unless and until a Covered Bond Guarantee Activation Event has occurred.
- *Extendable obligations under the Covered Bond Guarantee:* An Extended Due for Payment Date may be specified as applying in relation to a Series of Covered Bonds in the applicable Final Terms Document. This means that if the Issuer fails to pay the Final Redemption Amount of the relevant Series of Covered Bonds on the applicable Final Maturity Date (subject to the applicable grace period), a Notice to Pay will be served by the Bond Trustee on the Guarantor. If the Guaranteed Amounts equal to the Final Redemption Amount of the relevant Series of Covered Bonds are not paid in full by the Extension Determination Date (for example because, following service of a Notice to Pay, the Guarantor has insufficient funds available in accordance with the Guarantee Priority of Payments to pay in full the Guaranteed Amounts equal to the Final Redemption Amount of the relevant Series of Covered Bonds after payment of higher ranking amounts and taking into account amounts ranking *pari passu* in the Guarantee Priority of Payments), then payment of the unpaid portion of the Final Redemption Amount pursuant to the Covered Bond Guarantee will be automatically deferred (without a Guarantor Event of Default occurring as a result of such non-payment). Unless otherwise specified in the applicable Final Terms Document, the unpaid portion of the Final Redemption Amount will be due and payable one year later on the Extended Due for Payment Date (subject to the applicable grace period and *provided* that the Guarantor will, to the extent it has the funds available to it, pay such unpaid portion of the Final Redemption Amount on any Interest Payment Date up until the Extended Due for Payment Date). The Guarantor will pay the Guaranteed Amounts constituting Scheduled Interest on each date specified in the applicable Final Terms Document.

- *Risk Factors:* The Issuer's business activities depend on the level of banking, finance and financial services that its customers require. Customer demand can fluctuate based on prevailing economic, interest rate and other conditions. In significant part, the Issuer funds its business activities through deposits as well as institutional debt and securitisation markets. The Issuer's continued ability to fund its business in this manner depends on a number of factors, including many outside of its control, such as general market conditions. The Guarantor relies on the Servicers to provide administrative, calculation and other servicing functions in relation to the Portfolio. Failure of the Servicers to perform these functions could affect payment on the Covered Bonds. Further, the Guarantor relies on the Swap Providers in order for the Guarantor to hedge against possible variances in the rates of interest payable on the Loans in the Portfolio and to hedge against the interest rate and currency risks in respect of amounts received by the Guarantor on the Loans in the Portfolio and amounts payable by the Guarantor under the Covered Bond Guarantee. Following a Covered Bond Guarantee Activation Event, the Guarantor is also reliant on the ability of the Standby GIC Provider (or any successor Standby GIC Provider) to repay funds deposited with it into the Standby GIC Account in order for the Guarantor to pay amounts due under the Covered Bonds. In particular, in this circumstance, if a Notice to Pay has been served on the Guarantor, funds not required to pay certain priority amounts pursuant to the Guarantee Priority of Payments will be deposited in the Standby GIC Account and holders of Covered Bonds will be dependent on the credit of the Standby GIC Provider for the availability of these amounts. The performance of the Swap Providers and the Guarantor under the Swap Agreements and the Standby GIC Provider can affect both the rating of and payment on the Covered Bonds: see *Risk Factors*.
- *Further Information:* For a more detailed description of the transactions summarised above relating to the Covered Bonds see, amongst other relevant sections of this Prospectus, *Overview of the Programme, Risk Factors, Terms and Conditions of the Covered Bonds, Summary of the Principal Documents, Credit Structure, Cashflows and The Portfolio*, below.

#### **Scotia Covered Bond Trust**

- The Guarantor is a special purpose trust established by the Guarantor Trustee pursuant to the Declaration of Trust.
- As at the Date of this Prospectus the beneficiaries of the Guarantor are the Bank and the Independent Beneficiary.
- The Bank, as Administrative Agent, will provide certain administrative services for and on behalf of the Guarantor and will have all the rights, power and authority to act at all times for and on behalf of the Guarantor pursuant to the Administration Agreement.

## **RISK FACTORS**

THE ISSUER AND THE GUARANTOR BELIEVE THAT THE FOLLOWING RISK FACTORS ARE THE MATERIAL RISK FACTORS FOR THE PURPOSE OF ASSESSING RISKS ASSOCIATED WITH THE ISSUER AND THE GUARANTOR. MOST OF THESE FACTORS ARE CONTINGENCIES WHICH MAY OR MAY NOT OCCUR AND NEITHER THE ISSUER NOR THE GUARANTOR IS IN A POSITION TO EXPRESS A VIEW ON THE LIKELIHOOD OF ANY SUCH CONTINGENCY OCCURRING. IN ADDITION, FACTORS, ALTHOUGH NOT EXHAUSTIVE, WHICH COULD BE MATERIAL FOR THE PURPOSE OF ASSESSING THE MARKET RISKS ASSOCIATED WITH COVERED BONDS ISSUED UNDER THE PROGRAMME ARE ALSO DESCRIBED BELOW.

THE ISSUER AND THE GUARANTOR BELIEVE THAT THE FACTORS DESCRIBED BELOW REPRESENT THE PRINCIPAL RISKS INHERENT IN INVESTING IN COVERED BONDS ISSUED UNDER THE PROGRAMME, BUT THE INABILITY OF THE ISSUER OR THE GUARANTOR TO PAY INTEREST, PRINCIPAL OR OTHER AMOUNTS ON OR IN CONNECTION WITH ANY COVERED BONDS MAY OCCUR FOR OTHER REASONS AND NEITHER THE ISSUER NOR THE GUARANTOR REPRESENTS THAT THE STATEMENTS BELOW REGARDING THE RISKS OF HOLDING ANY COVERED BONDS ARE EXHAUSTIVE. PROSPECTIVE INVESTORS SHOULD ALSO READ THE DETAILED INFORMATION SET OUT ELSEWHERE IN THIS PROSPECTUS OR INCORPORATED HEREIN BY REFERENCE AND REACH THEIR OWN VIEWS PRIOR TO MAKING ANY INVESTMENT DECISION TO INVEST IN ANY COVERED BONDS ISSUED BY THE ISSUER.

THE RISKS DESCRIBED BELOW ARE THE MATERIAL RISKS BUT ARE NOT THE ONLY RISKS THE ISSUER AND THE GUARANTOR FACE. ADDITIONAL RISKS AND UNCERTAINTIES, INCLUDING THOSE NOT PRESENTLY KNOWN TO THE ISSUER AND THE GUARANTOR, OR THOSE THEY CURRENTLY BELIEVE TO BE IMMATERIAL, COULD ALSO ADVERSELY AFFECT THE ISSUER'S AND THE GUARANTOR'S FINANCIAL CONDITION, RESULTS AND BUSINESS.

PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN FINANCIAL AND LEGAL ADVISERS AS TO THE RISKS ENTAILED BY AN INVESTMENT IN ANY COVERED BONDS. COVERED BONDS ISSUED UNDER THIS PROGRAMME MAY NOT BE AN APPROPRIATE INVESTMENT FOR UNSOPHISTICATED INVESTORS.

### **Factors that May Affect the Ability of the Issuer or the Guarantor to Fulfil their Respective Obligations Under the Covered Bonds Issued Under the Programme**

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

The Issuer is liable to make payments, when due, on the Covered Bonds. The Covered Bonds will constitute deposit liabilities of the Issuer for purposes of the Bank Act, except in certain limited circumstances: see *Terms and Conditions of the Covered Bonds—Events of Default, Acceleration and Enforcement—Issuer Event of Default and —Meetings of Covered Bondholders, Modifications, Waiver and Substitution*. The Covered Bonds will rank *pari passu* with all deposit liabilities of the Issuer without any preference among themselves and (save for any obligations required to be preferred by law) at least *pari passu* with all other present and future unsubordinated and unsecured obligations of the Issuer from time to time outstanding.

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

The obligations of the Issuer under the Covered Bonds will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer, except in certain limited circumstances: see *Terms and Conditions of the Covered Bonds—Events of Default, Acceleration and Enforcement—Issuer Event of Default and —Meetings of Covered Bondholders, Modifications, Waiver and Substitution*.

The Guarantor has no obligation to pay the Guaranteed Amounts payable under the Covered Bond Guarantee until service on the Guarantor of (i) a Notice to Pay following service of an Issuer Acceleration Notice on the Issuer following the occurrence of an Issuer Event of Default, or (ii) a Guarantor Acceleration Notice following the occurrence of a Guarantor Event of Default.

The occurrence of an Issuer Event of Default does not constitute a Guarantor Event of Default. However, failure by the Guarantor to pay amounts when Due for Payment under the Covered Bond Guarantee constitutes a Guarantor Event of Default (subject to any applicable grace periods).

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

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

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

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

The rating assigned to the Covered Bonds by Moody's address the expected loss posed to investors. The rating assigned to the Covered Bonds by Fitch is an indication of the probability of default and of recovery given default of the Covered Bonds. The rating assigned to the Covered Bonds by DBRS is an opinion on the risk of default.

The expected ratings of the Covered Bonds are set out in the relevant Final Terms Document for each Series of Covered Bonds. Any Rating Agency may lower or withdraw its rating if, in the sole judgment of the Rating Agency, the credit quality of the Covered Bonds has declined or is in question. If any rating assigned to the Covered Bonds is lowered or withdrawn, the market value of the Covered Bonds may be reduced. The rating assigned to the Covered Bonds may not reflect the potential impact 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 credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time.

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

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

requirement for a confirmation or affirmation of rating or other response by each Non-Responsive Rating Agency and proceed on the basis of the confirmations or affirmations of rating or other responses received by each other Rating Agency on the basis that such confirmation or affirmation of rating or other response by the Non-Responsive Rating Agency is not required in the particular circumstances of the request.

The failure by a Rating Agency to respond to a written request for a confirmation or affirmation shall not be interpreted to mean that such Rating Agency has given any deemed confirmation or affirmation of rating or other response in respect of such action or step.

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

Any such Rating Agency Confirmation may or may not be given at the sole discretion of each Rating Agency. It should be noted that, depending on the timing of delivery of the request and any information needed to be provided as part of any such request, it may be the case that a Rating Agency cannot provide a Rating Agency Confirmation in the time available or at all, and the Rating Agency will not be responsible for the consequences thereof including any subsequent lowering or withdrawal of its rating. Such confirmation, if given, will be given on the basis of the facts and circumstances prevailing at the relevant time, and in the context of cumulative changes to the Series of which the Covered Bonds form part since the Issue Date. A Rating Agency Confirmation represents only a restatement of the opinions given, and is given on the basis that it will not be construed as advice or recommendation for the benefit of any parties to the transaction.

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

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

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

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

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

Following service of an Issuer Acceleration Notice, the Bond Trustee may receive Excess Proceeds. The Excess Proceeds will be deposited by the Bond Trustee on behalf of the Covered Bondholders, as soon as practicable, into the GIC Account, and following a Guarantor Event of Default and service of a Guarantor Acceleration Notice, deposited or paid in such other manner as the Security Trustee may direct, and in either case, will be distributed in accordance with the applicable Priority of Payments. The Excess Proceeds will thereafter form part of the Charged Property and, if deposited into the GIC Account, will be used by the Guarantor in the same manner as all other funds from time to time standing to the credit of the GIC Account and distributed in accordance with the applicable Priority of Payments. Any Excess Proceeds received by the Bond Trustee (to the extent distributable to Covered Bondholders under the applicable Priority of Payments) will discharge a proportion of the obligations of the Issuer in respect of the Covered Bonds (subject to restitution of the same if such Excess Proceeds will be required to be repaid by the Bond Trustee, the Guarantor or the Security Trustee, as the case may be). However, the obligations of the Guarantor under the Covered Bond Guarantee are (subject only to service of a Notice to Pay or a Guarantor Acceleration Notice) unconditional and irrevocable and the receipt by the Bond Trustee of any Excess Proceeds will not reduce or discharge any such obligations.

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

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

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

In the exercise of its powers, trusts, authorities and discretions, the Security Trustee will only have regard to the interests of the Covered Bondholders, save in relation to a proposed modification to, or waiver or authorisation of any breach or proposed breach of, any provisions of the Terms and Conditions of the Covered Bonds of any Series where it will only have regard to the interests of the Covered Bondholders of that Series and any Swap Provider that is not a member of the Scotiabank Group.

Where the Security Trustee is unable to determine whether any such modification, waiver or authorisation is materially prejudicial to any of the Swap Providers, *provided* that the Swap Providers are not members of the Scotiabank Group, it will give written notice to such Swap Providers, setting out the relevant details and requesting its consent thereto. Any such Swap Provider will, within 10 Toronto Business Days of receipt of such notice (the "**Relevant Period**"), notify in writing the Security Trustee of (a) its consent (such consent not to be unreasonably withheld or delayed) to such proposed modification, waiver or authorisation, or (b) its refusal to give such consent and reasons for such refusal (such refusal not to be unreasonable in the circumstances). Any failure by the relevant Swap Provider to notify in writing the Security Trustee as aforesaid within the Relevant Period will be deemed to be a consent by the relevant Swap Provider to such proposed modification, waiver or authorisation, *provided* that the Security Trustee will only agree to such modification, waiver or authorisation if it is satisfied that the exercise of its powers, trusts, authorities and discretions in respect of such modification, waiver or authorisation will not be materially prejudicial to the interests of the Covered Bondholders.

If, in connection with the exercise of its powers, trusts, authorities or discretions, the Security Trustee is of the opinion that the interests of the Covered Bondholders of any one or more Series would be materially prejudiced thereby, the Security Trustee will not exercise such power, trust, authority or discretion without the approval of such Covered Bondholders by Extraordinary Resolution or by a direction in writing of such Covered Bondholders of at

least 25 per cent. of the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of Covered Bonds of any one or more relevant Series then outstanding.

There can be no assurance that the Security Trustee will make the same determination of the interests of the Covered Bondholders that any individual Covered Bondholder would make in such circumstances.

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

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

To the extent that the Guarantor has received a Notice to Pay by no later than the date which falls one Toronto Business Day prior to the Extension Determination Date, and has the funds available to it under the Guarantee Priority of Payments to pay in part the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of the relevant Series of Covered Bonds, the Guarantor will make partial payment of the Final Redemption Amount in accordance with the Guarantee Priority of Payments as described in Condition 6.1. Payment of the unpaid portion of the Final Redemption Amount will be deferred automatically until the applicable Extended Due for Payment Date. Unless otherwise specified in the applicable Final Terms Document, the Extended Due for Payment Date will fall one year after the Final Maturity Date. The Guarantor will be entitled to make payments in respect of the Final Redemption Amount on any Interest Payment Date up until the Extended Due for Payment Date. Following the Due for Payment Date, interest will continue to accrue and be payable on the unpaid portion of the Final Redemption Amount in accordance with Condition 4 and at the Rate of Interest specified in the applicable Final Terms Document which may provide that the relevant Series of Covered Bonds will bear interest at a Fixed Rate determined in accordance with Condition 4.1 or at a Floating Rate determined in accordance with Condition 4.2 and the Guarantor will pay Guaranteed Amounts constituting Scheduled Interest on each Original Due for Payment Date and the Extended Due for Payment Date. In these circumstances, except where the Guarantor has failed to apply any amount in accordance with the Guarantee Priority of Payments, failure by the Guarantor to make payment in respect of the Final Redemption Amount on the Final Maturity Date (subject to the applicable grace period) will not constitute a Guarantor Event of Default. However, failure by the Guarantor to pay Guaranteed Amounts corresponding to the Final Redemption Amount or the balance thereof, as the case may be, on the Extended Due for Payment Date or to pay Guaranteed Amounts constituting Scheduled Interest on any Original Due for Payment Date or the Extended Due for Payment Date (in each case subject to the applicable grace period) will constitute a Guarantor Event of Default.

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

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

- *provided* that (a) the Bond Trustee is of the opinion that such modification, waiver or authorisation will not be materially prejudicial to the interests of any of the Covered Bondholders, and (b) the Security Trustee is of the opinion that such modification, waiver or authorisation is not materially prejudicial to the interests of any of the Covered Bondholders or the Swap Providers, *provided* that the relevant Swap Provider is not a member of the Scotiabank Group (where, if the Security Trustee is unable to determine whether any such modification, waiver or authorisation is materially prejudicial to any of the Swap Providers, the provisions

referred to above under — *Security Trustee's powers may affect the interests of the Covered Bondholders* will apply); or

- which is, in the sole opinion of the Bond Trustee or the Security Trustee (as the case may be), of a formal, minor or technical nature or is to correct a manifest error or an error which is, in the sole opinion of the Bond Trustee or the Security Trustee (as the case may be), proven, or is to comply with mandatory provisions of law.

Notwithstanding the above, the Issuer, the Guarantor and the Principal Paying Agent may, without the consent or sanction of the Bond Trustee, the Security Trustee, the Covered Bondholders, Couponholders or any of the other Secured Creditors, concur with any Person in making or sanctioning any modification to the provisions of any Final Terms Document which is of a formal, minor or technical nature or is made to correct a proven or manifest error or to comply with any mandatory provisions of law.

Pursuant to the terms of the Security Agreement, the prior consent of the Bond Trustee, the Covered Bondholders and the other Secured Creditors (other than the Security Trustee) is not required in relation to the accession of any new Secured Creditor to the Security Agreement *provided* that the relevant conditions precedent, if any, set out in the Transaction Documents are satisfied at the time of the intended accession and Rating Agency Confirmation is obtained. The Security Agreement provides that each Secured Creditor consents to any consequential changes to the Priorities of Payments as are required and any other amendment as may be required to give effect to the accession of such new Secured Creditor, save to the extent that any such change or amendment results in an alteration to the ranking of any Secured Creditor in which event such change or amendment will not become effective without the prior written consent of such Secured Creditor. There can be no assurance that any such change or amendment would not adversely affect the interests of a Covered Bondholder.

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

Any Programme Resolution to direct the Bond Trustee to serve an Issuer Acceleration Notice following an Issuer Event of Default or to direct the Bond Trustee to serve a Guarantor Acceleration Notice following a Guarantor Event of Default and any direction to the Bond Trustee or the Security Trustee to take any enforcement action must be passed at a single meeting of the Covered Bondholders of all Series then outstanding. A Programme Resolution passed at any meeting of the Covered Bondholders of all Series will be binding on all Covered Bondholders of all Series, whether or not they are present at the meeting, and on all related Couponholders in respect of such Covered Bonds.

#### ***Changes of law***

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

The Terms and Conditions of the Covered Bonds permit the Issuer to exchange, without the consent of the Bond Trustee, or the Covered Bondholders, any Existing Covered Bonds then outstanding for New Covered Bonds following the coming into force in Canada of any legislation similar to covered bond legislation in force in any country in the European Economic Area or any rules, regulations or guidelines published by any governmental authority that provides for bonds issued by Canadian issuers or Canadian chartered banks to qualify for benefits available pursuant to covered bond legislation in force in any country in the European Economic Area, *provided* that, amongst other things, each of the Rating Agencies confirms in writing that any such New Covered Bonds will be assigned the same ratings as are then applicable to the Existing Covered Bonds. Any such New Covered Bonds

will qualify as covered bonds under such new legislation, rules, regulations or guidelines and will be in identical form, amounts and denominations and will be subject to the same economic terms and conditions as the Existing Covered Bonds then outstanding. However, there can be no assurance that the legal terms of any such New Covered Bonds will be as favourable to Covered Bondholders as the terms of the Existing Covered Bonds.

### **Risk Factors Relating to the Guarantor, Including the Ability of the Guarantor to Fulfil its Obligations in Relation to the Covered Bond Guarantee**

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

The recourse of the Covered Bondholders to the Guarantor under the Covered Bond Guarantee will be limited to the Charged Property and will be subject to the applicable Priority of Payments.

Following service of a Notice to Pay (but prior to service of a Guarantor Acceleration Notice), the Guarantor will be obliged under the terms of the Covered Bond Guarantee to pay Guaranteed Amounts as and when the same are Due for Payment. In these circumstances the Guarantor will apply Available Revenue Receipts and Available Principal Receipts in accordance with the Guarantee Priority of Payments: see *Cash Flows—Allocation and distribution of Available Revenue Receipts and Available Principal Receipts following service of a Notice to Pay—Guarantee Priority of Payments*. However, if the applicable Final Terms Document contains a provision permitting extension of the Final Redemption Amount on the relevant Series of Covered Bonds on the applicable Final Maturity Date, the Guarantor may (but is not obliged to) make payments in respect of the Final Redemption Amount on any Interest Payment Date up until the Extended Due for Payment Date.

Prior to service on the Guarantor of a Guarantor Acceleration Notice, the Guarantor 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 will not be obliged at any time to make any payments in respect of additional amounts which may become payable by the Issuer under Condition 7. As a result, the yield of the Covered Bonds may be adversely affected.

Subject to the applicable grace period in the Terms and Conditions, if (after service of a Notice to Pay) the Guarantor fails to make a payment when Due for Payment under the Covered Bond Guarantee or any other Guarantor Event of Default occurs, then the Bond Trustee will be entitled (and, in certain circumstances may be required) to accelerate the obligations of the Guarantor under the Covered Bond Guarantee by service of a Guarantor Acceleration Notice, whereupon the Bond Trustee will have a claim under the Covered Bond Guarantee for an amount equal to the Early Redemption Amount of each Covered Bond, together with accrued interest and all other amounts then due under the Covered Bonds (other than additional amounts payable under Condition 7), although in such circumstances the Guarantor 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 Acceleration Notice, the Security Trustee may enforce the Security over the Charged Property. The proceeds of enforcement of the Security will be applied by the Security Trustee in accordance with the Post-Enforcement Priority of Payments in the Security Agreement, and Covered Bondholders will receive amounts from the Guarantor on an accelerated basis.

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

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

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

If, following enforcement of the Security granted 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, then they may still have an unsecured claim against the Issuer for the shortfall. However, there can be no assurance that the Issuer will have sufficient funds to pay that shortfall.

See also —*Maintenance of the Portfolio* below and *Summary of the Principal Documents—Declaration of Trust—Asset Coverage Test* and *Credit Structure—Asset Coverage Test*.

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

The Guarantor has entered into agreements with a number of third parties which have agreed to perform services for the Guarantor. In particular, but without limitation, the Administrative Agent has been appointed to provide administrative services to the Guarantor, the Servicers have been appointed to service Loans in the Portfolio and the Cash Manager has been appointed to monitor compliance with the Asset Coverage Test and the Amortisation Test and to provide cash management services to the Guarantor. In the event that any third party on which the Guarantor relies fails to perform its obligations under the relevant agreement to which it is a party, the realisable value of the Portfolio or any part thereof, or pending such realisation (if the Portfolio or any part thereof cannot be sold) the ability of the Guarantor to make payments under the Covered Bond Guarantee, may be affected. For instance, if a Servicer has failed to administer the Loans adequately, this may lead to higher incidences of non-payment or default by Borrowers. Further, if a Servicer ceases to be a CMHC Approved Lender or fails to administer a CMHC Insured Loan in accordance with the terms of the applicable CMHC Mortgage Insurance, the ability to make a claim or obtain the benefit of coverage under such CMHC Mortgage Insurance may be adversely affected or terminated: see —*CMHC Mortgage Insurance* in this section of the Prospectus. The Guarantor is also reliant on the Swap Providers and the Standby GIC Provider to provide it with the funds matching its obligations under the Intercompany Loan Agreement and the Covered Bond Guarantee, as described below.

Each Seller will perform the duties and obligations of a Servicer pursuant to the terms of the Servicing Agreement at no additional cost to the Guarantor, in consideration for the consideration received by it for the Loans and their Related Security sold by it to the Guarantor pursuant to the Mortgage Sale Agreement. So long as a Seller acts as a Servicer, such Servicer will not be entitled to any additional compensation for the performance of its obligations under the Servicing Agreement or any reimbursement for the costs and expenses incurred by it in connection therewith, it being acknowledged that the Loans, the Related Security and the other assets comprised in the Portfolio have been sold pursuant to the Mortgage Sale Agreement on a fully-serviced and CMHC insured basis. In the event a Servicer is terminated or resigns in accordance with the terms of the Servicing Agreement and is replaced by a Person other than a member of the Scotiabank Group, unless otherwise agreed by the parties to the Servicing Agreement, the Guarantor will on each Guarantor Payment Date reimburse such Person, in accordance with the applicable Priority of Payments (and in priority to payments to Covered Bondholders), for all costs, expenses, disbursements, charges and fees (together with any applicable Taxes due thereon) properly incurred by such Person in the performance of its services as successor Servicer. There can be no assurance that the level of such fees would not adversely affect Covered Bondholders.

If a Servicer Termination Event occurs pursuant to the terms of the Servicing Agreement, then the Guarantor and/or the Security Trustee may at once or at any time thereafter while such Servicer Termination Event continues by notice in writing to the relevant Servicer, terminate its appointment as a Servicer. Any such termination will become effective upon the appointment of a successor Servicer(s) in its place. Any such appointment of a successor Servicer(s) without the prior approval of CMHC may adversely affect the coverage under CMHC Mortgage Insurance for a CMHC Insured Loan. Prior to terminating any Servicer, the Guarantor and/or the Security Trustee, as applicable, will use reasonable commercial efforts to obtain the consent of CMHC to any successor Servicer and take such other steps reasonably required to avoid impairment of such CMHC Mortgage Insurance. There is no stand-by Servicer and there can be no assurance that a servicer with sufficient experience of administering mortgages of residential properties would be found who would be willing and able to service the Loans in the Portfolio on the terms of the Servicing Agreement. In addition, as described below, any successor Servicer would be required to be authorised under the applicable provincial mortgage broker legislation in order to administer the Loans in the Portfolio. The ability of a successor Servicer to perform fully 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 successor Servicer may affect the realisable value of the Portfolio or any part thereof, and/or

the ability of the Guarantor to make payments under the Covered Bond Guarantee. In the event of a Servicer Downgrade, the relevant Servicer or its guarantor, if applicable, may be required to take certain remedial measures which may include providing collateral for or arranging for its obligations under the Servicing Agreement to be guaranteed by an entity which has Rating(s) at or above the level required by the relevant Rating Agencies, or taking such other action as it may agree with the relevant Rating Agencies.

Subject to the fulfilment of a number of conditions, a Servicer may resign and terminate its appointment as a Servicer upon the expiry of not less than 12 months' written notice to the Security Trustee, the Guarantor and each Rating Agency, *provided* that: (a) if the Servicer who wishes to resign is the Bank, the Guarantor and the Security Trustee consent in writing to such resignation; (b) one or more successor Servicers will be appointed, with such appointment to be effective not later than the date of such resignation, provided that CMHC has approved the appointment of such successor Servicer(s) and the CMHC Mortgage Insurance for the related CMHC Insured Loans remains valid and in full force and effect; (c) each successor Servicer is qualified to act as such under applicable mortgage broker legislation and is a CMHC Approved Lender; (d) each successor Servicer enters into an agreement substantially on the same terms as the relevant provisions of the Servicing Agreement with the Guarantor and the Security Trustee and a Servicer will not be released from its obligations under the relevant provisions of the Servicing Agreement until such successor Servicer has entered into such new agreement; (e) each successor Servicer agrees to service each Additional STEP Loan owned by a Seller in the manner agreed upon in the Servicing Agreement; and (f) Rating Agency Confirmation has been received with respect to such resignation and appointment of a successor Servicer, unless the resignation is otherwise agreed to by an Extraordinary Resolution of the Covered Bondholders.

The Cash Manager will provide certain cash management services to the Guarantor including but not limited to: (a) maintaining the Ledgers on behalf of the Guarantor; (b) distributing the Revenue Receipts and the Principal Receipts in accordance with the Priorities of Payment; (c) determining whether the Asset Coverage Test is satisfied on each Calculation Date; (d) determining whether the Amortisation Test is satisfied on the Calculation Date following an Issuer Event of Default and service of a Notice to Pay; (e) preparation of Monthly Asset Coverage Reports for the Guarantor, the Sellers, the Rating Agencies, the Security Trustee and the Bond Trustee; and (f) on each Toronto Business Day, determining whether the Pre-Maturity Test for each Series of Hard Bullet Covered Bonds, if any, is satisfied.

If a Cash Manager Termination Event occurs pursuant to the terms of the Cash Management Agreement, then the Guarantor and/or the Security Trustee may at once or at any time thereafter while such event continues by notice in writing to the Cash Manager, terminate its appointment as Cash Manager. Upon termination of the appointment of the Cash Manager the Guarantor will use commercially reasonable efforts to appoint a substitute cash manager. There is no stand-by Cash Manager and there can be no assurance that a substitute cash manager would be found. Any delay or inability to appoint a substitute cash manager may affect the realisable value of the Portfolio or any part thereof, and/or the ability of the Guarantor to make payments under the Covered Bond Guarantee. In the event of a downgrade in the Ratings of the Cash Manager by the Rating Agencies below a level specified in the Cash Management Agreement, the Cash Manager may be required to obtain an unconditional and unlimited guarantee of its obligations under the Cash Management Agreement from a credit support provider having the Rating(s) required by the relevant Rating Agencies, or take such other action as it may agree with the relevant Rating Agencies. The Cash Manager does not have (or will not have, as applicable) any obligation to advance payments that Borrowers fail to make in a timely fashion.

Subject to the fulfilment of a number of conditions, the Cash Manager may resign and terminate its appointment as Cash Manager upon the expiry of not less than 12 months' written notice to the Guarantor and the Security Trustee (or such shorter time as may be agreed between the Cash Manager, the Guarantor and the Security Trustee) *provided* that: (a) a successor cash manager will be appointed, such appointment to be effective not later than the date of such resignation; (b) such successor cash manager has cash management experience and is approved by each of the Guarantor and the Security Trustee; (c) the successor cash manager enters into an agreement substantially on the same terms as the relevant provisions of the Cash Management Agreement (or on such terms as are satisfactory to the Guarantor and the Security Trustee) and the Cash Manager will not be released from its obligations under the relevant provisions of the Cash Management Agreement until such successor cash manager has entered into such new agreement and the rights of the Guarantor under such agreement are charged in favour of the Security Trustee on terms satisfactory to the Security Trustee; and (d) Rating Agency Confirmation has been obtained with respect to

such resignation and the appointment of the successor Cash Manager, unless the resignation is otherwise agreed by an Extraordinary Resolution of the Covered Bondholders.

The Bank, as initial Cash Manager, will perform the duties and obligations of the Cash Manager pursuant to the Cash Management Agreement at no additional cost to the Guarantor and will not be entitled to any compensation or reimbursement for its cash management services under the Cash Management Agreement. If the Bank ceases to act as Cash Manager, a successor cash manager that is not a member of the Scotiabank Group will be paid a fee for its cash management services under the Cash Management Agreement in an amount which will be agreed between the Guarantor and such successor cash manager, and paid by the Guarantor in accordance with the applicable Priority of Payments (and in priority to payments to the Covered Bondholders). There can be no assurance that the level of such fees would not adversely affect Covered Bondholders.

Following a Covered Bond Guarantee Activation Event, the Guarantor is also reliant on the ability of the Standby GIC Provider (or any successor Standby GIC Provider) to repay funds deposited with it into the Standby GIC Account in order for the Guarantor to pay amounts due under the Covered Bonds. In particular, in this circumstance, if a Notice to Pay has been served on the Guarantor, funds not required to pay certain priority amounts pursuant to the Guarantee Priority of Payments will be deposited in the Standby GIC Account and holders of Covered Bonds will be dependent on the credit of the Standby GIC Provider for the availability of these amounts.

Covered Bondholders will have no right to consent to or approve of any actions taken by any third party on which the Guarantor relies under the relevant agreement to which it is a party.

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

If the Government of Canada's sovereign debt credit rating is downgraded, this may negatively affect the long-term debt credit rating of CMHC, and consequently, negatively affect the value ascribed to the Loans for the purposes of the Asset Coverage Test and Amortisation Test: see *Summary of the Principal Documents—Declaration of Trust—Asset Coverage Test* and *—Amortisation Test*.

### ***Reliance on Swap Providers***

To provide a hedge against possible variances in the rates of interest payable on the Loans in the Portfolio (which may, for instance, include variable rates of interest, discounted rates of interest or fixed rates of interest) and the interest amounts payable on the Intercompany Loan and (following service of a Notice to Pay on the Guarantor) the Covered Bond Swap Agreement, the Guarantor will enter into the Interest Rate Swap with the Interest Rate Swap Provider under the Interest Rate Swap Agreement. In addition, to provide a hedge against interest rate, currency and/or other risks in respect of amounts received by the Guarantor under the Interest Rate Swap and amounts payable by the Guarantor under the Covered Bond Guarantee after service of a Notice to Pay on the Guarantor, the Guarantor will, where relevant, enter into a Covered Bond Swap with the Covered Bond Swap Provider under the Covered Bond Swap Agreement with respect to each Series of Covered Bonds.

If the Guarantor fails to make timely payments of amounts due under any Swap Agreement, then it will have defaulted under that Swap Agreement and such Swap Agreement may be terminated. A Swap Provider is only obliged to make payments to the Guarantor as long as the Guarantor complies with its payment obligations under the relevant Swap Agreement. If a Swap Agreement terminates or the Swap Provider is not obliged to make payments or if it defaults in its obligations to make payments of amounts in the relevant currency equal to the full amount to be paid to the Guarantor on the payment date under the Swap Agreement, the Guarantor will be exposed to changes in the relevant currency exchange rates to Canadian Dollars and to any changes in the relevant rates of interest. Unless a replacement swap is entered into, the Guarantor may have insufficient funds to make payments under the Covered Bond Guarantee.

If a Swap Agreement terminates, then the Guarantor may be obliged to make a termination payment to the relevant Swap Provider. There can be no assurance that the Guarantor will have sufficient funds available to make a

termination payment under the relevant Swap Agreement, nor can there be any assurance that the Guarantor will be able to enter into a replacement swap agreement, or if one is entered into, that the credit rating of the replacement swap counterparty will be sufficiently high to prevent a downgrade of the then current ratings of the Covered Bonds by the Rating Agencies.

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

#### ***Differences in timing of obligations of the Guarantor and the Covered Bond Swap Provider under the Covered Bond Swap Agreement***

With respect to the Covered Bond Swap Agreement, the Guarantor will, on each Guarantor Payment Date following service of a Notice to Pay on the Guarantor, pay or provide for payment of an amount to the Covered Bond Swap Provider from the amounts received by the Guarantor under the Interest Rate Swap Agreement. The Covered Bond Swap Provider may not be obliged to make corresponding swap payments to the Guarantor under the Covered Bond Swap Agreement until amounts are Due for Payment under the Covered Bond Guarantee. If the Covered Bond Swap Provider does not meet its payment obligations to the Guarantor under the Covered Bond Swap Agreement or the Covered Bond Swap Provider does not make a termination payment that has become due from it to the Guarantor under the Covered Bond Swap Agreement, the Guarantor may have a larger shortfall in funds with which to make payments under the Covered Bond Guarantee with respect to the Covered Bonds than if the Covered Bond Swap Provider's payment obligations coincided with Guarantor's payment obligations under the Covered Bond Guarantee. Hence, the difference in timing between the obligations of the Guarantor and the obligations of the Covered Bond Swap Provider under the Covered Bond Swap Agreement may adversely affect the Guarantor's ability to make payments under the Covered Bond Guarantee.

#### ***Withholding on payments under the Covered Bond Guarantee***

Subject to the qualification stated in "*Certain Tax legislation affecting the Covered Bonds – Canadian Taxation*", interest paid or credited or deemed to be paid or credited on a Covered Bond by the Guarantor pursuant to the Covered Bond Guarantee will be exempt from Canadian withholding tax to the extent interest paid or credited by the Issuer on such Covered Bond would have been exempt. See "*Certain Tax Legislation Affecting the Covered Bonds—Canadian Taxation*". If such payments by the Guarantor pursuant to the Covered Bond Guarantee are not exempt, such payments will be made subject to any applicable withholding or deduction and the Guarantor will have no obligation to gross up in respect of any withholding which may be required in respect of any such payment.

#### ***Funds Held In Trust***

Under the Servicing Agreement, each Servicer, may receive funds belonging to the Guarantor that arise from the Loans and their Related Security comprised in the Portfolio and are to be paid into the GIC Account. Prior to a downgrade of the Issuer's Ratings by the Rating Agencies below the Issuer Ratings Threshold, each Servicer will hold such funds in trust for the Guarantor and will, not later than one Toronto Business Day prior to the next following Guarantor Payment Date, pay the funds into the GIC Account. Following a downgrade by Moody's of the Ratings of the Issuer below the Issuer Ratings Threshold, each Servicer will pay the funds into the GIC Account within three Business Days of receipt. Following a downgrade by Fitch or DBRS of the Ratings of the Issuer below the Issuer Ratings Threshold, each Servicer will pay the funds into the GIC Account within two Business Days of receipt. Each Servicer shall make each such payment to the GIC Account without any deduction as a result of any defence, set off right or counterclaim. Until paid into the GIC Account, a Servicer is entitled to commingle such funds with any other funds held by it.

The proceeds from the claims under the CMHC Mortgage Insurance will be paid to the applicable Servicer and will be held by such Servicer in trust for the Guarantor. In the event of a Servicer Downgrade, the relevant Servicer will be required to keep such proceeds separate and apart from its other assets. In the event of an insolvency of a

Servicer prior to such requirement to keep such proceeds separate and apart from its other assets, the ability of the Guarantor to trace and recover any such proceeds may be impaired.

### ***Change of counterparties***

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

These criteria include requirements in relation to any Ratings ascribed to such party by the Rating Agencies. If the party concerned ceases to satisfy the applicable criteria, including the ratings criteria, then the rights and obligations of that party (including the right or obligation to receive funds on behalf of the Guarantor) may be required to be transferred to another entity which does satisfy the applicable criteria. In these circumstances, the terms agreed with the replacement entity may not be as favourable as those agreed with the original party pursuant to the relevant Transaction Document. There can be no assurance that a replacement entity with the required experience and ratings will be found or that the terms agreed with the replacement entity will not adversely affect the Guarantor's ability to pay the Guaranteed Amounts.

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

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

The Portfolio will consist solely of CMHC Insured Loans and their Related Security. The Related Security in respect of a Loan will include the benefit of CMHC Mortgage Insurance relating to such Loan. CMHC, Canada's national housing agency, is a Canadian federal Crown corporation, wholly owned by the Government of Canada. CMHC's obligations are those of Her Majesty The Queen in Right of Canada, and as such carry the full faith and credit of the Government of Canada. CMHC derives its authorities from the *Canada Mortgage and Housing Corporation Act* (Canada), the *National Housing Act* (Canada) and, as a federal Crown corporation, the *Financial Administration Act* (Canada). CMHC insures the payment of principal and interest on first mortgage loans on private residential properties in Canada on and subject to the terms and conditions of the applicable CMHC Mortgage Insurance.

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

- the Sellers selling Additional Loans and their Related Security (or New Loan Types and their Related Security) to the Guarantor;
- New Sellers acceding to the Transaction Documents and transferring or repurchasing Loans and their Related Security (or New Loan Types and their Related Security) to or from the Guarantor; and
- a Seller repurchasing Loans and their Related Security from the Guarantor pursuant to its obligations, or its right of pre-emption, under the Mortgage Sale Agreement.

There is no assurance that the characteristics of the New Loan Types sold to the Guarantor on any Transfer Date will be the same as those Loans in the Portfolio as at that Transfer Date. However, each Loan will be required to meet the Eligibility Criteria and the Loan Representations and Warranties set out in the Mortgage Sale Agreement on the Transfer Date of such Loan: see *Summary of the Principal Documents—Mortgage Sale Agreement—Sale by the Sellers of the Loans and Related Security* (although the Eligibility Criteria and the Loan Representations and Warranties may change in certain circumstances: see *The Bond Trustee and the Security Trustee may agree to modifications to the Transaction Documents and Final Terms Documents without, respectively, the Covered*

*Bondholders' or other Secured Creditors' prior consent*). In particular, each Loan will be insured by CMHC Mortgage Insurance. See *Summary of the Principal Documents—Mortgage Sale Agreement—Sale by the Seller of Loans and their Related Security; Risk Factors—CMHC Mortgage Insurance*. Provided that certain conditions are met, the consent of the Covered Bondholders to the accession of any New Seller to the relevant Transaction Documents will not need to be obtained.

### ***Maintenance of the Portfolio***

*Asset Coverage Test*: Pursuant to the Declaration of Trust, the Guarantor must ensure that the Adjusted Aggregate Loan Amount is maintained at all times in compliance with the Asset Coverage Test (as determined by the Cash Manager on each Calculation Date). If as at the end of any Guarantor Calculation Period there is a breach of the Asset Coverage Test, as calculated on the immediately following Calculation Date, the Guarantor will use all commercially reasonable efforts to ensure that the Adjusted Aggregate Loan Amount is in compliance with the Asset Coverage Test which may involve purchasing Additional Loans and their Related Security from the Sellers, purchasing Substitution Assets, requesting further Advances under the Intercompany Loan Agreement which may be made in cash or kind and/or requesting an Asset Coverage Test Subordinated Advance under the Subordinated Loan Agreement to satisfy the shortfall. In consideration for any Additional Loans and their Related Security sold by a Seller to the Guarantor, such Seller will receive a combination of: (i) a cash payment made by the Guarantor to such Seller from an Advance under an Intercompany Loan or, following a breach of the Asset Coverage Test, an Asset Coverage Test Subordinated Advance under the Subordinated Loan Agreement and/or Available Principal Receipts; and/or (ii) Deferred Consideration paid in accordance with the applicable Priority of Payments or by way of set-off against, or application of, Deferred Consideration Subordinated Advances in accordance with the Declaration of Trust.

If a breach of the Asset Coverage Test occurs as at the end of any Guarantor Calculation Period, as calculated on the immediately following Calculation Date, and is not cured by the following Calculation Date, the Bond Trustee will serve an Asset Coverage Test Breach Notice on the Guarantor which (unless and until it is revoked) may result, *inter alia*, in the sale of Selected Loans. A sale of Selected Loans may expose Covered Bondholders to declines in the market value of the Selected Loans, which may result in the Covered Bonds not being repaid in full. See *Summary of the Principal Documents—Declaration of Trust—Sale of Selected Loans following Service of an Asset Coverage Test Breach Notice*.

If an Asset Coverage Test Breach Notice has been served and not revoked on or before the immediately succeeding Calculation Date following service of such Asset Coverage Test Breach Notice, then an Issuer Event of Default will occur if the Bond Trustee has certified in writing to the Issuer and the Guarantor that such breach is, in its opinion, materially prejudicial to the interests of the Covered Bondholders of any Series and the Bond Trustee will be entitled (and, in certain circumstances may be required) to serve an Issuer Acceleration Notice on the Issuer. Following service of an Issuer Acceleration Notice, the Bond Trustee must serve a Notice to Pay on the Guarantor.

*Asset Percentage*: The Asset Percentage is a component of the Asset Coverage Test which establishes the credit enhancement required for the then outstanding Covered Bonds as necessary to maintain the initial rating assigned to the Covered Bonds of any Series by each Rating Agency. Pursuant to the terms of the Asset Coverage Test, there is a limit to the degree to which the Asset Percentage may be decreased without the consent of the Issuer and, as a result, there is a corresponding limit on the amount of credit enhancement required to be maintained to meet the Asset Coverage Test. The Asset Percentage will not be less than 90 per cent. unless otherwise agreed by the Issuer (and following an Issuer Event of Default, the Guarantor for the purpose of making certain determinations in respect of the Intercompany Loan).

If the 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 Issuer does not agree to provide credit enhancement beyond the maximum provided for (by agreeing to a reduction in the Asset Percentage below the minimum Asset Percentage), the Rating Agencies may reduce, remove, suspend or place on credit watch, their ratings of the Covered Bonds and the assets of the Guarantor may be seen to be insufficient to ensure that, in the scenarios employed in the cashflow models, the assets and cashflows of the Guarantor will be adequate to enable it to meet its obligations under the Covered Bond Guarantee

following the service of a Notice to Pay or a Guarantor Acceleration Notice, notwithstanding that the Asset Coverage Test continues to be met.

*Amortisation Test:* Pursuant to the Declaration of Trust, the Guarantor must ensure that as at the end of each Guarantor Calculation Period following service of a Notice to Pay on the Guarantor, but prior to the service of a Guarantor Acceleration Notice, the Amortisation Test Aggregate Loan Amount (as determined by the Cash Manager on each Calculation Date) is in an amount at least equal to the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding under the Covered Bonds. The Amortisation Test is intended to test whether the assets of the Guarantor have fallen below the level whereby the assets of the Guarantor are insufficient to meet its obligations under the Covered Bond Guarantee.

If the collateral value of the Portfolio has not been maintained in accordance with the terms of the Asset Coverage Test or the Amortisation Test, then that may affect the realisable value of the Portfolio or any part thereof (both before and after the occurrence of a Guarantor Event of Default) and/or the ability of the Guarantor to make payments under the Covered Bond Guarantee.

Prior to the occurrence of an Issuer Event of Default and service of a Notice to Pay or a Guarantor Event of Default and service of a Guarantor Acceleration Notice, the Asset Monitor will, subject to the receipt of the relevant information from the Cash Manager, test the calculations performed by the Cash Manager in respect of the Asset Coverage Test once each year on the Calculation Date immediately preceding each anniversary of the Programme Date and more frequently in certain circumstances. Following the occurrence of an Issuer Event of Default and the service of a Notice to Pay (but prior to a Guarantor Event of Default and the service of a Guarantor Acceleration Notice), the Asset Monitor will be required to test the calculations performed by the Cash Manager in respect of the Amortisation Test. See *Summary of the Principal Documents—Asset Monitor Agreement* for details of the role of the Asset Monitor and consequences of the Asset Monitor reaching a different result from the Cash Manager.

If the Amortisation Test is breached, a Guarantor Event of Default will occur if the Bond Trustee has certified in writing to the Issuer and the Guarantor that such breach is, in its opinion, materially prejudicial to the interests of the Covered Bondholders of any Series.

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

#### ***Insolvency of a Seller, Servicer or Guarantor May Affect Enforcement of Rights and Remedies***

If a Seller, including as initial Servicer, were to become subject to insolvency proceedings in Canada, it could give rise to a stay of proceedings that would delay, and may otherwise impair, the Guarantor's exercise of rights and remedies in respect of a Seller, including repurchase rights under the Mortgage Sale Agreement and rights to require the Seller to take certain steps in connection with the transfer of registered or recorded title to the Loans and their Related Security, or in respect of a Servicer, such insolvency proceedings may preclude the removal of the Servicer, without permission from the court. Further, the removal of a Servicer without the consent of CMHC may adversely affect the coverage of the CMHC Insured Loans under the CMHC Mortgage Insurance. Prior to terminating any Servicer, the Guarantor and/or the Security Trustee, as applicable, will use reasonable commercial efforts to obtain the consent of CMHC to any successor Servicer and take such other steps reasonably required to avoid impairment of such CMHC Mortgage Insurance. If an Insolvency Event occurs in relation to a Servicer, CMHC may revoke the Servicer's status as a CMHC Approved Lender. If a CMHC Insured Loan is not being administered by a CMHC Approved Lender, the ability to make a claim or obtain the benefit of coverage under the applicable CMHC Mortgage Insurance may be adversely affected or terminated. If such insolvency proceedings in respect of a Seller occur while such Seller is the owner of any Additional STEP Loans, it could also delay and it may otherwise impair the enforcement of any related STEP Loan owned by the Guarantor or the obligation of such Seller to sell such Additional STEP Loans to the Guarantor. Moreover, applicable legislation in some circumstances permits an insolvent debtor to retain possession and administration of its property, subject to court oversight, even though it may be in default under applicable debt instruments and other contracts. See also in this section of the Prospectus *The Guarantor does not have registered or recorded title to the Loans and their Related Security in the Portfolio on*

*the relevant Transfer Date; Factors that may affect the realisable value of the Portfolio or any part thereof or the ability of the Guarantor to make payments under the Covered Bond Guarantee; and Limited recourse to the Sellers.*

Also, certain insolvency proceedings in Canada allow for a proposal or plan of arrangement to be proposed to all or some of the creditors of a debtor, to be voted on by the class(es) of creditors affected thereby. Such a proposal or plan, if accepted by the requisite majorities of each affected class of creditors and if approved by the court, would affect creditors within any such class who may not otherwise be willing to accept the proposal or plan. To the extent that the Guarantor has a claim against a Seller, including for breach of the Mortgage Sale Agreement, such claim could be affected by any stay of proceedings and may be subject to such a proposal or plan.

Further, in an insolvency proceeding in Canada in respect of a Seller or otherwise, a creditor of the Seller or other interested party could attempt to obtain an order of the court re-characterising the sale of the Loans and their Related Security as a loan from the Guarantor to the Seller, secured by the Loans and their Related Security. In this regard, the sales of the Loans and their Related Security by a Seller to the Guarantor pursuant to the terms of the Mortgage Sale Agreement have been structured in a manner designed to ensure that they are treated as "true sale" transactions. If such re-characterisation were to occur despite this structure, recovery on the Covered Bonds and Covered Bond Guarantee could be significantly and adversely affected. For example:

- the loan from the Guarantor to the Seller and related rights resulting from the re-characterisation may also be subject to the stay and other implications of insolvency proceedings described above;
- the Guarantor might not have a perfected ownership interest in the Portfolio at the time that the insolvency proceeding begins; and
- tax or government liens on the Loans that arose prior to the sale of the Loans and their Related Security might have priority over the interest of the Guarantor in respect of the Loans and their Related Security that forms part of the Charged Property.

Alternatively, in an insolvency proceeding in Canada in respect of a Seller, a creditor of the Seller or other interested party could attempt to obtain from the court a consolidation order to the effect that such Seller and the Guarantor should be treated as the same person and their assets and liabilities should be treated on a consolidated basis for the purposes of the proceeding. If consolidation was ordered, recovery on the Covered Bonds and Covered Bond Guarantee could also be significantly and adversely affected. In these circumstances, the examples immediately above regarding the effect of an insolvency proceeding in respect of a Seller on the rights and remedies of the Guarantor would equally apply to the rights and remedies of the Security Trustee as they relate to the Guarantor in the consolidated proceeding.

Similarly, if the Guarantor, in the absence of consolidation, were to become subject to insolvency proceedings in Canada, it could give rise to a stay of proceedings that would delay or impair the Security Trustee's exercise of rights and remedies against the Guarantor, and the other possible implications of insolvency proceedings discussed above in relation to a Seller and the Guarantor would equally apply in relation to the Guarantor and the Security Trustee.

***Sale of Selected Loans following the occurrence of Pre-Maturity Test breach, an Asset Coverage Test Breach Notice or a Notice to Pay***

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

If an Asset Coverage Test Breach Notice or a Notice to Pay is served on the Guarantor (and, in the case of an Asset Coverage Test Breach Notice, for as long as such notice has not been revoked), the Guarantor may be obliged to sell Selected Loans (selected on a random basis) in order to remedy a breach of the Asset Coverage Test or to make

payments to the Guarantor's creditors, including payments under the Covered Bond Guarantee, as appropriate: see *Summary of the Principal Documents—Declaration of Trust—Sale of Selected Loans following service of an Asset Coverage Test Breach Notice* and *Summary of the Principal Documents—Declaration of Trust—Sale of Selected Loans following service of a Notice to Pay*.

There is no guarantee that a Purchaser will be found to acquire Selected Loans at the times required and there can be no guarantee or assurance as to the price which may be obtained, which may affect the ability of the Guarantor to make payments under the Covered Bond Guarantee. However, following service of a Notice to Pay, the Selected Loans may not be sold by a Servicer for less than an amount equal to the sum of the Adjusted Required Redemption Amount for the relevant Series of Covered Bonds until six months prior to the Final Maturity Date in respect of such Covered Bonds or (if the same is specified as applicable in the relevant Final Terms Document) the Extended Due for Payment Date under the Covered Bond Guarantee in respect of such Covered Bonds. Following the service of a Notice to Pay, in the six months prior to, as applicable, the Final Maturity Date or Extended Due for Payment Date, the Guarantor is obliged to sell the Selected Loans for the best price reasonably available notwithstanding that such price may be less than the sum of the Adjusted Required Redemption Amount for the relevant Series of Covered Bonds. The Seller that sold the relevant Loans and their Related Security to the Guarantor will have a right of pre-emption to purchase such Loans and their Related Security in the event the Guarantor wishes to or is required to sell such Loans and their Related Security *provided* that such Seller is not in default of any of its obligations under the Transaction Documents: see *Summary of the Principal Documents—Mortgage Sale Agreement—Right of Pre-emption*.

#### ***Realisation of Charged Property following the occurrence of a Guarantor Event of Default***

If a Guarantor Event of Default occurs and a Guarantor Acceleration Notice is served on the Guarantor by the Bond Trustee, then the Security Trustee will be entitled to enforce the Security granted pursuant to the Security Agreement and the proceeds from the realisation of the Charged Property will be applied by the Security Trustee towards payment of all secured obligations in accordance with the Post-Enforcement Priority of Payments: see *Cashflows*.

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

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

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

The realisable value of Selected Loans may be reduced and, accordingly, so may the realisable value of the Portfolio (which may affect the ability of the Guarantor to make payments under the Covered Bond Guarantee) by:

- no representations, warranties or indemnities being given by the Guarantor or (unless otherwise agreed with the Sellers) the Sellers;
- default by Borrowers in payment of amounts due on their Loans: see *Default by Borrowers in paying amounts due on their Loans* and *CMHC Mortgage Insurance* in this section of the Prospectus;
- with respect to STEP Loans, the terms of the STEP Plan, the related servicing and priority arrangements and the interests of the Sellers and any Other STEP Creditor in any related STEP Accounts;
- the Loans of New Sellers being included in the Portfolio;
- changes to the Lending Criteria of the Sellers selling the Loans and their Related Security;

- the Guarantor not having registered or recorded title to the Loans and their Related Security in the Portfolio;
- inadequate loan documentation;
- breaches of the Loan Representations and Warranties;
- a CMHC Insured Loan not being administered by the Servicer which obtained the CMHC Mortgage Insurance for such CMHC Insured Loan or a successor Servicer acceptable to CMHC;
- limited recourse to the Sellers under the terms of the Mortgage Sale Agreement;
- adverse environmental conditions existing with respect to the related Mortgaged Properties;
- an insolvency of a Seller;
- possible regulatory changes by the Superintendent, CMHC and other regulatory authorities;
- 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.

***No representations, warranties or indemnities to be given by the Guarantor or the Sellers if Selected Loans are to be sold***

If a breach of the Pre-Maturity Test and/or an Asset Coverage Test Breach Notice or a Notice to Pay is served on the Guarantor (and, in the case of an Asset Coverage Test Breach Notice, for as long as such notice has not been revoked), the Guarantor may be obliged to sell Selected Loans to Purchasers, subject to a right of pre-emption of the Sellers pursuant to the terms of the Mortgage Sale Agreement: see *Summary of the Principal Documents—Declaration of Trust—Method of Sale of Selected Loans*. In respect of any sale of Selected Loans to Purchasers, however, the Guarantor will not be permitted to give representations and warranties or indemnities in respect of those Selected Loans (unless expressly permitted to do so by the Security Trustee). There is no obligation for a Seller to give, and no assurance that a Seller would give, any representations and warranties or indemnities in respect of the Selected Loans. Any representations or warranties or indemnities previously given by a Seller in respect of Loans in the Portfolio may not have value for a Purchaser if such Seller is then insolvent. Accordingly, there is a risk that the realisable value of the Selected Loans could be adversely affected by the lack of representations, warranties or indemnities which in turn could adversely affect the ability of the Guarantor to meet its obligations under the Covered Bond Guarantee.

***Default by Borrowers in paying amounts due on the Loans***

Borrowers may default on their obligations due under the Loans in the Portfolio. Defaults may occur for a variety of reasons. Loans are affected by credit, liquidity and interest rate risks. Various factors influence mortgage delinquency rates, prepayment rates, repossession frequency and the ultimate payment of interest and principal, such as changes in the national or international economic climate, regional economic or housing conditions, changes in tax laws, interest rates, inflation, the availability of financing, yields on alternative investments, political developments and government policies. Other factors in Borrowers' individual, personal or financial circumstances may affect the ability of Borrowers to repay the Loans. Loss of earnings, illness, divorce and other similar factors may lead to an increase in delinquencies by and bankruptcies of Borrowers, and could ultimately have an adverse impact on the ability of Borrowers to repay the Loans. In addition, the ability of a Borrower to sell a property given as security for a Loan at a price sufficient to repay the amounts outstanding under that Loan will depend upon a number of factors, including the availability of buyers for that property, the value of that property and property values in general at the time.

STEP Loans included in the Portfolio contain a cross-default provision that provides that any default in respect of any STEP Account in respect of a particular STEP Borrower will result in a default under all STEP Loans made to such STEP Borrower.

If the CMHC does not cover any shortfall in the proceeds of the sale of the relevant property, the Guarantor may not have sufficient funds to pay all Guaranteed Amounts due on the Covered Bonds.

### ***CMHC Mortgage Insurance***

In respect of the Loans and the Related Security forming the Portfolio, interest and principal payments on the Loans will be insured under CMHC Mortgage Insurance on and subject to the terms and conditions of the applicable CMHC Mortgage Insurance. The Related Security in respect of a Loan will include the benefit of CMHC Mortgage Insurance relating to such Loan. The CMHC Mortgage Insurance in respect of each Loan is available, in redacted or other general form, upon request from the Issuer, subject to any exclusions pursuant to applicable law, including, without limitation, privacy law, and policies of the Issuer relating to confidentiality and privacy matters. CMHC is Canada's national housing agency, and is a Canadian federal Crown corporation, wholly owned by the Government of Canada. CMHC's obligations are those of Her Majesty The Queen in Right of Canada, and as such carry the full faith and credit of the Government of Canada. With respect to any CMHC Insured Loan, the amount payable by CMHC to the insured under the applicable CMHC Mortgage Insurance is generally equal to:

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

The proceeds from the claims under the CMHC Mortgage Insurance will be paid to the applicable Servicer and will be held by such Servicer in trust for the Guarantor. In the event of a Servicer Downgrade, the relevant Servicer will be required to keep such proceeds separate and apart from its other assets. Pursuant to its purchase of the CMHC Insured Loans and the Related Security, the Guarantor will acquire the benefit of the CMHC Mortgage Insurance to the extent related to such Loans. However, claims under the CMHC Mortgage Insurance must be made by the applicable Servicer which obtained the CMHC Mortgage Insurance for such Loans or a successor Servicer

acceptable to CMHC. As a result, the Guarantor will not have a right itself to collect the amounts which may be payable pursuant to the CMHC Mortgage Insurance related to the Loans. Each Servicer will hold its rights under the CMHC Mortgage Insurance relating to the Loans forming part of the Portfolio in trust for the Guarantor and the Security Trustee. Following the occurrence of a Servicer Termination Event, the Guarantor can appoint a successor Servicer(s) to carry out loan administration responsibilities in respect of the CMHC Insured Loans. If a successor Servicer(s) is appointed without the prior approval of CMHC, the coverage under the CMHC Mortgage Insurance for a CMHC Insured Loan may be adversely affected or terminated. Prior to terminating any Servicer, the Guarantor and/or the Security Trustee, as applicable, will use reasonable commercial efforts to obtain the consent of CMHC to any successor Servicer and take such other steps reasonably required to avoid impairment of such CMHC Mortgage Insurance.

If a CMHC Insured Loan is not being administered by the Servicer which obtained the CMHC Mortgage Insurance for such CMHC Insured Loan, or a successor Servicer acceptable to CMHC, the ability to make a claim or obtain the benefit of coverage under the applicable CMHC Mortgage Insurance may be adversely affected or terminated. If the status of a Servicer as a CMHC Approved Lender is terminated, suspended or otherwise materially limited or restricted, the CMHC Mortgage Insurance in respect of the Loans in the Portfolio may be adversely affected or terminated. Further, the filing of a claim under CMHC Mortgage Insurance in respect of any Loan is not complete unless the insured delivers to CMHC all documentation and evidence required by CMHC. CMHC Mortgage Insurance will cease to be in force in respect of any Loan if:

- (a) it has been obtained by fraud or fraudulent misrepresentation on the part of the originally insured or current holder;
- (b) the insured Loan is sold to a person other than a CMHC Approved Lender unless the Loan continues to be administered by CMHC or the Servicer which obtained the CMHC Mortgage Insurance for such Loan or a successor Servicer acceptable to CMHC; or
- (c) the right of recovery under the mortgage securing the insured Loan has ceased to exist (which, for greater certainty, would include valid security was not initially created or the security has been discharged), other than by reason of the acquisition by the insured of the Mortgaged Property after default.

#### ***Changes to the Lending Criteria of the Sellers***

Each of the Loans originated by a Seller will have been originated in accordance with its Lending Criteria at the time of origination. It is expected that each Seller's Lending Criteria will generally consider type of property, term of loan, age of applicant, the Loan-to-Value Ratio, insurance policies, high loan-to-value fees, status of applicants and credit history. In connection with the sale of any Loans and Related Security to the Guarantor, each Seller will warrant only that such Loans and Related Security were originated in accordance with such Seller's Lending Criteria applicable at the time of origination. Each Seller retains the right to revise its Lending Criteria from time to time but would only do so to the extent that such a change would be acceptable to reasonable and prudent institutional mortgage lenders in the Seller's market. If the Lending Criteria of any Seller changes in a manner that affects the creditworthiness of the Loans, that may lead to increased defaults by Borrowers and may affect the realisable value of the Portfolio, or part thereof, and the ability of the Guarantor to make payments under the Covered Bond Guarantee.

#### ***The Loans of New Sellers may be included in the Portfolio***

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

Any loans originated by a New Seller will have been originated in accordance with the lending criteria of the New Seller, which may differ from the Lending Criteria for Loans originated by the Seller. If the lending criteria differ in a way that affects the creditworthiness of the Loans in the Portfolio, that may lead to increased defaults by Borrowers and may affect the realisable value of the Portfolio or any part thereof or the ability of the Guarantor to make payments under the Covered Bond Guarantee.

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

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

***The Guarantor does not have registered or recorded title to the Loans and their Related Security in the Portfolio on the relevant Transfer Date***

The Sellers will transfer all of their right, title and interest in the Loans and their Related Security to the Guarantor on the relevant Transfer Date pursuant to the Mortgage Sale Agreement, except that registered or recorded title to the Loans and their Related Security will remain with the Sellers until the occurrence of a Title Trigger Event. As a result (and until such time) application will not be made to the applicable land registry offices to register or record the Guarantor's ownership interest in the Loans and their Related Security and notice of the sale of the Loans and their Related Security will not be given to any Borrower.

Upon the occurrence of a Title Trigger Event, the Guarantor (or the Security Trustee) will do or will cause to be done on its behalf, amongst other things, the following: (i) instruct the relevant Seller to give notice of the Guarantor's ownership interest in the relevant Loans to each Borrower thereunder, which notice will direct that payments be made directly to the Guarantor or its designee, and upon such instruction from the Guarantor, such Seller will give such notice at the expense of such Seller; (ii) direct the Borrowers to pay all amounts payable under the relevant Loans directly to the Guarantor or its designee; (iii) cause Registrable Transfers of each of the Loans and Related Security to be prepared, executed and delivered by the relevant Seller to the Guarantor and registered in the appropriate land registry or land titles office; and (iv) request the relevant Seller (or Servicer, if not a Seller) to, and promptly following such request, the relevant Seller (or Servicer) will: (a) assemble all of the records then in its possession (including the Customer Files and computer records and files) and which are necessary or desirable to collect the related Loans and make the same available to the Guarantor or its designee at a place selected by the Guarantor; (b) segregate all cash, cheques and other instruments received by it from time to time constituting payments with respect to the related Loans in a manner acceptable to the Guarantor and, promptly upon receipt, remit all such cash, cheques and instruments, duly endorsed or with duly executed instruments for transfer, to the Guarantor or its designee; and (c) name the Guarantor (or its designee) as loss payee on any applicable related insurance policies maintained by the Seller in respect of the Loans and their Related Security assigned to the Guarantor (other than the CMHC Mortgage Insurance related to such Loan): see *Summary of the Principal Documents—Mortgage Sale Agreement—Transfer of Title to the Loans to the Trust*.

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

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

in the affected Loan and its Related Security and it may not be entitled to payments by a Borrower in respect of that Loan. However, the risk of third party claims obtaining priority to the interest of the Guarantor would likely be limited to circumstances arising from a breach by such Seller of its contractual obligations or fraud, negligence or mistake on the part of such Seller or its respective personnel or agents;

- *second*, the rights of the Guarantor may be subject to the rights of the Borrowers against a Seller, such as rights of set-off which may occur in relation to transactions or deposits made between Borrowers and a Seller and the rights of Borrowers to redeem their mortgages by repaying the Loans directly to a Seller; and
- *third*, unless the Guarantor has perfected the sale of the Loans (which it is only entitled to do in certain circumstances), the Guarantor may not be able to enforce any Borrower's obligations under the relevant Loan itself but may have to join the relevant Seller as a party to any legal proceedings.

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

The exercise of set-off rights by Borrowers may also adversely affect the ability of the Security Trustee (for Covered Bondholders and on behalf of the other Secured Creditors) to realise on the Portfolio under the Security Agreement.

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

#### ***Limited recourse to the Sellers***

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

In the event of a material breach of any of the Loan Representations or Warranties in respect of any Loan and/or its Related Security or if any of the Loan Representations or Warranties proves to be untrue in any material respect as at the First Transfer Date in the case of the Initial Portfolio, or, in the case of any Additional Loans and/or their Related Security as at the relevant Transfer Date, and *provided* that the Guarantor has given the relevant Seller not less than 20 Toronto Business Days' notice of such breach or untruth in writing and such breach or untruth, where capable of remedy, is not remedied to the reasonable satisfaction of the Security Trustee within the 20 Toronto Business Day period (or such longer period as the Security Trustee may in its absolute discretion direct the Guarantor in writing) then the Guarantor will be entitled to serve upon such Seller a Loan Repurchase Notice requiring such Seller to repurchase the relevant Loan and its Related Security (and any other Loan secured or intended to be secured by that Related Security or any part of it whether or not there has been any breach of a Loan Representation and Warranty in respect of such other Loan) at the Repurchase Amount of all such Loans.

In the event a Seller accepts a request from a Borrower for a Product Switch or Additional Loan Advance in respect of any Loan in the Portfolio (which constitutes an unconditional obligation on the part of such Seller to make such Product Switch or such Additional Loan Advance, respectively, at any time following its purchase by the Guarantor), then if such Product Switch or Additional Loan Advance results in paragraphs (c), (d), (e) or (g) of the Eligibility Criteria or the Loan Representations and Warranties not being satisfied in respect of the relevant Loan on the next Calculation Date or, if any Product Switch would give rise to an increased tax liability to the Guarantor, and provided that the Guarantor has given the relevant Seller not less than 20 Toronto Business Days' notice of such breach or untruth in writing and such breach or untruth, where capable of remedy, is not remedied to the reasonable satisfaction of the Security Trustee within the 20 Toronto Business Day period (or such longer period as the Security

Trustee may, in its absolute discretion, direct the Guarantor in writing), the Guarantor will be entitled to serve upon such Seller a Loan Repurchase Notice requiring such Seller to repurchase the relevant Loan and its Related Security (and any other Loan secured or intended to be secured by that Related Security or any part of it whether or not there has been any breach of a Loan Representation and Warranty in respect of such other Loan) at the Repurchase Amount of all such Loans.

Additional Loan Advances will be funded by the Guarantor from Advances under the Intercompany Loan Agreement or Subordinated Advances under the Subordinated Loan Agreement.

In addition, if a Seller fails to sell Additional STEP Loans to the Guarantor within the time period specified in the Mortgage Sale Agreement or an Additional STEP Loan is created which will result in the CMHC Mortgage Insurance in respect of the related STEP Loan in the Portfolio becoming void or a material limitation being placed on any claims that may be made thereunder, the Guarantor will be entitled to serve upon such Seller a Loan Repurchase Notice requiring such Seller to repurchase the related STEP Loans owned by the Guarantor and the Related Security for such STEP Loans at the Repurchase Amount for such STEP Loans owned by the Guarantor and the Guarantor will not be required to purchase any such related STEP Loans.

There can be no assurance that a Seller will have the financial resources to repurchase the Loans and their Related Security. However, if a Seller does not repurchase those Loans and their Related Security which are: (i) in breach of the Loan Representations and Warranties; (ii) subject to a Product Switch or such Additional Loan Advance, respectively, which results in paragraphs (c), (d), (e) or (g) of the Eligibility Criteria or the Loan Representations and Warranties not being satisfied in respect of such Loan on the next Calculation Date; (iii) subject to any Product Switch which gives rise to an increased tax liability to the Guarantor or (iv) STEP Loans relating to Additional STEP Loans which have not been sold by a Seller to a Guarantor in accordance with the terms of the Mortgage Sale Agreement, then those Loans will be given a zero value for the purposes of any calculation of the Asset Coverage Test and the Amortisation Test. There is no further recourse to the Sellers in respect of a breach of a Loan Representation or Warranty.

#### ***Risks Particular to STEP Loans***

The Issuer expects that the Portfolio will from time to time include STEP Loans. For a detailed description of the STEP Loans, see *Summary of the Principal Documents—Mortgage Sale Agreement—Scotia Total Equity Plan and STEP Loans*. Such STEP Loans are subject to certain additional risks which include, without limitation, the following:

- the risk that servicing decisions and enforcement proceedings with respect to one or more of the Other STEP Products can be made by the servicer of each such Other STEP Product independently, without restriction or limitation and without having regard to the interests of the Guarantor as owner of the related STEP Loans, but in all cases, giving due consideration to the priority of the STEP Loans and ensuring that the applicable CMHC Mortgage Insurance remains in full force and effect at all times with no material limitation being placed on any claims that may be made thereunder. Such actions could conflict with the rights and interests of the Guarantor in respect of the STEP Loans, however, such servicer will not have a contractual right to take, or will be restricted by contract from taking, enforcement proceedings in respect of the STEP Collateral Mortgage;
- the risk that Additional STEP Loans may be originated by a Seller from time to time, who will be entitled, following default, to distributions of collections received from the related STEP Borrower ranking *pari passu* with distributions made to the Guarantor in respect of related STEP Loans. The provisions of the Mortgage Sale Agreement that require all such Additional STEP Loans to be sold to the Guarantor within a specified period of time and serviced by the Servicer, failing which the Guarantor is entitled to serve a Loan Repurchase Notice on the related Seller requiring it to repurchase the related STEP Loans owned by the Guarantor, may not be enforceable in the event of any bankruptcy or insolvency of the related Seller;
- in the event of any required sale of any Selected Loans under the Transaction Documents, and if a STEP Loan is required to be sold, the risk that the terms of the STEP Plan, the related servicing and priority

arrangements governing the STEP Loans and/or the continuing ownership interests of the Seller and/or Other STEP Creditors in the other related STEP Accounts and the related STEP Collateral Mortgages may make such STEP Loans more difficult to sell than other Loans that are not STEP Loans; and

- the risk that the Guarantor, or the Servicer on its behalf, is or will become subject to certain fiduciary and other rights, duties and obligations under applicable law or under any applicable agreements in regard to the related Seller and/or any Other STEP Creditor having an interest in the related STEP Collateral Mortgage which could delay or otherwise adversely affect its right to make certain servicing and/or enforcement decisions relating to such STEP Loans or, with respect to such agreements, which may affect the respective priorities of the related STEP Loans and other STEP Accounts and with respect to such priorities, the Guarantor will not have contractual privity with or recourse to the relevant Other STEP Creditor.

### ***Risks Relating to Enforcement of Loans***

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

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

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

*Priority and Distributions on STEP Loans.* Until sold to the Guarantor pursuant to the Mortgage Sale Agreement, certain Additional STEP Loans made to a particular STEP Borrower may be *pari passu* in distributions with certain STEP Loans owned by the Guarantor. If approved by the Rating Agencies as a New Loan Type, STEP Loans constituting lines of credit will be subordinate in priority to STEP Loans made to the same STEP Borrower which

constitute mortgage loans. *See Summary of the Principal Documents—Mortgage Sale Agreement—Scotia Total Equity Plan and STEP Loans.*

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

### ***Environmental Matters***

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

### **Industry Factors**

***As a Canadian-based international financial services company, the Issuer's revenues and earnings are affected by the general economic conditions in each of the countries in which the Issuer conducts business***

Factors such as interest rates, foreign exchange rates, the stability of various financial markets, including the impact from the continuing volatility and lack of liquidity in various financial markets, consumer spending, business investment, government spending, the health of the capital markets, inflation and terrorism (and the threat thereof) impact the business and economic environments in which the Issuer operates and, ultimately, the amount of business the Issuer conducts in any specific geographic region.

***The movement of the Canadian Dollar relative to other currencies may affect the Issuer's revenues, expenses and earnings***

The Issuer's revenues, expenses and income denominated in currencies other than the Canadian Dollar are subject to fluctuations in the movement of the Canadian Dollar relative to such currencies. Such fluctuations may affect the Issuer's overall business and financial results.

***The Issuer's earnings are affected by the monetary policies of the jurisdictions it operates in***

Bond and money market expectations about inflation and central bank monetary policy decisions are beyond the Bank's control, are difficult to predict or anticipate and have an impact on the level of interest rates, the fluctuation of which can have an impact on the Bank's earnings.

***The Issuer's performance can be influenced by the degree of competition in the markets in which it operates***

The competition for customers among financial services companies in the markets in which the Issuer operates is intense. Competition for market share is dependent upon a number of factors, including service levels, product pricing and attributes, the Issuer's reputation and actions of competitors. Competition from non-financial companies may also reduce fee revenues and adversely affect the Issuer's earnings.

***Changes in the statutes, regulations and regulatory policies that govern activities in the Issuer's various business lines could affect the Issuer's results***

Regulations are in place to protect the financial and other interests of the Issuer's clients, investors and the public interest. Changes to statutes, regulations or regulatory policies, including changes in the interpretation, implementation or enforcement of statutes, regulations or regulatory policies, could adversely affect the Issuer by increasing the ability of competitors to compete with the products and services the Issuer provides and increasing the Issuer's cost of compliance. In addition, the Issuer's failure to comply with applicable statutes, regulations or regulatory policies could result in sanctions and financial penalties by regulatory agencies that could adversely impact the Issuer's reputation and earnings.

***Judicial or regulatory judgments and legal proceedings against the Issuer may adversely affect the Issuer's results***

Although the Issuer takes what it believes to be reasonable measures designed to ensure compliance with governing statutes, laws, regulations and regulatory policies in the jurisdictions in which it conducts business, there is no assurance that the Issuer will always be in compliance, or will be deemed to be in compliance. Accordingly, it is possible that the Issuer could receive a judicial or regulatory judgment or decision that results in fines, damages and other costs that could damage its reputation and have a negative impact on the Issuer's earnings. The Issuer is also subject to litigation arising in the ordinary course of its business. The adverse resolution of any litigation could have a material adverse effect on the Issuer's results or could give rise to significant reputational damage, which could affect the Issuer's future business prospects. For more information about legal and regulatory matters the Issuer currently faces, please see *General Information—Litigation* below and Note 24 of the audited consolidated financial statements of the Issuer as of and for the year ended 31 October 2010.

***Failure to obtain accurate and complete information from or on behalf of the Issuer's customers and counterparties could adversely affect the Issuer's results***

When deciding to extend credit or enter into other transactions with customers and counterparties, the Issuer may rely on information provided to it by or on behalf of customers and counterparties, including audited financial statements and other financial information. The Issuer also may rely on representations of customers and counterparties as to the completeness and accuracy of the information. The Issuer's financial results could be adversely affected if the financial statements and other financial information relating to customers and counterparties on which it relies do not comply with the relevant generally accepted accounting practices or are materially misleading.

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

The Superintendent of Financial Institutions (the "**Superintendent**"), under Section 645(1) of the Bank Act, 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), the Office of the Superintendent of Financial Institutions ("OSFI") confirmed by letter dated 27 June 2007 that Canadian deposit taking institutions may issue covered bonds, provided certain conditions are met. The conditions are as follows: (i) at the time of issuance, the covered bonds must not make up more than four per cent. of the Total Assets of the relevant deposit taking institution; (ii) if at any time after issuance the four per cent. limit is exceeded, the relevant deposit taking institution must immediately notify OSFI; and (iii) excesses (above the four per cent. limit) due to factors not under the control of the issuing institution, such as foreign exchange fluctuations, will not require the relevant deposit taking institution to take action to reduce the amount outstanding, however, for other excesses, the relevant deposit taking institution must provide a plan showing how it proposes to eliminate the excess quickly. "**Total Assets**" for the purpose of the foregoing limit, will be equal to the numerator of the asset-to-capital multiple of the relevant deposit taking institution. In addition, relevant deposit taking institutions are expected, prior to issuing any covered bonds, to amend the pledging policies they are required to maintain under the Bank Act to take into account the issuance of covered bonds consistent with the above limits and to obtain board and/or committee approval for such amendments prior to issuance of any covered bonds.

The full Programme amount is less than four per cent. of the Total Assets of the Bank as of the date of this Prospectus. The Bank did not issue covered bonds prior to 27 June 2007, and prior to the Programme Date, the Bank received board approval for amendments to its pledging policies which take into account the issuance of Covered Bonds under the Programme.

### **General**

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

### **Issuer Specific Factors**

There are numerous factors, many beyond the Issuer's control, which could cause results of the Issuer to differ significantly from those anticipated. The factors set out below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties that face the Issuer's businesses. Other factors, including credit risk, market risk, liquidity risk, operational risk, reputational risk and environmental risks are identified and discussed in the Bank's 2010 Annual Report and the management's discussion and analysis of financial condition and results of operations, each of which is incorporated herein by reference.

***The accounting policies and methods the Issuer utilises determine how it reports its financial condition and results of operations, and they may require management to make estimates or rely on assumptions about matters that are inherently uncertain. Such estimates and assumptions may require revision, and changes to them may materially adversely affect the Issuer's results of operations and financial condition***

The Issuer's financial condition and results of operations are reported using accounting policies and methods prescribed by Canadian GAAP. In certain cases, Canadian GAAP allows accounting policies and methods to be selected from two or more alternatives, any of which might be reasonable, yet result in the Issuer reporting materially different amounts. Management exercises judgment in selecting and applying the Issuer's accounting policies and methods to ensure that, while Canadian GAAP compliant, they reflect the Issuer's best judgment of the

most appropriate manner in which to record and report the Issuer's financial condition and results of operations. Significant accounting policies to the consolidated financial statements are described in note 1 on pages 115 to 120 of the Bank's 2010 Annual Report which pages are contained in the section of the 2010 Annual Report incorporated herein by reference.

As detailed in the section entitled "Critical Accounting Estimates" on pages 78 to 82 of the Bank's 2010 Annual Report which pages are contained in the section of the Bank's 2010 Annual Report and incorporated herein by reference, eight accounting policies have been identified as being "critical" to the presentation of the Issuer's financial condition and results of operations as they (i) require management to make particularly subjective and/or complex judgments about matters that are inherently uncertain, and (ii) carry the likelihood that materially different amounts could be reported under different conditions or using different assumptions and estimates. The reporting of such materially different amounts could materially and adversely affect the Issuer's results of operations or reported financial condition. These critical accounting policies and estimates relate to the determination of the Issuer's allowance for credit losses, the determination of the fair value of financial instruments and other-than-temporary impairment of investment securities, the cost of pensions and other employee future benefits, the provision for corporate income taxes and whether or not variable interest entities should be consolidated.

***As a large organisation, the Issuer is exposed to operational and infrastructure risks***

Similar to all large organisations, the Issuer is exposed to many types of operational risk, including the risk of fraud by employees or outsiders, unauthorised transactions by employees, or operational errors, including clerical or record keeping errors or errors resulting from faulty or disabled computer or telecommunications systems. Given the high volume of transactions the Issuer processes on a daily basis, certain errors may be repeated or compounded before they are discovered and successfully rectified. Shortcomings or failures in the Issuer's internal processes, people or systems, including any of the Issuer's financial, accounting or other data processing systems, could lead to, among other consequences, financial loss and reputational damage. In addition, despite the contingency plans the Issuer has in place, the Issuer's ability to conduct business may be adversely affected by a disruption in the infrastructure that supports the Issuer's businesses and the communities in which they are located. This may include a disruption involving electrical, communications, transportation or other services used by the Issuer or third parties with which the Issuer conducts business.

Notwithstanding the above, this risk factor should not be taken as implying that either the Issuer or the Scotiabank Group will be unable to comply with its obligations as a company admitted to the Official List or as a supervised firm regulated by the Financial Services Authority.

***Other Factors***

Other factors that may affect future results include changes in trade policy, the timely development and introduction of new products and services in receptive markets, changes in tax laws, technological changes, unexpected changes in consumer spending and saving habits, and the possible impact on the Issuer's business of international conflicts and other developments including those relating to the war on terrorism, and the Issuer's anticipation of and success in managing the associated risks.

**Factors that are Material for the Purpose of Assessing the Market Risks Associated with Covered Bonds Issued Under the Programme**

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

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

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

- have sufficient knowledge and experience to make a meaningful evaluation of the Covered Bonds, the merits and risks of investing in the Covered Bonds and the information contained in this Prospectus or incorporated herein by reference or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Covered Bonds and the impact the Covered Bonds will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Covered Bonds, including Covered Bonds with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the currency in which the potential investor's financial activities are principally denominated;
- understand thoroughly the terms of the Covered Bonds and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

### **Risks Related to the Structure of a Particular Issue of Covered Bonds**

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

#### ***Covered Bonds subject to optional redemption by the Issuer***

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

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

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

The Issuer may issue a Tranche of Covered Bonds which bear interest at a rate that converts from a Fixed Rate to a Floating Rate, or from a Floating Rate to a Fixed Rate. Where the Issuer has the right to affect such a conversion, this may affect the secondary market and the market value of the Covered Bonds since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a Fixed

Rate to a Floating Rate, in such circumstances, the spread on such Covered Bonds may be less favourable than the prevailing spreads on comparable Floating Rate Covered Bonds tied to the same Reference Rate. In addition, the new Floating Rate at any time may be lower than the rates on the other Covered Bonds. If the Issuer converts from a Floating Rate to a Fixed Rate, in such circumstances, the Fixed Rate may be lower than the prevailing rates on the other Covered Bonds.

The applicable Final Terms Document may provide that the Guarantor's obligations under the Covered Bond Guarantee to pay the Guaranteed Amounts equal to the Final Redemption Amount of the applicable Series of Covered Bonds on the Final Maturity Date (subject to the applicable grace period) may be deferred until the applicable Extended Due for Payment Date. In such case, such deferral will occur automatically if the Issuer fails to pay the Final Redemption Amount of the relevant Series of Covered Bonds on the applicable Final Maturity Date (in each case subject to the applicable grace period), a Notice to Pay has been served by the Bond Trustee on the Guarantor and the Guaranteed Amounts equal to the Final Redemption Amount in respect of such Series of Covered Bonds are not paid in full by the Extension Determination Date (for example, because following service of a Notice to Pay, the Guarantor has insufficient funds to pay in full the Guaranteed Amounts equal to the Final Redemption Amount in respect of the relevant Series of Covered Bonds after payment of higher ranking amounts and taking into account amounts ranking *pari passu* in the Guarantee Priority of Payments). To the extent that the Guarantor has received a Notice to Pay by the time specified in Condition 6.1 and has the funds available to it under the Guarantee Priority of Payments to pay in part the Final Redemption Amount, partial payment of the Final Redemption Amount will be made as described in Condition 6.1. The Guarantor will, to the extent it has the funds available to it, make payments in respect of the unpaid portion of the Final Redemption Amount on any Interest Payment Date up until the Extended Due for Payment Date. Following the Due for Payment Date, interest will continue to accrue and be payable on the unpaid portion of the Final Redemption Amount up to the Extended Due for Payment Date in accordance with Condition 4, and at the Rate of Interest specified in the applicable Final Terms Document which may provide that the relevant Series of Covered Bonds will bear interest at a Fixed Rate determined in accordance with Condition 4.1 or at a Floating Rate determined in accordance with Condition 4.2. The Guarantor will pay Guaranteed Amounts consisting of Scheduled Interest on each Original Due for Payment Date and the Extended Due for Payment Date and any unpaid amounts in respect thereof will be due and payable on the Extended Due for Payment Date.

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

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

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

Unless the Bearer Global Covered Bonds or the Registered Global Covered Bonds are exchanged for Bearer Definitive Covered Bonds or Registered Definitive Covered Bonds, respectively, which exchange will only occur in the limited circumstances set out under *Form of the Covered Bonds — Bearer Covered Bonds and Form of the Covered Bonds — Registered Covered Bonds* below, the beneficial ownership of the Covered Bonds will be recorded in book-entry form only with Euroclear and Clearstream, Luxembourg and/or DTC.

The fact that the Covered Bonds are not represented in physical form could, among other things:

- result in payment delays on the Covered Bonds because distributions on the Covered Bonds will be sent by or on behalf of the Issuer to Euroclear, Clearstream, Luxembourg or DTC instead of directly to Covered Bondholders;
- make it difficult for Covered Bondholders to pledge the Covered Bonds as security if Covered Bonds in physical form are required or necessary for such purposes; and

- hinder the ability of Covered Bondholders to resell the Covered Bonds because some investors may be unwilling to buy Covered Bonds that are not in physical form.

### **Canadian Usury Laws**

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

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

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

### **Risks Related to the Covered Bonds Generally**

Set out below is a brief description of certain risks relating to the Covered Bonds generally.

#### ***Modification and Waivers***

The conditions of the Covered Bonds contain provisions for calling meetings of Covered Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Covered Bondholders including Covered Bondholders who do not attend and vote at the relevant meeting and Covered Bondholders who voted in a manner contrary to the majority.

The conditions of the Covered Bonds also provide that the Bond Trustee and the Security Trustee may, without the consent of Covered Bondholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of Covered Bonds; or (ii) determine at its discretion whether certain events of default will not be treated as such, provided that the Bond Trustee and the Security Trustee are of the opinion that such modification or waiver will not be materially prejudicial to the interests of any of the covered bondholders.

Notwithstanding the above, none of the Issuer, the Guarantor, a Seller, a Servicer, the Bond Trustee or the Security Trustee, without the consent or sanction of the Covered Bondholders by Extraordinary Resolution, may take any action or amend any of the Transaction Documents that would result in the CMHC Mortgage Insurance relating to any Loan in the Portfolio becoming void or a material limit being placed on any claims that may be made thereunder.

#### ***No Obligation to maintain listing***

The Issuer is not under any obligation to Covered Bondholders to maintain any listing of Covered Bonds and may, in certain circumstances, seek to terminate the listing of any Series of Covered Bonds. These circumstances include any future law or EU Directive imposing requirements (including new corporate governance requirements) on the Issuer that it in good faith determines are impractical or unduly burdensome in order to maintain the continued listing of any Covered Bonds issued under the Programme on a regulated market in the European Economic Area.

In these circumstances, the Issuer may, in its sole discretion, determine that it is unduly burdensome to maintain such listing and seek to terminate the listing of such Covered Bonds issued by it provided it uses all commercially reasonable endeavours to seek an alternative admission to listing, trading and/or quotation of such Covered Bonds

by another listing authority, securities exchange and/or quotation system that it deems appropriate. However, if such alternative listing authority, securities exchange and/or quotation system is not available or, in the opinion of the Issuer is impractical or unduly burdensome, an alternative listing may not be obtained.

Although there is no assurance as to the liquidity of any Covered Bonds as a result of the listing on a regulated market in the European Economic Area, delisting such Covered Bonds may have a material affect on the ability of investors to (i) continue to hold such Covered Bonds or (ii) resell the Covered Bonds in the secondary market.

### ***Change of Law***

Unless otherwise indicated, the terms and conditions of the Covered Bonds are based on the laws of the Province of Ontario and the federal laws of Canada applicable therein in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to the laws of the Province of Ontario or the federal laws of Canada applicable therein or administrative practice therein or of any other applicable jurisdiction after the date of this Prospectus and before the date on which the relevant Covered Bonds are issued.

### ***Basel Capital Requirements Directive***

The Basel Committee on Banking Supervision has finalised guidance for further reform of the 1988 Basel Capital Accord which increases both the quality and quantity of regulatory capital in an effort to create a more resilient global banking sector. The Issuer cannot predict the precise effects of the potential changes that might result from implementation of the guidance on both its own financial performance or the impact on the pricing of the Covered Bonds issued under this Programme. Prospective investors should consult their own advisers as to the potential consequences for them and for the Issuer of the potential application of the framework.

### ***Trading in the clearing systems—Integral multiples***

Covered Bonds may be issued with a minimum Specified Denomination and may be tradeable in the clearing system(s) in amounts in excess of such minimum Specified Denomination that may not be integral multiples of a Specified Denomination. In such a case should Definitive Covered Bonds be required to be issued, a holder who, as a result of trading such amounts, is left with an amount that is less than the minimum Specified Denomination in its account with the relevant clearing system at the relevant time may not receive Definitive Covered Bonds in respect of such holding and would need to purchase, on or before the relevant date on which Definitive Covered Bonds are to be issued, a principal amount of Covered Bonds such that their holding amounts to at least the minimum Specified Denomination (or an integral multiple thereof).

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

### **Risks Related to the Market Generally**

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

#### ***The secondary market generally***

Covered Bonds may have no established trading market when issued, and no assurance is *provided* that an active and liquid secondary market for the Covered Bonds will develop. To the extent a secondary market exists or develops, it may not continue for the life of the Covered Bonds or it may not provide Covered Bondholders with liquidity of investment with the result that a Covered Bondholder may not be able to find a buyer to buy its Covered Bonds readily or at prices that will enable the Covered Bondholder to realise a desired yield. This is particularly the case for Covered Bonds that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Covered Bonds generally would have a more limited secondary market and

more price volatility than conventional debt securities. Illiquidity may 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. The Covered Bonds have not been, and will not be, registered under the Securities Act or any other applicable securities laws in the United States and are subject to certain restrictions on the resale and other transfer thereof as set forth under *Plan of Distribution-Selling Restrictions*. 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 realise a desired yield.

The secondary markets for mortgage loans and mortgage-backed securities are currently experiencing severe difficulties resulting from reduced investor demand for mortgage loans and mortgage-backed securities and increased investor yield requirements for such loans and securities. As a result, the secondary market for mortgage-backed securities is experiencing extremely limited liquidity. It is not known for how long these conditions will continue or whether and to what extent they will worsen in the future.

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

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

Further, Covered Bondholders should be aware of the prevailing and widely reported global credit market conditions (which continue at the date hereof), whereby there is a general lack of liquidity in the secondary market for instruments similar to the Covered Bonds. As a result of the current liquidity crisis, there exist significant additional risks to the Issuer and the investors which may affect the returns on the Covered Bonds to investors.

In addition, the current liquidity crisis has stalled the primary market for a number of financial products including instruments similar to the Covered Bonds. While it is possible that the current liquidity crisis may soon alleviate for certain sectors of the global credit markets, there can be no assurance that the market for securities similar to the Covered Bonds will recover at the same time or to the same degree as such other recovering global credit market sectors.

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

The Issuer will pay principal and interest on the Covered Bonds and the Guarantor will make any payments under the Covered Bond Guarantee in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (i) the

Investor's Currency-equivalent yield on the Covered Bonds, (ii) the Investor's Currency-equivalent value of the principal payable on the Covered Bonds and (iii) the Investor's Currency-equivalent market value of the Covered Bonds.

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

***Interest rate risks***

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

***Credit ratings might not reflect all risks***

The ratings assigned by the Rating Agencies may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Covered Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

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

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

***Interest of Dealers***

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

The Issuer may sell the Covered Bonds to one or more of the Dealers, including Scotia Capital Inc. Scotia Capital Inc. is a wholly-owned indirect Subsidiary of the Issuer. The terms of the Programme were negotiated at arm's length between the Issuer and the Dealers. In addition to the proceeds from any offering of the Covered Bonds under the Programme being applied, directly or indirectly for the benefit of Scotia Capital Inc. in its capacity as a wholly-owned indirect Subsidiary of the Issuer, it will also receive a portion of any fees and commissions payable in connection with any such offering of Covered Bonds in its capacity as a Dealer.

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published or are published simultaneously with this Prospectus and as of the date of this Prospectus have been approved by or filed with the UK Listing Authority will be deemed to be incorporated in, and to form part of, this Prospectus:

1. the Bank's annual information form dated 3 December 2010 for the year ended 31 October 2010;
2. the Bank's audited consolidated financial statements as at and for the years ended 31 October 2010 and 31 October 2009, prepared in accordance with Canadian GAAP, together with the auditors' report thereon and management's discussion and analysis of financial condition and results of operations for the years ended 31 October 2010 and 31 October 2009, all as set out on pages 22 to 164 of the Bank's Annual Report for the year ended 31 October 2010;
3. the Bank's comparative unaudited interim consolidated financial statements for the three-month period ended 31 January 2011 prepared in accordance with Canadian GAAP, together with management's discussion and analysis for the three-month period ended 31 January 2011, set out on pages 3 to 36 of the Bank's 2011 First Quarter Report to Shareholders;
4. the Bank's comparative unaudited interim consolidated financial statements for the three and six month periods ended 30 April 2011 prepared in accordance with Canadian GAAP, together with management's discussion and analysis for the three and six month periods ended 30 April 2011, set out on pages 3 to 40 of the Bank's 2011 Second Quarter Report to Shareholders; and
5. the terms and conditions set out on pages 78 to 112 of the base prospectus dated 3 November 2009 relating to the Programme under the heading "*Terms and Conditions of the Covered Bonds*" (the "**2009 Conditions**") and the terms and conditions set out on pages 79 to 115 of the base prospectus dated 19 July 2010 relating to the Programme under the heading "*Terms and Conditions of the Covered Bonds*" (the "**2010 Conditions**")

in each case, excluding all information incorporated therein by reference (such information is not relevant for prospective investors or is covered elsewhere in this Prospectus); *provided* that any statement contained in a document all or the relative portion of which is incorporated by reference will be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein or in any supplement hereto, including any document incorporated therein by reference, modifies or supersedes such earlier statement (whether expressly, by implication or otherwise).

The Bank's 2010 consolidated financial statements, together with management's discussion and analysis for the year ended 31 October 2010 referred to above are contained in the Bank's 2010 annual report for the year ended 31 October 2010 (the "**2010 Annual Report**").

In addition, the following documents published or issued from time to time after the date hereof will be deemed to be incorporated by reference in, and form part of, this Prospectus; *provided* that such documents will not form part of the base prospectus approved by the UK Listing Authority for the purposes of the Prospectus Directive unless otherwise incorporated in a supplementary prospectus approved by the UK Listing Authority, and that such future documents will not form part of the Listing Particulars for the purposes of the PSM:

6. any unaudited comparative consolidated interim financial statements of the Bank and interim management's discussion and analysis of financial condition and results of operations published from time to time subsequent to the date of this Prospectus;
7. any audited comparative consolidated annual financial statements of the Bank, together with the auditor's report thereon and annual management's discussion and analysis of financial condition and results of operations published from time to time subsequent to the date of this Prospectus; and

8. any material change reports (excluding confidential material change reports) filed by the Bank with the relevant regulators.

Where only certain parts of a document are incorporated by reference, the non-incorporated parts of the document are either not relevant for investors or are covered elsewhere in the Prospectus.

Copies of this Prospectus and the documents incorporated by reference in this Prospectus (but excluding 5, 6 and 7 above unless otherwise incorporated in the base prospectus pursuant to a supplement to this Prospectus or a prospectus under Article 16 of the Prospectus Directive approved by the UK Listing Authority) can be obtained on written request and without charge from the Executive Offices of the Bank from the Executive Vice-President, General Counsel and Secretary of the Bank and the offices of the Paying Agent, Registrar and Transfer Agent, The Bank of Nova Scotia, London Banking Division, Scotia House, 33 Finsbury Square, London EC2A 1BB, and may also be viewed on the website of the Regulatory News Service operated by the London Stock Exchange at [www.londonstockexchange.com/en-gb/pricesnews/marketnews/](http://www.londonstockexchange.com/en-gb/pricesnews/marketnews/) under the name of the Issuer.

The financial statements of the Issuer incorporated by reference in this Prospectus have not been prepared in accordance with the international accounting standards adopted pursuant to the procedure of Article 3 of Regulation (EC) No. 1606/2002 of the European Parliament and the Council of the European Union. The financial information of the Bank incorporated by reference or otherwise contained in this Prospectus has been prepared in accordance with Canadian GAAP. Accordingly, it is not comparable to the audited financial statements of companies using International Financial Reporting Standards ("**IFRS**"). A reconciliation of Canadian GAAP and IFRS will not be provided.

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

## **ISSUE OF COVERED BONDS**

Covered Bonds issued by the Issuer will be issued on a continuous basis in Series having one or more Issue Dates. All Covered Bonds of the same Series will have identical terms (or identical terms other than in respect of the Issue Date, the Issue Price and the amount and date of the first payment of interest thereon), it being intended that each Covered Bond of a Series will be interchangeable with all other Covered Bonds of that Series. Each Series may be issued in Tranches on different Issue Dates and at different Issue Prices. The specific terms of each Tranche will be set forth in the applicable Final Terms Document. Each Final Terms Document relating to the Covered Bonds will be in, or substantially in, the form set out in this Prospectus: see *Form of Final Terms Document*.

This Prospectus should be read and construed in conjunction with any supplements hereto, all documents incorporated herein or therein by reference: see *Documents Incorporated by Reference*. In relation to any Tranche, this Prospectus should be read and construed in conjunction with the applicable Final Terms Document. The Issuer may agree with any Dealer to issue a particular Tranche under the Programme pursuant to a stand-alone prospectus (each, a "**Stand-Alone Prospectus**") prepared in connection with such Tranche. The terms and conditions applicable to each Tranche, subject to a Stand-Alone Prospectus, will be those set out in *Terms and Conditions of the Covered Bonds* as supplemented, modified or replaced by the applicable Final Terms Document. In the case of a Tranche that is the subject of a Stand-Alone Prospectus, each reference in this Prospectus to information being set out, stated or shown in the Final Terms Document will be construed as a reference to such information being set out, stated or shown in the relevant Stand-Alone Prospectus and each other reference to the Final Terms Document in this Prospectus will be read and construed as a reference to such Stand-Alone Prospectus.

## OVERVIEW OF THE PROGRAMME

*The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus and, in relation to the terms and conditions of any particular Tranche of Covered Bonds, the applicable Final Terms Document. Words and expressions defined elsewhere in this Prospectus will have the same meanings in this overview. A glossary of certain defined terms is contained at the end of this Prospectus.*

Issuer ..... The Bank of Nova Scotia. The Bank was granted a charter under the laws of the Province of Nova Scotia in 1832, and commenced operations in Halifax, Nova Scotia in that year. Since 1871, the Bank has been a chartered bank under the *Bank Act* (Canada) (the "**Bank Act**"), which is its charter, and the Bank is listed in Schedule I to the Bank Act. The head office of the Bank is located at 1709 Hollis Street, Halifax, Nova Scotia, B3J 3B7, and the executive offices are at Scotia Plaza, 44 King Street West, Toronto, Ontario M5H 1H1 (the "**Executive Offices**").

For a more detailed description of the Issuer, see *The Bank of Nova Scotia*.

Branch of Account..... Unless otherwise specified in the applicable Final Terms Document, the main branch of the Issuer in Toronto (located at its Executive Offices) will take the deposits evidenced by the Covered Bonds but without prejudice to the provisions of Condition 5: see *Terms and Conditions of the Covered Bonds—Payments*. The Issuer may also issue through its London branch or any other branch specified in the applicable Final Terms Document.

Guarantor..... Scotia Covered Bond Trust, a trust established under the laws of the Province of Ontario pursuant to the Declaration of Trust.

The Guarantor is a special purpose trust whose purpose is to acquire, *inter alia*, Loans and their Related Security from the Sellers pursuant to the terms of the Mortgage Sale Agreement and to guarantee the Covered Bonds. The Guarantor will hold the Portfolio and the other Charged Property in accordance with the terms of the Transaction Documents.

For a more detailed description of the Guarantor, see *The Guarantor*.

Guarantor Trustee..... Montreal Trust Company of Canada, a trust company incorporated under the laws of Canada, acting through its offices at c/o Computershare Trust Company of Canada, 100 University Avenue, 11<sup>th</sup> Floor, North Tower, Toronto, Ontario, M5J 2Y1.

Administrative Agent ..... The Bank, acting through its Executive Offices, will, pursuant to the terms of the Administration Agreement, act as the Administrative Agent.

For a more detailed description of the Administration Agreement, see *Summary of Principal Documents—Administration Agreement*.

Independent Beneficiary..... Any Canadian resident non-profit corporation as the Guarantor Trustee (or the Administrative Agent on its behalf) may select from time to time as beneficiary of the Guarantor.

Sellers ..... The Bank and Scotia Mortgage Corporation, and any New Seller.

For a more detailed description of the Mortgage Sale Agreement, see *Summary of the Principal Documents—Mortgage Sale Agreement*.

Servicers ..... The Servicers will, pursuant to the terms of the Servicing Agreement, service on behalf of the Guarantor the Loans and their Related Security sold to the Guarantor under the Mortgage Sale Agreement.

For a more detailed description of the Servicing Agreement, see *Summary of Principal Documents—Servicing Agreement*.

Cash Manager ..... The Bank, acting through its Executive Offices, will, pursuant to the terms of the Cash Management Agreement, provide cash management services to the Guarantor and monitor compliance by the Guarantor with the Asset Coverage Test and the Amortisation Test.

For a more detailed description of the Cash Management Agreement, see *Summary of the Principal Documents—Cash Manager Agreement*.

Principal Paying Agent, Registrar,  
Transfer Agent and Paying  
Agent ..... The Bank of Nova Scotia, London Banking Division, acting through its offices at Scotia House, 33 Finsbury Square, London EC2A 1BB, has been appointed pursuant to the Agency Agreement as the principal paying agent, a registrar, a transfer agent and a paying agent.

Paying Agent, Registrar, Transfer  
Agent and Exchange Agent ..... The Bank of Nova Scotia Trust Company of New York, acting through its office at One Liberty Plaza, 23rd Floor, New York, New York 10006, has been appointed pursuant to the Agency Agreement as a paying agent, a registrar, a transfer agent and the exchange agent.

Bond Trustee ..... Computershare Trust Company of Canada, a trust company incorporated under the laws of Canada, acting through its offices at 100 University Avenue, 11<sup>th</sup> Floor, North Tower, Toronto, Ontario, M5J 2Y1, will act as Bond Trustee on behalf of the Covered Bondholders in respect of the Covered Bonds and hold the benefit of, *inter alia*, the Covered Bond Guarantee on behalf of the Covered Bondholders pursuant to the Trust Deed.

For a more detailed description of the Trust Deed, see *Summary of the Principal Documents—Trust Deed*.

Security Trustee ..... Computershare Trust Company of Canada, a trust company incorporated under the laws of Canada, acting through its offices at 100 University Avenue, 11<sup>th</sup> Floor, North Tower, Toronto, Ontario M5J 2Y1, will act as Security Trustee to hold the benefit of the security granted by the Guarantor to the Security Trustee (for itself, the Covered Bondholders and the other Secured Creditors) pursuant to the Security Agreement.

For a more detailed description of the Security Agreement, see *Summary of the Principal Documents—Security Agreement*.

Asset Monitor ..... KPMG LLP, acting through its offices at Bay Adelaide Centre, 333 Bay Street, Suite 4600, Toronto, Ontario M5H 2S5, will, pursuant to the Asset Monitor Agreement, act as an independent monitor to perform tests in respect of the Asset Coverage Test and the Amortisation Test when required.

|                                   |   |
|-----------------------------------|---|
|                                   | For a more detailed description of the Asset Monitor Agreement, see <i>Summary of the Principal Documents—Asset Monitor Agreement</i> .   |
| Interest Rate Swap Provider ..... | The Bank and, from time to time, any additional provider(s) of an Interest Rate Swap under the Interest Rate Swap Agreement.  |
| Covered Bond Swap Provider .....  | The Bank and, from time to time, any additional provider(s) of a Covered Bond Swap under the Covered Bond Swap Agreement.   |
| GIC Provider .....                | The Bank, acting through its Executive Offices, will, pursuant to the terms of the Guaranteed Investment Contract, act as the GIC Provider to the Guarantor.  |
|                                   | For a more detailed description of the Guaranteed Investment Contract, see <i>Summary of the Principal Documents—Guaranteed Investment Contract</i> .   |
| Standby GIC Provider .....        | Canadian Imperial Bank of Commerce, acting through its offices at 11 <sup>th</sup> Floor, 161 Bay Street, Toronto, Ontario, M5J 2S8, will, pursuant to the terms of the Standby Guaranteed Investment Contract, act as the Standby GIC Provider to the Guarantor.   |
|                                   | For a more detailed description of the Standby Guaranteed Investment Contract, see <i>Summary of the Principal Documents—Standby Guaranteed Investment Contract</i> .   |
| Account Bank .....                | The Bank, acting through its Executive Offices, will, pursuant to the terms of the Bank Account Agreement, act as the Account Bank to the Guarantor.  |
|                                   | For a more detailed description of the Bank Account Agreement, see <i>Summary of the Principal Documents—Bank Account Agreement</i> .   |
| Standby Account Bank .....        | Canadian Imperial Bank of Commerce, acting through its offices at 11 <sup>th</sup> Floor, 161 Bay Street, Toronto, Ontario, M5J 2S8, will, pursuant to the terms of the Standby Bank Account Agreement, act as the Standby Account Bank to the Guarantor.   |
|                                   | For a more detailed description of the Standby Bank Account Agreement, see <i>Summary of the Principal Documents—Standby Bank Account Agreement</i> .   |
| Arrangers .....                   | Barclays Capital Inc. and Scotia Capital Inc.   |
| Dealers .....                     | To be selected from time to time in accordance with the terms of the Programme Agreement. The dealers that have entered into the Programme Agreement are Banc of America Securities LLC, Barclays Bank PLC, Barclays Capital Inc., BNP Paribas, London Branch, Citigroup Global Markets Inc., Citigroup Global Markets Limited, Deutsche Bank Aktiengesellschaft, Deutsche Bank Securities Inc., HSBC Bank plc, HSBC Securities (USA) Inc., Merrill Lynch International, Morgan Stanley & Co. LLC, Morgan Stanley & Co. International plc, Scotia Capital Inc., and Scotia Capital (USA) Inc. |
| Programme Size .....              | U.S.\$15 billion (or its equivalent in other currencies) aggregate principal amount of Covered Bonds issued and outstanding at any time as described herein. The Issuer and the Guarantor may increase the Programme Size in accordance with the terms of the Programme Agreement and applicable  |

regulatory requirements.

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|--------------------------------|---|
| Specified Currencies.....      | Subject to any applicable legal or regulatory restrictions, such currency or currencies as may be agreed from time to time by the Issuer, the relevant Dealer(s), the Principal Paying Agent and the Bond Trustee (as set out in the applicable Final Terms Document).  |
| Maturities.....                | Covered Bonds will have such maturities as may be agreed between the Issuer and the relevant Dealer(s) and as indicated in the applicable Final Terms Document, subject to such minimum or maximum maturities as may be allowed or required, from time to time, by the relevant central bank (or equivalent body) or any laws, rules or regulations applicable to the Issuer or the relevant Specified Currency.  |
| Redenomination.....            | The applicable Final Terms Document may provide that certain Covered Bonds may be redenominated into euro.  |
| Distribution.....              | Covered Bonds may be distributed by way of private or public placement on a syndicated or non-syndicated basis, subject to the restrictions set forth in <i>Plan of Distribution—Selling Restrictions</i> .   |
| Selling Restrictions.....      | Each issue of Covered Bonds denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time. There are restrictions on the offer, sale and transfer of Covered Bonds in Canada, the United States, the European Economic Area (including the United Kingdom, the Netherlands, the Republic of Italy, Germany, the Republic of France and Spain) and Japan. Other restrictions may apply in connection with the offering and sale of a particular Tranche of Covered Bonds.<br><br>For a more detailed description of selling restrictions, see <i>Plan of Distribution—Selling Restrictions</i> ; see also <i>ERISA and Certain Other U.S. Considerations</i> .                  |
| Form of Covered Bonds .....    | The Covered Bonds will be issued in bearer or registered form as described in <i>Form of the Covered Bonds</i> . Registered Covered Bonds will not be exchanged for Bearer Covered Bonds and <i>vice versa</i> .  |
| Issue Price.....               | Covered Bonds may be issued at their principal amount or at a discount or premium to their principal amount.  |
| Fixed Rate Covered Bonds ..... | Fixed Rate Covered Bonds will bear interest at a Fixed Rate, which will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer(s) and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s) as set out in the applicable Final Terms Document, <i>provided</i> that if an Extended Due for Payment Date is specified in the applicable Final Terms Document, following the Due for Payment Date interest will continue to accrue and be payable on the unpaid portion of the Final Redemption Amount up to the Extended Due for Payment Date in accordance with Condition 4 and at the Rate of Interest specified in the applicable Final Terms Document which may provide that such Fixed Rate Covered Bonds will continue to bear interest at a Fixed Rate or at a Floating |

Rate determined in accordance with Condition 4.2.

For a more detailed description on Fixed Rate Covered Bonds, see *Terms and Conditions of the Covered Bonds—Interest—Interest on Fixed Rate Covered Bonds*.

Floating Rate Covered Bonds..... Floating Rate Covered Bonds will bear interest at a rate determined:

- (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the ISDA Definitions; or
- (b) on the basis of a Reference Rate appearing on the agreed screen page of a commercial quotation service; or
- (c) on such other basis as may be agreed between the Issuer and the relevant Dealer(s),

as set out in the applicable Final Terms Document.

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

Other provisions in relation to Floating Rate Covered Bonds..... Floating Rate Covered Bonds may also have a Maximum Rate of Interest, a Minimum Rate of Interest or both, as indicated in the applicable Final Terms Document. Interest on Floating Rate Covered Bonds in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer(s), will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, in each case as may be agreed between the Issuer and the relevant Dealer(s) as set out in the applicable Final Terms Document.

For a more detailed description on Floating Rate Covered Bonds, see *Terms and Conditions of the Covered Bonds—Interest—Interest on Floating Rate Covered Bonds*.

Zero Coupon Covered Bonds ..... Zero Coupon Covered Bonds may be offered and sold at a discount to their nominal amount and will not bear interest unless otherwise specified in the applicable Final Terms Document.

Extendable obligations under the Covered Bond Guarantee ..... The applicable Final Terms Document may provide that the Guarantor's obligations under the Covered Bond Guarantee to pay the Guaranteed Amounts equal to the Final Redemption Amount of the applicable Series of Covered Bonds on the applicable Final Maturity Date (subject to the applicable grace period) may be deferred until the applicable Extended Due for Payment Date. In such case, such deferral will occur automatically if the Issuer fails to pay the Final Redemption Amount of the relevant Series of Covered Bonds on the applicable Final Maturity Date (in each case subject to the applicable grace period), a Notice to Pay has been served by the Bond Trustee on the Guarantor and the Guaranteed Amounts equal to the Final Redemption Amount in respect of such Series of Covered Bonds are not paid

in full by the Extension Determination Date (for example, because following service of a Notice to Pay, the Guarantor has insufficient funds to pay in full the Guaranteed Amounts equal to the Final Redemption Amount in respect of the relevant Series of Covered Bonds after payment of higher ranking amounts and taking into account amounts ranking *pari passu* in the Guarantee Priority of Payments). To the extent that the Guarantor has received a Notice to Pay by the time specified in Condition 6.1 and has the funds available to it under the Guarantee Priority of Payments to pay in part the Final Redemption Amount, partial payment of the Final Redemption Amount will be made as described in Condition 6.1. The Guarantor will, to the extent it has the funds available to it, make payments in respect of the unpaid portion of the Final Redemption Amount on any Interest Payment Date up until the Extended Due for Payment Date. Following the Due for Payment Date, interest will continue to accrue and be payable on the unpaid portion of the Final Redemption Amount up to the Extended Due for Payment Date in accordance with Condition 4 and at the Rate of Interest specified in the applicable Final Terms Document which may provide that the relevant Series of Covered Bonds will bear interest at a Fixed Rate determined in accordance with Condition 4.1 or at a Floating Rate determined in accordance with Condition 4.2 and the Guarantor will pay the Guaranteed Amounts constituting Scheduled Interest on each Original Due for Payment Date and the Extended Due for Payment Date.

For a more detailed description on extendable obligations under the Covered Bond Guarantee, see *Summary of the Principal Documents—Trust Deed—Covered Bond Guarantee*.

Denomination of Covered Bonds ... The Covered Bonds will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer(s) and set out in the applicable Final Terms Document save that, except in certain limited circumstances, the minimum denomination of each Covered Bond will be €50,000 (or, if the Covered Bonds are denominated in a currency other than euro, the equivalent amount in such currency) or such other higher amount as is required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency.

Unless otherwise stated in the applicable Final Terms Document, the minimum denomination of each Definitive Rule 144A Covered Bond will be U.S.\$100,000, or its approximate equivalent in other Specified Currencies.

For a more detailed description of the Denomination of Covered Bonds, see *Terms and Conditions of the Covered Bonds—Form, Denomination and Title*.

Cross Default ..... If a Guarantor Acceleration Notice is served in respect of any Series of Covered Bonds, then the obligation of the Guarantor to pay Guaranteed Amounts in respect of all Series of Covered Bonds then outstanding will be accelerated. If a Notice to Pay is served in respect of any Series of Covered Bonds, then the Guarantor will be required to make payments of Guaranteed Amounts when the same will become Due for Payment in accordance with the terms of the Covered Bond Guarantee and the Trust Deed.

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

will rank *pari passu* with all deposit liabilities of the Issuer without any preference among themselves and (save for any obligations required to be preferred by law) at least *pari passu* with all other present and future unsubordinated and unsecured obligations of the Issuer from time to time outstanding. The Covered Bonds will not be deposits insured under the *Canada Deposit Insurance Corporation Act* or under any other governmental insurance scheme of any country. The Covered Bonds will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer, except in certain limited circumstances: see *Terms and Conditions of the Covered Bonds—Events of Default, Acceleration and Enforcement—Issuer Event of Default* and *—Meetings of Covered Bondholders, Modifications, Waiver and Substitution*.

For a more detailed description of the Status of the Covered Bonds, see *Terms and Conditions of the Covered Bonds—Status of the Covered Bonds and the Covered Bond Guarantee*.

Covered Bond Guarantee..... Payment of Guaranteed Amounts in respect of the Covered Bonds when Due for Payment will be unconditionally (save as set out below) and irrevocably guaranteed by the Guarantor. The obligation of the Guarantor to make payment in respect of the Guaranteed Amounts when Due for Payment is subject to the condition that a Notice to Pay or a Guarantor Acceleration Notice has been served on the Guarantor. The obligations of the Guarantor under the Covered Bond Guarantee will accelerate against the Guarantor upon service of a Guarantor Acceleration Notice. The obligations of the Guarantor under the Covered Bond Guarantee constitute absolute obligations of the Guarantor secured against the Charged Property and recourse against the Guarantor is limited to the Charged Property and is subject to the applicable Priority of Payments.

For a more detailed description on the Covered Bond Guarantee, see *Summary of the Principal Documents—Trust Deed—Covered Bond Guarantee*.

Listing and Admission to trading ... Application has been made to the UK Listing Authority for Covered Bonds issued under the Programme during the period of 12 months from the date of this Prospectus to be admitted to the Official List and to the London Stock Exchange for such Covered Bonds to be admitted to trading on the Market and on the PSM.

Covered Bonds may be unlisted or may be listed and/or admitted to trading, as the case may be, on such other or further stock exchange(s) or regulated or unregulated markets, as may be agreed between the Issuer, the Guarantor, the Bond Trustee and the relevant Dealer(s) in relation to each issue. The Final Terms Document relating to each Tranche of the Covered Bonds will state whether or not the Covered Bonds are to be unlisted or listed and/or admitted to trading and, if so, on which stock exchanges(s) and/or markets.

Redemption..... The Final Terms Document issued in respect of each issue of Covered Bonds will state whether such Covered Bonds may be redeemed prior to their stated maturity at the option of the Issuer (either in whole or in part) and/or the Covered Bondholders, and if so the terms applicable to such redemption.

Early redemption will be permitted for taxation reasons and illegality, but will otherwise be permitted only to the extent specified in the applicable Final

Terms Document.

For a more detailed description on optional redemption, see *Terms and Conditions of the Covered Bonds—Redemption and Purchase*.

Taxation..... All payments in respect of the Covered Bonds will be made without deduction or withholding for or on account of Canadian taxes, or in the case of Covered Bonds issued by a branch of the Issuer located outside of Canada, the country in which such branch is located, save as provided in Condition 7. If any such deduction or withholding is made, the Issuer will, save as provided in Condition 7, be required to pay additional amounts in respect of the amounts so deducted or withheld. Under the Covered Bond Guarantee, the Guarantor will not be liable to pay any such additional amounts payable by the Issuer under Condition 7.

For a more detailed description on taxation, see *Terms and Conditions of the Covered Bonds—Taxation*.

ERISA Considerations..... Unless otherwise stated in the Final Terms Document, a Covered Bond may be purchased by an "employee benefit plan" as defined in and subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), a "plan" as defined in and subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), or any entity whose underlying assets include the assets of any such employee benefit plan or plan, subject to certain conditions. See *ERISA and Certain Other U.S. Considerations*.

Portfolio..... The Portfolio will consist solely of the Loans and their Related Security. The Related Security in respect of a Loan will include the benefit of CMHC Mortgage Insurance relating to such Loan. CMHC is Canada's national housing agency, and is a Canadian federal Crown corporation, wholly owned by the Government of Canada. CMHC's obligations are those of Her Majesty The Queen in Right of Canada, and as such carry the full faith and credit of the Government of Canada. CMHC insures the payment of principal and interest on first mortgage loans on private residential properties in Canada in accordance with CMHC Mortgage Insurance. As of the date hereof, CMHC Insured Loans are considered zero per cent. credit risk by the Canadian banking regulator OSFI.

The Loans will be serviced by the Servicers pursuant to the terms of the Servicing Agreement (see "*Summary of the Principal Documents—Servicing Agreement*"). The Servicers, as CMHC Approved Lenders which obtained the CMHC Mortgage Insurance for such Loans, have agreed to exercise reasonable care and prudence in the administration of the Loans (including the filing of any claims under the applicable CMHC Mortgage Insurance), in the collection of the repayment of the Loans and in the protection of the security for each Loan, in addition to complying with all applicable eligibility, origination, servicing, realisation and other relevant criteria of CMHC.

Intercompany Loan..... Under the terms of the Intercompany Loan Agreement, the Issuer will make available to the Guarantor an Intercompany Loan, comprised of the Guarantee Loan and the Demand Loan, in an initial combined aggregate amount equal to the Total Credit Commitment, subject to increases and decreases, as described below. The Intercompany Loan will be denominated in Canadian Dollars. The interest rate on the Intercompany Loan will be a

Canadian Dollar floating rate to be determined by the Issuer. Interest payments due under the Intercompany Loan will not exceed the floating amounts received by the Guarantor under the Interest Rate Swap Agreement less the sum of a minimum spread and an amount for certain expenses of the Guarantor. The respective balances of the Guarantee Loan and the Demand Loan will fluctuate with the issuances and redemptions of Covered Bonds and the requirements of the Asset Coverage Test. At any time and for so long as the Asset Coverage Test is not satisfied the Demand Loan cannot have a positive balance.

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

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

Guarantee Loan..... The Guarantee Loan will be in an amount equal to the Canadian Dollar Equivalent of the balance of outstanding Covered Bonds at any relevant time plus that portion of the Portfolio required in accordance with the Asset Coverage Test as security for the Covered Bonds in excess of the amount of then outstanding Covered Bonds.

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

Demand Loan ..... The Demand Loan will be a revolving credit facility, the outstanding balance of which will be equal to the difference between the balance of the Intercompany Loan and the balance of the Guarantee Loan at any relevant time. At any time prior to a Demand Loan Repayment Event, the Guarantor may re-borrow any amount repaid by the Guarantor under the Intercompany Loan for a permitted purpose provided, among other things, such drawing does not result in the Intercompany Loan exceeding the Total Credit Commitment.

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

The Proceeds of the Intercompany Loan..... The Guarantor will use the initial Advance to purchase the Initial Portfolio from the relevant Seller(s) in accordance with the terms of the Mortgage Sale Agreement and use additional Advances: (i) to purchase Additional Loans and their Related Security pursuant to the terms of the Mortgage Sale Agreement; (ii) to make Additional Loan Advances; (iii) to invest in Substitution Assets (in an amount up to but not exceeding the prescribed limit in the Declaration of Trust) and to make investments in Authorised Investments; (iv) to make a deposit of the proceeds in the GIC Account (including, without limitation, to fund the Reserve Fund to an amount not exceeding the limit prescribed in the Declaration of Trust); (v) to make any payment required to be made to CMHC, if any, to ensure that the CMHC Mortgage Insurance in respect of each Loan in the Portfolio remains in full force and effect; and/or (vi) subject to written confirmation from the Cash Manager that the Asset Coverage Test is met on the relevant repayment date, in the case of a repayment to be made on a Calculation Date, or on the Calculation Date immediately prior to the relevant Guarantor Payment Date,

in the case of a repayment to be made on a Guarantor Payment Date, both before and immediately following the making of the relevant repayment, to repay Subordinated Advances, if any.

Subordinated Loan..... Under the terms of the Subordinated Loan Agreement, the Subordinated Loan Provider will make Subordinated Advances available to the Guarantor. If, on any Guarantor Payment Date, there is a Deferred Consideration Shortfall, the Subordinated Loan Provider will make a Deferred Consideration Subordinated Advance on such Guarantor Payment Date. If on any Calculation Date, there is a breach of the Asset Coverage Test, the Guarantor may request an Asset Coverage Test Subordinated Advance. The Guarantor may use an Asset Coverage Test Subordinated Advance, in its sole discretion: (i) to deposit into the GIC Account; (ii) to invest in Substitution Assets (in an amount not exceeding the prescribed limit thereof); (iii) to purchase Additional Loans and their Related Security pursuant to the Mortgage Sale Agreement; and/or (iv) to make Additional Loan Advances. The Subordinated Loan will be subordinated to, *inter alia*, payments of principal and interest on the Covered Bonds, and all other payments or provisions ranking in priority to payments to be made to the Subordinated Loan Provider, in each case in accordance with the applicable Priority of Payments.

For a detailed description of the Subordinated Loan, see *Summary of the Principal Documents—Subordinated Loan Agreement*.

Interest Rate Swap Agreement ..... To provide a hedge against possible variances in the rate of interest payable on the Loans in the 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 has entered into the Interest Rate Swap Agreement with the Interest Rate Swap Provider.

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

Covered Bond Swap Agreement .... To provide a hedge against currency and/or other risks arising, following the occurrence of a Covered Bond Guarantee Activation Event, in respect of amounts received by the Guarantor under the Interest Rate Swap Agreement and amounts payable in respect of its obligations under the Covered Bond Guarantee, the Guarantor has entered into the Covered Bond Swap Agreement with the Covered Bond Swap Provider.

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

Governing Law ..... The Covered Bonds and all Transaction Documents will be governed by, and construed in accordance with, the laws of the Province of Ontario and the federal laws of Canada applicable therein, unless otherwise specified.

Rating Agency Confirmation..... A confirmation by the Rating Agencies that the then current ratings of the Existing Covered Bonds will not be downgraded or withdrawn as a result of the relevant event or matter.

Ratings..... Covered Bonds to be issued under the Programme have, unless otherwise specified in the applicable Final Terms Document, been rated "AAA" by

Fitch, "Aaa" by Moody's and "AAA" by DBRS.

## THE BANK OF NOVA SCOTIA

### **History and Development of the Bank**

The Bank was granted a charter under the laws of the Province of Nova Scotia in 1832 and commenced operations in Halifax, Nova Scotia in that year. Since 1871, the Bank has been a chartered bank under the Bank Act. The Bank is a Schedule I bank under the Bank Act and the Bank Act is its charter. The head office of the Bank is located at 1709 Hollis Street, Halifax, Nova Scotia, B3J 3B7, and the executive offices are at Scotia Plaza, 44 King Street West, Toronto, Ontario M5H 1H1.

The Bank is one of North America's premier financial institutions and Canada's most international bank. Through its team of more than 70,000 employees, the Bank and its affiliates offer a broad range of products and services, including personal, commercial, corporate and investment banking to more than 18.6 million customers in more than 50 countries around the world.

Certain information regarding the Bank is incorporated by reference into this Prospectus: see *Documents Incorporated by Reference*.

### **Principal Activities and Markets**

The Bank has four major business lines: Canadian Banking, International Banking, Scotia Capital and Global Wealth Management. Each of these four business lines is discussed below and additional information on each of the Bank's business lines is available in the management's discussion and analysis of financial condition and results of operations, on pages 52 to 61 inclusive, accompanying the Bank's audited consolidated financial statements for the fiscal year ended 31 October 2010, which is incorporated by reference herein.

#### ***Canadian Banking***

Canadian Banking provides a full range of banking and investing services to more than 7.6 million customers across Canada, through a network of 1,024 branches and 2,998 automated banking machines ("ABMs"), as well as telephone, internet banking and third party channels. Canadian Banking includes two main businesses. Retail and Small Business Banking provides mortgages, loans, credit cards, investments and day-to-day banking products to individuals and small businesses. Commercial Banking delivers a full product suite to medium and large businesses, including banking, cash management, lending and leasing.

#### ***International Banking***

International Banking encompasses the Bank's retail and commercial banking operations in more than 45 countries outside Canada – an international presence unmatched by the Bank's domestic competitors. More than 48,000 employees, including subsidiaries and affiliates, provide a full range of financial services to 11 million customers through a network of over 2,000 branches and offices, 3,686 ABMs, telephone and internet banking, in-store banking kiosks, and specialised sales forces. The Bank operates in the following geographic regions: the Caribbean and Central America, Mexico, Latin America and Asia.

#### ***Scotia Capital***

Scotia Capital is the wholesale banking arm of the Scotiabank Group. Scotia Capital offers a wide variety of products to corporate, government and institutional investor clients. Scotia Capital is a full service lender and investment dealer in Canada and Mexico and offers a wide range of products in the United States and other parts of Latin America. Since 1 October 2010, this includes wholesale banking products and services in Latin America and Asia-Pacific previously offered through the Bank's International Banking business line. Scotia Capital provides select products and services to niche markets in Europe and Asia.

Scotia Capital provides corporate lending, equity and debt underwriting, and mergers and acquisitions advisory services, as well as capital markets products and services such as fixed income, derivatives, prime brokerage,

securitisation, foreign exchange, equity sales, trading and research and, through ScotiaMocatta, precious and base metals.

### **Global Wealth Management**

Global Wealth Management is comprised of wealth management, insurance and global transaction banking businesses. This new business line brings together a number of the Bank's global growth platforms to drive revenue growth across multiple geographies and businesses, within a strong global perspective. Global Wealth Management will collaborate with and strengthen partnership relationships with Canadian Banking, International Banking and Scotia Capital.

### **Competition**

The Canadian banking system consists of six major Canadian banks, each of which maintains an extensive branch network, augmented with ABMs, telephone and internet banking facilities. In addition to the six major Canadian banks, the banking system includes 16 smaller domestic banks, 56 foreign banks and over 1,000 credit unions and caisses populaires. In total, the Canadian financial services industry includes more than 3,500 institutions such as life insurance companies, property and casualty insurers, consumer finance companies, independent investment dealers and independent retail mutual fund management companies.

The Bank provides a broad range of banking and other financial services to retail, commercial and corporate banking clients in Canada, the United States, Mexico, the Caribbean and Central America, Latin America and Asia either directly or through subsidiaries. In providing these services, the Bank competes with local and international banks and other financial institutions.

Competition is reflected in the range of products and services offered, innovation in features, services, technology and delivery and the different pricing adopted. A good measure of the competition in the sector is the narrow margins in Canada. Canada has ranked among the countries with the lowest interest rate spreads in recent years. Increased access to the Canadian payments system has also contributed to increased competition in the marketplace. Recent changes to the Canadian Payments Act allow life insurance companies, securities dealers and money market mutual funds to offer clients chequing privileges on their accounts and permits clients to conduct electronic commerce through direct access to the Interac debit system. Another indicator of competition is new entrants into the market. A total of 18 new entrants, including seven banks and 11 foreign bank branches, received charters from the federal bank regulator between 2005 and 2009.

### **Organisational Structure**

The Bank's principal subsidiaries as at 31 October 2010 were:

| <b>Principal Subsidiaries<sup>(1)</sup></b> | <b>Principal Office</b> | <b>Carrying value<br/>of Shares<br/>As at 31 October<br/>2010<br/>(\$ millions)</b> |
|---|-------------------------|---|
| <b>Canadian</b>                             |                         |   |
| BNS Capital Trust                           | Toronto, Ontario        | \$ 117  |
| BNS Investments Inc.                        | Toronto, Ontario        | \$ 11,016   |
| Montreal Trust Company of Canada            | Montreal, Quebec        |   |
| Scotia Merchant Capital Corporation         | Toronto, Ontario        |   |
| BNS Investments Inc.                        | Toronto, Ontario        |   |
| Dundee Bank of Canada                       | Toronto, Ontario        | \$ 674  |
| Maple Trust Company                         | Toronto, Ontario        | \$ 204  |
| National Trustco Inc.                       | Toronto, Ontario        | \$ 563  |
| The Bank of Nova Scotia Trust Company       | Toronto, Ontario        |   |
| National Trust Company                      | Stratford, Ontario      |   |
| RoyNat Inc.                                 | Toronto, Ontario        | \$ 14   |
| Scotia Asset Management L.P.                | Toronto, Ontario        | \$ 237  |
| Scotia Capital Inc.                         | Toronto, Ontario        | \$ 353  |
| 1548489 Ontario Limited                     | Toronto, Ontario        |   |

| <b>Principal Subsidiaries<sup>(1)</sup></b>                | <b>Principal Office</b>      | <b>Carrying value<br/>of Shares</b> |
|--|------------------------------|-------------------------------------|
|  |                              | <b>As at 31 October<br/>2010</b>    |
|  |                              | <i>(\$ millions)</i>                |
| Scotia iTrade Corp.  | Toronto, Ontario             |                                     |
| Scotia Dealer Advantage Inc.                               | Burnaby, British Columbia    | \$ 89                               |
| Scotia Insurance Agency Inc.                               | Toronto, Ontario             | \$ 1                                |
| Scotia Life Insurance Company                              | Toronto, Ontario             | \$ 86                               |
| Scotia Mortgage Corporation                                | Toronto, Ontario             | \$ 296                              |
| Scotia Securities Inc.                                     | Toronto, Ontario             | \$ 27                               |
| Scotiabank Capital Trust <sup>(2)</sup>                    | Toronto, Ontario             | \$ 27                               |
| Scotiabank Subordinated Notes Trust <sup>(2)</sup>         | Toronto, Ontario             | \$ 5                                |
| Scotiabank Tier 1 Trust <sup>(2)</sup>                     | Toronto, Ontario             | \$ 5                                |
| <b>International</b>                                       |                              |                                     |
| The Bank of Nova Scotia Berhad                             | Kuala Lumpur, Malaysia       | \$ 219                              |
| The Bank of Nova Scotia International Limited              | Nassau, Bahamas              | \$ 9,145                            |
| Scotia Caribbean Treasury Limited                          | Nassau, Bahamas              |                                     |
| BNS International (Barbados) Limited                       | Warrens, Barbados            |                                     |
| Grupo BNS de Costa Rica, S.A.                              | San Jose, Costa Rica         |                                     |
| The Bank of Nova Scotia Asia Limited                       | Singapore                    |                                     |
| The Bank of Nova Scotia Trust Company (Bahamas) Ltd.       | Nassau, Bahamas              |                                     |
| Scotiabank & Trust (Cayman) Ltd.                           | Grand Cayman, Cayman Islands |                                     |
| Scotia Insurance (Barbados) Limited                        | Warrens, Barbados            |                                     |
| Scotiabank (Bahamas) Limited                               | Nassau, Bahamas              |                                     |
| Scotiabank (British Virgin Islands) Limited                | Road Town, Tortola, B.V.I.   |                                     |
| Scotiabank (Hong Kong) Limited                             | Hong Kong, China             |                                     |
| Scotiabank (Ireland) Limited                               | Dublin, Ireland              |                                     |
| Scotia Group Jamaica Limited (71.8%)                       | Kingston, Jamaica            | \$ 460                              |
| The Bank of Nova Scotia Jamaica Limited                    | Kingston, Jamaica            |                                     |
| Scotia DBG Investments Limited (77.0%)                     | Kingston, Jamaica            |                                     |
| Grupo Financiero Scotiabank Inverlat, S.A. de C.V. (97.3%) | Mexico, D.F., Mexico         | \$ 2,336                            |
| Nova Scotia Inversiones Limitada                           | Santiago, Chile              | \$ 2,050                            |
| Scotiabank Chile S.A. (99.5%)                              | Santiago, Chile              |                                     |
| Scotia Capital (USA) Inc.                                  | New York, New York           | (3)                                 |
| Scotia Holdings (US) Inc.                                  | Houston, Texas               | (4)                                 |
| The Bank of Nova Scotia Trust Company of New York          | New York, New York           |                                     |
| Scotiabanc Inc.  | Houston, Texas               |                                     |
| Scotia International Limited                               | Nassau, Bahamas              | \$ 697                              |
| Scotiabank Anguilla Limited                                | The Valley, Anguilla         |                                     |
| Scotiabank de Puerto Rico                                  | Hato Rey, Puerto Rico        | \$ 740                              |
| Scotiabank El Salvador, S.A. (99.5%)                       | San Salvador, El Salvador    | \$ 384                              |
| Scotiabank Europe plc                                      | London, England              | \$ 1,911                            |
| Scotiabank Peru S.A.A. (97.7%)                             | Lima, Peru                   | \$ 1,713                            |
| Scotiabank Trinidad & Tobago Limited (50.9%)               | Port of Spain, Trinidad      | \$ 213                              |

(1) The Bank owns 100% of the outstanding voting shares of each subsidiary unless otherwise noted. The listing includes major operating subsidiaries only.

(2) In terms of current accounting standards, this entity is not consolidated as the Bank is not the primary beneficiary.

(3) The carrying value of this subsidiary is included with that of its parent, Scotia Capital Inc.

(4) The carrying value of this subsidiary is included with that of its parent, BNS Investments Inc.

The Bank also engages in business in its own right. Its assets are therefore comprised of both shares in the above Subsidiaries and assets and liabilities acquired in the conduct of its own business. It is part dependent on the members of its group and the revenues recovered by them.

### Trend Information

Since 31 October 2010, there has been no material adverse change in the prospects of the Bank and its Subsidiaries, and since 31 October 2010, there has been no material adverse change in the financial or trading position of the Bank and its Subsidiaries.

## Directors and Board Committees of the Bank

The Directors of the Bank as of the date hereof are as follows:

| <u>Name</u>                                 | <u>Board Committee Memberships</u>                     | <u>Principal Occupation/ Outside Activities</u>  |
|---|--|--|
| JOHN THOMAS MAYBERRY, C.M. ....             | Member of CGPC, ERC, Ex officio member of ACRC and HRC | Chairman of the Board of the Bank and Corporate Director   |
| RICHARD EARL WAUGH.....                     | ERC  | President and Chief Executive Officer of the Bank  |
| RONALD ALVIN BRENNEMAN                      | ACRC<br>HRC  | Corporate Director and retired Executive Vice-Chairman, Suncor Energy Inc., an integrated energy company   |
| CHOONG JOONG CHEN .....                     | CGPC   | Counsel to Rajah & Tann LLP, Transnational Legal Solutions   |
| DAVID ALLISON DODGE, O.C.....               | ERC  | Senior Advisor at Bennett Jones LLP, a law firm  |
| NANCY ASHLEIGH EVERETT .....                | CGPC – Chair, HRC                                      | President, Corporate Secretary and director of Royal Canadian Securities Limited, the principal businesses of which include Domo Gasoline Corporation (a gasoline retailer), Royal Canadian Properties Limited (a real estate and property development company), and L'Eau-1 Inc. operating as Corpell's water, a water purification company specializing in home and office delivery of bottled water |
| JOHN CUSTANCE KERR, C.M., O.B.C., LL.D..... | HRC – Chairman, ERC                                    | Chairman of Lignum Investments Ltd., a privatelyheld investment company, and managing partner of Lignum Forest Products LLP, a privately-held forest products distribution company, and President of the Vancouver Professional Baseball LLP, owner of the Vancouver Canadians minor league baseball team  |
| THE HONOURABLE MICHAEL JOHN                 | ACRC – Chairman, ERC                                   | Chairman of The Mental   |

| <u>Name</u>                                       | <u>Board Committee Memberships</u> | <u>Principal Occupation/ Outside Activities</u>   |
|---|------------------------------------|---|
| LANGTRY KIRBY, O.C.....                           |                                    | Health Commission of Canada and Corporate Director  |
| THOMAS CHARLES O'NEILL.....                       | ACRC<br>CGPC                       | Corporate Director and retired Chair of the Board of PwC Consulting, a management consulting firm   |
| ALEXIS EUGENIO ROVZAR DE LA TORRE.....            | ACRC<br>CGPC                       | Partner of Counsel, in the Latin America practice group of White & Case LLP, a global law firm  |
| DR. INDIRA VASANTI SAMARASEKERA, O.C., PH.D. .... | ACRC<br>HRC                        | President and Vice-Chancellor of the University of Alberta  |
| ALLAN CAMERON SHAW, C.M., LL.D. ....              | ERC – Chairman<br>HRC              | Non-Executive Chairman of The Shaw Group Holding Limited, a manufacturer of residential and construction products and a real estate developer |
| PAUL DAVID SOBEY.....                             | ACRC<br>CGPC                       | President and Chief Executive Officer of Empire Company Limited, a food distributor, real estate and investment company                       |
| BARBARA SUSAN THOMAS .....                        | ACRC<br>HRC                        | Corporate Director  |

**Notes:**

ACRC—Audit and Conduct Review Committee  
CGPC—Corporate Governance and Pension Committee  
ERC—Executive and Risk Committee  
HRC—Human Resource Committee

The business address of the Directors of the Bank is The Bank of Nova Scotia, Scotia Plaza, 44 King Street West, Toronto, Ontario M5H 1H1, which is the executive office of the Bank.

There are no potential conflicts of interest between any duties owed to the Bank by the Directors and the private interests and/or other external duties owed by these individuals.

**Major Shareholders**

To the extent known to the Bank, the Bank is not directly or indirectly owned or controlled by any person. Without the approval of the Minister of Finance of Canada (the "**Minister**"), no person or group of associated persons may own more than 10% of any class of shares of the Bank. No person may be a major shareholder of a bank if the bank has equity of \$8 billion or more (which would include the Bank). A person is a major shareholder of a bank if: (a) the aggregate of shares of any class of voting shares beneficially owned by that person and that are beneficially owned by any entities controlled by that person is more than 20% of that class of voting shares; or (b) the aggregate of shares of any class of non-voting shares beneficially owned by that person and that are beneficially owned by any entities controlled by that person is more than 30% of that class of non-voting shares. Ownership of the Bank's

shares by Canadian or foreign governments is prohibited under the Bank Act. However, in 2009 certain amendments were made to the Bank Act that would permit the Canadian federal government to acquire shares of a bank, including the Bank, if the Minister and Governor in Council were to conclude that to do so was necessary to promote stability in the financial system. While the government holds any shares of a bank, including the Bank, the Minister may impose certain terms and conditions, including conditions on the payment by the Bank of dividends on any of its shares.

## Selected Financial Information

### Financial Summary

The financial data in the tables below has been extracted without material adjustment from the audited consolidated balance sheet and statement of income of the Bank for the years ended 31 October 2010 and 2009 contained in the Bank's 2010 Annual Report.

### Condensed Consolidated Balance Sheet

|   | As at 31 October                                 |                   |
|---|--|-------------------|
|   | 2010   | 2009              |
|   | <i>(Amounts in millions of Canadian Dollars)</i> |                   |
| Cash Resources .....                                    | \$ 46,027  | \$ 43,278         |
| Securities .....  | 116,563  | 117,294           |
| Loans .....   | 284,224  | 266,302           |
| Securities Purchased Under Resale Agreements .....      | 27,920   | 17,773            |
| Other Assets .....                                      | 51,923   | 51,869            |
| <b>Total Assets .....</b>                               | <b>\$ 526,657</b>                                | <b>\$ 496,516</b> |
| Deposits .....  | \$ 361,650                                       | \$ 350,419        |
| Other Liabilities .....                                 | 130,937  | 114,881           |
| Subordinated Debentures .....                           | 5,939  | 5,944             |
| Capital Instrument Liabilities .....                    | 500  | 500               |
| Shareholders' Equity .....                              | 27,631   | 24,772            |
| <b>Total Liabilities and Shareholders' Equity .....</b> | <b>\$ 526,657</b>                                | <b>\$ 496,516</b> |

### Condensed Consolidated Statement of Income

|  | For the Year Ended 31 October                    |                  |
|--|--|------------------|
|  | 2010   | 2009             |
|  | <i>(Amounts in millions of Canadian Dollars)</i> |                  |
| Net Interest Income .....                                    | \$ 8,621   | \$ 8,328         |
| Other Income .....   | 6,884  | 6,129            |
| Provision for Credit Losses .....                            | 1,239  | 1,744            |
| <b>Net Interest and Other Income .....</b>                   | <b>\$ 14,266</b>                                 | <b>\$ 12,713</b> |
| Non-Interest Expenses .....                                  | 8,182  | 7,919            |
| Provision for Income Taxes .....                             | 1,745  | 1,133            |
| Non-controlling Interest in Net Income of Subsidiaries ..... | 100  | 114              |
| <b>Net Income .....</b>                                      | <b>\$ 4,239</b>                                  | <b>\$ 3,547</b>  |

### Material Contracts

The Bank has not entered into any contracts outside the ordinary course of the Bank's business which could materially affect the Bank's obligations in respect of any Covered Bonds to be issued by the Bank other than, with respect to any Covered Bonds, the contracts described in *Terms and Conditions of the Covered Bonds*.

**Auditors**

KPMG LLP, Chartered Accountants, Licensed Public Accountants, Bay Adelaide Centre, 333 Bay Street, Suite 4600, Toronto, Ontario, M5H 2S5. KPMG LLP has been selected to serve as auditors for the Bank for the 2011 fiscal year.

The reports of the auditors in respect of the annual consolidated financial statements of the Bank for the fiscal years 2010 and 2009 did not contain any qualifications.

KPMG LLP is independent of the Bank within the meaning of the Rules of Professional Conduct / Code of Ethics of various Canadian provincial institutes/ordre and within the meaning of the Securities Act and the applicable rules and regulations thereunder.

**Legal and Arbitration Proceedings**

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware), during the 12 month period preceding the date of this Prospectus, which may have, or have had in the recent past, significant effects on the Bank's and the Bank's Subsidiaries' financial position or profitability.

## THE GUARANTOR

### Introduction

The Guarantor was established as a special purpose trust under the laws of the Province of Ontario, Canada pursuant to the Declaration of Trust on 24 January 2008. The principal office of the Guarantor is c/o Computershare Trust Company of Canada, 100 University Avenue, 11<sup>th</sup> Floor, North Tower, Toronto, Ontario, M5J 2Y1. The Guarantor has no subsidiaries.

### Principal Activities

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

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

The Guarantor Trustee of the Guarantor is Montreal Trust Company of Canada.

The Guarantor Trustee is an indirect, wholly-owned Canadian subsidiary of the Bank. The Bank holds, indirectly, all of the voting shares of the Guarantor Trustee, which is an Affiliate of the Bank.

The Guarantor has no employees.

The Guarantor Trustee is acting solely in its capacity as trustee under the Declaration of Trust and any other Transaction Document to which it is a party. Any liability of the Guarantor Trustee under the Declaration of Trust and any other Transaction Document to which it is a party is non-recourse to the Guarantor Trustee in its personal capacity and is limited solely to the property of the Guarantor.

The Guarantor will not produce audited accounts. The Guarantor's accounting reference date is 31 December.

### Beneficiaries

The beneficiaries of the Guarantor as at the date of this Prospectus are the Bank and the Independent Beneficiary.

### Administrative Agent

As at the date of this Prospectus, the Administrative Agent is the Bank. The business address of the Administrative Agent is 44 King Street West, Toronto, Ontario, Canada, M5H 1H1.

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

The officers of the Administrative Agent acting on behalf of the Guarantor as at the date of this Prospectus are: Jeffrey C. Heath, Executive Vice-President and Group Treasurer; Ian Berry, Managing Director and Head, Funding and Liquidity Management, Group Treasury; Michael J. Lomas, Managing Director, Group Treasury; Maria Theofilaktidis, Senior Vice-President and Chief Accountant; Laurent Mareschal, Senior Vice-President and

Comptroller; and Paul Baroni, Senior Vice-President, Integrated Support Services — Global Wholesale Services. Their business address is 44 King Street West, Scotia Plaza, Toronto, Ontario M5H 1H1.

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

## FORM OF THE COVERED BONDS

The Covered Bonds of each Series will be in either bearer form, with or without interest coupons and/or talons attached, or registered form, without interest coupons and/or talons attached. Registered Covered Bonds and Bearer Covered Bonds will be issued outside the United States in reliance on Regulation S under the Securities Act ("**Regulation S**") and within the United States in reliance on Rule 144A or Section 4(2) under the Securities Act.

### **Bearer Covered Bonds**

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

- (i) if the Bearer Global Covered Bonds are intended to be issued in New Global Covered Bond form, as stated in the applicable Final Terms Document, be delivered on or prior to the Issue Date of the relevant Tranche to the Common Safekeeper for Euroclear and Clearstream, Luxembourg; and
- (ii) if the Bearer Global Covered Bonds are not intended to be issued in NGCB form as stated in the applicable Final Terms Document, be delivered on or prior to the Issue Date of the relevant Tranche to the Common Depository.

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

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

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

The applicable Final Terms Document will specify that a Permanent Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for Bearer Definitive Covered Bonds with, where applicable, receipts, interest coupons and talons attached upon the occurrence of an Exchange Event. For these purposes, "**Exchange Event**" means that (i) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, whether statutory or otherwise) or have announced an intention to permanently cease business or have in fact done so and no successor clearing system is available, or (ii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Bearer Global Covered Bond (and any interests therein) exchanged for Bearer Definitive

Covered Bonds. The Issuer will promptly give notice to Covered Bondholders of each Series of Bearer Global Covered Bonds in accordance with Condition 13 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Covered Bond) or the Bond Trustee may give notice to the Principal Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (ii) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange will occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

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

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

The following legend will appear on all Bearer Covered Bonds and on all receipts and interest coupons relating to such Bearer Covered Bonds:

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

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

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

### **Registered Covered Bonds**

The Registered Covered Bonds of each Tranche offered and sold in reliance on Regulation S will initially be represented by a Regulation S Global Covered Bond. Prior to expiry of the Distribution Compliance Period applicable to each Tranche of Covered Bonds, beneficial interests in a Regulation S Global Covered Bond may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in Condition 2 and may not be held otherwise than through agent members of Euroclear or Clearstream, Luxembourg and such Regulation S Global Covered Bond will bear a legend regarding such restrictions on transfer: see *Plan of Distribution*.

The Registered Covered Bonds of each Tranche offered and sold in the United States or to U.S. persons will only be offered and sold in private transactions to "qualified institutional buyers" within the meaning of Rule 144A under the Securities Act ("QIBs") who agree to purchase the Covered Bonds for their own account or for the account or benefit of other QIBs.

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

Registered Global Covered Bonds will either (i) be deposited with a custodian for DTC, and registered in the name of DTC or its nominee or (ii) be deposited with the Common Depositary for, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg, as specified in the applicable Final Terms Document. In the case of a Regulation S Global Covered Bond registered in the name of a nominee of DTC, prior to the end of the distribution compliance period (as defined in Regulation S) applicable to the Covered Bonds represented by such Regulation S Global Covered Bond, interests in such Regulation S Global Covered Bond may only be held through the accounts of Euroclear and Clearstream, Luxembourg. Persons holding beneficial interests

in Registered Global Covered Bonds will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of Definitive Covered Bonds in fully registered form.

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

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

Interests in a Registered Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for Registered Definitive Covered Bonds without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, "**Exchange Event**" means that (a) in the case of a Registered Global Covered Bond registered in the name of DTC or its nominee, either DTC has notified the Issuer that it is unwilling or unable to continue to act as depository for the Covered Bonds and no alternative clearing system is available or DTC has ceased to constitute a clearing agency registered under the Exchange Act, (b) in the case of a Registered Global Covered Bond registered in the name of the Common Depository or its nominee, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, whether statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available, or (c) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Registered Global Covered Bond (and any interests therein) exchanged for Registered Definitive Covered Bonds. The Issuer will promptly give notice to Covered Bondholders of each Series of Registered Global Covered Bonds in accordance with Condition 13 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, DTC, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any registered holder of an interest in such Registered Global Covered Bond) or the Bond Trustee may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (c) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange will occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

Definitive Rule 144A Covered Bonds will be issued only in minimum denominations of U.S.\$100,000 and integral multiples of U.S.\$1,000 in excess thereof (or the approximate equivalents in the applicable Specified Currency).

### **Transfer of Interests**

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

### **General**

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

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

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

The relevant Final Terms will also specify whether United States Treasury Regulation §1.163-5(c)(2)(i)(C) (the "**TEFRA C Rules**") or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (the "**TEFRA D Rules**") are applicable in relation to the Covered Bonds or, if the Covered Bonds do not have a maturity of more than 365 days, that neither the TEFRA C Rules nor the TEFRA D Rules are applicable.

If the relevant Final Terms specifies the form of Covered Bonds as being "Temporary Global Covered Bond exchangeable for a Permanent Global Covered Bond which is exchangeable for Bearer Definitive Covered Bonds only upon an Exchange Event" and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules or the TEFRA D Rules are applicable, then the Covered Bonds will initially be in the form of a Temporary Global Covered Bond which will be exchangeable, in whole but not in part, for Permanent Global Covered Bonds not earlier than 40 days after the issue date of the relevant Tranche of the Covered Bonds. If the relevant Final Terms specifies the form of Covered Bonds as being "Temporary Global Covered Bond exchangeable for a Permanent Global Covered Bond which is exchangeable for Bearer Definitive Covered Bonds only upon an Exchange Event" and also specifies that the TEFRA D Rules are applicable, then the Covered Bonds will initially be in the form of a Temporary Global Covered Bond which will be exchangeable, in whole or in part, for Permanent Global Covered Bond not earlier than 40 days after the issue date of the relevant Tranche of the Covered Bonds upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Covered Bonds cannot be collected without such certification of non-U.S. beneficial ownership.

## FORM OF FINAL TERMS DOCUMENT

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

[Date]

### The Bank of Nova Scotia

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Covered Bonds]  
guaranteed as to payment of principal and interest by  
Scotia Covered Bond Trust  
under the U.S.\$15 billion  
Global Public Sector Covered Bond Programme**

The Prospectus referred to below (as completed by this Final Terms Document) has been prepared on the basis that any offer of Covered Bonds in any member state of the European Economic Area which has implemented the Prospectus Directive (2003/71/EC) (each, a "**Relevant Member State**") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of the Covered Bonds. Accordingly any person making or intending to make an offer in that Relevant Member State of the Covered Bonds may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Covered Bonds in any other circumstances.

### PART A—CONTRACTUAL TERMS

Terms used herein will be deemed to be defined as such for the purposes of the Terms and Conditions set forth in the Prospectus dated [date] [and the supplemental Prospectus dated [date]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**"). This document constitutes the final terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Prospectus [as so supplemented]. Full information on the Issuer and the Guarantor and the offer of the Covered Bonds is only available on the basis of the combination of this Final Terms Document and the Prospectus. Copies of the Prospectus [and the supplemental Prospectus] are available free of charge to the public at the Executive Offices of the Issuer and from the specified office of each of the Paying Agents.

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

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

1. (a) Issuer: The Bank of Nova Scotia  
Branch of Account: [specify branch]
- (b) Guarantor: Scotia Covered Bond Trust
2. (a) Series Number: [●]  
(b) Tranche Number: [●]  
*(If fungible with an existing Series, details of that Series, including the date on which the Covered Bonds become fungible)*
3. Specified Currency or Currencies: [●]
4. Aggregate Nominal Amount of Covered Bonds admitted to trading:  
(a) [Series:] [●]  
(b) [Tranche:] [●]
5. (a) Issue Price: [●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] *(if applicable)*]  
(b) Canadian Dollar exchange rate on the date hereof: [●]  
(c) U.S. Dollar exchange rate on the date hereof: [●]
6. (a) Specified Denominations: [●]  
*(in the case of Registered Covered Bonds, this means the minimum integral amount in which transfers can be made)*  
*(N.B. Where multiple denominations above €50,000 (or the equivalent in another currency) are being used the following sample wording should be followed: €50,000 (or the equivalent in another currency) and integral multiples of [€1,000] in excess thereof up to and including [€99,000]. No Bearer Covered Bonds in definitive form will be issued with a denomination above [€99,000].)*  
*(N.B. If item 22 of Part A indicates that the Global Covered Bond is exchangeable for Definitive Covered Bonds at the option of the Covered Bondholders, the Covered Bonds will be tradeable only in principal amounts of at least the Specified Denomination.)*  
*[So long as the Covered Bonds are represented by a Temporary Global Covered Bond or a Permanent Global Covered Bond and the relevant clearing system(s) so permit, the Covered Bonds will be tradeable only in the principal amounts of at least the*

*Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination) and higher integral multiples of [●], notwithstanding that no Bearer Covered Bonds in definitive form will be issued with a denomination above [●]*

*(N.B. If an issue of Covered Bonds is (i) not admitted to trading on a regulated market within the European Economic Area exchange, and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive, the €50,000 (or the equivalent in another currency) minimum denomination is not required.)*

- (b) Calculation Amount: [●]  
*(Applicable to Covered Bonds in definitive form)* *(If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination or integral multiples, insert the highest common factor. N.B. There must be a common factor in the case of two or more Specified Denominations or integral multiples.)*
7. (a) Issue Date: [●]  
(b) Interest Commencement Date: [●]
8. (a) Final Maturity Date: [Fixed rate—[specify date] /Floating rate—Interest Payment Date falling in or nearest to [specify month and year]]  
(b) Extended Due for Payment Date of Guaranteed Amounts corresponding to the Final Redemption Amount under the Covered Bond Guarantee: [Fixed rate—[specify date] /Floating rate—Interest Payment Date falling in or nearest to [specify month and year, falling after the Final Maturity Date]]
9. Interest Basis: [[●] per cent. Fixed Rate]  
[[Specify Reference Rate] +/- [●] per cent. Floating Rate]  
[Zero Coupon]  
[specify other](further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par]  
[Hard Bullet Covered Bond]  
[specify other]  
*(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value, the Covered Bonds will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)*
11. Change of Interest Basis or Redemption/Payment Basis: *(Specify details of any provision for convertibility of Covered Bonds into another Interest Basis or Redemption/Payment Basis)*
12. Put/Call Options: [Investor Put]

- [Issuer Call]  
 [(further particulars specified below)]
13. (a) Status of the Covered Bonds: Senior  
 (b) Status of the Covered Bond Guarantee: Senior secured with recourse limited to the assets of the Guarantor  
 (c) [Date of [Board] approval for issuance of Covered Bonds: [•]]  
*(N.B. Only relevant where Board (or similar authorisation) is required for the particular Tranche of Covered Bonds or the Covered Bond Guarantee)*

14. Method of distribution: [Syndicated/Non-syndicated]

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

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

- Day Count Fraction)*
- (i) Determination Date(s): [●] in each year  
*(N.B. Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon) (This will need to be amended in the case of regular interest payment dates which are not of equal durations)*  
*(N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA))*
- (j) Other terms relating to the method of calculating interest for Fixed Rate Covered Bonds: [Not Applicable/[Give details]]
16. Floating Rate Covered Bond Provisions: [Applicable/Not Applicable] [Applicable in respect of the Extended Due for Payment Date of Guaranteed Amounts corresponding to the Final Redemption Amount under the Covered Bond Guarantee]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Interest Period(s): [●]
- (b) Interest Payment Date(s): [●] *(provided however that after the Extension Determination Date, the Interest Payment Date may be monthly)*  
*(NB: Specify the Interest Period(s)/Interest Payment Date(s) up to and including the Extended Due for Payment Date, if applicable)*
- (c) First Interest Payment Date: [●]
- (d) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[specify other]]
- (e) Business Day(s): [●]
- (f) Additional Business Centre(s): [●]
- (g) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/[specify other]]
- (h) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Principal Paying Agent): [●]
- (i) Screen Rate Determination:  
Reference Rate: [●] *(Either LIBOR, EURIBOR or other, although additional information is required if other — including amendment to fallback provisions in the Terms and Conditions)*  
Interest Determination Date(s): [●] *(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling*

*LIBOR and the second day on which the TARGET System is open prior to the start of each Interest Period if EURIBOR)*

*(N.B. Specify the Interest Determination Date(s) up to and including the Extended Due for Payment Date, if applicable)*

- Relevant Screen Page: [•]
- (In the case of EURIBOR, if not Reuters EURIBOR 01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)*
- (j) ISDA Determination:  
Floating Rate Option: [•]  
Designated Maturity: [•]  
Reset Date: [•]
- (k) Floating Rate Covered Bond Margin(s): [ +/- ] [•] per cent. per annum
- (l) Minimum Rate of Interest: [•] per cent. per annum
- (m) Maximum Rate of Interest: [•] per cent. per annum
- (n) Day Count Fraction: [Actual/365 (Fixed)  
Actual/365 (Sterling)  
Actual/360  
30/360  
30E/360  
Other]  
*(See Condition 4 for alternatives) [adjusted/not adjusted]*
- (o) Fallback provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Covered Bonds, if different from those set out in the Terms and Conditions: [•]
17. Zero Coupon Covered Bond Provisions: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Accrual Yield: [•] per cent. per annum
- (b) Reference Price: [•]
- (c) Any other formula/basis of determining amount payable: [•] *(Consider applicable Day Count Fraction if not U.S. dollar denominated)*
- (d) Business Day Convention: [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[specify other]]
- (e) Business Day(s): [•]

- (f) Additional Business Centre(s) [●]
- (g) Day Count Fraction in relation to Early Redemption Amounts and late payment: [Conditions 6.7(b) and 6.10(b) apply/specify other]
- (h) Determination Date(s): [●]
- (N.B. Zero Coupon Covered Bonds are not to be issued with an Extended Due for Payment Date unless otherwise agreed with the Dealers and the Bond Trustee)*

## PROVISIONS RELATING TO REDEMPTION

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

*notice requirements which may apply, for example, as between the issuer or any trustee)*

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

*(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value, the Covered Bonds will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply. This Final Terms Document has been annotated to indicate where the key additional requirements of Annex XII are dealt with.)*

21. Early Redemption Amount of each Covered Bond payable on redemption for taxation reasons or illegality or upon acceleration following an Issuer Event of Default or Guarantor Event of Default or other early redemption and/or the method of calculating the same (if required or if different from that set out in Condition 6.7):

per Calculation Amount/[specify other]

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

22. Form of Covered Bonds:

[Bearer Covered Bonds:

[Temporary Global Covered Bond exchangeable for Bearer Definitive Covered Bonds on  days notice]

[Temporary Global Covered Bond exchangeable for a Permanent Global Covered Bond which is exchangeable for Bearer Definitive Covered Bonds only upon an Exchange Event]

[Registered Covered Bonds:

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

23. New Global Covered Bond:

[Yes/No]

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

[Not Applicable/[give details]]

*(Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which sub-paragraphs 15(d), 16(e) and 17(e) relate)*

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

[Yes/No.] *(If yes, give details)*

26. Redenomination, renominatisation and reconventioning provisions:

[Not Applicable/The provisions in Condition 5.8 apply]

27. Other terms or special conditions:

[Not Applicable/[give details]]

*(When adding any other final terms consideration should be given as to whether such terms constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)*

## **DISTRIBUTION**

28. (a) If syndicated, names of Managers: [Not Applicable/give names]  
(b) Stabilising Manager (if any): [Not Applicable/give name]
29. If non-syndicated, name and address of Dealer: [Name]
30. Total commission and concession: [•] per cent. of the aggregate nominal amount
31. (a) U.S. Selling Restrictions: [Reg. S Compliance Category/Other *[give details]*];  
TEFRA [C/D] Rules/TEFRA not applicable]  
(b) ERISA [Yes/No]
32. Non-exempt Offer: Not Applicable
33. Additional selling restrictions: [Not Applicable/*[give details]*]
34. Additional United States Tax Considerations [Not Applicable/*[give details]*]

## **PURPOSE OF FINAL TERMS DOCUMENT**

This Final Terms Document comprises the final terms required for issue and admission to [the official list of [•]/trading on *[specify relevant regulated market]*] of the Covered Bonds described herein pursuant to the U.S.\$15 billion Global Public Sector Covered Bond Programme of The Bank of Nova Scotia.

## **RESPONSIBILITY**

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

Signed on behalf of the Issuer:

By:

*Duly authorised*

Signed on behalf of the Guarantor:

By:

*Duly authorised*

## PART B—OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

(i) Listing and admission to trading:

[Application has been made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on [specify relevant regulated market (for example, the Bourse de Luxembourg, the Market or the PSM) and, if relevant, admission to an official list (for example, the Official List of the UK Listing Authority)] with effect from [•].] [Application is expected to be made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on [specify relevant regulated market (for example the Bourse de Luxembourg, the Market or the PSM) and, if relevant, admission to an official list (for example, the Official List of the UK Listing Authority)] with effect from [•].] [Not Applicable.]

*(Where documenting a fungible issue need to indicate that original Covered Bonds are already admitted to trading.)*

(ii) Estimate of total expenses related to admission to trading:

[•]

### 2. RATINGS

Ratings:

The Covered Bonds to be issued have been rated:

Fitch: AAA

Moody's: Aaa

DBRS: AAA

[Other [•]]

*(Include a brief explanation of the meaning of the ratings if this has previously been published by the rating provider.)*

*(The above disclosure should reflect the rating allocated to Covered Bonds of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*

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

[[Insert credit rating agency] is established in the European Union and registered under Regulation (EC) No 1060/2009.]

[[Insert credit rating agency] is not established in the European Union and has not applied for registration under Regulation (EC) No 1060/2009.]

[[Insert credit rating agency] is not established in the European Union and is endorsed by a credit rating

agency [registered/that has applied for registration] under Regulation (EC) No 1060/2009.]

[[*Insert credit rating agency*] is not established in the European Union and [is certified in accordance with Regulation (EC) No 1060/2009/is applying to be certified in accordance with Regulation (EC) No 1060/2009 but has not yet been certified].]

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation unless the rating is provided by a credit rating agency operating in the European Union before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused.

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

[Save as discussed in *Plan of Distribution*, so far as the Issuer and the Guarantor are aware, no person involved in the offer of the Covered Bonds has an interest material to the offer.—(Amend as appropriate if there are other interests)]

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

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

(i) Reasons for the offer:

[•]

(See "Use of Proceeds" wording in Prospectus—if reasons for offer different from those set out in the Prospectus will need to include those reasons here.)

(ii) Estimated net proceeds:

[•]

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

(iii) Estimated total expenses:

[•]

(Expenses are required to be broken down into each principal intended "use" and presented in order of priority of such "uses".)

(If the Covered Bonds are derivative securities to which Annex XII of the Prospectus Directive Regulation applies it is only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above if the reasons for offer different from those set out in the Prospectus.)

### 5. YIELD (Fixed Rate Covered Bonds only)

Indication of yield:

[•]

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

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

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

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

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

8. **TRADEABLE AMOUNTS:**

So long as the Covered Bonds are represented by a Global Covered Bond and [specify relevant clearing system(s)] so permit, the Global Covered Bond shall be tradeable in minimum principal amounts of [€50,000]/[specify equivalent to €50,000 if Global Covered Bond not denominated in euro] and integral multiples of [●] (the Tradeable Amount) in addition thereto.

[If item 21 of Part A indicates that the Global Covered Bond is exchangeable for definitive Covered Bonds at the option of the Covered Bondholders, the Covered Bonds will be tradeable only in principal amounts of at least the Specified Denomination.]

9. **OPERATIONAL INFORMATION:**

- (a) ISIN Code: [●]
- (b) Common Code: [●]
- (c) WKN Code: [●]
- (d) Any clearing system(s) other than DTC, Euroclear or Clearstream, Luxembourg and the relevant identification number(s) or codes such as CUSIP and CINS codes: [Not Applicable/[give name(s) and number(s)]]
- (e) [Delivery:] Delivery [against/free of] payment
- (f) Name and address of initial Paying Agent(s)/Registrar(s)/Transfer Agent(s): [●]
- (g) Names and addresses of additional Paying Agent(s)/Transfer Agent(s) (if any) [●]
- (h) Intended to be held in a manner which would allow Eurosystem eligibility: [Yes][No]  
[Note that the designation "yes" simply means that the Covered Bonds are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Covered Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.] (Include this text if "yes" selected in which case the Covered Bonds must be issued in NGCB form.)

## TERMS AND CONDITIONS OF THE COVERED BONDS

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

This Covered Bond is one of a Series (as defined below) of Covered Bonds issued by the Issuer constituted by a trust deed dated the Programme Date made between the Issuer, Scotia Covered Bond Trust (the "**Guarantor**"), Computershare Trust Company of Canada, as Bond Trustee and as Security Trustee, as amended and restated by the amended and restated trust deed dated 3 November 2009, and as further amended and restated by the second amended and restated trust deed dated on or before 22 July 2010 (and such trust deed as further modified and/or supplemented and/or restated from time to time, the "**Trust Deed**").

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

- (a) any global covered bond representing Covered Bonds (a "**Global Covered Bond**");
- (b) in relation to any Covered Bonds represented by a Global Covered Bond, units of the lowest Specified Denomination in the Specified Currency;
- (c) any Bearer Definitive Covered Bonds issued in exchange for a Global Covered Bond in bearer form; and
- (d) any Definitive Covered Bonds in registered form representing Covered Bonds sold to non-U.S. persons outside the United States in reliance on Regulation S ("**Regulation S Definitive Covered Bonds**") and within the United States to "qualified institutional buyers" within the meaning of Rule 144A under the Securities Act ("**Rule 144A Definitive Covered Bond**") and, together with Regulation S Definitive Covered Bonds and Bearer Definitive Covered Bonds, "**Definitive Covered Bonds**") (whether or not issued in exchange for a Global Covered Bond in registered form).

The Covered Bonds and the Coupons (as defined below) have the benefit of an agency agreement dated the Programme Date, as amended and restated by the amended and restated agency agreement dated 3 November 2009, and as further amended and restated by the second amended and restated agency agreement dated on or before 22 July 2010, made between the Issuer, the Guarantor, the Bond Trustee, the Security Trustee, The Bank of Nova Scotia, London Banking Division as principal paying agent (in such capacity, the "**Principal Paying Agent**", which expression will include any successor Principal Paying Agent) and The Bank of Nova Scotia Trust Company of New York as a paying agent (together with the Principal Paying Agent and any other paying agents, the "**Paying Agents**", which expression will include any additional or successor Paying Agents), The Bank of Nova Scotia, London Banking Division and The Bank of Nova Scotia Trust Company of New York as registrars (together, as the "**Registrar**", which expression will include any successor Registrar), and The Bank of Nova Scotia, London Banking Division and the Bank of Nova Scotia Trust Company of New York as transfer agents (together, as the "**Transfer Agent**", which expression will include any successor Transfer Agent), and The Bank of Nova Scotia Trust Company of New York as the exchange agent (the "**Exchange Agent**", which expression will include any successor Exchange Agent, and together with the Paying Agents, Registrar, and Transfer Agent, the "**Agents**") (such agency agreement as further amended and/or supplemented and/or restated from time to time, the "**Agency Agreement**").

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

The Final Terms Document for the Covered Bonds (or the relevant provisions thereof) is endorsed on or attached to the Covered Bond and supplements these Terms and Conditions (the "**Terms and Conditions**") and may specify other terms and conditions which will, to the extent so specified or to the extent inconsistent with the Terms and Conditions, replace or modify the Terms and Conditions for the purposes of the Covered Bonds. References to the applicable Final Terms Document are to the Final Terms Document (or the relevant provisions thereof) endorsed on or attached to the Covered Bond.

The Bond Trustee acts for the benefit of the holders for the time being of the Covered Bonds (the "**Covered Bondholders**", which expression will, in relation to any Covered Bonds represented by a Global Covered Bond, be construed as provided below) and the holders of the Coupons (the "**Couponholders**", which expression will, unless the context otherwise requires, include the holders of the Talons), and for the holders of each other Series of Covered Bonds in accordance with the provisions of the Trust Deed.

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

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

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

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

Copies of the Trust Deed, the Security Agreement, the Master Definitions and Construction Agreement (as defined below), the Agency Agreement, each of the other Transaction Documents and the CMHC Mortgage Insurance in respect of each Loan (in redacted or other general form and subject to any exclusions pursuant to applicable law, including, without limitation, privacy law, and policies of the Issuer relating to confidentiality and privacy matters) are available for inspection during normal business hours at the office for the time being of the Bond Trustee being at 100 University Avenue, 11<sup>th</sup> Floor, North Tower, Toronto, Ontario M5J 2Y1, and at the specified office of each of the Paying Agents. Copies of the applicable Final Terms Document for all Covered Bonds of each Series (including in relation to unlisted Covered Bonds of any Series) are obtainable during normal business hours at the registered office of the Issuer and at the specified office of each of the Paying Agents. The Covered Bondholders and the Couponholders are deemed to have notice of, are bound by all the provisions of, and definitions contained in, the Trust Deed, the Security Agreement, the Master Definitions and Construction Agreement, the Agency Agreement,

each of the other Transaction Documents, the terms and conditions of the CMHC Mortgage Insurance, and the applicable Final Terms Document which are applicable to them.

Except where the context otherwise requires, capitalised terms used and not otherwise defined in these Terms and Conditions (including the preceding paragraphs) will bear the meanings given to them in the applicable Final Terms Document and/or the master definitions and construction agreement made between the parties to the Transaction Documents on the Programme Date, as amended and restated by the amended and restated master definitions and construction agreement dated 3 November 2009, and as further amended and restated by the second amended and restated master definitions and construction agreement dated on or before 22 July 2010 (and as further amended and/or supplemented and/or restated from time to time, the "**Master Definitions and Construction Agreement**"), a copy of each of which may be obtained as described above.

#### 1. **Form, Denomination and Title**

The Covered Bonds are in bearer form or in registered form as specified in the applicable Final Terms Document and, in the case of Definitive Covered Bonds, serially numbered, in the Specified Currencies and the Specified Denomination(s). Unless otherwise specified in the applicable Final Terms Document, Covered Bonds of one Specified Denomination may not be exchanged for Covered Bonds of another Specified Denomination. Bearer Covered Bonds may not be exchanged for Registered Covered Bonds and *vice versa*.

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

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

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

For so long as any of the Covered Bonds are represented by a Global Covered Bond held on behalf of or, as the case may be, registered in the name of a common depository for Euroclear, Clearstream Luxembourg or DTC, each Person (other than Euroclear, Clearstream, Luxembourg or DTC) who is for the time being shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a particular nominal amount of such Covered Bonds (in which regard any certificate or other document issued by Euroclear, DTC or Clearstream, Luxembourg as to the nominal amount of such Covered Bonds standing to the account of any Person will be conclusive and binding for all purposes save in the case of manifest or proven error and any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including, without limitation, Euroclear's EUCLID or Clearstream, Luxembourg's Cedcom system) in accordance with its usual procedures and in which the holder of a particular nominal amount of the Covered Bonds is clearly identified with the amount of such holding) will be treated by the Issuer, the Guarantor, the Paying Agents, the Security Trustee and the Bond Trustee as the holder of such nominal amount of such Covered Bonds for all purposes other than with respect to the payment of principal or interest or other amounts on such nominal amount of such Covered Bonds and the expressions "Covered Bondholder" and "holder" and related expressions should be construed accordingly.

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

References to Euroclear, DTC and/or Clearstream, Luxembourg will, whenever the context so permits (but not in the case of any NGCB), be deemed to include a reference to any successor operator and/or successor clearing system and/or any additional or alternative clearing system specified in the applicable Final Terms Document or as may otherwise be approved by the Issuer, the Principal Paying Agent and the Bond Trustee.

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

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

Transfers of beneficial interests in Registered Global Covered Bonds will be effected by Euroclear, Clearstream, Luxembourg or DTC, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such Clearing Systems acting on behalf of beneficial transferors and transferees of such interests. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Covered Bonds represented by a Registered Global Covered Bond to such persons may depend upon the ability to exchange such Covered Bonds for Covered Bonds in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Covered Bonds represented by a Registered Global Covered Bond accepted by DTC to pledge such Covered Bonds to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Covered Bonds may depend upon the ability to exchange such Covered Bonds for Covered Bonds in definitive form. A beneficial interest in a Registered Global Covered Bond will, subject to compliance with all applicable legal and regulatory restrictions, be exchangeable for Registered Definitive Covered Bonds or for a beneficial interest in another Registered Global Covered Bond only in the Specified Denomination(s) set out in the applicable Final Terms Document and only in accordance with the rules and operating procedures for the time being of Euroclear, Clearstream, Luxembourg or DTC, as the case may be, and in accordance with the terms and conditions specified in the Agency Agreement. Transfers of a Rule 144A Global Covered Bond registered in the name of a nominee for DTC shall be limited to transfers of such Rule 144A Global Covered Bond, in whole but not in part, to another nominee of DTC or to a successor of DTC or to such successor's nominee.

### **2.2 Transfers of Registered Covered Bonds in definitive form**

Subject as provided in Conditions 2.3, 2.4, and 2.5, upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Definitive Covered Bond may be transferred in whole or in part in the Specified Denomination(s) set out in the applicable Final Terms Document. In order to effect any such transfer (a) the holder or holders must (i) surrender the Registered Definitive Covered Bond for registration of the transfer of the Registered Definitive Covered Bond (or the relevant part of the Registered Definitive Covered Bond) at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing, and (ii) complete and deposit such other certifications as may be required by the Registrar or, as the case may be, the relevant Transfer Agent, and (b) the Registrar or, as the case may be, the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the Person making the request.

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

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

In the case of the transfer of only part of a Registered Definitive Covered Bond, a new Registered Definitive Covered Bond in respect of the balance of the Registered Definitive Covered Bond not transferred will (in addition

to the new Registered Definitive Covered Bond in respect of the nominal amount transferred) be so authenticated and delivered or (at the risk of the transferor) sent by uninsured mail to the address specified by the transferor.

### **2.3 Registration of transfer upon partial redemption**

In the event of a partial redemption of Covered Bonds under Condition 6, the Issuer will not be required to register the transfer of any Registered Covered Bond, or part of a Registered Covered Bond, called for partial redemption.

### **2.4 Costs of registration**

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

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

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

Such transferee may only take delivery through a Rule 144A Covered Bond. Prior to the end of the applicable Distribution Compliance Period beneficial interests in Regulation S Covered Bonds registered in the name of a nominee for DTC may only be held through the accounts of Euroclear and Clearstream, Luxembourg. After expiry of the applicable Distribution Compliance Period (i) beneficial interests in Regulation S Global Covered Bonds registered in the name of a nominee for DTC may be held through DTC directly, by a participant in DTC, or indirectly through a participant in DTC and (ii) such certification requirements will no longer apply to such transfers.

### **2.6 Transfers of interests in Rule 144A Covered Bonds**

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

- (a) to a transferee who takes delivery of such interest through a Regulation S Covered Bond, upon receipt by the Registrar of a duly completed Transfer Certificate from the transferor to the effect that such transfer is being made in accordance with Regulation S and that, in the case of a Regulation S Global Covered Bond registered in the name of a nominee for DTC, if such transfer is being made prior to expiry of the applicable Distribution Compliance Period, the interests in the Covered Bonds being transferred will be held immediately thereafter through Euroclear and/or Clearstream, Luxembourg; or
- (b) to a transferee who takes delivery of such interest through a Rule 144A Covered Bond, where the transferee is a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, without certification; or
- (c) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion

of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States,

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

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

## 2.7 Definitions

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

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

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

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

**"Regulation S Global Covered Bond"** means a global covered bond in registered form representing Covered Bonds sold to non-U.S. persons outside the United States in reliance on Regulation S.

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

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

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

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

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

### 3.1 Status of the Covered Bonds

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

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

The Covered Bonds will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer, except in certain limited circumstances described in Conditions 9.1 and 14.

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

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

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

## 4. **Interest**

### 4.1 **Interest on Fixed Rate Covered Bonds**

Each Fixed Rate Covered Bond bears interest on its Principal Amount Outstanding (as defined in Condition 4.5, but subject to Condition 4.3) from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable, subject as provided in these Terms and Conditions, in arrears on the Interest Payment Date(s) in each year up to (and including) the Final Maturity Date.

If the Covered Bonds are in definitive form, except as provided in the applicable Final Terms Document, the amount of interest payable on each Interest Payment Date in respect of the Interest Period (as defined in Condition 4.5) ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms Document, amount to the Broken Amount so specified.

Except in the case of Covered Bonds in definitive form where a Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms Document, interest will be calculated in respect of any period by applying the Rate of Interest to (i) in the case of Fixed Rate Covered Bonds which are represented by a Global Covered Bond, the aggregate outstanding nominal amount of the Fixed Rate Covered Bonds represented by such Global Covered Bond, or (ii) in the case of Fixed Rate Covered Bonds in definitive form, the Calculation Amount; and in each case, multiplying such sum by the applicable Day Count Fraction (as defined in Condition 4.5), and rounding the resultant figure to the nearest sub-unit (as defined in Condition 4.5) of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Covered Bond in definitive form comprises more than one Calculation Amount, the amount of interest payable in respect of such Fixed Rate Covered Bond will be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

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

## 4.2 Interest on Floating Rate Covered Bonds

### (a) Interest Payment Dates

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

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

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

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

### (b) Rate of Interest

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

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

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

- (A) the Floating Rate Option is as specified in the applicable Final Terms Document;
- (B) the Designated Maturity is the period specified in the applicable Final Terms Document; and
- (C) unless otherwise stated in the applicable Final Terms Document, the relevant Reset Date is the first day of that Interest Period.

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

#### (ii) Screen Rate Determination for Floating Rate Covered Bonds

Where Screen Rate Determination is specified in the applicable Final Terms Document as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

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

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

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11:00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms Document) the Floating Rate Covered Bond Margin (if any), all as determined by the Principal Paying Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) will be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

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

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

If the Reference Rate from time to time in respect of Floating Rate Covered Bonds is specified in the applicable Final Terms Document as being other than LIBOR or EURIBOR, the Rate of

Interest in respect of such Covered Bonds will be determined as provided in the applicable Final Terms Document.

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

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

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

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

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

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

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

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Covered Bond in definitive form comprises more than one Calculation Amount, the Interest Amount payable in respect of such Covered Bond will be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

(e) Notification of Rate of Interest and Interest Amounts

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

(f) Determination or Calculation by Bond Trustee

If for any reason at any relevant time after the Issue Date, the Principal Paying Agent defaults in its obligation to determine the Rate of Interest or the Principal Paying Agent defaults in its obligation to calculate any Interest Amount in accordance with subparagraph (b)(i) or (ii) above or as otherwise specified in the applicable Final Terms

Document, as the case may be, and in each case in accordance with paragraph (d) above, the Bond Trustee will determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it will think fit to the foregoing provisions of this Condition, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Final Terms Document), it will deem fair and reasonable in all the circumstances or, as the case may be, the Bond Trustee will calculate the Interest Amount(s) in such manner as it will deem fair and reasonable in all the circumstances. In making any such determination or calculation, the Bond Trustee may appoint and rely on a determination or calculation by a calculation agent (which will be an investment bank or other suitable entity of international repute). Each such determination or calculation will be deemed to have been made by the Principal Paying Agent.

(g) **Certificates to be Final**

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

**4.3 Interest following a Notice to Pay**

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

**4.4 Accrual of interest**

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

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

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

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre specified in the applicable Final Terms Document; and
- (ii) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre) or as otherwise specified in the applicable Final Terms Document or (B) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the "**TARGET System**") is open.

(b) If a "**Business Day Convention**" is specified in the applicable Final Terms Document and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur, or

(y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

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

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

- (i) if "Actual/Actual (ICMA)" is specified in the applicable Final Terms Document, a fraction equal to "number of days accrued/number of days in year", as such terms are used in Rule 251 of the statutes, by-laws, rules and recommendations of the International Capital Market Association (the "**ICMA Rule Book**"), calculated in accordance with Rule 251 of the ICMA Rule Book as applied to non-U.S. Dollar denominated straight and convertible bonds issued after 31 December 1998, as though the interest coupon on a bond has been calculated for a coupon period corresponding to the Interest Period;
- (ii) if "Actual/Actual or Actual/Actual (ISDA)" is specified in the applicable Final Terms Document, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (i) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366, and (ii) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (iii) if "Actual/365 (Fixed)" is specified in the applicable Final Terms Document, the actual number of days in the Interest Period divided by 365;
- (iv) if "Actual/365 (Sterling)" is specified in the applicable Final Terms Document, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (v) if "Actual/360" is specified in the applicable Final Terms Document, the actual number of days in the Interest Period divided by 360;
- (vi) if "30/360", "360/360" or "Bond Basis" is specified in the applicable Final Terms Document, the number of days in the Interest Period divided by 360, 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 Interest 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 Interest Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M<sub>2</sub>" is the calendar month, expressed as number, in which the day immediately following the last day included in the Interest Period falls;

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

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30; and

(vii) if "30E/360" or "Eurobond Basis" is specified in the applicable Final Terms Document, the number of days in the Interest Period divided by 360, 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 Interest 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 Interest Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Interest 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 Interest Period falls;

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

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D<sub>2</sub>, will be 30; or

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

- (d) **"Determination Period"** means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date).
- (e) **"Fixed Interest Period"** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.
- (f) **"Interest Period"** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

- (g) **"Principal Amount Outstanding"** means, in respect of a Covered Bond, on any day, the principal amount of that Covered Bond on the relevant Issue Date thereof less principal amounts received by the relevant Covered Bondholder in respect thereof on or prior to that day.
- (h) If "adjusted" is specified in the applicable Final Terms Document against the Day Count Fraction, interest in respect of the relevant Interest Period will be payable in arrears on the relevant Interest Payment Date and calculated from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date, as such Interest Payment Date will, where applicable, be adjusted in accordance with the Business Day Convention.
- (i) If "not adjusted" is specified in the applicable Final Terms Document against the Day Count Fraction, interest in respect of the relevant Interest Period will be payable in arrears on the relevant Interest Payment Date and calculated from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date, but such Interest Payment Dates will not be adjusted in accordance with any Business Day Convention.
- (j) **"sub-unit"** means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, €0.01.

## 5. **Payments**

### 5.1 **Method of payment**

Subject as provided below:

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

In the case of Bearer Covered Bonds, payments in U.S. Dollars will be made by transfer to a U.S. Dollar account maintained by the payee with a bank outside of the United States (which expression, as used in this Condition 5, means the United States of America, including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction), or by cheque drawn on a United States bank. In no event will payment in respect of Bearer Covered Bonds be made by a cheque mailed to an address in the United States. All payments of interest in respect of Bearer Covered Bonds will be made to accounts located outside the United States except as may be permitted by United States tax law in effect at the time of such payment without detriment to the Issuer or the Guarantor.

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

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

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

the United States of America, including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction).

Fixed Rate Covered Bonds in definitive bearer form (other than Long Maturity Covered Bonds) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression will include Coupons failing to be issued on exchange of matured Talons), failing which an amount equal to the face value of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 7) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 8) or, if later, five years from the date on which such Coupon would otherwise have become due but in no event thereafter.

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

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

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

### 5.3 Payments in respect of Bearer Global Covered Bonds

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

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

### 5.4 Payments in respect of Registered Covered Bonds

Payments of principal in respect of each Registered Covered Bond (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered

Covered Bond at the specified office of the Registrar or any of the Paying Agents. Such payments will be made in accordance with Condition 5.1 by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Covered Bond appearing in the register of holders of the Registered Covered Bonds maintained by the Registrar (the "**Register**") at the close of business on the tenth business day ("**business day**" being for the purposes of this Condition 5.4 a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date (the "**Record Date**"). Notwithstanding the previous sentence, if (i) a holder does not have a Designated Account, or (ii) the principal amount of the Covered Bonds held by a holder is less than U.S.\$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, "**Designated Account**" means the account (which, in the case of a payment in Yen to a non-resident of Japan, will be a non-resident account) maintained by a holder with a Designated Bank and identified as such in the Register and "**Designated Bank**" means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency and (in the case of a payment in euro) any bank which processes payments in euro.

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

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

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

## 5.5 **General provisions applicable to payments**

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

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

- (a) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. Dollars at such specified offices outside the United States of the full amount of principal and/or interest on the Bearer Covered Bonds in the manner provided above when due;
- (b) payment of the full amount of such principal and interest at such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. Dollars; and
- (c) such payment is then permitted under United States law without involving, in the opinion of the Issuer and the Guarantor, adverse tax consequences to the Issuer or the Guarantor under the Covered Bond Guarantee.

#### 5.6 **Payment Day**

If the date for payment of any amount in respect of any Covered Bond or Coupon is not a Payment Day (as defined below), the holder thereof will not be entitled to payment of the relevant amount due until the next following Payment Day and will not be entitled to any interest or other sum in respect of any such delay. In this Condition (unless otherwise specified in the applicable Final Terms Document), "**Payment Day**" means any day which (subject to Condition 8) is:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
  - (i) the relevant place of presentation; and
  - (ii) any Additional Business Centre specified in the applicable Final Terms Document; and
- (b) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, London and any Additional Business Centre) or as otherwise specified in the applicable Final Terms Document, or (ii) in relation to any sum payable in euro, a day on which the TARGET System is open.
- (c) in the case of any payment in respect of a Registered Global Covered Bond denominated in a Specified Currency other than U.S. dollars and registered in the name of DTC or its nominee and in respect of which an accountholder of DTC (with an interest in such Registered Global Covered Bond) has elected, by a date not later than 15 days prior to a Payment Date, to receive any part of such payment in U.S. dollars, a day on which commercial banks are not authorised or required by law or regulation to be closed in New York City.

#### 5.7 **Interpretation of principal and interest**

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

- (a) any additional amounts which may be payable with respect to principal under Condition 7 or under any undertakings or covenants given in addition thereto, or in substitution therefor, pursuant to the Trust Deed;

- (b) the Final Redemption Amount of the Covered Bonds;
- (c) the Early Redemption Amount of the Covered Bonds, but excluding any amount of interest referred to therein;
- (d) the Optional Redemption Amount(s) (if any) of the Covered Bonds;
- (e) in relation to Zero Coupon Covered Bonds, the Amortised Face Amount (as defined in Condition 6.7);
- (f) any premium and any other amounts (other than interest) which may be payable under or in respect of the Covered Bonds; and
- (g) any Excess Proceeds attributable to principal which may be deposited by the Bond Trustee into the GIC Account in respect of the Covered Bonds, and following a Guarantor Event of Default and service of a Guarantor Acceleration Notice deposited or paid in such other manner as the Security Trustee may direct.

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

## 5.8 Redenomination

Where redenomination is specified in the applicable Final Terms Document as being applicable, the Issuer may, without the consent of the Covered Bondholders and the Couponholders, on giving prior written notice to the Bond Trustee, the Security Trustee, the Agents, the Registrar (in the case of Registered Covered Bonds), Euroclear and Clearstream, Luxembourg and at least 30 days' prior notice to the Covered Bondholders in accordance with Condition 13, elect that, with effect from the Redenomination Date specified in the notice, the Covered Bonds will be redenominated in euro. In relation to any Covered Bonds where the applicable Final Terms Document provides for a minimum Specified Denomination in the Specified Currency which is equivalent to at least €50,000 and which are admitted to trading on a regulated market in the European Economic Area, it will be a term of any such article that the holder of any Covered Bonds held through Euroclear, Clearstream, Luxembourg and/or DTC must have credited to its securities account with the relevant clearing system a minimum balance of Covered Bonds of at least €50,000.

The election will have effect as follows:

- (a) the Covered Bonds will be deemed to be redenominated in euro in the denomination of €0.01 with a nominal amount for each Covered Bond equal to the nominal amount of that Covered Bond in the Specified Currency, converted into euro at the Established Rate, *provided* that, if the Issuer determines, in consultation with the Agents and the Bond Trustee, that the then market practice in respect of the redenomination in euro of internationally offered securities is different from the provisions specified above, such provisions will be deemed to be amended so as to comply with such market practice and the Issuer will promptly notify the Covered Bondholders, the competent listing authority, stock exchange, and/or market (if any) on or by which the Covered Bonds may be listed and/or admitted to trading and the Paying Agents of such deemed amendments;
- (b) save to the extent that an Exchange Notice has been given in accordance with paragraph (d) below, the amount of interest due in respect of the Covered Bonds will be calculated by reference to the aggregate nominal amount of Covered Bonds presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment will be rounded down to the nearest €0.01;

- (c) if Definitive Covered Bonds are required to be issued after the Redenomination Date, they will be issued at the expense of the Issuer in the denominations of €50,000 and/or such higher amounts as the Agents may determine and notify to the Covered Bondholders and any remaining amounts less than €50,000 will be redeemed by the Issuer and paid to the Covered Bondholders in euro in accordance with Condition 6;
- (d) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Covered Bonds) will become void with effect from the date on which the Issuer gives notice (the "**Exchange Notice**") that replacement euro-denominated Covered Bonds and Coupons are available for exchange (*provided* that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Covered Bonds and Coupons so issued will also become void on that date although those Covered Bonds and Coupons will continue to constitute valid exchange obligations of the Issuer. New euro-denominated Covered Bonds and Coupons will be issued in exchange for Covered Bonds and Coupons denominated in the Specified Currency in such manner as the Agents may specify and as will be notified to the Covered Bondholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Covered Bonds;
- (e) after the Redenomination Date, all payments in respect of the Covered Bonds and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Covered Bonds to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque;
- (f) if the Covered Bonds are Fixed Rate Covered Bonds and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention;
- (g) if the Covered Bonds are Floating Rate Covered Bonds, the applicable Final Terms Document will specify any relevant changes to the provisions relating to interest; and
- (h) such other changes will be made to this Condition (and the Transaction Documents) as the Issuer may decide, after consultation with the Agents and the Bond Trustee, and as may be specified in the notice given to the Covered Bondholders pursuant to paragraph (a) above, to conform it to conventions then applicable to instruments denominated in euro.

## 5.9 Definitions

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

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

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

**"Redenomination Date"** means (in the case of interest bearing Covered Bonds) any date for payment of interest under the Covered Bonds or (in the case of Zero Coupon Covered Bonds) any date, in each case specified by the

Issuer in the notice given to the Covered Bondholders pursuant to paragraph (a) above and which falls on or after the date on which the country of the relevant Specified Currency first adopts the euro.

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

## 6. Redemption and Purchase

### 6.1 Final redemption

Unless previously redeemed or purchased and cancelled as specified below, each Covered Bond will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms Document in the relevant Specified Currency on the Final Maturity Date.

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

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

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

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

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

## 6.2 **Redemption for taxation reasons**

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

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

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

## 6.4 **Redemption at the option of the Covered Bondholders ("Investor Put")**

If an Investor Put is specified in the Final Terms Document for a Covered Bond, then if and to the extent specified in the applicable Final Terms Document, upon the Covered Bondholder giving to the Issuer, in accordance with Condition 13, not less than 30 nor more than 60 days' notice (which notice will be irrevocable), the Issuer will, upon the expiry of such notice *provided* that the Cash Manager has notified the Bond Trustee in writing that there will be sufficient funds available to pay any termination payment due to the Covered Bond Swap Provider, redeem subject to, and in accordance with, the terms specified in the applicable Final Terms Document in whole (but not in part) such Covered Bond on the Optional Redemption Date and at the relevant Optional Redemption Amount as specified

in, or determined in the manner specified in, the applicable Final Terms Document, together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date.

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

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

#### 6.5 **Redemption due to illegality or invalidity**

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

#### 6.6 **General**

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

#### 6.7 **Early Redemption Amounts**

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

- (a) in the case of a Covered Bond other than a Zero Coupon Covered Bond, at the amount specified in, or determined in the manner specified in, the applicable Final Terms Document or, if no such amount or manner is so specified in the applicable Final Terms Document, at its Principal Amount Outstanding, together with interest accrued to (but excluding) the date fixed for redemption; and
- (b) in the case of a Zero Coupon Covered Bond, at an amount (the "**Amortised Face Amount**") equal to the sum of:
  - (i) the Reference Price; and

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

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

## 6.8 Purchases

The Issuer or any of its Subsidiaries, or the Guarantor, may at any time purchase or otherwise acquire Covered Bonds (*provided* that, in the case of Bearer Definitive Covered Bonds, all unmatured Coupons and Talons appertaining thereto are attached thereto or surrendered therewith) at any price in the open market either by tender or private agreement or otherwise. If purchases are made by tender, tenders must be available to all Covered Bondholders alike. Such Covered Bonds may be held, reissued, resold or, at the option of the Issuer or the relevant Subsidiary, surrendered to any Paying Agent and/or the Registrar for cancellation (except that any Covered Bonds purchased or otherwise acquired by the Guarantor must immediately be surrendered to any Paying Agent and/or the Registrar for cancellation).

## 6.9 Cancellation

All Covered Bonds which are redeemed will forthwith be cancelled (together with, in the case of Bearer Definitive Covered Bonds, all unmatured Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Covered Bonds so cancelled and any Covered Bonds purchased and surrendered for cancellation pursuant to Condition 6.8 and cancelled (together with, in the case of Bearer Definitive Covered Bonds, all unmatured Coupons and Talons cancelled therewith) will be forwarded to the Principal Paying Agent and cannot be reissued or resold.

## 6.10 Late Payment

If any amount payable in respect of any Covered Bond is improperly withheld or refused upon its becoming due and payable or is paid after its due date, the amount due and payable in respect of such Covered Bond (the "**Late Payment**") will itself accrue interest (both before and after any judgment or other order of a court of competent jurisdiction) from (and including) the date on which such payment was improperly withheld or refused or, as the case may be, became due, to (but excluding) the Late Payment Date in accordance with the following provisions:

- (a) in the case of a Covered Bond other than a Zero Coupon Covered Bond, at the rate determined in accordance with Condition 4.1 or 4.2, as the case may be; and
- (b) in the case of a Zero Coupon Covered Bond, at a rate equal to the Accrual Yield,

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

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

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

- (ii) the seventh day after notice is given to the relevant Covered Bondholder (whether individually or in accordance with Condition 13) that the full amount (including interest as aforesaid) in the relevant currency in respect of such Covered Bond is available for payment,

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

#### 6.11 Legislative Exchange

Following the coming into force in Canada, at any time after the date of this Prospectus, of (i) any legislation similar to covered bond legislation in force in any country in the European Economic Area, or (ii) any rules, regulations or guidelines published by any Governmental Authority that provide for bonds issued by Canadian issuers to qualify for the same or similar benefits available to covered bonds issued under covered bond legislation in force in any country in the European Economic Area, the Issuer may, at its option and without the consent of the Bond Trustee, the Security Trustee, the Covered Bondholders or the Couponholders, exchange all (but not some) of the Covered Bonds of all Series then outstanding (the "**Existing Covered Bonds**") for new Covered Bonds which qualify as covered bonds under such new legislation, rules, regulations or guidelines (the "**New Covered Bonds**") in identical form, amount and denomination as the Existing Covered Bonds and on the same economic terms and conditions as the Existing Covered Bonds (the "**Legislative Exchange**") if not more than 60 nor less than 30 days' notice to the Covered Bondholders (in accordance with Condition 13), the Bond Trustee, the Principal Paying Agent and the Registrar is given by the Issuer and *provided* that:

- (a) on the date on which such notice expires, the Issuer delivers to the Bond Trustee a certificate signed by two authorised signatories of the Issuer and a certificate signed by the Administrative Agent confirming that, in the case of the Issuer, no Issuer Event of Default (as defined in Condition 9.1) or Potential Issuer Event of Default (as defined in Condition 14) and, in the case of the Guarantor, no Guarantor Event of Default (as defined in Condition 9.2) or Potential Guarantor Event of Default (as defined in Condition 14), has occurred and is continuing (disregarding for the purposes of this certificate any such event which occurs or which has occurred due to the implementation of such legislation, rules, regulations or guidelines);
- (b) each of the Rating Agencies then rating the Existing Covered Bonds has confirmed that the New Covered Bonds will be assigned the same or higher ratings as those then applicable to the Existing Covered Bonds; and
- (c) if the Existing Covered Bonds are listed, quoted and/or traded on or by a competent and/or relevant listing authority, stock exchange and/or quotation system on or before the date on which such notice expires, the Issuer delivers to the Bond Trustee a certificate signed by two authorised signatories confirming that all applicable rules of such competent and/or relevant listing authority, stock exchange and/or quotation system have been or will be complied with (or compliance with such rules has been waived by the relevant listing authority, stock exchange and/or quotation system).

The Existing Covered Bonds will be cancelled concurrently with the issue of the New Covered Bonds and with effect on and from the date of issue thereof all references herein to Covered Bonds will be deemed to be references to the New Covered Bonds and the Bond Trustee and the Security Trustee may, pursuant to the provisions described in Condition 14, agree with the Issuer and the Guarantor to such modifications to the Transaction Documents as may be necessary for the issue of the New Covered Bonds under the new legislation, rules, regulations or guidelines.

#### 7. Taxation

All payments of principal and interest (if any) in respect of the Covered Bonds and Coupons by or on behalf of the Issuer or the Guarantor under the Covered Bond Guarantee, as the case may be, will be made without withholding or deduction for, or on account of any present or future taxes, duties, assessments or governmental charges of whatever

nature unless such withholding or deduction of such taxes, duties, assessments or governmental charges is required by law or regulation or administrative practice of any jurisdiction.

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

- (a) to, or to a third party on behalf of, a Covered Bondholder or Couponholder who is liable to such taxes, duties, assessments or government charges in respect of such Covered Bond or Coupon by reason of such Covered Bondholder or Couponholder having some connection with Canada or the jurisdiction imposing such tax otherwise than the mere holding of such Covered Bond or Coupon;
- (b) presented for payment more than 30 days after the Relevant Date except to the extent that the holder thereof would have been entitled to such additional amount on presenting the same for payment on or before such thirtieth day;
- (c) where such withholding or deduction is imposed on a payment and is required to be made pursuant to European Council Directive 2003/48/EC or any other law implementing or complying with, or introduced in order to conform to, such Directive;
- (d) presented for payment by or on behalf of a Covered Bondholder or Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Covered Bond or Coupon to another Paying Agent in a Member State;
- (e) to, or to a third party on behalf of, a Covered Bondholder or Couponholder in respect of whom such tax, duty, assessment or governmental charge is required to be withheld or deducted by reason of such Covered Bondholder or Couponholder being a Person not dealing at arm's length (within the meaning of the Tax Act) with the Issuer; or
- (f) to, or to a third party on behalf of, a Covered Bondholder or Couponholder who is liable for such taxes, duties, assessments or other charges by reason of such Covered Bondholder or Couponholder's failure to comply with any certification, identification, documentation or other reporting requirement concerning the nationality, residence, identity or connection with Canada of such Covered Bondholder or Couponholder, if (i) compliance is required by law as a precondition to, exemption from, or reduction in the rate of, the tax, assessment or other charge and (ii) the Issuer has given such Covered Bondholder or Couponholder or, if such Covered Bondholder or Couponholder is not the beneficial owner of the Covered Bond or Coupon in question, the beneficial owner of such Covered Bond or Coupon at least 30 days' notice that such Covered Bondholder, Couponholder or beneficial owner will be required to provide such certification, identification, documentation or other requirement.

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

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

## 8. **Prescription**

The Covered Bonds (whether in bearer or registered form) and Coupons will become void unless presented for payment within 10 years (in the case of principal) and five years (in the case of interest) in each case from the Relevant Date (as defined in Condition 7) therefor, subject in each case to the provisions of Condition 5.

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

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

There will not be included in any Coupon sheet issued on exchange of a Talon, any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 5 or any Talon which would be void pursuant to Condition 5.

## 9. **Events of Default, Acceleration and Enforcement**

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

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

- (a) if default is made by the Issuer for a period of 30 days or more in the payment of any principal or 30 days or more in the payment of any interest due in respect of the Covered Bonds or any of them; or
- (b) if the Issuer fails to perform or observe any of its other obligations under the Covered Bonds or Coupons of any Series or the Trust Deed or any other Transaction Documents to which the Issuer is a party (other than the Programme Agreement and any subscription agreement), but excluding any obligation of the Issuer to comply with the Asset Coverage Test or any Loan Representations and Warranties given by the Issuer thereunder or pursuant thereto, and (except where the Bond Trustee considers such failure to be incapable of remedy when no such continuation or notice as is hereinafter referred to will be required) such failure continues for the period of 30 days (or such longer period as the Bond Trustee may permit) after written notice thereof has been given by the Bond Trustee to the Issuer requiring the same to be remedied; or

- (c) if the Issuer has become insolvent, or if the Superintendent has taken control of the assets of the Issuer or of the Issuer itself, or if a liquidator of the Issuer, or Person with similar powers, has been appointed pursuant to a winding up order or otherwise; or
- (d) if an Asset Coverage Test Breach Notice has been served and not revoked (in accordance with the terms of the Transaction Documents) on or before the immediately succeeding Calculation Date following service of such Asset Coverage Test Breach Notice; or
- (e) if the Pre-Maturity Test in respect of any series of Hard Bullet Covered Bonds is breached and the Guarantor has not cured the breach before the earlier to occur of: (i) 10 Toronto Business Days from the date that the Sellers are notified of the breach of the Pre-Maturity Test and (ii) the Final Maturity date of that Series of Hard Bullet Covered Bonds,

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

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

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

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

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

Upon deposit of any Excess Proceeds into the GIC Account, the Guarantor will be deemed to have assumed all of the obligations of the Issuer (other than the obligation to make any payments in respect of additional amounts which may become payable by the Issuer pursuant to Condition 7), and be solely liable as principal obligor, and not as a guarantor, in respect of the obligation to pay to the Covered Bondholders and/or Couponholders interest and principal in respect of Covered Bonds to which the Excess Proceeds relate (to the extent distributable to Covered Bondholders under the applicable Priority of Payments), and the Covered Bondholders and/or Couponholders will have no rights against the Issuer with respect to payment of such Excess Proceeds.

## 9.2 **Guarantor Events of Default**

The Bond Trustee at its discretion may, and if so requested in writing by the holders of at least 25 per cent. of the aggregate Principal Amount Outstanding of the Covered Bonds (which for this purpose and the purpose of any Extraordinary Resolution referred to in this Condition 9.2 means the Covered Bonds of a Series together with the

Covered Bonds of any other Series constituted by the Trust Deed) then outstanding as if they were a single Series (with the nominal amount of Covered Bonds not denominated in Canadian Dollars converted into Canadian Dollars at the relevant Covered Bond Swap Exchange Rate) or if so directed by an Extraordinary Resolution of all the Covered Bondholders will (subject in each case to being indemnified and/or secured to its satisfaction), give notice (the "**Guarantor Acceleration Notice**") in writing to the Issuer and the Guarantor, that (i) each Covered Bond of each Series is, and each Covered Bond of each Series will as against the Issuer (if not already due and repayable against the Issuer following service of an Issuer Acceleration Notice), thereupon immediately become, due and repayable at its Early Redemption Amount together with (to the extent not already included in the Early Redemption Amount) accrued interest, and (ii) all amounts payable by the Guarantor under the Covered Bond Guarantee will thereupon immediately become due and payable at the Guaranteed Amount corresponding to the Early Redemption Amount for each Covered Bond of each Series together with (to the extent not already included in the Early Redemption Amount) accrued interest, in each case as provided in the Trust Deed and thereafter the Security will become enforceable if any of the following events (each, a "**Guarantor Event of Default**") will occur and be continuing:

- (a) if default is made by the Guarantor for a period of seven days or more in the payment of any Guaranteed Amounts which are Due for Payment on the relevant Guaranteed Amounts Due Date in respect of the Covered Bonds of any Series except in the case of the payments of a Guaranteed Amount which is Due for Payment under Condition 6.1 when the Guarantor will be required to make payments of Guaranteed Amounts which are Due for Payment on the dates specified therein; or
- (b) if default is made by the Guarantor in the performance or observance of any obligation, condition or provision binding on it (other than any obligation for the payment of Guaranteed Amounts in respect of the Covered Bonds of any Series or a failure to repay amounts due under the Intercompany Loan Agreement or the Subordinated Loan Agreement) under the Trust Deed, the Security Agreement or any other Transaction Document (other than the obligation to satisfy the Amortisation Test in accordance with the Declaration of Trust) to which the Guarantor is a party, and (except where such default is or the effects of such default are, in the opinion of the Bond Trustee, not capable of remedy when no such continuation and notice as is hereinafter mentioned will be required), such default continues for 30 days (or such longer period as the Bond Trustee may permit) after written notice thereof has been given by the Bond Trustee to the Guarantor requiring the same to be remedied; or
- (c) if the Guarantor becomes subject to any bankruptcy, reorganisation, arrangement, insolvency, liquidation or other similar proceeding; or
- (d) if there is a failure to satisfy the Amortisation Test (as set out in the Declaration of Trust) on any Calculation Date following service of a Notice to Pay, or
- (e) if the Covered Bond Guarantee is not, or is claimed by the Guarantor not to be, in full force and effect,

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

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

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

### 9.3 Enforcement

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

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

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

No Covered Bondholder or Couponholder will be entitled to proceed directly against the Issuer or the Guarantor or to take any action with respect to the Trust Deed, any other Transaction Document, the Covered Bonds, the Coupons, or the Security unless the Bond Trustee or the Security Trustee, as applicable, having become bound so to proceed, fails to do so within 30 days and such failure is continuing.

### 10. Replacement of Covered Bonds, Coupons and Talons

If any Covered Bond, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent in London (in the case of Bearer Covered Bonds or Coupons) or the Registrar (in the case of Registered Covered Bonds), or any other place approved by the Bond Trustee of which notice has been given to the Covered Bondholders in accordance with Condition 13 upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Covered Bonds, Coupons or Talons must be surrendered before replacements will be issued.

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

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

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

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

In addition, the Issuer will forthwith appoint a Paying Agent having a specified office in the United States in the circumstances described in Condition 5.5. Notice of any such variation, termination, appointment or change will be given by the Issuer to the Covered Bondholders as soon as reasonably practicable in accordance with Condition 13.

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

## 12. Exchange of Talons

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

## 13. Notices

Any notice regarding Bearer Covered Bonds will be deemed to have been duly given to the relevant Covered Bondholders if sent to DTC, Euroclear and/or Clearstream, Luxembourg for communication by them to the Covered Bondholders and will be deemed to be given on the date on which it was so sent and (so long as the relevant Covered Bonds are admitted to trading on the Market or the PSM and listed on the Official List) any notice will also be published in accordance with the relevant listing rules (which includes publication in a national newspaper in the United Kingdom). All notices regarding the Registered Covered Bonds will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing.

In addition, for so long as any Covered Bonds are admitted to trading and listed as described above, the Issuer will give two copies of each notice in accordance with this Condition 13 to the UK Financial Services Authority.

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

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

14. **Meetings of Covered Bondholders, Modification, Waiver and Substitution Covered Bondholders, Couponholders and other Secured Creditors should note that the Issuer, the Guarantor and the Principal Paying Agent may without their consent or the consent of the Bond Trustee or the Security Trustee agree to modify any provision of any Final Terms Document which is of a formal, minor or technical nature or is made to correct a proven or manifest error or to comply with any mandatory provisions of law.**

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

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

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

The Bond Trustee, the Security Trustee, the Guarantor and the Issuer may also agree, without the consent of the Covered Bondholders or Couponholders of any Series and without the consent of the other Secured Creditors (and for this purpose the Bond Trustee and the Security Trustee may disregard whether any such modification relates to a Series Reserved Matter), to:

- (a) any modification of the terms and conditions applying to Covered Bonds of one or more Series (including these Terms and Conditions), the related Coupons or any Transaction Document *provided* that (i) in the sole opinion of the Bond Trustee such modification is not materially prejudicial to the interests of any of the Covered Bondholders of any Series, and (ii) in the sole opinion of the Security Trustee such modification is not materially prejudicial to the interests of any of the Covered Bondholders of any Series or the Covered Bond Swap Provider or Interest Rate Swap Provider, *provided* that the Covered Bond Swap Provider or Interest Rate Swap Provider is not a member of the Scotiabank Group; or
- (b) any modification of the terms and conditions applying to Covered Bonds of any one or more Series (including these Terms and Conditions), the related Coupons or any Transaction Document which is in the sole opinion of the Bond Trustee or the Security Trustee (as the case may be) of a formal, minor or technical nature or is to correct a manifest error or an error which is, in the sole opinion of the Bond Trustee or the Security Trustee (as the case may be), proven, or is to comply with mandatory provisions of law.

Notwithstanding the above, the Issuer, the Guarantor and the Principal Paying Agent may agree, without the consent of the Bond Trustee, the Security Trustee, the Covered Bondholders or Couponholders or any of the other Secured Creditors, to any modification of any of the provisions of any Final Terms Document which is of a formal, minor or technical nature or is made to correct a proven or manifest error or to comply with any mandatory provisions of law.

The Bond Trustee may also agree, without the consent of the Covered Bondholders of any Series, and/or the related Couponholders, to the waiver or authorisation of any breach or proposed breach of any of the provisions of the Covered Bonds of any Series, or determine, without any such consent as aforesaid, that any Issuer Event of Default or Guarantor Event of Default or Potential Issuer Event of Default or Potential Guarantor Event of Default will not be treated as such, *provided* that, in any such case, it is not, in the sole opinion of the Bond Trustee, materially prejudicial to the interests of any of the Covered Bondholders of any Series. The Security Trustee may also agree, without the consent of the Covered Bondholders of any Series, the related Couponholders or any other Secured Creditor, to the waiver or authorisation of any breach or proposed breach of any of the provisions of the Transaction Documents, *provided* that, in any such case, it is not, in the sole opinion of the Security Trustee, materially prejudicial to the interests of any of the Covered Bondholders of any Series, or the Covered Bond Swap Provider or Interest Rate Swap Provider, *provided* that the Covered Bond Swap Provider or Interest Rate Swap Provider is not a member of the Scotiabank Group.

Notwithstanding the above, none of the Issuer, the Guarantor, the Bond Trustee or the Security Trustee, without the consent or sanction of the Covered Bondholders by Extraordinary Resolution, may take any action or amend any of the Transaction Documents that would result in the CMHC Mortgage Insurance relating to any Loan in the Portfolio becoming void or a material limit being placed on any claims that may be made thereunder.

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

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

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

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

Any such modification, waiver, authorisation or determination will be binding on all Covered Bondholders of all Series of Covered Bonds, the related Couponholders and the other Secured Creditors, and unless the Bond Trustee and the Security Trustee otherwise agree, any such modification will be notified by the Issuer to the Covered Bondholders of all Series of Covered Bonds for the time being outstanding and the other Secured Creditors in accordance with the relevant Terms and Conditions as soon as practicable thereafter.

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

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

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

- (i) a certificate of two authorised signatories of the Issuer and a certificate of the Administrative Agent is delivered to the Bond Trustee and the Security Trustee to the effect that immediately after giving effect to such transaction no Issuer Event of Default or Potential Issuer Event of Default (in

respect of the Issuer) and no Guarantor Event of Default or Potential Guarantor Event of Default (in respect of the Guarantor), respectively, has occurred and is continuing and the CMHC Mortgage Insurance relating to the Loans in the Portfolio will not be void and no material limit will be placed on any claims that may be made thereunder as a result of such transaction;

- (ii) unless the Issuer is the surviving entity, the Issuer will procure that the surviving or transferee company assumes its obligations as Issuer under the Trust Deed, each other relevant Transaction Document and all of the outstanding Covered Bonds of all Series, in place of the Issuer;
- (iii) in the case of an assumption of the obligations of the Issuer by a successor or transferee company, the Covered Bond Guarantee remains fully effective on the same basis in relation to the obligations of such successor or transferee company; and
- (iv) certain other conditions set out in the Trust Deed are met.

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

For the purposes hereof:

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

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

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

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

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

The Trust Deed and the Security Agreement also contain provisions pursuant to which each of the Bond Trustee and Security Trustee, respectively, is entitled, *inter alia*: (i) to enter into business transactions with the Issuer, the Guarantor and/or any of the Issuer's Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer, the Guarantor and/or any of the Issuer's Subsidiaries; (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Covered

Bondholders or Couponholders or any other Secured Creditors; and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

Neither the Bond Trustee nor the Security Trustee will be responsible for any loss, expense or liability, which may be suffered as a result of any Loans or their Related Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by clearing organisations or their operators or by intermediaries such as banks, brokers or other similar Persons on behalf of the Bond Trustee and/or the Security Trustee. Neither the Bond Trustee nor the Security Trustee will be responsible for: (i) supervising the performance by the Issuer, the Guarantor or any other party to the Transaction Documents of their respective obligations under the Transaction Documents, and the Bond Trustee and the Security Trustee will be entitled to assume, until they each have written notice to the contrary, that all such Persons are properly performing their duties; (ii) considering the basis on which approvals or consents are granted by the Issuer, the Guarantor or any other party to the Transaction Documents under the Transaction Documents; (iii) monitoring the Portfolio, including, without limitation, whether the Portfolio is in compliance with the Asset Coverage Test or the Amortisation Test; or (iv) monitoring whether Loans and their Related Security satisfy the Eligibility Criteria. Neither the Bond Trustee nor the Security Trustee will be liable to any Covered Bondholder or other Secured Creditor for any failure to make or to cause to be made on their behalf the searches, investigations and enquiries which would normally be made by a prudent chargee in relation to the Security and have no responsibility in relation to the legality, validity, sufficiency and enforceability of the Security and the Transaction Documents.

#### 16. **Further Issues**

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

#### 17. **Ratings Confirmations**

By subscribing for or purchasing the Covered Bond(s), each Covered Bondholder will be deemed to have acknowledged and agreed that a credit rating of a Series of Covered Bonds is an assessment of credit risk and does not address other matters that may be of relevance to Covered Bondholders, including, without limitation, in the case of a Rating Agency Confirmation, whether such action is either (i) permitted by the terms of the relevant Transaction Document, or (ii) in the best interests of, or not prejudicial to, some or all of the Covered Bondholders.

In being entitled to have regard to the fact that a Rating Agency has confirmed that the then current rating of the relevant Series of Covered Bonds would not be downgraded or withdrawn, each of the Issuer, the Guarantor, the Bond Trustee, the Security Trustee and the Secured Creditors (including the Covered Bondholders) is deemed to have acknowledged and agreed that a Rating Agency Confirmation does not impose or extend any actual or contingent liability on the Rating Agencies to the Issuer, the Guarantor, the Bond Trustee, the Security Trustee, the Secured Creditors (including the Covered Bondholders) or any other Person or create any legal relations between the Rating Agencies and the Issuer, the Guarantor, the Bond Trustee, the Security Trustee, the Secured Creditors (including the Covered Bondholders) or any other Person whether by way of contract or otherwise.

By subscribing for or purchasing the Covered Bond(s), each Covered Bondholder will be deemed to have acknowledged and agreed that:

- (a) a Rating Agency Confirmation may or may not be given at the sole discretion of each Rating Agency;
- (b) depending on the timing of delivery of the request and any information needed to be provided as part of any such request, it may be the case that a Rating Agency cannot provide a Rating Agency

Confirmation in the time available, or at all, and the Rating Agency will not be responsible for the consequences thereof;

- (c) a Rating Agency Confirmation, if given, will be given on the basis of the facts and circumstances prevailing at the relevant time, and in the context of cumulative changes to the transaction of which the Covered Bonds form a part; and
- (d) a Rating Agency Confirmation represents only a restatement of the opinions given, and will not be construed as advice for the benefit of any Covered Bondholder or any other party.

If 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, or a written request for such Rating Agency Confirmation or response is delivered to that Rating Agency by any of the Issuer, the Guarantor, the Bond Trustee and/or the Security Trustee, as applicable (each, a "**Requesting Party**"), and either (i) one or more of the Rating Agencies indicates that it does not consider such confirmation or response necessary in the circumstances or (ii) no such confirmation or affirmation of rating or other response is received by one or more of the Rating Agencies within 30 days of the date of receipt of such request by such Rating Agency (each, a "**Non-Responsive Rating Agency**"), the Requesting Party shall be entitled to disregard the requirement for a confirmation or affirmation of rating or other response by each Non-Responsive Rating Agency and proceed on the basis of the confirmations or affirmations of rating or other responses received by each other Rating Agency on the basis that such confirmation or affirmation of rating or other response by the Non-Responsive Rating Agency is not required in the particular circumstances of the request. The failure by a Rating Agency to respond to a written request for a confirmation or affirmation shall not be interpreted to mean that such Rating Agency has given any deemed confirmation or affirmation of rating or other response in respect of such action or step.

#### 18. **Governing Law**

The Trust Deed, the Agency Agreement, the Covered Bonds, the Coupons, the Interest Rate Swap Agreement, the Covered Bond Swap Agreement, the Programme Agreement, the Security Agreement, the Mortgage Sale Agreement, the Servicing Agreement, the Declaration of Trust, the Administration Agreement, the Intercompany Loan Agreement, the Subordinated Loan Agreement, the Cash Management Agreement, the Asset Monitor Agreement, the Bank Account Agreement, the Standby Bank Account Agreement, the Guaranteed Investment Contract and the Standby Guaranteed Investment Contract will be governed by and construed in accordance with, the laws of the Province of Ontario and the federal laws of Canada applicable therein, unless otherwise indicated.

#### 19. **Listing**

Without prejudice to the Issuer's rights under the Trust Deed, if, in the case of any Covered Bonds admitted to trading on the Market or the PSM and admitted to the Official List by the UK Listing Authority in its capacity as a competent authority under the FSMA (or such other regulated market in the European Economic Area), the Issuer is of the opinion (in its sole discretion) that maintaining such quotation or listing is unduly burdensome due to the need of the Issuer to meet the requirements introduced following the implementation of any future law or EU Directive imposing requirements (including new corporate governance requirements) on the Issuer that it in good faith determines are impractical or unduly burdensome, the Issuer may cease to maintain such admission (the date of such cessation, the "**Cessation Date**"), *provided* that it will use all commercially reasonable endeavours to obtain and maintain an alternative admission to trading, listing and/or quotation of the Covered Bonds on or prior to or as soon as reasonably practicable after the Cessation Date by another listing authority, securities exchange and/or quotation system as the Issuer may select. However, if such alternative listing authority, securities exchange and/or quotation system is not available or, in the opinion of the Issuer is impractical or unduly burdensome, an alternative listing may not be obtained.

If required, the Issuer and the Guarantor will enter into a supplemental Trust Deed to effect such consequential amendments to the Trust Deed and these Terms and Conditions as the Bond Trustee may require or will be requisite to comply with the requirements of any such stock exchange or securities market.

Any such amendments will be binding on Covered Bondholders and will be notified to them by the Issuer in accordance with Condition 13.

## SUMMARY OF THE PRINCIPAL DOCUMENTS

### Trust Deed

The Trust Deed is the principal agreement governing the Covered Bonds. The Trust Deed contains provisions relating to, *inter alia*:

- the constitution of the Covered Bonds and the Terms and Conditions of the Covered Bonds (as more fully set out under *Terms and Conditions of the Covered Bonds* above);
- the covenants of the Issuer and the Guarantor under the Covered Bond Guarantee;
- the terms of the Covered Bond Guarantee (as described below);
- the enforcement procedures relating to the Covered Bonds and the Covered Bond Guarantee;
- the remuneration and indemnification of the Bond Trustee; and
- the appointment, powers and responsibilities of the Bond Trustee and the circumstances in which the Bond Trustee may resign, or retire or be removed.

### Covered Bond Guarantee

Under the terms of the Covered Bond Guarantee, if the Issuer defaults in the payment on the due date of any funds due and payable under or pursuant to the Trust Deed or the Covered Bonds or any Coupons for 30 or more days, or if any other Issuer Event of Default occurs (other than by reason of non-payment), and, in either case, if the Bond Trustee has served an Issuer Acceleration Notice, the Guarantor has agreed (subject as described below) to pay or procure to be paid (following service of a Notice to Pay) unconditionally and irrevocably to or to the order of the Bond Trustee (for the benefit of the Covered Bondholders) an amount equal to that portion of the Guaranteed Amounts which will become Due for Payment but would otherwise be unpaid, as of any Original Due for Payment Date or, if applicable, the Extended Due for Payment Date, by the Issuer. Payments by the Guarantor of the Guaranteed Amounts pursuant to the Covered Bond Guarantee will be made in accordance with the Guarantee Priority of Payments on the later of (a) the Scheduled Payment Date which is two Toronto Business Days following service of a Notice to Pay on the Guarantor, and (b) the day on which the Guaranteed Amounts are otherwise Due for Payment (the "**Guaranteed Amounts Due Date**"). In addition, the Guarantor will, to the extent it has funds available to it, make payments in respect of the unpaid portion of the Final Redemption Amount on any Interest Payment Date up until the Extended Due for Payment Date. The Bond Trustee will be required to serve a Notice to Pay following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice.

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

All payments of Guaranteed Amounts by or on behalf of the Guarantor will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or other governmental charges of whatever nature, unless the withholding or deduction of such taxes, assessments or other governmental charges are required by law or regulation or administrative practice of Canada or any province or territory thereof or any authority therein or thereof having the power to tax. If any such withholding or deduction is required, the Guarantor will pay the Guaranteed Amounts net of such withholding or deduction and will account to the appropriate tax authority for the amount required to be withheld or deducted. The Guarantor will not be obliged to pay any amount to the Bond Trustee or any holder of Covered Bonds in respect of the amount of such withholding or deduction: see *Certain Tax Legislation Affecting the Covered Bonds—Payments by the Guarantor under the Covered Bond Guarantee*.

Under the terms of the Covered Bond Guarantee, the Guarantor has agreed that its obligations under the Covered Bond Guarantee will be as guarantor (except with respect to that portion of any Excess Proceeds payable to the Covered Bondholders, in respect of which the Guarantor will be the principal obligor) and will be absolute and unconditional (subject to a Notice to Pay being given), irrespective of, and unaffected by, any invalidity, irregularity, illegality or unenforceability of, or defect in, any provisions of the Trust Deed or the Covered Bonds or Coupons or the absence of any action to enforce the same or the waiver, modification or consent by the Bond Trustee or any of the Covered Bondholders or Couponholders in respect of any provisions of the same or the obtaining of any judgment or decree against the Issuer or any action to enforce the same or any other circumstances which might otherwise constitute a legal or equitable discharge or defence of a guarantor.

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

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

The Trust Deed provides that any Excess Proceeds will be deposited by the Bond Trustee on behalf of the Covered Bondholders, as soon as practicable, into the GIC Account, and following a Guarantor Event of Default and service of a Guarantor Acceleration Notice, deposited or paid in such other manner as the Security Trustee may direct, and in either case, will be distributed in accordance with the applicable Priority of Payments. The Excess Proceeds will thereafter form part of the Charged Property and, if deposited into the GIC Account, will be used by the Guarantor in the same manner as all other funds from time to time standing to the credit of the GIC Account and distributed in accordance with the applicable Priority of Payments.

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

The Trust Deed is governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein.

Only the Bond Trustee may enforce the provisions in the Trust Deed. No Covered Bondholder or Couponholder will be entitled to proceed directly against the Issuer or the Guarantor to enforce the performance of any of the provisions thereof or to directly enforce the provisions of the Security Agreement or any other Transaction Document unless the Bond Trustee having become bound to take proceedings fails to do so within 30 days and such failure is continuing (in which case each of such Covered Bondholder or Couponholder will be entitled to take any such steps and proceedings as it will deem necessary other than the presentation of a petition for the winding up of, or for an administration order in respect of, the Issuer or the Guarantor).

### **Intercompany Loan Agreement**

Under the terms of the Intercompany Loan Agreement, the Issuer agrees to make available to the Guarantor, on a secured basis, an intercompany loan (the "**Intercompany Loan**"), comprised of a guarantee loan (the "**Guarantee Loan**") and a demand loan (the "**Demand Loan**"), in a combined aggregate amount equal to the Total Credit Commitment, subject to increases and decreases as described below. The Initial Advance will be an amount sufficient to acquire the Initial Portfolio. The Intercompany Loan will be denominated in Canadian Dollars. The interest rate on the Intercompany Loan will be a Canadian Dollar floating rate to be determined by the Issuer. Interest payments due under the Intercompany Loan will not exceed the floating amounts received by the Guarantor under the Interest Rate Swap Agreement less the sum of a minimum spread determined by the Issuer and an amount for certain expenses of the Guarantor.

The Guarantee Loan will be in an amount equal to the Canadian Dollar Equivalent of the balance of outstanding Covered Bonds at any relevant time plus an amount equal to that portion of the Portfolio required as additional collateral for the Covered Bonds in excess of the amount of the outstanding Covered Bonds as determined in accordance with the Asset Coverage Test: see *Summary of the Principal Documents—Declaration of Trust—Asset Coverage Test*. The Guarantee Loan, together with any accrued and unpaid interest thereon, will be repaid in accordance with the applicable Priority of Payments and is subordinated to the Demand Loan and the Covered Bond Guarantee in accordance with such Priority of Payments.

The Demand Loan will be a revolving credit facility, the outstanding balance of which will be equal to the difference between the balance of the Intercompany Loan and the balance of the Guarantee Loan at any relevant time. The respective balances of the Guarantee Loan and the Demand Loan will fluctuate with the issuances and redemptions of Covered Bonds and the requirements of the Asset Coverage Test. At any time and for so long as the Asset Coverage Test is not satisfied the Demand Loan cannot have a positive balance.

The Guarantor will use the initial Advance to purchase the Initial Portfolio from the relevant Seller(s) in accordance with the terms of the Mortgage Sale Agreement and use additional Advances: (i) to purchase Additional Loans and their Related Security pursuant to the terms of the Mortgage Sale Agreement; (ii) to make Additional Loan Advances; (iii) to invest in Substitution Assets (in an amount up to but not exceeding the prescribed limit in the Declaration of Trust) and to make investments in Authorised Investments; (iv) to make a deposit of the proceeds in the GIC Account (including, without limitation, to fund the Reserve Fund to an amount not exceeding the limit prescribed in the Declaration of Trust); (v) to make any payment required to be made to CMHC, if any, to ensure that the CMHC Mortgage Insurance in respect of each Loan in the Portfolio remains in full force and effect; and/or (vi) subject to written confirmation from the Cash Manager that the Asset Coverage Test is met on the relevant repayment date, in the case of a repayment to be made on a Calculation Date, or on the Calculation Date immediately prior to the relevant Guarantor Payment Date, in the case of a repayment to be made on a Guarantor Payment Date, both before and immediately following the making of the relevant repayment, to repay Subordinated Advances, if any.

At any time prior to a Demand Loan Repayment Event, the Guarantor may re-borrow any amount repaid by the Guarantor under the Intercompany Loan for a permitted purpose provided, amongst other things: (i) such re-borrowing does not result in the Intercompany Loan exceeding the Total Credit Commitment; (ii) such re-borrowing does not result in the Guarantor being unable to satisfy the Asset Coverage Test on a *pro forma* basis following such Intercompany Loan and the application of the proceeds thereof; and (iii) no Issuer Event of Default or Guarantor Event of Default has occurred. Unless otherwise agreed by the Issuer and subject to Rating Agency Confirmation, no further Advances will be made to the Guarantor following the occurrence of a Demand Loan Repayment Event.

To the extent the Portfolio increases or is required to be increased to meet the Asset Coverage Test, the Issuer may increase the Total Credit Commitment by written notice to the Guarantor in order to enable the Guarantor to acquire Additional Loans and their Related Security from any Seller.

If a Demand Loan Repayment Event has not occurred, subject to the applicable Priority of Payments, the principal amount of the Demand Loan or any portion thereof will be repayable no later than the first Guarantor Payment Date following the date that is 60 days after a demand is made therefor by the Issuer by notice in writing to the Guarantor, *provided* that the Cash Manager has determined the outstanding balance of the Demand Loan by calculating the Asset Coverage Test on the Calculation Date immediately prior to such Guarantor Payment Date having taken into account such repayment and the Cash Manager has confirmed that the Asset Coverage Test will continue to be met after giving effect to such repayment. If on such repayment date the Asset Coverage Test will not be satisfied after giving effect to such repayment, no amount will be repayable on the Demand Loan on such Guarantor Payment Date.

If: (i) the Issuer, in its capacity as the Interest Rate Swap Provider, is required to assign the Interest Rate Swap Agreement to a third party; (ii) a Notice to Pay has been served on the Guarantor; (iii) to the extent Fitch is a Rating Agency, if the Issuer's Ratings assigned by Fitch are less than the ratings specified in the Intercompany Loan Agreement; or (iv) termination of the Intercompany Loan Agreement or the non-renewal of the revolving commitment thereunder (each of (i), (ii), (iii) and (iv) above, a "**Demand Loan Repayment Event**"), the Guarantor

will be required to repay any amount on the Demand Loan that exceeds the Demand Loan Contingent Amount, but not more than such amount, on the first Guarantor Payment Date following 60 days after the occurrence of such Demand Loan Repayment Event. Following a Demand Loan Repayment Event, the Guarantor will be required to repay the full amount of the then outstanding Demand Loan on the date on which the Asset Percentage is next calculated (whether or not such calculation is a scheduled calculation or a calculation made at the request of the Issuer). Repayment of any amount outstanding under the Demand Loan will be subject to the Asset Coverage Test being met on the date of repayment, in the case of a repayment to be made on a Calculation Date, or on the Calculation Date immediately prior to the relevant Guarantor Payment Date, in the case of a repayment to be made on a Guarantor Payment Date, 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 on the next following Calculation Date, 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 deposited by the Bond Trustee into the GIC Account will be deducted from the Adjusted Aggregate Loan Amount. For the purposes of the foregoing, the "**Demand Loan Contingent Amount**" will be the equal to the lesser of:

- (i) the aggregate amount of the Intercompany Loan then outstanding, minus the aggregate amount of the Guarantee Loan then outstanding (as determined by an Asset Coverage Test calculated on the relevant Calculation Date); and
- (ii) one per cent. of the amount of the Guarantee Loan then outstanding (as determined by an Asset Coverage Test calculated on the relevant Calculation Date),

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

The Guarantor will repay the principal on the Demand Loan in accordance with the applicable Priority of Payments and the terms of the Intercompany Loan Agreement, using (i) funds being held for the account of the Guarantor by its service providers and/or funds in the Guarantor Accounts; and/or (ii) proceeds from the sale of Substitution Assets and/or Authorised Investments, as the case may be; and/or (iii) proceeds from the sale of Selected Loans subject to a right of pre-emption on the part of the Sellers: see *Cashflows*.

The Guarantor will be entitled to set-off amounts paid by the Guarantor under the Covered Bond Guarantee first to reduce and discharge any amounts (other than interest and principal) due and payable by the Guarantor to the Issuer in respect of the Intercompany Loan, then to reduce and discharge interest (including accrued interest) due and payable on the outstanding principal balance of the Advances under the Intercompany Loan, and then to reduce and discharge the outstanding principal balance of the Advances.

The Issuer will not be relying on repayment of the Intercompany Loan in order to meet its repayment obligations under the Covered Bonds. The Guarantor will pay amounts due in respect of the Intercompany Loan in accordance with the applicable Priority of Payments. Prior to service of an Asset Coverage Test Breach Notice or a Notice to Pay on the Guarantor, amounts due in respect of the Intercompany Loan will be paid by the Guarantor to, or as directed by, the Issuer on each Guarantor Payment Date, subject to paying all higher ranking amounts in the Pre-Acceleration Revenue Priority of Payments or, as applicable, the Pre-Acceleration Principal Priority of Payments. Any failure by the Guarantor to pay any amounts due on the Intercompany Loan, however, will not affect the liability of the Issuer to pay the relevant amount due on the Covered Bonds.

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

## **Mortgage Sale Agreement**

### ***The Sellers***

Loans and their Related Security will be sold to the Guarantor from time to time on a fully-serviced and CMHC insured basis pursuant to the terms of the Mortgage Sale Agreement.

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

The Portfolio will consist solely of the Loans and their Related Security sold from time to time by the Sellers to the Guarantor in accordance with the terms of the Mortgage Sale Agreement. The types of Loans forming the Portfolio will vary over time *provided* that the Eligibility Criteria (as described below) in respect of such Loans and the Loan Representations and Warranties are met on the relevant Transfer Date. Accordingly, the Portfolio may, at any time, include loans with different characteristics from Loans that were included in the Portfolio on previous Transfer Dates, including, without limitation, New Loan Types.

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

- (a) *First*, in relation to the issue of Covered Bonds from time to time in accordance with the Programme, the Issuer will make further Advances to the Guarantor, the proceeds of which may be applied in whole or in part by the Guarantor to acquire Loans and their Related Security from the Sellers.
- (b) *Second*, the Guarantor will, in certain circumstances, use the Available Principal Receipts to acquire Additional Loans and their Related Security from the Sellers and/or Substitution Assets (in respect of any Substitution Assets up to the prescribed limit) on each Guarantor Payment Date.
- (c) *Third*, the Guarantor is required to ensure that the Adjusted Aggregate Loan Amount is maintained at all times in compliance with the Asset Coverage Test (as determined by the Cash Manager on each Calculation Date). If on any Calculation Date there is a breach of the Asset Coverage Test, the Guarantor will use all commercially reasonable efforts to ensure that the Adjusted Aggregate Loan Amount is in compliance with the Asset Coverage Test which may involve purchasing Additional Loans and their Related Security from the Sellers, purchasing Substitution Assets, requesting further Advances under the Intercompany Loan Agreement which may be made in cash or kind and/or requesting an Asset Coverage Test Subordinated Advance under the Subordinated Loan Agreement to satisfy the shortfall.
- (d) *Fourth*, following the sale of the First STEP Loan made to a particular STEP Borrower to the Guarantor, a Seller is required to offer to sell all Additional STEP Loans relating to the same STEP Borrower within a specified period of time. See —*Scotia Total Equity Plan and STEP Loans* below.

In consideration for the sale of the Loans and their Related Security to the Guarantor, and subject to certain conditions, the relevant purchase price to be provided to the relevant Seller(s) for the sale, transfer and conveyance of Loans to the Guarantor on a Transfer Date will be satisfied by a combination of:

- (i) a cash payment in Canadian Dollars to be made by the Guarantor in the manner that such Seller(s) directs from the proceeds of either an Advance under the Intercompany Loan Agreement or, following a breach of the Asset Coverage Test, an Asset Coverage Test Subordinated Advance under the Subordinated Loan Agreement made on such Transfer Date and/or Available Principal Receipts paid in accordance with the Pre-Acceleration Principal Priority of Payments; and

- (ii) Deferred Consideration, which will be paid by the Guarantor on the Guarantor Payment Dates in accordance with the applicable Priority of Payments or by way of set-off against (as described below), or application of, Deferred Consideration Subordinated Advances in accordance with the Declaration of Trust. If the Seller is the Subordinated Loan Provider and the amount of Deferred Consideration payable to such Seller by the Guarantor is greater than the funds available to the Guarantor to make such payments, such payments will be satisfied by way of set-off against advances made by the Subordinated Loan Provider with respect to Deferred Consideration Subordinated Advances.

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

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

### ***CMHC Mortgage Insurance***

CMHC insures the payment of principal and interest on first priority mortgage loans on private residential properties in Canada on and subject to the terms and conditions of the applicable CMHC Mortgage Insurance. CMHC, Canada's national housing agency, is a Canadian federal Crown corporation, wholly owned by the Government of Canada. CMHC's obligations are those of Her Majesty The Queen in Right of Canada, and as such carry the full faith and credit of the Government of Canada. CMHC derives its authorities from the *Canada Mortgage and Housing Corporation Act* (Canada), the *National Housing Act* (Canada) and, as a federal Crown corporation, the *Financial Administration Act* (Canada). The CMHC Mortgage Insurance in respect of each Loan is available, in redacted or other general form, upon request from the Issuer, subject to any exclusions pursuant to applicable law, including, without limitation, privacy law, and policies of the Issuer relating to confidentiality and privacy matters.

### ***CMHC Approved Lender***

CMHC has designated certain mortgage lenders as CMHC Approved Lenders in respect of the origination and administration of CMHC insured loans. Each of the Servicers is a CMHC Approved Lender. A CMHC Approved Lender is required to exercise reasonable care and prudence in the making of an approved CMHC insured loan, in the administration of a CMHC insured loan (including the filing of any claims under the applicable CMHC Mortgage Insurance), in the collection of the repayment of a CMHC insured loan and in the protection of the security for a CMHC insured loan, in addition to complying with all applicable eligibility, origination, servicing, realisation and other relevant criteria and servicing standards of CMHC. See *Servicing Agreement—Undertakings of the Servicers* below regarding obligations of the Servicers in respect of the Loans comprised in the Portfolio.

Obligations of a CMHC Approved Lender include the following:

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

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

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

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

Pursuant to CMHC Mortgage Insurance, the Seller as the initial Servicer which obtained the CMHC Mortgage Insurance for the CMHC insured loans sold by it to the Guarantor, or a successor Servicer approved by CMHC, is to service such CMHC insured loans, unless otherwise agreed to by CMHC.

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

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

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

less,

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

If a CMHC Insured Loan is not being administered by the Servicer which obtained the CMHC Mortgage Insurance for such CMHC Insured Loan, or a successor Servicer approved by CMHC, the ability to make a claim or obtain the benefit of coverage under the applicable CMHC Mortgage Insurance may be adversely affected or terminated. Further, the filing of a claim under CMHC Mortgage Insurance in respect of any Loan is not complete unless the

insured delivers to CMHC all documentation and evidence required by CMHC. CMHC Mortgage Insurance will cease to be in force in respect of any Loan if:

- (a) it has been obtained by fraud or fraudulent misrepresentation on the part of the originally insured or current holder;
- (b) the insured Loan is sold to a person other than a CMHC Approved Lender unless the Loan continues to be administered by CMHC or the Servicer which obtained the CMHC Mortgage Insurance for such Loan or a successor Servicer approved by CMHC; or
- (c) the right of recovery under the mortgage securing the insured Loan has ceased to exist (which, for greater certainty, would include valid security was not initially created or the security has been discharged), other than by reason of the acquisition by the insured of the Mortgaged Property after default.

***Transaction Document Provisions Regarding CMHC Mortgage Insurance***

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

- (a) the Sellers will pursuant to the Mortgage Sale Agreement sell the Loans and their Related Security to the Guarantor. The Related Security in respect of a Loan will include the benefit of CMHC Mortgage Insurance relating to such Loan;
- (b) each Seller as the initial Servicer which obtained the CMHC Mortgage Insurance related to the Loans sold by it to the Guarantor, or a successor Servicer approved by CMHC, will declare that it holds its rights under such CMHC Mortgage Insurance in trust for the Guarantor and the Security Trustee and free and clear of any adverse claims, and agrees that it shall not amend, modify or terminate such rights to the extent that it would materially affect the interest of the Guarantor in such rights;
- (c) each Seller as the initial Servicer which obtained the CMHC Mortgage Insurance related to the Loans sold by it to the Guarantor, or a successor Servicer approved by CMHC, will agree to hold the proceeds of any claims made under such CMHC Mortgage Insurance in trust for the benefit of the Guarantor and the Security Trustee prior to such amounts being remitted to the Guarantor and the Security Trustee, as applicable, in accordance with the terms of the Servicing Agreement, and free and clear of any adverse claims;
- (d) in the event of a Servicer Downgrade, the relevant Servicer will be required to (i) keep the proceeds of any claims made under the CMHC Mortgage Insurance relating to Loans and their Related Security sold by it to the Guarantor separate and apart from its other assets and free and clear of any adverse claims, (ii) within 30 calendar days of such Servicer Downgrade, establish and maintain a bank account at any Canadian Schedule I bank, other than the Bank, having Ratings at least at the levels specified in the Servicing Agreement, and (iii) after such bank account is established, hold such proceeds in such bank account prior to such amounts being remitted to Guarantor and the Security Trustee, as applicable, in accordance with the terms of the Servicing Agreement;
- (e) each Servicer shall maintain the CMHC Mortgage Insurance in respect of each Loan sold by it to the Guarantor in full force and effect at all times and will perform and observe all of its obligations thereunder when due, including the applicable premium payment and indemnity obligations thereunder;
- (f) each Servicer shall take all necessary steps to administer and service the Loans sold by it to the Guarantor in accordance with the applicable CMHC Mortgage Insurance;

- (g) each Servicer will do all things necessary to maintain its status as a CMHC Approved Lender in good standing at all times with a "full designation" for loan underwriting and administration in each province and territory of Canada without any material restriction, limitation or condition of any kind;
- (h) each Servicer will comply with the *National Housing Act* (Canada), the National Housing Loan Regulations and CMHC's policies and procedures from time to time in servicing the Loans;
- (i) neither the Sellers nor Servicers will, without the consent or sanction of the Covered Bondholders by Extraordinary Resolution, cancel the CMHC Mortgage Insurance relating to any Loan in the Portfolio;
- (j) none of the Sellers, the Servicers, the Issuer, the Guarantor, the Bond Trustee or the Security Trustee, without the consent or sanction of the Covered Bondholders by Extraordinary Resolution, may take any action or amend any of the Transaction Documents that would result in the CMHC Mortgage Insurance relating to any Loan in the Portfolio becoming void or a material limit being placed on any claims that may be made thereunder;
- (k) prior to terminating any Servicer, the Guarantor and/or the Security Trustee, as applicable, will use reasonable commercial efforts to obtain the consent of CMHC to any successor Servicer and take such other steps reasonably required to avoid impairment of CMHC Mortgage Insurance;
- (l) the Servicers will notify the Rating Agencies, the Guarantor and the Security Trustee upon a material change to the terms of CMHC Mortgage Insurance or a material change to CMHC's published guidelines relating to residential mortgage insurance;
- (m) a Servicer will notify the Guarantor, the Security Trustee and the Rating Agencies upon receipt of a letter from CMHC advising the Servicer of the termination, suspension, revocation or other material limitation or restriction of its status as a CMHC Approved Lender in its administration of the Loans in the Portfolio; and
- (n) the Sellers, the Servicers, the Guarantor, the Security Trustee and each Other STEP Creditor will amend any of the Transaction Documents to the extent necessary to comply with the CMHC Mortgage Insurance in respect of the Loans in the Portfolio, provided that no such amendment will negatively impact any rating of the Covered Bonds by a Rating Agency.

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

### ***Scotia Total Equity Plan and STEP Loans***

The Issuer expects that the Portfolio will from time to time include STEP Loans. Under the terms of the STEP Plan, a STEP Borrower may obtain one or more separate STEP Accounts from a Seller within certain specified categories, being mortgage loans, lines of credit, credit cards, term loans and/or overdraft protection. The STEP Plan provides that the indebtedness extended by the Seller to a STEP Borrower under each STEP Account will be secured by the same STEP Collateral Mortgage on the related Mortgaged Property.

Each STEP Account which constitutes a mortgage loan or (if approved by the Rating Agencies as a New Loan Type) a home equity line of credit and which otherwise satisfies the Eligibility Criteria and other requirements of the Transaction Documents may be sold as a Loan by such Seller to the Guarantor from time to time pursuant to the Mortgage Sale Agreement. No STEP Accounts other than mortgage loans (such STEP Accounts being referred to herein as Other STEP Products) extended by a Seller to any STEP Borrower pursuant to a STEP Plan will be eligible for sale to the Guarantor as a Loan pursuant to the Mortgage Sale Agreement, *provided* that if lines of credit are subsequently approved as a New Loan Type by the Rating Agencies, then such home equity lines of credit

subject to the STEP Plan may be eligible to be sold as Loans to the Guarantor under the Mortgage Sale Agreement and will cease to be Other STEP Products.

Prior to a default by a STEP Borrower under any STEP Account, but subject to the applicable CMHC Mortgage Insurance, the Transaction Documents will require the Seller and each Servicer to follow a STEP Borrower's instructions as to the allocation of payments between each of its STEP Accounts with such STEP Borrower. Following a default by a STEP Borrower under any STEP Account, but subject to the applicable CMHC Mortgage Insurance, the Transaction Documents will require the Seller to allocate all monies received by it from such STEP Borrower and all amounts realised from the enforcement of security held for all of such STEP Borrower's STEP Accounts, after the payment of related costs, first to pay all indebtedness owing under any mortgage loan(s) made to such STEP Borrower pursuant to the STEP Plan, and second to pay indebtedness owing under any line of credit extended to such STEP Borrower that is a STEP Account and which is maintained under the name "Scotialine" or a successor designation, before applying any remaining amounts to the indebtedness owing in respect of the Other STEP Products.

The Bank has sold and the Sellers may from time to time sell interests in Other STEP Products to a third party purchaser, together with the benefit of a corresponding interest in the related STEP Collateral Mortgage. In connection with any such sale, the relevant Seller will act as the servicer of such Other STEP Products and will establish contractual priority arrangements with each Other STEP Creditor and the Guarantor that will provide for the allocation of monies received by the relevant Seller, as servicer, and otherwise realised from the enforcement of the security held for all of the related STEP Accounts with the same STEP Borrower to the indebtedness owing under such STEP Accounts in accordance with the same priority arrangement as is set out in the Mortgage Sale Agreement, including the allocation of such monies to indebtedness owing under each related mortgage loan in priority to all Other STEP Products with the same STEP Borrower. So long as the relevant Seller is the servicer of such Other STEP Products, such Seller will agree with the Guarantor to service such lines of credit in a manner consistent with such priority arrangement and which ensures that the applicable CMHC Mortgage Insurance remains in full force and effect at all times without a material limitation being placed on any claims that may be made thereunder.

Concurrently with the sale of the First STEP Loan relating to a particular STEP Borrower to the Guarantor, the Seller will transfer and convey all of its right, title and interest in the Related Security (including its interest in the related STEP Collateral Mortgage (or, in the case of a STEP Loan located in the Province of Québec, an interest in the related STEP Collateral Mortgage to the extent of the First STEP Loan that is sold to the Guarantor), but subject in each case to any interest in such STEP Collateral Mortgage previously conveyed to or otherwise held for the benefit of any existing Other STEP Creditor) to the Guarantor. The Guarantor will hold the Related Security in respect of each STEP Loan sold to the Guarantor as follows: (i) an undivided interest in such Related Security for its own sole and absolute account and benefit, to the extent of all outstanding indebtedness owing under all STEP Loans owned by it in respect of the same STEP Borrower from time to time, which undivided interest shall have full priority over all other rights, claims and interests (other than costs of mortgage enforcement and the related Seller's right to *pari passu* and *pro rata* distributions in respect of certain Additional STEP Loans owned by it as described below); and (ii) subject to the Guarantor's priority described in item (i) above (but in the case of the related Seller, together with the right to *pari passu* and *pro rata* distributions in respect of certain Additional STEP Loans owned by it as described below), but only to the extent that any such Related Security also secures or otherwise relates to any other STEP Accounts owned by a Seller and/or Other STEP Creditor, an undivided interest in such Related Security, as agent, nominee and bare trustee for the related Seller and any Other STEP Creditor from time to time, as their interests may appear, to the extent of all outstanding indebtedness owing under any Additional STEP Loans and Other STEP Products owned by such Seller or Other STEP Creditor from time to time, *provided* that, for STEP Loans in the Province of Québec, the Seller will transfer and convey and the Guarantor will solely hold an interest in the Related Security in respect of each STEP Loan sold to the extent of all outstanding indebtedness owing under all STEP Loans owned by the Guarantor in respect of the same STEP Borrower from time to time, which interest shall have full priority over all other rights, claims and interests (other than costs of mortgage enforcement and the related Seller's right to *pari passu* and *pro rata* distributions in respect of certain Additional STEP Loans owned by such Seller as described below). As well, for STEP Loans in the Province of Québec, the relevant Seller and each of the Other STEP Creditors will be entitled to an undivided interest in the STEP Collateral Mortgage to the extent of any outstanding indebtedness owing under any related STEP Accounts. All Additional STEP Loans made by a Seller to a STEP Borrower are required to be sold to the Guarantor within a time period specified in the Mortgage Sale

Agreement. Any failure by a Seller to convey the Additional STEP Loans with respect to a particular STEP Borrower to the Guarantor in accordance with the Mortgage Sale Agreement (including satisfying all applicable Eligibility Criteria and Loan Representation and Warranties) shall entitle the Guarantor to serve a Loan Repurchase Notice on the related Seller requiring such Seller to repurchase all related STEP Loans owned by the Guarantor which have been made to the same STEP Borrower, together with the Guarantor's interest in all Related Security. Prior to the sale of such Additional STEP Loans to the Guarantor, such Seller shall have the right to receive distributions on an Additional STEP Loan owned by it, following default, on a *pari passu* and *pro rata* basis with distributions made to the Guarantor with respect to any STEP Loans of the same type made to the same STEP Borrower and which are owned by the Guarantor.

The Transaction Documents will provide that the Guarantor or the Servicer on its behalf (prior to the occurrence of a Guarantor Event of Default and the service of a Guarantor Acceleration Notice on the Guarantor), or the Security Trustee (following the occurrence of a Guarantor Event of Default and the service of a Guarantor Acceleration Notice on the Guarantor), will, subject to the terms of the applicable CMHC Mortgage Insurance, (i) have the sole right to take all enforcement actions and make all servicing decisions with respect to the Related Security (including under the related STEP Collateral Mortgage, but subject to any rights of any Other STEP Creditor existing prior to the transfer of the related First STEP Loan to the Guarantor) and (ii) allocate any monies received by it and otherwise realised from the enforcement of the security for all of the related STEP Accounts with the same STEP Borrower in accordance with the priority arrangement described above, including the allocation of such monies to all indebtedness owing under each related mortgage loan in priority to all Other STEP Products.

#### ***Eligibility Criteria***

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

- (a) there has been neither an Issuer Event of Default and service of an Issuer Acceleration Notice nor a Guarantor Event of Default and service of a Guarantor Acceleration Notice as at the relevant Transfer Date;
- (b) the Guarantor, acting on the advice of the Cash Manager, is not aware, and could not reasonably be expected to be aware, that the proposed purchase by the Guarantor of the Loans and their Related Security on the relevant Transfer Date would result in a downgrade or a withdrawal of the then current ratings by the Rating Agencies of the Covered Bonds;
- (c) no Loan that is proposed to be sold to the Guarantor on the relevant Transfer Date has an Outstanding Principal Balance of more than \$3,000,000.00 or in the case of any STEP Loans which are mortgage loans, all such STEP Loans made to the same STEP Borrower from time to time, whether or not sold to the Guarantor, shall not have an Outstanding Principal Balance of more than \$3,000,000.00 in the aggregate;
- (d) no Loan is without the benefit of CMHC Mortgage Insurance;
- (e) if the Loans that are proposed to be sold constitute a New Loan Type, such Loans have the benefit of CMHC Mortgage Insurance and Rating Agency Confirmation has been received by the Security Trustee in accordance with the terms of the Mortgage Sale Agreement that such Loans may be sold to the Guarantor;
- (f) if the Loans that are proposed to be sold to the Guarantor on the relevant Transfer Date include New Loan Types, the Guarantor has received confirmation from each of the Rating Agencies that if such New Loan Types were sold to the Guarantor, such sale of the New Loan Types to the Guarantor would not result in a downgrade or a withdrawal of the then current ratings of the Rating Agencies of the Covered Bonds; and

- (g) no Loan that is proposed to be sold to the Guarantor on the relevant Transfer Date relates to a Mortgaged Property that is not a residential Mortgaged Property located in Canada.

On the relevant Transfer Date, the Loan Representations and Warranties (described below in *—Loan Representations and Warranties*) will be given by a Seller in respect of the Loans and their Related Security sold by such Seller to the Guarantor.

In the event a Seller accepts a request from a Borrower for a Product Switch or Additional Loan Advance in respect of any Loan in the Portfolio, then if such Product Switch or Additional Loan Advance results in paragraphs (c), (d), (e) or (g) of the Eligibility Criteria or the Loan Representations and Warranties not being satisfied in respect of the relevant Loan on the next Calculation Date, or if subsequent to the sale of a First STEP Loan to the Guarantor, the origination of any related Additional STEP Loan by a Seller results in paragraph (c) of the Eligibility Criteria not being satisfied in respect of any related STEP Loan owned by the Guarantor, or if any Product Switch would give rise to an increased tax liability to the Guarantor, then in each case the Guarantor will be entitled to rectify such breach of the Eligibility Criteria or Loan Representations and Warranties or increased tax liability by requiring such Seller to repurchase the relevant Loan and the Related Security to which the Product Switch or Additional Loan Advance relates (and any other Loan secured or intended to be secured by that Related Security or any part of it whether or not there has been any breach of a Loan Representation and Warranty in respect of such other Loan).

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

- any variation agreed with a Borrower to control or manage arrears on the Loan;
- any variation imposed by statute; or
- any change in the repayment method of the Loan.

#### ***Transfer of Title to the Loans to the Guarantor***

All right, title and interest of the Sellers in the Loans and their Related Security will be sold, transferred and assigned by the relevant Seller(s) to the Guarantor on the relevant transfer date pursuant to the Mortgage Sale Agreement (excluding registered or recorded title to the Loans which will continue to be held by the relevant Seller(s), as described below).

On each Transfer Date, the relevant Seller(s) will agree to (i) hold registered title to the related Loans and their Related Security as agent, bare trustee and nominee in trust for and on behalf of the Guarantor (and also, in the case of any STEP Loan, for and on behalf of the related Seller and any Other STEP Creditor having an interest therein as described in *—Scotia Total Equity Plan and STEP Loans*) and (ii) deliver such agreements and take all actions with respect to the Loans and their Related Security as the Guarantor may direct in accordance with the Mortgage Sale Agreement and the Servicing Agreement. On the First Transfer Date, the Sellers delivered registrable powers of attorney appointing the Guarantor and the Security Trustee, as its true and lawful attorney and agent, with full power of substitution, to execute, sign, seal and deliver, in the name of the relevant Seller(s) all conveyances, assignments, transfers, documents and instruments necessary to record the sale, assignment and transfer to the Guarantor, or any other Person as the Guarantor and the Security Trustee may direct, of all Loans and their Related Security (including all documents comprising the Customer Files) in all applicable land registry or land titles offices, including directions to Borrowers directing them to remit all payments under their related Loans to the Guarantor (or as the Guarantor may otherwise direct), and to register and record all such sales, assignments, transfers, documents and instruments in such land registry or land titles offices. The powers of attorney will not be exercisable by the Guarantor or the Security Trustee (or such other Person) until the occurrence of a Title Trigger Event.

Upon the occurrence of a Title Trigger Event, the Guarantor (or the Security Trustee) will do or will cause to be done on its behalf the following:

- (a) instruct the relevant Seller to give notice of the Guarantor's ownership interest in the relevant Loans and Related Security to each Borrower thereunder, which notice will direct that payments be made directly to the Guarantor or its designee, and upon such instruction from the Guarantor, such Seller will give such notice at the expense of such Seller; *provided*, that if such Seller fails to so notify each such Borrower, the Guarantor may so notify such Borrowers at the expense of such Seller;
- (b) direct the Borrowers to pay all amounts payable under the relevant Loans directly to the Guarantor or its designee;
- (c) cause Registrable Transfers for each of the Loans and their Related Security to be prepared, executed and delivered by the relevant Seller to the Guarantor and registered in the appropriate land registry or land titles office; and
- (d) request the relevant Seller (or a Servicer, if not a Seller) to, and promptly following such request, the relevant Seller (or Servicer) will: (A) assemble all of the records then in its possession (including Customer Files, computer records and files) and which are necessary or desirable to collect the related Loans and make the same available to the Guarantor or its designee at a place selected by the Guarantor; (B) segregate all cash, cheques and other instruments received by it from time to time constituting payments with respect to the relevant Loans in a manner acceptable to the Guarantor and, promptly upon receipt, remit all such cash, cheques and instruments, duly endorsed or with duly executed instruments of transfer, to the Guarantor or its designee; and (C) name the Guarantor (or its designee) as loss payee on any applicable related insurance policies maintained by the Seller in respect of the Loans sold to the Guarantor.

The duty of the Guarantor in paragraph (c) above will be fulfilled no later than the 60<sup>th</sup> day, and the duties in paragraphs (a), (b) and (d) will be fulfilled by the Guarantor no later than 20 Toronto Business Days, following the day on which the Title Trigger Event occurs. Each Seller will be liable for all costs and expenses associated with such duties. Each Seller will co-operate fully to do all such further acts and things and execute any further documents that may be necessary or desirable by the Guarantor (or the Security Trustee) to give full effect to such duties.

If any Seller fails to co-operate in the performance of any of the foregoing duties, the Guarantor will use the powers of attorney to transfer registered or recorded title to the Mortgages evidencing and securing the Loans sold by each Seller and their Related Security into its name or the name of such other Person as it may decide or, for STEP Loans in Quebec, to record an assignment of the STEP Collateral Mortgages to the extent of the Guarantor's interest therein.

Each of the following is a "**Title Trigger Event**":

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

- (e) the Security under the Security Agreement or any material part of that Security being in jeopardy and the Security Trustee certifying that, in its reasonable opinion, such action is necessary in order to reduce such jeopardy;
- (f) unless otherwise agreed in writing by the Security Trustee (with the Rating Agencies having confirmed it would not result in a downgrade or a withdrawal of the then current ratings of the Covered Bonds), the termination of a Seller's role as Servicer under the Servicing Agreement unless the substitute servicer, if any, is a member of the Scotiabank Group;
- (g) the Sellers calling for transfer of registered or recorded title to the Loans and their Related Security by giving notice in writing to the Guarantor and the Security Trustee;
- (h) the date on which the Ratings of the Bank are downgraded by the Rating Agencies below a level specified in the Master Definitions and Construction Agreement;
- (i) the occurrence of an Insolvency Event in relation to a Seller; and
- (j) CMHC informs a Servicer that the transfer of registered or recorded title to all the Loans and their Related Security sold by it to the Guarantor is required for the CMHC Mortgage Insurance relating to such Loans to remain valid and in full force and effect.

The Sellers will undertake in the Mortgage Sale Agreement to pay the expenses associated with the transfer of registered or recorded title to the Mortgages evidencing and securing the Loans and their Related Security in the Portfolio.

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

The Guarantor, the Bond Trustee and the Security Trustee will not undertake any investigations, searches or other actions on any Loan or its Related Security and will rely instead on the Loan Representations and Warranties given in the Mortgage Sale Agreement by each Seller in respect of the Loans sold by such Seller to the Guarantor. The parties to the Mortgage Sale Agreement may, with the prior written consent of the Security Trustee, waive, amend or modify the Loan Representations and Warranties or include new Loan Representations and Warranties, in each case, including, without limitation, modifications or additions to accommodate the sale of New Loan Types to the Guarantor. The Loan Representations and Warranties as of the date of this Prospectus include the following and are given as of the following dates (i) the First Transfer Date in respect of the Loans and Related Security to be sold to the Guarantor on such First Transfer Date, (ii) on the relevant Transfer Date in respect of Additional Loans and Related Security to be sold to the Guarantor on such Transfer Date, and (iii) on the Calculation Date following the making of any Additional Loan Advance or Product Switch in respect of the Loans to which the Additional Loan Advance or Product Switch relates:

- the relevant Seller is the legal and beneficial owner of the Loans and their Related Security to be sold to the Guarantor, free and clear of any encumbrances, other than certain permitted encumbrances and upon each purchase, the Guarantor will acquire the entire legal and beneficial ownership interest of the Seller in the applicable Loans and their Related Security, excluding registered title therein, free and clear of any encumbrances, other than certain permitted encumbrances;
- each Loan was originated by a Seller in the ordinary course of business (and kept on a Seller's books for a minimum of one month prior to the Cut-off Date);
- the first payment due in respect of each Loan has been paid by the relevant Borrower;
- each loan satisfies the Eligibility Criteria;
- no Loan (other than those that are home equity lines of credit) has a remaining amortisation period of more than 50 years as at the relevant Cut-off Date;

- prior to the making of each advance under a Loan (or in the case of any STEP, prior to the granting of the related First STEP Loan), the Lending Criteria and all preconditions to the making of that Loan were satisfied in all material respects subject only to such exceptions as would be acceptable to reasonable and prudent institutional mortgage lenders in the Seller's market;
- the Lending Criteria is consistent with the criteria that would be used by reasonable and prudent institutional mortgage lenders in the Seller's market;
- all of the Borrowers are individuals or have guarantees from individuals for the Loans (which guarantees and any security related to such guarantees are assignable and will be sold, transferred and assigned to the Guarantor as Related Security for the Loans in accordance with the terms of the Mortgage Sale Agreement);
- the Outstanding Principal Balance on each Loan is secured by a Mortgage over residential property;
- each Mortgage constitutes a valid first mortgage lien over the related Mortgaged Property, or is insured as a first priority lien, in each case subject to certain permitted encumbrances;
- the Outstanding Principal Balance on each Loan constitutes a legal, valid, binding and enforceable debt due to the relevant Seller from the relevant Borrower and the terms of each Loan and its related Mortgage constitute valid and binding obligations of the relevant Borrower enforceable in accordance with their terms except as enforceability may be limited by applicable bankruptcy, insolvency, reorganisation, 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 a Seller to the Guarantor effected by the Mortgage Sale Agreement, (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, and (iii) certain notices provided in the Civil Code of Quebec for Mortgaged Properties located in the Province of Quebec, 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 preserve, perfect and protect the Guarantor's legal and beneficial 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 a Borrower or any other Person to such sale, transfer or assignment and such sale, transfer and assignment will not give rise to any claim by a Borrower against the Guarantor, the Security Trustee or any of their successors in title or assigns;
- all of the Mortgaged Properties are situated in Canada;
- not more than 12 months (or such longer period as would be acceptable to reasonable and prudent institutional mortgage lenders in the Seller's market) prior to the granting of each Loan (or in the case of any STEP Loan, prior to the granting of the related First STEP Loan), the relevant Seller obtained information on the relevant Mortgaged Property from an independently-maintained valuation model that would be acceptable to reasonable and prudent institutional mortgage lenders in the Seller's market, or received a Valuation Report on the relevant Mortgaged Property that would be, and the contents or confirmation, as applicable, of which 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 Mortgaged Property which has received Rating Agency Confirmation;
- prior to the taking of Related Security in respect of each Loan, the relevant Seller either instructed lawyers to conduct a search of title to the relevant Mortgaged Property and to undertake such other searches,

investigations, enquiries and actions on behalf of such Seller as would be acceptable to reasonable and prudent institutional mortgage lenders in the Seller's market (and the relevant Seller was satisfied with the results of same) or the relevant Borrower was required as a condition to granting the relevant Loan to obtain a lender's title insurance policy in respect of the relevant Mortgaged Property from an insurer as would be acceptable to reasonable and prudent institutional mortgage lenders in the Seller's market;

- each Loan contains a requirement that the relevant Mortgaged Property be covered by insurance that would be acceptable to reasonable and prudent institutional mortgage lenders in the Seller's market;
- all of the Mortgaged Properties are covered by an insurance policy maintained by a Seller covering all risks of physical loss or damaged which applies when a Borrower fails to maintain such an insurance policy on the relevant Mortgaged Property that would be acceptable to reasonable and prudent institutional mortgage lenders in the Seller's market and, so long as such policy (or equivalent replacement policy) is maintained by the Seller, such policy (or replacement policy) will apply to the Mortgaged Properties following the sale of the related Loan to the Guarantor;
- each 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;
- there are no governmental authorisations, approvals, licences or consents required for the Sellers to enter into or to perform their obligations under the Mortgage Sale Agreement or to make the Mortgage Sale Agreement legal, valid, binding and enforceable against the Seller and admissible in evidence;
- no documentation relating to such Loan or Related Security is missing or incomplete in any material respect that has a material adverse impact on the realisable value of the relevant Mortgaged Property;
- no Mortgage secures a Loan or any other debt obligation which has not been sold to the Guarantor, except in respect of any STEP Loan made to a particular STEP Borrower, in which case the Mortgage may secure such STEP Loan and the Other STEP Accounts extended to the same STEP Borrower; and
- each Loan has, and immediately following the relevant Transfer Date, will continue to have, the benefit of CMHC Mortgage Insurance and (A) the CMHC Mortgage Insurance related to the Loan (i) insures the outstanding principal balance of the Loan for the full amortisation period of the Loan and any accrued and unpaid interest on and subject to the terms and conditions of the applicable CMHC Mortgage Insurance, (ii) constitutes legal, valid and binding obligations of CMHC, enforceable in accordance with their terms, and (iii) all material terms and conditions applicable to the CMHC Mortgage Insurance were complied with by the relevant Seller, and (B) the relevant Seller (i) is not aware of any reason why any claim made in accordance with the requirements pertaining thereto under the CMHC Mortgage Insurance in respect of a Loan should not be met in full and in a timely manner in accordance with the terms of the applicable CMHC Mortgage Insurance, and (ii) has made all insurance premium payments in respect of the applicable CMHC Mortgage Insurance.

If New Loan Types are proposed to be sold to the Guarantor, then the Loan Representations and Warranties and Eligibility Criteria in the Mortgage Sale Agreement may be modified as required, to accommodate these New Loan Types. All Loans constituting a New Loan Type will have the benefit of CMHC Mortgage Insurance. The prior consent of the Covered Bondholders to the requisite amendments will not be required to be obtained.

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

In the event of a material breach of any of the Loan Representations or Warranties in respect of any Loan and/or its Related Security or if any of those Loan Representations or Warranties proves to be untrue in any material respect in the case of the Initial Portfolio, as at the First Transfer Date or, in the case of any Additional Loans, as at the relevant Transfer Date or, in the case of any Additional Loan Advances or Product Switch in respect of any Loan, as at the Calculation Date following the making of such Additional Loan Advance or Product Switch, and *provided*

that the Guarantor has given the relevant Seller not less than 20 Toronto Business Days' notice of such breach or untruth in writing and such breach or untruth, is not remedied to the reasonable satisfaction of the Security Trustee within the 20 Toronto Business Day period (or such longer period as the Security Trustee may in its absolute discretion direct the Guarantor in writing) then the Guarantor will be entitled to serve upon such Seller a Loan Repurchase Notice requiring such Seller to repurchase the relevant Loan and its Related Security (and any other Loan secured or intended to be secured by that Related Security or any part of it whether or not there has been any breach of a Loan Representation and Warranty in respect of such other Loan).

In the event a Seller accepts a request from a Borrower for a Product Switch or Additional Loan Advance in respect of any Loan in the Portfolio, then if such Product Switch or Additional Loan Advance results in paragraphs (c), (d), (e) or (g) of the Eligibility Criteria or the Loan Representations and Warranties not being satisfied in respect of any Loan on the next Calculation Date, or if subsequent to the sale of a First STEP Loan to the Guarantor the origination of any related Additional STEP Loan by a Seller results in paragraph (c) of the Eligibility Criteria not being satisfied in respect of any related STEP Loan owned by the Guarantor, or if any Product Switch would give rise to an increased tax liability to the Guarantor, and *provided* that the Guarantor has given the relevant Seller not less than 20 Toronto Business Days' notice of such breach or untruth in writing and such breach or untruth, is not remedied to the reasonable satisfaction of the Security Trustee within the 20 Toronto Business Day period (or such longer period as the Security Trustee may in its absolute discretion direct the Guarantor in writing) then in each case the Guarantor will be entitled to serve upon such Seller a Loan Repurchase Notice requiring such Seller to repurchase the relevant Loan and its Related Security (and any other Loan secured or intended to be secured by that Related Security or any part of it whether or not there has been any breach of a Loan Representation and Warranty in respect of such other Loan).

In addition, if a Seller fails to sell Additional STEP Loans to the Guarantor within the time period specified in the Mortgage Sale Agreement, the Guarantor will be entitled to serve upon such Seller a Loan Repurchase Notice requiring such Seller to repurchase the related STEP Loans owned by the Guarantor and the Related Security for such STEP Loans at the Repurchase Amount for such STEP Loans owned by the Guarantor.

Additional Loan Advances will be funded by the Guarantor from Advances under the Intercompany Loan Agreement or Subordinated Advances under the Subordinated Loan Agreement.

Upon receipt of a Loan Repurchase Notice duly signed on behalf of the Guarantor, a Seller will sign and return three copies and will thereby repurchase from the Guarantor, and the Guarantor will thereby re-assign or re-transfer to such Seller the relevant Loan and its Related Security, and upon execution of such Loan Repurchase Notice by the Security Trustee, on its own behalf and on behalf of any Other STEP Creditors, such Loan and its Related Security will be re-assigned or re-transferred to such Seller free from the Security created by or pursuant to the Security Agreement and all related rights of the Security Trustee, the Guarantor and any Other STEP Creditor in respect thereof, without the need for any further action. Completion of such repurchase will take place on the Calculation Date after receipt by the Seller of such Loan Repurchase Notice or such other date as the Guarantor may direct in the Loan Repurchase Notice (*provided* that the date so specified by the Guarantor will not be later than 90 days after receipt by the Seller of such notice) when such Seller will pay to the GIC Account (or as the Guarantor will direct) an amount equal to the aggregate Repurchase Amount of all such Loans.

#### ***General Ability of Sellers to Repurchase Loans***

Prior to the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice or a Guarantor Event of Default and service of a Guarantor Acceleration Notice, a Seller may from time to time offer to repurchase any Loan (including a Non-Performing Loan) and its Related Security from the Portfolio for a purchase price equal to the fair market value of such Loan. For such purposes, all STEP Loans made to the same STEP Borrower which are owned by the Guarantor shall be considered to be a single Loan. The Guarantor may accept such offer at its sole discretion. If an Issuer Event of Default has occurred and is continuing but no liquidator or Person with similar powers has been appointed to such Seller, any such repurchase will be conditional upon the delivery by such Seller of a solvency certificate to the Guarantor and the Security Trustee and the Asset Coverage Test, calculated on the next Calculation Date immediately prior to such repurchase, being met upon the completion of such repurchase. Amounts paid by such Seller pursuant to such option will be deposited into the GIC Account.

### ***Maturing Loans***

Without prejudice to a Seller's general ability to repurchase, a Seller (or an Affiliate of a Seller designated by the Seller) may, upon request and subject to the agreement of the Guarantor, at any time prior to the date which is 90 days prior to the date of maturity of a Loan, and from time to time, repurchase any Loan from the Portfolio on the maturity date of such Loan at the greater of (i) the fair market value of such Loan at such maturity date, and (ii) the Repurchase Amount of such Loan at such maturity date. For such purposes, all STEP Loans made to the same STEP Borrower which are owned by the Guarantor shall be considered to be a single Loan. If the relevant Seller does not deliver to the Guarantor on or before the required date a written notice specifying the Loans in respect of which it will not exercise such right and the relevant Seller does not inform the Guarantor in writing that it cannot repurchase any such Loan, such Seller will repurchase, subject to the agreement of the Guarantor, each such Loan in the Portfolio on the Calculation Date next following the applicable maturity date of such Loan at the greater of (i) the fair market value of such Loan at such maturity date, and (ii) the Repurchase Amount of such Loan at such maturity date; *provided, however*, that such Seller will not repurchase and will not be required to repurchase any Loan which (i) is or becomes a Non-Performing Loan on its maturity date, or (ii) is repaid in full on its maturity date from funding provided to the Borrower under such Loan by a Person other than such Seller. On the Calculation Date next following the maturity date on which a Seller purchases such Loan, such Seller will pay to the GIC Account an amount equal to the greater of (i) the fair market value of such Loan at such maturity date, and (ii) the Repurchase Amount of such Loan at such maturity date.

### ***Right of Pre-emption***

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

If, (i) following service of an Asset Coverage Test Breach Notice (which has not been revoked), (ii) following service of a Notice to Pay, (iii) following a breach of the Pre-Maturity Test or (iv) prior to the service of an Asset Coverage Test Breach Notice or a Notice to Pay, a Demand Loan Repayment Event has occurred or the Issuer has demanded that the Demand Loan be repaid, the Guarantor may be required to sell Selected Loans in accordance with the Declaration of Trust, and *provided* that the relevant Seller is not in default of any of its obligations in the Mortgage Sale Agreement or under any other Transaction Document to which it is a party, the Guarantor will by serving on such Seller a Selected Loan Offer Notice, prior to the Guarantor making any offer to sell Selected Loans to other Purchasers, offer immediately to sell to such Seller those Selected Loans for an offer price equal to the greater of (i) the fair market value of the Selected Loans, and (ii) the Adjusted Required Redemption Amount for the relevant Series of Covered Bonds.

If a Seller accepts the Guarantor's offer to sell the relevant Selected Loans by signing the Selected Loan Offer Notice in a manner indicating acceptance and delivering it to the Guarantor with a copy to the Security Trustee within 10 Toronto Business Days from and including the date of the Selected Loan Offer Notice and *provided* that (if an Issuer Event of Default has occurred and is continuing) such Seller has provided a solvency certificate in a form acceptable to the Guarantor and the Security Trustee (each acting reasonably), the Guarantor will within three Toronto Business Days of receipt of such acceptance serve a Selected Loan Repurchase Notice on such Seller.

The Guarantor will offer for sale the Selected Loans in respect of which a Seller rejects or fails within the requisite time limit to accept the Guarantor's offer to sell to Purchasers in the manner and on the terms set out in the Declaration of Trust: see *Declaration of Trust—Sale of Selected Loans following the service of a Notice to Pay*.

Upon receipt of the Selected Loan Repurchase Notice duly signed on behalf of the Guarantor, the relevant Seller will promptly sign and return three copies of the Selected Loan Repurchase Notice and will repurchase from the Guarantor, and the Guarantor will re-assign or re-transfer to such Seller the Selected Loans (and any other Loan secured or intended to be secured by that Related Security or any part of it) referred to in the relevant Selected Loan Repurchase Notice and, subject to the Security Agreement, upon execution of the Selected Loan Repurchase Notice by the Security Trustee, on its own behalf and on behalf of any Other STEP Creditors, such Selected Loans will be re-assigned or re-transferred to such Seller free from the Security created by and pursuant to the Security Agreement and all related rights of the Security Trustee, Guarantor and any Other STEP Creditor in respect thereof, without the

need for any further action. Completion of such repurchase will take place on the Guarantor Payment Date next occurring after receipt by the relevant Seller of such Selected Loan Repurchase Notice or such other date as the Guarantor may direct in the Selected Loan Repurchase Notice (*provided* that, where a Notice to Pay has been served, such date is not to be later than the earlier to occur of the date which is (a) 10 Toronto Business Days after receipt by the Guarantor of the returned Selected Loan Repurchase Notice, or (b) the Final Maturity Date of as applicable, the Hard Bullet Covered Bonds or the Earliest Maturing Covered Bonds) and such Seller will pay to the GIC Account (or as the Guarantor will direct) an amount in cash equal to the offer price specified in the relevant Selected Loan Repurchase Notice.

Any time there is no Asset Coverage Test Breach Notice outstanding and no Notice to Pay or Guarantor Acceleration Notice has been served on the Guarantor, it will be a condition to the Guarantor's right to sell Loans and their Related Security that the Asset Coverage Test will be met on the next Calculation Date prior to such sale after giving effect to the sale.

### ***Further Drawings Under Loans***

The Guarantor is solely responsible for funding all Additional Loan Advances, if any, in respect of Loans sold by the relevant Seller(s) to the Guarantor, except to the extent any such Additional Loan Advance would be or result in a breach of Eligibility Criteria (c), (d), (e) or (g) or the Loan Representations and Warranties. The amount of the Intercompany Loan or the Subordinated Loan, as the case may be, will increase by the amount required by the Guarantor to fund Additional Loan Advances.

### ***New Sellers***

In the future, it is expected that New Sellers (which are members of the Scotiabank Group) may accede to the Programme and sell Loans and their Related Security to the Guarantor. Any such New Sellers will accede to, *inter alia*, the Mortgage Sale Agreement. The sale of Loans and their Related Security by New Sellers to the Guarantor will be subject to certain conditions, including the following:

- each New Seller accedes to such Transaction Documents and enters into such other documents as may be required by the Security Trustee, the Bond Trustee, the Guarantor and/or the Cash Manager (in each case acting reasonably) to give effect to the addition of a New Seller to the transactions contemplated under the Programme;
- each New Seller accedes to the terms of the Mortgage Sale Agreement (with such subsequent amendments as may be agreed by the parties thereto), so that it has, in relation to those Loans and their Related Security to be sold by the relevant New Seller, subject to the requirements of the related CMHC Mortgage Insurance, substantially the same rights and obligations as the Sellers had in relation to those Loans and their Related Security comprised in the Initial Portfolio under the Mortgage Sale Agreement;
- any Loans and their Related Security sold by a New Seller to the Guarantor comply with the Loan Representations and Warranties and the Eligibility Criteria set out in the Mortgage Sale Agreement;
- either (i) a Servicer services the Loans and their Related Security sold by such New Seller on the terms set out in the Servicing Agreement (with such subsequent amendments as may be agreed by the parties thereto) and CMHC approves such servicing (*provided* that the fees payable to the relevant Servicer acting as servicer of such Loans and their Related Security would be determined on or around the date of the accession of such New Seller to the Programme) or (ii) each New Seller is a CMHC Approved Lender and enters into a servicing agreement with the Guarantor and the Security Trustee which sets out the servicing obligations of such New Seller in relation to the Loans and their Related Security sold by such New Seller and which is on terms substantially similar to the terms set out in the Servicing Agreement (*provided* that the fees payable to such New Seller acting as servicer of such Loans and their Related Security would be determined on or around the date of the accession of such New Seller to the Programme), but in such case, such New Seller and the servicing must comply with the requirements of the applicable CMHC Mortgage Insurance;

- the Security Trustee is satisfied that any accession of a New Seller to the Programme will not prejudice the Asset Coverage Test; and
- the Security Trustee is satisfied that any modifications to the Transaction Documents in order to accommodate the accession of a New Seller to the Programme will not be materially prejudicial to the interests of any of the Covered Bondholders.

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

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

## **Servicing Agreement**

### ***Servicing***

Pursuant to the terms of the Servicing Agreement, the Servicers will provide services, on behalf of the Guarantor in relation to the Loans and their Related Security comprised in the Portfolio.

The Servicers will administer the Loans and their Related Security comprised in the Portfolio in accordance with the applicable CMHC Mortgage Insurance, applicable law, CMHC servicing standards, the Servicing Agreement and the other Transaction Documents and with reasonable care and diligence, using that degree of skill and attention that they exercise in managing, servicing, administering, collecting on and performing similar functions relating to comparable loans that they service for themselves.

With respect to STEP Loans, the Servicing Agreement will require each Servicer to service all STEP Loans made to a particular STEP Borrower, whether or not owned by the Guarantor. The Transaction Documents will further require all STEP Loans and Other STEP Products to be serviced by the related Servicer and the servicer of the Other STEP Products in a manner consistent with the respective rights, interests and priorities of the Guarantor, the Seller and any Other STEP Creditor as described in —*Mortgage Sale Agreement—Scotia Total Equity Plan and STEP Loans*, but in all cases giving due consideration to the priority of the STEP Loans owned by the Guarantor and ensuring that the applicable CMHC Mortgage Insurance remains in full force and effect at all times without a material limitation being placed on any claims that may be made thereunder. The Bank will initially service all STEP Loans and Other STEP Products.

The Servicers will, subject to the terms and conditions of the Servicing Agreement, the terms of the Loans and their Related Security (including, if applicable, the STEP Plan), the applicable CMHC Mortgage Insurance, the Mortgage Sale Agreement, the Security Agreement and the Declaration of Trust, have the full power, authority and right to do or cause to be done any and all things, not inconsistent with the sale, transfer and assignment of the Loans and their Related Security to the Guarantor, which they reasonably consider necessary, convenient or incidental to the servicing of the Loans and their Related Security or the exercise of such rights, powers and discretions.

### ***Right of delegation by the Servicers***

Each Servicer may, under certain terms and conditions, sub-contract or delegate the performance of all or any of its powers and obligations under the Servicing Agreement, provided that such sub-contracting or delegation is in compliance with the terms and conditions of CMHC Mortgage Insurance. Notwithstanding any sub-contracting or delegation of the performance of its obligations under the Servicing Agreement, a Servicer will not be released or discharged from any liability and will remain responsible for the performance of all of its obligations under the Servicing Agreement, and the performance or non-performance or the manner of performance by any sub-contractor or delegate of any of the services will not affect a Servicer's obligations under the Servicing Agreement and any breach in the performance of the services by such sub-contractor or delegate will, subject to such Servicer being entitled for a period of 20 Toronto Business Days from receipt of any notice of the breach to remedy such breach by any sub-contractor or delegate, be treated as a breach of the Servicing Agreement by such Servicer.

### *Undertakings of the Servicers*

Pursuant to the terms of the Servicing Agreement, the Servicers will in relation to those Loans and their Related Security in the Portfolio that they are servicing, *inter alia*, subject in each case to the terms and conditions of the applicable CMHC Mortgage Insurance:

- keep and maintain records and books of account in respect of the Portfolio for the purposes of identifying amounts paid by the related Borrower, any amount due from such Borrower and the Outstanding Principal Balance of the Loans and such other records as would be kept by reasonable and prudent institutional mortgage lenders in the Servicer's market;
- provide the Guarantor and the Security Trustee with access to the Customer Files and other records relating to the administration of the Loans and their Related Security in its possession;
- assist the Cash Manager in the preparation of a Monthly Asset Coverage Report in accordance with the Cash Manager Agreement;
- give timely notice to the Borrower of each Loan of any default in payment or other default thereunder, or under any related agreements;
- investigate all delinquencies and defaults under the Loans;
- hold as trust property for and on behalf of the Guarantor, free of any adverse claim, the insurance rights arising under the CMHC Mortgage Insurance in respect of the Loans and their Related Security in the Portfolio, all collections received in respect thereof and Customer Files with respect to the Loans;
- take such enforcement actions and proceedings in respect of the Loans and their Related Security in the Portfolio as it would be reasonable to expect reasonable and prudent institutional mortgage lenders in the Servicer's market to take in administering their loans and their related security, provided that such actions and procedures comply with the terms and conditions of the applicable CMHC Mortgage Insurance;
- take all other action and do all other things which would be reasonable to expect reasonable and prudent institutional mortgage lenders in the Servicer's market to do in administering their loans and their related security;
- keep the proceeds of any claims made under the CMHC Mortgage Insurance relating to a Loan sold by it to the Guarantor separate and apart from its other assets in the event of a downgrade in the Ratings of such Servicer, or if applicable, its guarantor below a level specified in the Servicing Agreement;
- maintain the CMHC Mortgage Insurance in respect of each Loan sold by it to the Guarantor in full force and effect at all times and perform and observe all of its obligations thereunder when due including the applicable premium payment and indemnity obligations thereunder;
- take all necessary steps to administer and service the Loans sold by it to the Guarantor in accordance with the applicable CMHC Mortgage Insurance;
- do all things necessary to maintain its status as a CMHC Approved Lender in good standing at all times with a "full designation" for loan underwriting and administration in each province and territory of Canada without any material restriction, limitation or condition of any kind;
- comply with the *National Housing Act* (Canada), the National Housing Loan Regulations and CMHC's policies and procedures from time to time in servicing the Loans;

- not, without the consent or sanction of the Covered Bondholders by Extraordinary Resolution, cancel the CMHC Mortgage Insurance relating to any Loan in the Portfolio;
- not, without the consent or sanction of the Covered Bondholders by Extraordinary Resolution, take any action or amend any of the Transaction Documents that would result in the CMHC Mortgage Insurance relating to any Loan in the Portfolio becoming void or a material limit being placed on any claims that may be made thereunder;
- notify the Rating Agencies, the Guarantor and the Security Trustee upon a material change to the terms of CMHC Mortgage Insurance or a material change to CMHC's published guidelines relating to residential mortgage insurance; and
- notify the Guarantor, the Security Trustee and the Rating Agencies upon receipt of a letter from CMHC advising the Servicer of the termination, suspension, revocation or other material limitation or restriction of its status as a CMHC Approved Lender in its administration of the Loans in the Portfolio.

Under the Servicing Agreement, each Servicer, may receive funds belonging to the Guarantor that arise from the Loans and their Related Security comprised in the Portfolio and are to be paid into the GIC Account. Prior to a downgrade of the Issuer's Ratings below P-1 (short term) by Moody's, A (long-term) or F1 (short term) by Fitch or A (low) (long-term) or R-1 (low) (short term) by DBRS (the "**Issuer Ratings Threshold**"), each Servicer will hold such funds in trust for the Guarantor and will, not later than one Toronto Business Day prior to the next following Guarantor Payment Date, pay the funds into the GIC Account. Following a downgrade by Moody's of its Ratings of the Issuer below the Issuer Ratings Threshold, each Servicer will pay the funds into the GIC Account within three Business Days of receipt. Following a downgrade by Fitch or DBRS of its respective Rating of the Issuer below the Issuer Ratings Threshold, each Servicer will pay the funds into the GIC Account within two Business Days of receipt. Each Servicer shall make each such payment to the GIC Account without any deduction as a result of any defence, set-off right or counterclaim. Until paid into the GIC Account, a Servicer is entitled to commingle such funds with any other funds held by it.

#### ***Remuneration***

Each Seller will perform the duties and obligations of a Servicer pursuant to the terms of the Servicing Agreement at no additional cost to the Guarantor, in consideration for the purchase price received by it for the Loans and their Related Security sold by it to the Guarantor pursuant to the Mortgage Sale Agreement. The Servicers will not be entitled to any additional compensation for the performance of their obligations under the Servicing Agreement or any reimbursement for the costs and expenses incurred by them in connection therewith, it being acknowledged that the Loans, the Related Security and the other assets comprised in the Portfolio have been sold pursuant to the Mortgage Sale Agreement on a fully-serviced and CMHC insured basis. In the event a Servicer is replaced in accordance with the terms of the Servicing Agreement by a Person other than a member of the Scotiabank Group, unless otherwise agreed by the parties to the Servicing Agreement, the Guarantor will on each Guarantor Payment Date reimburse such Person, in accordance with the applicable Priority of Payments, for all costs, expenses, disbursements, charges and fees (together with any applicable Taxes due thereon) properly incurred by such Person in the performance of its services as successor Servicer.

#### ***Removal or resignation of a Servicer***

The Guarantor and the Security Trustee may, upon written notice to a Servicer, terminate such Servicer's appointment under the Servicing Agreement if any of the following events (each, a "**Servicer Termination Event**") occurs or at any time while such event continues in respect of the Loans owned by the Guarantor:

- a Servicer defaults in the payment on the due date of any amount due and payable by it under the Servicing Agreement and does not remedy that default within five Toronto Business Days after the earlier of such Servicer becoming aware of the default or receipt by such Servicer of written notice from the Security Trustee or the Guarantor requiring the default to be remedied;

- a Servicer defaults in the performance or observance of any of its other covenants and obligations under the Servicing Agreement which failure in the reasonable opinion of the Security Trustee is materially prejudicial to the interests of the Covered Bondholders (or the Servicer fails to comply with the requirement for it to maintain its status as a CMHC Approved Lender), and does not remedy that default within 30 Toronto Business Days after the earlier of such Servicer becoming aware of the default or receipt by such Servicer of written notice from the Guarantor and the Security Trustee requiring the default to be remedied, *provided however* that where the relevant default occurs as a result of a default by any Person to whom such Servicer has sub-contracted or delegated part of its obligations hereunder, such default will not constitute a Servicer Termination Event if, within such period of 30 Toronto Business Days of receipt of such notice from the Guarantor and the Security Trustee, such Servicer terminates the relevant sub-contracting or delegation arrangements and takes such steps as the Guarantor and the Security Trustee may specify to remedy such default or to indemnify the Guarantor against the consequences of such default;
- an Insolvency Event occurs in relation to a Servicer; or
- a Servicer Downgrade occurs and the Servicer or its guarantor, if applicable, does not take such actions as may be necessary to obtain a Rating Agency Confirmation with respect to the continued appointment of the Servicer within 60 days of any such Servicer Downgrade, or its guarantor, if applicable (for example, by 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 that has Rating(s) at least equal to the Rating(s) required by the relevant Rating Agencies, or taking such other action as it may agree with the relevant Rating Agencies, or in the case of DBRS and Moody's, taking such other action for which Rating Agency Confirmation has been provided).

Any such termination will become effective upon the appointment of a successor Servicer(s) in place of such Servicer. Any such appointment of a successor Servicer(s) without the prior approval of CMHC may adversely affect the coverage under CMHC Mortgage Insurance for a CMHC Insured Loan. Prior to terminating any Servicer, the Guarantor and/or the Security Trustee, as applicable, will use reasonable commercial efforts to obtain the consent of CMHC to any successor Servicer and take such other steps reasonably required to avoid impairment of such CMHC Mortgage Insurance.

Subject to the fulfilment of a number of conditions, a Servicer may resign and terminate its appointment as a Servicer upon the expiry of not less than 12 months' written notice to the Security Trustee, the Guarantor and each Rating Agency, *provided that*:

- (a) if the Servicer who wishes to resign is the Bank, the Guarantor and the Security Trustee consent in writing to such resignation;
- (b) one or more successor Servicers will be appointed, with such appointment to be effective not later than the date of such resignation, provided that CMHC has approved the appointment of such successor Servicer(s) and the CMHC Mortgage Insurance for the related CMHC Insured Loans remains valid and in full force and effect;
- (c) each successor Servicer is a CMHC Approved Lender;
- (d) each successor Servicer is qualified to act as such under applicable mortgage broker legislation;
- (e) each successor Servicer enters into an agreement substantially on the same terms as the relevant provisions of the Servicing Agreement with the Guarantor and the Security Trustee and a Servicer will not be released from its obligations under the relevant provisions of the Servicing Agreement until such successor Servicer has entered into such new agreement; and

- (f) Rating Agency Confirmation has been received with respect to such resignation and appointment of the successor Servicer, unless the resignation is otherwise agreed to by an Extraordinary Resolution of the Covered Bondholders.

If the appointment of a Servicer is terminated, such Servicer must, *inter alia*, promptly deliver any collections and Customer Files relating to the Loans comprised in the Portfolio it may have in its possession to, or at the direction of, the Guarantor.

The Servicing Agreement will terminate at such time as the Guarantor has no further interest in any of the Loans or their Related Security serviced under the Servicing Agreement that have been comprised in the Portfolio.

Neither the Bond Trustee nor the Security Trustee is obliged to act as a Servicer under any circumstances.

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

### **Asset Monitor Agreement**

Under the terms of the Asset Monitor Agreement, the Asset Monitor will, subject to due receipt of the information to be provided by the Cash Manager to the Asset Monitor conduct tests in respect of the arithmetical accuracy of the calculations performed by the Cash Manager regarding the relevant Asset Coverage Test, prior to the occurrence of an Issuer Event of Default and service of a Notice to Pay or a Guarantor Event of Default and service of a Guarantor Acceleration Notice, on the Calculation Date immediately preceding each anniversary of the Programme Date with a view to confirmation of the arithmetical accuracy or otherwise of such calculations. The Asset Monitor, subject to due receipt of the relevant information to be provided to it by the Cash Manager, will conduct such tests and report on the same to the Cash Manager, the Bond Trustee and the Security Trustee by no later than 10 Toronto Business Days following the receipt of such information. If the Ratings of the Cash Manager and/or the Issuer by the Rating Agencies fall below the ratings specified in the Asset Monitor Agreement or, prior to an Issuer Event of Default having occurred, if an Asset Coverage Test Breach Notice has been served (which has not been revoked), the Asset Monitor will, subject to receipt of the relevant information from the Cash Manager, be required to conduct such tests following each Calculation Date. Following the occurrence of an Issuer Event of Default and the service of a Notice to Pay (but prior to a Guarantor Event of Default and the service of a Guarantor Acceleration Notice), the Asset Monitor will also be required to test the arithmetical accuracy of the calculations performed by the Cash Manager in respect of the Amortisation Test with a view to confirmation of the arithmetical accuracy or otherwise of such calculations.

Following a determination by the Asset Monitor of any errors in the arithmetical accuracy of the calculations performed by the Cash Manager such that the Asset Coverage Test or the Amortisation Test has been failed on the applicable Calculation Date (where the Cash Manager had recorded it as being satisfied) or the reported Adjusted Aggregate Loan Amount or the reported Amortisation Test Aggregate Loan Amount is misstated by an amount exceeding one per cent. of the Adjusted Aggregate Loan Amount or the Amortisation Test Aggregate Loan Amount, as applicable (on the applicable Calculation Date of the relevant Asset Coverage Test or the relevant Amortisation Test) as calculated by the Asset Monitor based on the figures supplied by the Cash Manager, the Asset Monitor will be required to conduct such tests following each Calculation Date for a period of six months thereafter.

The Asset Monitor is entitled, in the absence of manifest error, to assume that all information provided to it by the Cash Manager for the purpose of conducting such tests is true, correct, complete and not misleading, and is not required to conduct an audit or otherwise take steps to verify the accuracy of any such information. The Asset Monitor Report will be delivered to the Cash Manager, the Guarantor, the Issuer, the Bond Trustee and the Security Trustee.

The Guarantor will pay the Asset Monitor a fee per report in such amount as may be agreed to between the Guarantor and the Asset Monitor from time to time. The Asset Monitor fee will be payable on a Guarantor Payment Date in accordance with the applicable Priority of Payments for the tests to be performed by the Asset Monitor.

The Guarantor may, at any time, but subject to the prior written consent of the Security Trustee, terminate the appointment of the Asset Monitor by giving at least 60 days' prior written notice to the Asset Monitor, *provided* that such termination may not be effected unless and until a replacement asset monitor has been appointed by the Guarantor (such replacement to be approved by the Security Trustee (such approval to be given if the replacement is an accountancy firm of national standing in Canada)) which agrees to perform the duties of the Asset Monitor set out in the Asset Monitor Agreement (or substantially similar duties).

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

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

Neither the Bond Trustee nor the Security Trustee will be obliged to act as Asset Monitor under any circumstances.

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

### **Declaration of Trust**

Pursuant to the Declaration of Trust, the principal activities of the Guarantor include the ability to acquire the Loans and their Related Security from the Sellers, borrow amounts under the Intercompany Loan Agreement and the Subordinated Loan Agreement, and provide the Covered Bond Guarantee for the benefit of the Covered Bondholders, in each case pursuant to and in accordance with the terms of the Declaration of Trust and the other Transaction Documents. The Administrative Agent, being as at the date of this Prospectus, the Bank, will manage and conduct the business of the Guarantor and will have all the rights, power and authority to act at all times for and on behalf of the Guarantor.

### ***Beneficiaries***

The beneficiaries of the Guarantor are the Bank and the Independent Beneficiary (collectively, the "**Beneficiaries**") as of the date of this Prospectus. Pursuant to the Declaration of Trust, the Beneficiaries are entitled to an annual distribution equal to the net income, if any, of the Guarantor for such fiscal year.

### ***Asset Coverage Test***

Under the terms of the Declaration of Trust, the Guarantor is required to ensure that, as at the end of each Guarantor Calculation Period, the Adjusted 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 as at the end of such Guarantor Calculation Period as calculated on the immediately following Calculation Date.

If as of the end of any Guarantor Calculation Period, the Adjusted Aggregate Loan Amount is less than the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as at the end of such Guarantor Calculation Period as calculated on the immediately following Calculation Date, then the Guarantor (or the Cash Manager on its behalf) will immediately notify the Sellers, the Bond Trustee and the Security Trustee

thereof and the Guarantor will use all commercially reasonable efforts to ensure that the Adjusted Aggregate Loan Amount is in compliance with the Asset Coverage Test which may involve purchasing Additional Loans and their Related Security from the Sellers, purchasing Substitution Assets, requesting further Advances under the Intercompany Loan which may be made in cash or in kind and/or requesting an Asset Coverage Test Subordinated Advance under the Subordinated Loan Agreement to satisfy the shortfall.

If the Adjusted Aggregate Loan Amount is less than the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of all Covered Bonds as at the end of the next following Guarantor Calculation Period, the Asset Coverage Test will be breached and the Guarantor (or the Cash Manager on its behalf) will notify the Bond Trustee and the Security Trustee, and the Bond Trustee will serve an Asset Coverage Test Breach Notice on the Guarantor. The Bond Trustee will revoke an Asset Coverage Test Breach Notice if, on or prior to the immediately succeeding Calculation Date following the service of an Asset Coverage Test Breach Notice, the Asset Coverage Test is subsequently satisfied and neither a Notice to Pay nor a Guarantor Acceleration Notice has been served.

Following service of an Asset Coverage Test Breach Notice on the Guarantor (which has not been revoked):

- (a) unless the Asset Coverage Test breach is otherwise cured, the Guarantor may be required to sell Selected Loans and remit the proceeds to the GIC Account as more particularly described in *Declaration of Trust—Sale of Selected Loans following service of an Asset Coverage Test Breach Notice*;
- (b) prior to the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice or, if earlier, the occurrence of a Guarantor Event of Default and service of a Guarantor Acceleration Notice, the Pre-Acceleration Revenue Priority of Payments and the Pre-Acceleration Principal Priority of Payments will be modified as more particularly described in *Cashflows—Allocation and distribution of Available Revenue Receipts and Available Principal Receipts following service of an Asset Coverage Test Breach Notice* below; and
- (c) the Guarantor will not be permitted to obtain any further advances under the Intercompany Loan Agreement.

If an Asset Coverage Test Breach Notice has been served and not revoked by the Bond Trustee on or before the immediately succeeding Calculation Date following service of such Asset Coverage Test Breach Notice, then an Issuer Event of Default will occur if the Bond Trustee has certified in writing to the Issuer and the Guarantor that such breach is, in its opinion, materially prejudicial to the interests of the Covered Bondholders of any Series and the Bond Trustee will be entitled (and, in certain circumstances may be required) to serve an Issuer Acceleration Notice on the Issuer. Following service of an Issuer Acceleration Notice, the Bond Trustee will be required to serve a Notice to Pay on the Guarantor.

For the purposes hereof:

"**Adjusted Aggregate Loan Amount**" means the amount as at the end of each Guarantor Calculation Period as calculated on the immediately following Calculation Date as follows:

$$A + B + C + D + E - Z$$

where,

A = the lower of (a) and (b), where:

- (a) = the sum of the "**Adjusted Outstanding Principal Balance**" of each Loan in the Portfolio at the end of such Guarantor Calculation Period as calculated on the immediately following Calculation Date, which shall be the lower of:

- (i) the actual Outstanding Principal Balance of the relevant Loan in the Portfolio as calculated as of the relevant Calculation Date; and
- (ii) the Latest Valuation relating to that Loan, in each case multiplied by M,

"M" means:

- (a) 90 per cent. for all Loans (including Non-Performing Loans) on any day that the CMHC Rating is not below the level specified in the Declaration of Trust;
- (b) 80 per cent. for all Loans that are not Non-Performing Loans on any day that the CMHC Rating is below the level specified in the Declaration of Trust; or
- (c) 0 per cent. for all Loans that are Non-Performing Loans on any day that the CMHC Rating is below the level specified in the Declaration of Trust;

provided that, notwithstanding the foregoing, with respect to all Loans in the Portfolio which do not have the benefit of CMHC Mortgage Insurance which is in full force and effect, "M" means 0%;

*minus*

the aggregate sum of the following deemed reductions to the aggregate Adjusted Outstanding Principal Balance of the Loans in the Portfolio if either of the following occurred during such Guarantor Calculation Period:

- (1) a Loan or its Related Security was, during such Guarantor Calculation Period, in breach of the Loan Representations and Warranties contained in the Mortgage Sale Agreement or subject to any other obligation of a Seller to repurchase the relevant Loan and its Related Security, and in each case the relevant Seller has not repurchased the Loan or Loans of the relevant Borrower and its or their Related Security to the extent required by the terms of the Mortgage Sale Agreement. In this event, the aggregate Adjusted Outstanding Principal Balance of the Loans in the Portfolio (as at the end of such Guarantor Calculation Period as calculated on the immediately following Calculation Date) will be deemed to be reduced by an amount equal to the Adjusted Outstanding Principal Balance of the relevant Loan or Loans (as at the end of such Guarantor Calculation Period as calculated on the immediately following Calculation Date) of the relevant Borrower; and/or
- (2) a Seller was, in such Guarantor Calculation Period or any preceding Guarantor Calculation Period, in breach of any other material warranty under the Mortgage Sale Agreement and/or a Servicer was, in such Guarantor Calculation Period, in breach of a material term of the Servicing Agreement. In this event, the aggregate Adjusted Outstanding Principal Balance of the Loans in the Portfolio (as at the end of such Guarantor Calculation Period as calculated on the immediately following Calculation Date) will be deemed to be reduced by an amount equal to the resulting financial loss incurred by the Guarantor during such Guarantor Calculation Period (such financial loss to be calculated by the Cash Manager without double counting (including in respect of amounts under (1) above) and net of any amount paid (in cash or in kind) to the Guarantor by the relevant Seller to indemnify the Guarantor for such financial loss);

AND

- (b) = the sum of the "**Asset Percentage Adjusted Outstanding Principal Balance**" of each Loan in the Portfolio at the end of such Guarantor Calculation Period as calculated on the immediately following Calculation Date which shall be the lower of:
  - (i) the actual Outstanding Principal Balance of the relevant Loan in the Portfolio as at the end of such Guarantor Calculation Period as calculated on the immediately following Calculation Date; and

(ii) the Latest Valuation relating to that Loan, in each case multiplied by N;

"N" means:

- (a) 100 per cent. for all Loans that are not Non-Performing Loans on any day that the CMHC Rating is not below the level specified in the Declaration of Trust;
- (b) 90 per cent. for all Loans that are Non-Performing Loans on any day that the CMHC Rating is not below the level specified in the Declaration of Trust;
- (c) 80 per cent. for all Loans that are not Non-Performing Loans on any day that the CMHC Rating is below the level specified in the Declaration of Trust; or
- (d) 0 per cent. for all Loans that are Non-Performing Loans on any day that the CMHC Rating is below the level specified in the Declaration of Trust;

provided that, notwithstanding the foregoing, with respect to all Loans in the Portfolio which do not have the benefit of CMHC Mortgage Insurance which is in full force and effect, "N" means 0%;

*minus*

the aggregate sum of the following deemed reductions to the aggregate Asset Percentage Adjusted Outstanding Principal Balance of the Loans in the Portfolio if either of the following occurred during such Guarantor Calculation Period:

- (1) a Loan or its Related Security was, during such Guarantor Calculation Period, in breach of the Loan Representations and Warranties contained in the Mortgage Sale Agreement or subject to any other obligation of a Seller to repurchase the relevant Loan and its Related Security, and in each case the relevant Seller has not repurchased the Loan or Loans of the relevant Borrower and its or their Related Security to the extent required by the terms of the Mortgage Sale Agreement. In this event, the aggregate Asset Percentage Adjusted Outstanding Principal Balance of the Loans in the Portfolio (as at the end of such Guarantor Calculation Period as calculated on the immediately following Calculation Date) will be deemed to be reduced by an amount equal to the Asset Percentage Adjusted Outstanding Principal Balance of the relevant Loan or Loans (as at the end of such Guarantor Calculation Period as calculated on the immediately following Calculation Date) of the relevant Borrower; and/or
- (2) a Seller was, in such Guarantor Calculation Period or any preceding Guarantor Calculation Period, in breach of any other material warranty under the Mortgage Sale Agreement and/or a Servicer was, in such Guarantor Calculation Period, in breach of a material term of the Servicing Agreement. In this event, the aggregate Asset Percentage Adjusted Outstanding Principal Balance of the Loans in the Portfolio (as at the end of such Guarantor Calculation Period as calculated on the immediately following Calculation Date) will be deemed to be reduced by an amount equal to the resulting financial loss incurred by the Guarantor during such Guarantor Calculation Period (such financial loss to be calculated by the Cash Manager without double counting (including in respect of amounts under (1) above) and net of any amount paid (in cash or in kind) to the Guarantor by the relevant Seller to indemnify the Guarantor for such financial loss);

***the result of the calculation in this paragraph (b) being multiplied by*** the Asset Percentage (as defined below);

B = the aggregate amount of any Available Principal Receipts on the Loans in the Portfolio up to the end of such Guarantor Calculation Period (as recorded in the Principal Ledger) which have not been applied as of such Guarantor Calculation Date to acquire further Loans and their Related Security or otherwise applied in accordance with the Declaration of Trust and/or the other Transaction Documents (including, for the avoidance of doubt, any amount then standing to the credit of the GIC Account and any Authorised Investments (but without double counting));

- C = the aggregate amount of Advances under the Intercompany Loan Agreement which have not been applied as of such Guarantor Calculation Date to acquire Additional Loans and their Related Security or otherwise applied in accordance with the Declaration of Trust and/or the other Transaction Documents;
- D = the aggregate outstanding principal amount of any Substitution Assets as at the end of such Guarantor Calculation Period;
- E = the aggregate amount of the proceeds from any sale of Selected Loans standing to the credit of the GIC Account and recorded on the Pre-Maturity Liquidity Ledger (but without double counting); and
- Z = the weighted average remaining maturity of all Covered Bonds (expressed in years) then outstanding *multiplied by* the aggregate Canadian Dollar Equivalent of the Principal Amount Outstanding of all Covered Bonds *multiplied by* the Negative Carry Factor where the "**Negative Carry Factor**" is (i) 0.5 per cent. if the weighted average margin of the interest rate payable on the Covered Bonds is less than or equal to 0.1 per cent. per annum or (ii) 0.5 per cent. plus that margin minus 0.1 per cent., if that margin is greater than 0.1 per cent. per annum (provided that if the weighted average remaining maturity is less than one, the weighted average shall be deemed, for the purposes of this calculation, to be one).

"**Asset Percentage**" means 97 per cent. or such lesser percentage figure from time to time as necessary to maintain the initial rating assigned to the Covered Bonds of any Series by each Rating Agency, *provided* that the Asset Percentage will not be less than 90 per cent. unless otherwise agreed by the Issuer (and following an Issuer Event of Default, the Guarantor for the purposes of making certain determinations in respect of the Intercompany Loan). If at any time the Asset Percentages that would be required to maintain the initial rating assigned to the Covered Bonds of any Series by the Rating Agencies are not the same, the lowest such figure will be applied as the Asset Percentage.

With respect to any Loan included in the Portfolio secured on a Mortgaged Property which also secures one or more other Loans included in the Portfolio, the Asset Coverage Test will be calculated in respect of such Loans on a consolidated basis as if all Loans secured on the same Mortgaged Property were a single Loan. Any breach of the Loan Representations and Warranties in respect of one of such Loans will be deemed to be a breach in respect of all such Loans secured on the same Mortgaged Property.

The Guarantor Trustee may amend the Declaration of Trust without the consent of the Covered Bondholders to specify such Asset Percentage as may be necessary in order to maintain the initial rating assigned to the Covered Bonds of any Series by any Rating Agency, *provided* that such Asset Percentage is not greater than 97 per cent and not less than 90 per cent.

#### ***Amortisation Test***

The Guarantor must ensure that as at the end of each Guarantor Calculation Period following service of a Notice to Pay on the Guarantor (but prior to service of a Guarantor Acceleration Notice) and for so long as Covered Bonds remain outstanding, the Amortisation Test Aggregate Loan Amount will be in an amount at least equal to the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds at the end of such Guarantor Calculation Period as calculated on the immediately following Calculation Date.

If as at the end of any Guarantor Calculation Period following service of a Notice to Pay on the Guarantor, the Amortisation Test Aggregate Loan Amount is less than the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as at the end of such Guarantor Calculation Period as calculated on the immediately following Calculation Date, then the Amortisation Test will be deemed to be breached and a Guarantor Event of Default will occur if the Bond Trustee has certified in writing to the Issuer and the Guarantor that such breach is, in its opinion, materially prejudicial to the interests of the Covered Bondholders of any Series. The

Guarantor (or the Cash Manager on its behalf) will immediately notify the Beneficiaries and, while Covered Bonds are outstanding, the Security Trustee and the Bond Trustee of any breach of the Amortisation Test.

The "**Amortisation Test Aggregate Loan Amount**" will be calculated as at the end of each Guarantor Calculation Period on the immediately following Calculation Date as follows:

$$A + B + C + D - Z$$

where,

A = the sum of the **Amortisation Test Outstanding Principal Balance** of each Loan, which shall be the lower of:

- (a) the actual Outstanding Principal Balance of the relevant Loan, as calculated as of the relevant Calculation Date multiplied by M; and
- (b) 100 per cent. of the Latest Valuation relating to that Loan multiplied by M,

"M" means:

- (a) 100 per cent. for all Loans that are not Non-Performing Loans;
- (b) 90 per cent. for all Loans that are Non-Performing Loans on any day that the CMHC Rating is not below the level specified in the Declaration of Trust; or
- (c) 0 per cent. for all Loans that are Non-Performing Loans on any day that the CMHC Rating is below the level specified in the Declaration of Trust;

B = the sum of the amount of any cash standing to the credit of the GIC Account and the principal amount of any Authorised Investments (excluding any Available Revenue Receipts received in such Guarantor Calculation Period) as at the end of such Guarantor Calculation Period;

C = the aggregate outstanding principal balance of any Substitution Assets as at the end of such Guarantor Calculation Period;

D = the aggregate amount of the proceeds from any sale of Selected Loans standing to the credit of the GIC Account and recorded on the Pre-Maturity Liquidity Ledger (but without double counting) as at the end of such Guarantor Calculation Period; and

Z = the weighted average remaining maturity of all Covered Bonds (expressed in years) then outstanding **multiplied by** the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds **multiplied by** the Negative Carry Factor.

With respect to any Loan included in the Portfolio secured on a Mortgaged Property which also secures one or more other Loans included in the Portfolio, the Amortisation Test will be calculated in respect of such Loans on a consolidated basis as if all Loans secured on the same Mortgaged Property were a single Loan. Any breach of the Loan Representations and Warranties in respect of one of such Loans will be deemed to be a breach in respect of all such Loans secured on the same Mortgaged Property.

***Sale of Selected Loans after a Demand Loan Repayment Event has occurred or the Issuer has otherwise demanded that the Demand Loan be repaid***

If, prior to the service of an Asset Coverage Test Breach Notice or a Notice to Pay, a Demand Loan Repayment Event has occurred or the Issuer has demanded that the Demand Loan be repaid, the Guarantor, unless the Asset Coverage Test breach is otherwise cured, will be required to sell Selected Loans in the Portfolio in accordance with

the Declaration of Trust (as described below), subject to the rights of pre-emption in favour of the relevant Seller(s) to buy the Selected Loans and their Related Security pursuant to the Mortgage Sale Agreement. Any such sale will be subject to the condition that the Asset Coverage Test, calculated on the next Calculation Date, is satisfied after receipt of the proceeds of such sale and repayment, after giving effect to such repayment.

#### ***Sale of Selected Loans following a breach of the Pre-Maturity Test***

The Pre-Maturity Test will be breached if the Issuer's Ratings fall below a specified level and a Hard Bullet Covered Bond is due for repayment within a specified period of time thereafter: see further *Credit Structure—Pre-Maturity Liquidity*. If the Pre-Maturity Test is breached, the Guarantor may be required to sell Selected Loans in the Portfolio in accordance with the Declaration of Trust (as described below), subject to the rights of pre-emption in favour of the relevant Seller(s) to buy the Selected Loans pursuant to the terms of the Mortgage Sale Agreement. If the Issuer and the Guarantor fail to repay any Series of Hard Bullet Covered Bonds on the Final Maturity Date thereof, then following the occurrence of an Issuer Event of Default and service of a Notice to Pay on the Guarantor, the proceeds from any sale of Selected Loans standing to the credit of the Pre-Maturity Liquidity Ledger will be applied to repay the relevant Series of Hard Bullet Covered Bonds. Otherwise, the proceeds will be applied as set out in *Credit Structure—Pre-Maturity Liquidity* below.

#### ***Sale of Selected Loans following service of an Asset Coverage Test Breach Notice***

After service of an Asset Coverage Test Breach Notice on the Guarantor (which has not been revoked) but prior to service of a Notice to Pay or a Guarantor Acceleration Notice, the Guarantor may be required to sell Selected Loans in the Portfolio in accordance with the Declaration of Trust (as described below), subject to the rights of pre-emption in favour of the Sellers to buy the Selected Loans pursuant to the Mortgage Sale Agreement. The proceeds from any such sale will be credited to the GIC Account and applied as set out in *Cashflows—Allocation and distribution of Available Revenue Receipts and Available Principal Receipts following service of an Asset Coverage Test Breach Notice* below.

#### ***Sale of Selected Loans following service of a Notice to Pay***

After service of a Notice to Pay on the Guarantor, but prior to service of a Guarantor Acceleration Notice, the Guarantor, unless the Asset Coverage Test breach is otherwise cured, will be required to sell Selected Loans in accordance with the Declaration of Trust (as described below), subject to the rights of pre-emption in favour of the Sellers to buy the Selected Loans pursuant to the Mortgage Sale Agreement. The proceeds from any such sale will be credited to the GIC Account and applied as set out in *Cashflows—Guarantee Priority of Payments* below.

#### ***Method of Sale of Selected Loans***

If the Guarantor is required to sell Selected Loans to Purchasers following a breach of the Pre-Maturity Test or the occurrence of a Demand Loan Repayment Event, the Demand Loan being demanded by the Issuer or the service of an Asset Coverage Test Breach Notice (if not revoked) or a Notice to Pay, the Guarantor will be required to ensure that before offering Selected Loans for sale:

- (a) the Selected Loans being sold are Randomly Selected Loans; and
- (b) the Selected Loans have an aggregate Outstanding Principal Balance in an amount (the "**Required Outstanding Principal Balance Amount**") which is as close as possible to the amount calculated as follows:
  - (i) following a Demand Loan Repayment Event or the Demand Loan being demanded by the Issuer but prior to service of an Asset Coverage Test Breach Notice, such amount that would ensure that, if the Selected Loans were sold at their Outstanding Principal Balance plus the Arrears of Interest and Accrued Interest thereon, the Demand Loan as calculated on the date of the demand could be repaid, subject to satisfaction of the Asset Coverage Test on the next Calculation Date; or

- (ii) following the service of an Asset Coverage Test Breach Notice (but prior to service of a Notice to Pay or a Guarantor Acceleration Notice), such amount that would ensure that, if the Selected Loans were sold at their Outstanding Principal Balance plus the Arrears of Interest and Accrued Interest thereon, the Asset Coverage Test would be satisfied on the next Calculation Date taking into account the payment obligations of the Guarantor on the Guarantor Payment Date following that Calculation Date (assuming for this purpose that the Asset Coverage Test Breach Notice is not revoked on the next Calculation Date); or
- (iii) following a breach of the Pre-Maturity Test or following service of a Notice to Pay:

N x the aggregate Outstanding Principal Balance of all Loans in the Portfolio  
the Canadian Dollar Equivalent of the Required Redemption Amount  
in respect of each Series of Covered Bonds then outstanding

where N is an amount equal to:

- (x) in respect of Selected Loans being sold following a breach of the Pre-Maturity Test, the Canadian Dollar Equivalent of the Required Redemption Amount of the relevant Series of Hard Bullet Covered Bonds less amounts standing to the credit of the Pre-Maturity Liquidity Ledger that are not otherwise required to provide liquidity for any Series of Hard Bullet Covered Bonds which mature within twelve months of the date of such calculation; or
- (y) in respect of Selected Loans being sold following service of a Notice to Pay, the Canadian Dollar Equivalent of the Required Redemption Amount of the Earliest Maturing Covered Bonds less amounts standing to the credit of the GIC Account and the principal amount of any Substitution Assets or Authorised Investments (excluding all amounts to be applied on the next following Guarantor Payment Date to repay higher ranking amounts in the Guarantee Priority of Payments or amounts ranking *pari passu* with the Covered Bonds and those amounts that are required to repay any Series of Covered Bonds which have a Final Maturity Date prior to or on the same date as the relevant Series of Covered Bonds).

For the purposes hereof:

**"Required Redemption Amount"** means, in respect of a Series of Covered Bonds, the amount calculated as follows:

the aggregate Principal Amount Outstanding of the relevant Series of Covered Bonds x [1+ Negative Carry Factor x (days to maturity of the relevant Series of Covered Bonds/365)]

The Guarantor will offer the Randomly Selected Loans for sale to Purchasers for the best price reasonably available but in any event:

- (i) following (x) a Demand Loan Repayment Event, the Demand Loan being demanded by the Issuer or (y) the service of an Asset Coverage Test Breach Notice (but prior to service of a Notice to Pay), in each case, for an amount not less than the sum of the aggregate Outstanding Principal Balance of the Selected Loans, plus the Arrears of Interest and Accrued Interest thereon, as adjusted to take into account any swap termination payments due and payable under, and in accordance with, the Interest Rate Swap Agreement as a result of such sale; and
- (ii) following a breach of the Pre-Maturity Test or service of a Notice to Pay, for an amount not less than the sum of the Adjusted Required Redemption Amount for the relevant Series of Covered Bonds.

Following service of a Notice to Pay, if the Randomly Selected Loans have not been sold (in whole or in part) in an amount equal to the sum of the Adjusted Required Redemption Amount for the relevant Series of Covered Bonds by the date which is six months prior to, as applicable, if the Earliest Maturing Covered Bonds are not subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the Final Maturity Date of the Earliest Maturing Covered Bonds or, if the Earliest Maturing Covered Bonds are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the Extended Due for Payment Date in respect of the Earliest Maturing Covered Bonds, or the Final Maturity Date of the relevant Series of Hard Bullet Covered Bonds in respect of a sale in connection with the Pre-Maturity Test, then the Guarantor will offer the Randomly Selected Loans for sale for the best price reasonably available notwithstanding that such amount may be less than the sum of the Adjusted Required Redemption Amount for the relevant Series of Covered Bonds.

Following service of a Notice to Pay, in addition to offering the Randomly Selected Loans for sale to Purchasers in respect of the Earliest Maturing Covered Bonds, the Guarantor (subject to the rights of pre-emption in favour of the Sellers pursuant to the Mortgage Sale Agreement unless no longer applicable) is permitted to offer for sale a portfolio of the Randomly Selected Loans, in accordance with the provisions summarised above, in respect of other Series of Covered Bonds.

The Guarantor is also permitted to offer for sale to Purchasers a Partial Portfolio. Where a Notice to Pay has been served, except in circumstances where the portfolio of the Randomly Selected Loans is being sold within six months of, as applicable, the Final Maturity Date of the Earliest Maturing Covered Bonds or, if the Earliest Maturing Covered Bonds are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the Extended Due for Payment Date in respect of the Earliest Maturing Covered Bonds, the sale price of the Partial Portfolio (as a proportion of the Adjusted Required Redemption Amount) will be at least equal to the proportion that the Partial Portfolio bears to the relevant portfolio of Randomly Selected Loans as adjusted to take into account any swap termination payments due and payable under, and in accordance with the terms of the Interest Rate Swap Agreement as a result of such sale.

The Guarantor will through a tender process appoint a portfolio manager of recognised standing on a basis intended to provide incentive to the portfolio manager to achieve the best price for the sale of the Randomly Selected Loans (if such terms are commercially available in the market) and to advise it in relation to the sale of the Randomly Selected Loans to Purchasers (except where a Seller is buying Randomly Selected Loans in accordance with its right of pre-emption in the Mortgage Sale Agreement). The terms of the agreement giving effect to the appointment in accordance with such tender will be approved by the Security Trustee.

In respect of any sale of Randomly Selected Loans in the Portfolio following a Demand Loan Repayment Event, the Demand Loan being demanded by the Issuer, service on the Guarantor of an Asset Coverage Test Breach Notice (which has not been revoked) or a Notice to Pay or a breach of the Pre-Maturity Test, the relevant Servicer will instruct the portfolio manager to use all commercially reasonable endeavours to procure that the Randomly Selected Loans are sold as quickly as reasonably practicable (in accordance with the recommendations of the portfolio manager) taking into account the market conditions at that time and, where relevant, the scheduled repayment dates of the Covered Bonds and the terms of the Declaration of Trust.

The terms of any sale and purchase agreement with respect to the sale of Randomly Selected Loans (which will give effect to the recommendations of the portfolio manager) will be subject to the prior written approval of the Security Trustee and, unless otherwise expressly permitted to do so by the Security Trustee, the Guarantor will not be permitted to give representations, warranties or indemnities with respect to such Randomly Selected Loans. The Security Trustee will not be required to release Randomly Selected Loans from the Security unless the conditions relating to the release of the Security (as described under —*Security Agreement—Release of Security* below) are satisfied.

Following service of a Notice to Pay but prior to service of a Guarantor Acceleration Notice, if Purchasers accept the offer or offers from the Guarantor so that some or all of the Randomly Selected Loans will be sold prior to the next following Final Maturity Date of the Hard Bullet Covered Bonds or, to the Final Maturity Date of the Earliest Maturing Covered Bonds or, if the Earliest Maturing Covered Bonds are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the Extended Due for Payment Date in respect of the Earliest Maturing Covered Bonds, then the Guarantor will, subject to the foregoing paragraph, enter into a sale and purchase

agreement with the relevant Purchasers which will require *inter alia* a cash payment from the relevant Purchasers in immediately available funds on or prior to the relevant date. Any such sale will not include any representations and warranties from the Guarantor or the Seller (or the applicable New Seller(s)) in respect of the Loans and their Related Security, except, in respect of STEP Loans, for such representations and warranties respecting the STEP Plan, the related servicing and priority arrangement and/or the interests of a Seller or Other STEP Creditor in any related STEP Accounts, in each case to the extent reasonably necessary for the purposes of such sale, or unless expressly agreed by the Security Trustee or otherwise agreed with the Guarantor and the relevant Seller(s) (or the applicable New Seller(s)). The relevant Seller(s) (or the applicable New Seller(s)) and the Guarantor will enter into such documentation as is required under such sale and purchase agreement to enable the purchaser to obtain valid title to the Randomly Selected Loans to be sold thereunder.

### ***Limit on Investing in Substitution Assets and Authorised Investments***

Prior to service on the Guarantor of an Asset Coverage Test Breach Notice or a Notice to Pay, or following revocation of an Asset Coverage Test Breach Notice that has been previously served on the Guarantor or prior to a Pre-Maturity Test breach, the Guarantor will be permitted to invest Available Revenue Receipts, Available Principal Receipts and the proceeds of Advances and Subordinated Advances in Authorised Investments and Substitution Assets, *provided* that the aggregate amount so invested in such Substitution Assets does not exceed 10 per cent. of the total assets of the Guarantor at any one time and *provided* that such investments are made in accordance with the terms of the Cash Management Agreement and all other Transaction Documents. Placing such amounts in any Guarantor Account will not constitute an investment in Substitution Assets for these purposes.

Following service of an Asset Coverage Test Breach Notice (if not revoked), a Notice to Pay on the Guarantor or a breach of the Pre-Maturity Test, all Substitution Assets must be sold by the Guarantor (or the Cash Manager on its behalf) as quickly as reasonably practicable and the Guarantor will be permitted to invest all available funds in Authorised Investments, *provided* that such investments are made in accordance with the terms of the Cash Management Agreement and all other Transaction Documents.

There is no limit on the amounts that the Guarantor will be entitled to invest in Authorised Investments.

### ***Other Provisions***

The allocation and distribution of Revenue Receipts, Principal Receipts and all other amounts received by the Guarantor is described under *Cashflows* below.

The Declaration of Trust is governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein.

### **Subordinated Loan Agreement**

From time to time, the Subordinated Loan Provider will make Subordinated Advances to the Guarantor. The amount of Subordinated Advances the Subordinated Loan Provider may make to the Guarantor (the "**Subordinated Loan Facility**") may be amended from time to time upon the written agreement of the Subordinated Loan Provider and the Guarantor, with a copy provided to the Security Trustee.

If, on any Guarantor Payment Date, the amount of funds available to the Guarantor for payment of Deferred Consideration to the relevant Seller(s) pursuant to the applicable Priority of Payments on such Guarantor Payment Date is insufficient to pay such Deferred Consideration in full, including, without limitation, as a result of amounts having been deposited to the Reserve Fund in accordance with the applicable Priority of Payments on such Guarantor Payment Date (the amount of such insufficiency, a "**Deferred Consideration Shortfall**"), or if any Additional Amount is to be paid to a Seller pursuant to the Declaration of Trust, the Subordinated Loan Provider will make an advance to the Guarantor under the Subordinated Loan Facility and in accordance with the Subordinated Loan Agreement in an amount equal to the Deferred Consideration Shortfall and any Additional Amount (each such advance, a "**Deferred Consideration Subordinated Advance**") on such Guarantor Payment Date.

If on any Calculation Date, there is a breach of the Asset Coverage Test, the Guarantor will be entitled to obtain an advance under the Subordinated Loan Facility and in accordance with the Subordinated Loan Agreement in an amount which will not exceed the amount reasonably expected to be necessary to correct such breach of the Asset Coverage Test (such advance, an "**Asset Coverage Test Subordinated Advance**"). The Guarantor may use an Asset Coverage Test Subordinated Advance, in its sole discretion, to (i) deposit into the GIC Account; (ii) invest in Substitution Assets (in an amount not exceeding the prescribed limit thereof); (iii) purchase Additional Loans and their Related Security pursuant to the Mortgage Sale Agreement; and/or (iv) make Additional Loan Advances.

The Subordinated Loan will bear interest as set out in the Subordinated Loan Agreement.

The Subordinated Loan Agreement provides that Subordinated Advances may be used to fund Additional Loan Advances, to rectify breaches of the Pre-Maturity Test by funding the Pre-Maturity Liquidity Ledger, and for any other purpose set out in the Subordinated Loan Agreement.

The outstanding principal amount of the Subordinated Loan at any time will equal the aggregate amount of any Subordinated Advances made by the Subordinated Loan Provider to the Guarantor minus the sum of any repayments. The Guarantor will make repayments to the Subordinated Loan Provider on each Guarantor Payment Date if, and to the extent that, no Asset Coverage Test Breach Notice has been served on it (which has not been revoked) and there are sufficient Available Revenue Receipts to make such payment in accordance with the applicable Priority of Payments. The Subordinated Loan will be subordinated to, *inter alia*, payments of principal and interest on the Covered Bonds, and all other payments or provisions ranking in priority to payments to be made to the Subordinated Loan Provider, in each case in accordance with the applicable Priority of Payments.

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

#### **Cash Management Agreement**

The Cash Manager will provide certain cash management services to the Guarantor and the Security Trustee pursuant to the terms of the Cash Management Agreement.

The Cash Manager's services include but are not limited to:

- (a) maintaining the Ledgers on behalf of the Guarantor;
- (b) distributing the Revenue Receipts and the Principal Receipts in accordance with the Priorities of Payment described under *Cashflows* below;
- (c) determining whether the Asset Coverage Test is satisfied on each Calculation Date, as more fully described under *Credit Structure—Asset Coverage Test*;
- (d) determining whether the Amortisation Test is satisfied on the Calculation Date following an Issuer Event of Default and service of a Notice to Pay, as more fully described under *Credit Structure—Amortisation Test*;
- (e) preparation of Monthly Asset Coverage Reports for the Guarantor, the Sellers, the Rating Agencies, the Security Trustee and the Bond Trustee; and
- (f) on each Toronto Business Day, determining whether the Pre-Maturity Test for each Series of Hard Bullet Covered Bonds, if any, is satisfied as more fully described under *Credit Structure—Pre-Maturity Liquidity* below.

In the event of a downgrade of the Issuer's Ratings by Moody's below the Issuer Ratings Threshold, the Cash Manager will be required to direct the Servicers to deposit all Revenue Receipts and all Principal Receipts received by the Servicers directly into the GIC Account within three Business Days of receipt. Following a downgrade of the

Issuer's Ratings by Fitch or DBRS below the Issuer Ratings Threshold, the Cash Manager will be required to direct the Servicers to deposit all Revenue Receipts and all Principal Receipts received by the Servicers directly into the GIC Account within two Business Days of receipt.

In the event of a downgrade in the Cash Manager's Ratings by Moody's or the Issuer's Ratings by Fitch, in each case below a level specified in the Cash Management Agreement, the Cash Manager will be required (unless an unconditional and unlimited guarantee of its obligations under the Cash Management Agreement is obtained from a credit support provider having the Rating(s) required by the relevant Rating Agencies or it takes such other action as it may agree with the relevant Rating Agencies) to assign the Cash Management Agreement to a third party service provider acceptable to the Security Trustee and for which Rating Agency Confirmation has been provided.

In addition to the foregoing, the Guarantor and/or the Security Trustee may at once or at any time thereafter, upon written notice to the Cash Manager, terminate the Cash Manager's appointment under the Cash Management Agreement if a Cash Manager Termination Event has occurred and such event continues. Subject to the fulfilment of a number of conditions, the Cash Manager may resign and terminate its appointment as the Cash Manager upon the expiry of not less than 12 months' written notice to the Guarantor and the Security Trustee (or such shorter time as may be agreed between the Cash Manager, the Guarantor and the Security Trustee) *provided* that:

- (a) a successor cash manger will be appointed, such appointment to be effective not later than the date of such resignation;
- (b) such successor cash manager has cash management experience and is approved by each of the Guarantor and the Security Trustee;
- (c) the successor cash manager enters into an agreement substantially on the same terms as the relevant provisions of the Cash Management Agreement (or on such terms as are satisfactory to the Guarantor and the Security Trustee) and the Cash Manager will not be released from its obligations under the relevant provisions of the Cash Management Agreement until such successor cash manager has entered into such new agreement and the rights of the Guarantor under such agreement are charged in favour of the Security Trustee on terms satisfactory to the Security Trustee; and
- (d) Rating Agency Confirmation has been obtained with respect to such resignation and the appointment of the successor Cash Manager, unless otherwise agreed by an Extraordinary Resolution of the Covered Bondholders.

The Bank, as initial Cash Manager, will perform the duties and obligations of the Cash Manager pursuant to the Cash Management Agreement at no additional cost to the Guarantor and will not be entitled to any compensation or reimbursement for its cash management services under the Cash Management Agreement. If the Bank ceases to act as Cash Manager, a successor cash manager that is not a member of the Scotiabank Group will be paid a fee for its cash management services under the Cash Management Agreement in an amount which will be agreed between the Guarantor and such successor cash manager and paid in accordance with the applicable Priority of Payments.

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

### **Interest Rate Swap Agreement**

To provide a hedge against possible variances in the rates of interest payable on the Loans in the Portfolio (which may, for instance, include variable rates of interest or fixed rates of interest) and the interest amounts payable on the Intercompany Loan and (following the occurrence of a Covered Bond Guarantee Activation Event) the Covered Bond Swap Agreement, the Guarantor has entered into the Interest Rate Swap Agreement with the Interest Rate Swap Provider. The Guarantor and the Interest Rate Swap Provider will agree to swap the amount of interest received by the Guarantor (net of expenses) from Borrowers in respect of the Loans in the Portfolio in exchange for

an amount determined at the floating rate payable by the Guarantor under the Covered Bond Swap Agreement on a notional amount equivalent to the principal balance of the Loans on which the Guarantor received interest.

The Interest Rate Swap Agreement will terminate (unless terminated earlier by an Interest Rate Swap Early Termination Event) on the last day of the Guarantor Calculation Period during which the Notional Amount is reduced to zero.

The Interest Rate Swap Agreement may also be terminated, whether in whole or adjusted in part, in certain other circumstances (each referred to as an "**Interest Rate Swap Early Termination Event**"), including:

- at the option of any party to the Interest Rate Swap Agreement, if there is a failure by the other party to pay any amounts due under the Interest Rate Swap Agreement (for the avoidance of doubt, no such failure to pay by the Guarantor will entitle the Interest Rate Swap Provider to terminate the Interest Rate Swap Agreement, if such failure is due to the assets available at such time to the Guarantor being insufficient to make the required payment in full);
- at the option of the Guarantor, in the event that the Ratings of the Interest Rate Swap Provider, or any credit support provider, as applicable, by the Rating Agencies are downgraded by the Rating Agencies below the ratings of the Rating Agencies specified in the Interest Rate Swap Agreement and the Interest Rate Swap Provider 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 Interest Rate Swap Agreement to be guaranteed by an entity having the Rating(s) required by the relevant Rating Agencies, or taking such other action as it may agree with the relevant Rating Agencies; and
- upon the occurrence of the insolvency of the Interest Rate Swap Provider, or any credit support provider, and certain insolvency-related events in respect of the Guarantor, or the merger of the Interest Rate Swap Provider without an assumption of its obligations under 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 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.

As noted herein, the notional amount of an Interest Rate Swap Agreement will be adjusted to correspond to any sale of Selected Loans following each of a Demand Loan Repayment Event, the Demand Loan being demanded by the Issuer, breach of the Pre-Maturity Test, service of an Asset Coverage Test Breach Notice and service of a Notice to Pay and swap termination payments may be due and payable in accordance with the terms of the Interest Rate Swap Agreement as a consequence thereof.

If withholding taxes are imposed on payments made by the Interest Rate Swap Provider under the Interest Rate Swap Agreement, the Interest Rate Swap Provider will always be obliged to gross-up those payments. If withholding taxes are imposed on payments made by the Guarantor to the Interest Rate Swap Provider under the Interest Rate Swap Agreement, the Guarantor will not be obliged to gross-up those payments.

Under the Interest Rate Swap Agreement, the Guarantor's obligations are limited in recourse to the Charged Property.

The Interest Rate Swap Agreement is governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein, unless otherwise indicated.

### **Covered Bond Swap Agreement**

To provide a hedge against currency and/or other risks in respect of amounts received by the Guarantor under the Interest Rate Swap Agreement and amounts payable or that may become payable in respect of its obligations under the Covered Bond Guarantee, the Guarantor has entered into the Covered Bond Swap Agreement with the Covered Bond Swap Provider, and may enter into one or more new schedules and confirmations thereunder for each Tranche

and/or Series of Covered Bonds at the time such Covered Bonds are issued. The Covered Bond Swap Provider and the Guarantor will agree to swap Canadian Dollar floating rate amounts received by the Guarantor under the Interest Rate Swap Agreement into the periodic amounts determined at the rate and in the currency specified and agree to exchange notional principal amount in Canadian Dollars and the currency specified in the Covered Bond Swap Agreement relating to the relevant Tranche or Series of Covered Bonds. No cash flows will be exchanged under the Covered Bond Swap Agreement unless and until a Covered Bond Guarantee Activation Event has occurred.

If prior to (i) the Final Maturity Date in respect of the relevant Series or Tranche of Covered Bonds, or (ii) any Interest Payment Date or the Extended Due for Payment Date following a deferral of the Due for Payment Date to the Extended Due for Payment Date by the Guarantor pursuant to Condition 6.1 (if an Extended Due for Payment Date is specified as applicable in the Final Terms Document for a Series of Covered Bonds and the payment of the Final Redemption Amount or any part of it by the Guarantor under the Covered Bond Guarantee is deferred pursuant to Condition 6.1), the Guarantor notifies the Covered Bond Swap Provider (pursuant to the terms of the Covered Bond Swap Agreement) of the amount in the Specified Currency to be paid by the Covered Bond Swap Provider on such Final Maturity Date or Interest Payment Date thereafter (such amount being equal to the Final Redemption Amount or the relevant portion thereof payable by the Guarantor on such Final Maturity Date or Interest Payment Date under the Covered Bond Guarantee in respect of the relevant Series or Tranche of Covered Bonds), then the Covered Bond Swap Provider will pay the Guarantor such amount and the Guarantor will pay the Covered Bond Swap Provider the Canadian Dollar Equivalent of such amount. Further, if on any day an Early Redemption Amount is payable pursuant to Condition 9.2, the Covered Bond Swap Provider will pay the Guarantor such amount (or the relevant portion thereof) and the Guarantor will pay the Covered Bond Swap Provider the Canadian Dollar Equivalent thereof, following which the notional amount of the Covered Bond Swap Agreement will reduce accordingly.

The Covered Bond Swap Agreement will terminate (unless terminated earlier by a Covered Bond Swap Early Termination Event) on the earlier of:

- (a) the Final Maturity Date for, or if earlier, the date of redemption in whole of, the final Tranche or Series of Covered Bonds or, if the Guarantor notifies the Covered Bond Swap Provider, prior to the Final Maturity Date for such Tranche or Series of Covered Bonds, of the inability of the Guarantor to pay in full Guaranteed Amounts corresponding to the Final Redemption Amount in respect of such Tranche or Series of Covered Bonds, the final Interest Payment Date on which an amount representing the Final Redemption Amount for such final 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 Security Trustee and notified to the Covered Bond Swap Provider and the Guarantor for purposes of realising the Security in accordance with the Security Agreement and distributing the proceeds therefrom in accordance with the Post-Enforcement Priority of Payments following the enforcement of the Security pursuant to Condition 9.3.

The Covered Bond Swap Agreement may also be terminated in certain other circumstances (each referred to as a "**Covered Bond Swap Early Termination Event**"), including:

- at the option of any party to the Covered Bond Swap Agreement, if there is a failure by the other party to pay any amounts due under the Covered Bond Swap Agreement (for the avoidance of doubt, no such failure to pay by the Guarantor will entitle the Covered Bond Swap Provider to terminate the Covered Bond Swap Agreement, if such failure is due to the assets available at such time to the Guarantor being insufficient to make the required payment in full);
- at the option of the Guarantor, in the event that the Ratings of the Covered Bond Swap Provider, or any credit support provider, as applicable, by the Rating Agencies are downgraded by the Rating Agencies below the ratings of the Rating Agencies specified in the Covered Bond Swap Agreement and the Covered Bond Swap Provider 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

Covered Bond Swap Agreement to be guaranteed by an entity having the Rating(s) required by the relevant Rating Agencies, or taking such other action as it may agree with the relevant Rating Agencies; and

- upon the occurrence of the insolvency of the Covered Bond Swap Provider, or any credit support provider, and certain insolvency-related events in respect of the Guarantor, or the merger of the Covered Bond Swap Provider without an assumption of its obligations under 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 or the Covered Bond Swap Provider may be liable to make a termination payment to the other in accordance with the provisions of the Covered Bond Swap Agreement.

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

Any Tax Credits or Swap Collateral Excluded Amounts, if applicable, will be paid to the Covered Bond Swap Provider directly and not via the applicable Priority of Payments.

If withholding taxes are imposed on payments made by the Covered Bond Swap Provider to the Guarantor under the Covered Bond Swap Agreement, the Covered Bond Swap Provider will always be obliged to gross-up those payments. If withholding taxes are imposed on payments made by the Guarantor to the Covered Bond Swap Provider under the Covered Bond Swap Agreement, the Guarantor will not be obliged to gross-up those payments.

Under the Covered Bond Swap Agreement, the Guarantor's obligations are limited in recourse to the Charged Property. To the extent that the Guarantor is unable to make any payment in full under the Covered Bond Swap Agreement due to its assets being insufficient to make such payment in full, the payment obligations of the Covered Bond Swap Provider will ratably reduce.

The Covered Bond Swap Agreement is governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein, unless otherwise indicated.

### **Bank Account Agreement**

Pursuant to the terms of the Bank Account Agreement, the Guarantor will maintain with the Account Bank the GIC Account described below together with the Transaction Account, which will be operated in accordance with the Cash Management Agreement, the Declaration of Trust, the Guaranteed Investment Contract and the Security Agreement.

All amounts received from Borrowers in respect of Loans in the Portfolio will be deposited into the GIC Account and credited to the Revenue Ledger or the Principal Ledger, as the case may be. On each Guarantor Payment Date, amounts required to meet the claims of the Guarantor's various creditors and amounts to be distributed to the Beneficiaries under the Declaration of Trust will be transferred from the Revenue Ledger, the Reserve Ledger or the Principal Ledger, as applicable, to the Payment Ledger on the GIC Account and from the GIC Account to the Transaction Account and applied by the Cash Manager in accordance with the applicable Priority of Payments described below under *Cashflows*.

In the event of downgrade in the Ratings of the Account Bank by the Rating Agencies below the level specified in the Bank Account Agreement, the Account Bank will be required (unless within 30 calendar days of such occurrence an unconditional and unlimited guarantee of its obligations under the Bank Account Agreement is obtained from a credit support provider having the Rating(s) required by the relevant Rating Agencies or it takes

such other action as it may agree with the relevant Rating Agencies) to close the GIC Account and the Transaction Account and transfer all amounts standing to the credit thereof to the Standby GIC Account and the Standby Transaction Account, respectively.

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

### **Standby Bank Account Agreement**

Pursuant to the terms of the Standby Bank Account Agreement, the Standby Account Bank will open and maintain the Standby GIC Account and Standby Transaction Account in the name of the Guarantor following delivery by the Guarantor (or the Cash Manager on its behalf) of 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 GIC 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 GIC Account and the Standby Transaction Account, when opened, will be subject to the security interest in favour of the Security Trustee (for Covered Bondholders and on behalf of the other Secured Creditors) granted under the Security Agreement and that payments of amounts owing to the Standby Account Bank in respect of fees or otherwise will be subject to the applicable Priority of Payments.

The Standby Bank Account Agreement further provides that if the Ratings of the Standby Account Bank by the Rating Agencies fall below the ratings for the Standby Account Bank specified in the Standby Bank Account Agreement, then within 30 calendar days of such occurrence either:

- the Standby GIC Account and the Standby Transaction Account (to the extent maintained) will be required to be closed and all amounts standing to the credit thereof transferred to accounts held with a satisfactorily rated bank; or
- the Standby Account Bank will obtain an unconditional and unlimited guarantee of its obligations under the Standby Bank Account Agreement from a financial institution that has satisfactory Ratings,

in each case, *provided* that Rating Agency Confirmation has been received in respect of the substitute bank or such financial institution within 30 calendar days of such downgrade.

References in this Prospectus to the GIC Account or the Transaction Account include, unless otherwise stated, references to the Standby GIC Account or the Standby Transaction Account when the Standby GIC Account and the Standby Transaction Account become operative.

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

### **Guaranteed Investment Contract**

The Guarantor has entered into a Guaranteed Investment Contract pursuant to which the GIC Provider will agree to pay interest on the funds standing to the credit thereof at specified rates determined in accordance with the Guaranteed Investment Contract.

The Guaranteed Investment Contract is governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein.

### **Standby Guaranteed Investment Contract**

Pursuant to the terms of the Standby Guaranteed Investment Contract, the Standby GIC Provider will agree to pay interest on the funds standing to the credit of the Standby GIC Account at specified rates determined in accordance with the terms of the Standby Guaranteed Investment Contract during the term of the Standby Bank Account Agreement.

Following the closing of the Standby GIC Account or termination of the Standby Bank Account Agreement, the Standby Guaranteed Investment Contract will be automatically terminated.

The Standby Guaranteed Investment Contract is governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein.

### **Security Agreement**

Pursuant to the terms of the Security Agreement, the obligations of the Guarantor under or pursuant to the Transaction Documents to which it is a party are secured, *inter alia*, by a first priority security interest (the "Security") over the following property, assets and rights of the Guarantor (the "**Charged Property**"):

- (a) the Guarantor's interest in the Loans and their Related Security, including the benefit of CMHC Mortgage Insurance relating to the Loans, and other related rights comprised in the Portfolio;
- (b) all of the Guarantor's interests, rights and entitlements under and in respect of any Transaction Document to which it is a party;
- (c) the rights and benefits of the Guarantor in the Guarantor Accounts and any other account of the Guarantor and all amounts standing to the credit of the Guarantor Accounts (including the Excess Proceeds) and such other accounts;
- (d) the rights and benefits of the Guarantor in respect of all Authorised Investments and Substitution Assets purchased from time to time from amounts standing to the credit of the Guarantor Accounts; and
- (e) all the assets and undertakings of the Guarantor and not, from time to time, subject to any security interest in favour of the Security Trustee pursuant to the Security Agreement.

### ***Release of Security***

In the event of any sale of Loans (including Selected Loans) and their Related Security by the Guarantor, pursuant to and in accordance with the Transaction Documents, the Security Trustee will, if so requested in writing by the Guarantor (at the sole cost and expense of the Guarantor) release, re-assign or discharge those Loans and their Related Security from the Security created by and pursuant to the Security Agreement on the date of such sale and such Loans and their Related Security will no longer form part of the Portfolio, but only if:

- (a) the Security Trustee provides its prior written consent to the terms of such sale as described under —*Declaration of Trust—Method of Sale of Selected Loans* above; and
- (b) the Administrative Agent provides a certificate to the Security Trustee that such sale of Loans and their Related Security has been made in accordance with the terms of the Transaction Documents and in the case of Selected Loans only, that the Loans are Randomly Selected Loans; and
- (c) the proceeds of sale required to be paid pursuant to the Transaction Documents have been received and deposited into the GIC Account.

In the event of the repurchase of a Loan and its Related Security by the Sellers pursuant to and in accordance with the Transaction Documents, the Security Trustee will release that Loan from the Security created by and pursuant to the Security Agreement on or prior to the date of repurchase.

### ***Enforcement***

If a Guarantor Acceleration Notice is served on the Guarantor, the Security Trustee will be entitled to appoint a Receiver, and/or enforce the Security constituted by the Security Agreement (including selling the Portfolio), and/or take such steps as it will deem necessary, subject in each case to being indemnified and/or secured to its satisfaction. All proceeds (other than any Tax Credit, Third Party Amounts or Swap Collateral Excluded Amounts) received by the Security Trustee from the enforcement of the Security will be applied in accordance with the Post-Enforcement Priority of Payments described under *Cashflows*.

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

### **Administration Agreement**

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

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

## CREDIT STRUCTURE

The Covered Bonds will constitute deposit liabilities of the Issuer for purposes of the Bank Act, except in certain limited circumstances: see *Terms and Conditions of the Covered Bonds—Events of Default, Acceleration and Enforcement—Issuer Event of Default* and *—Meetings of Covered Bondholders, Modifications, Waiver and Substitution*. The Covered Bonds will rank *pari passu* with all deposit liabilities of the Issuer without any preference among themselves and (save for any obligations required to be preferred by law) at least *pari passu* with all other present and future unsubordinated and unsecured obligations of the Issuer from time to time outstanding.

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

The Covered Bonds will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer, except in certain limited circumstances: see *Terms and Conditions of the Covered Bonds—Events of Default, Acceleration and Enforcement—Issuer Event of Default* and *—Meetings of Covered Bondholders, Modifications, Waiver and Substitution*.

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

There are a number of features of the Programme which enhance the likelihood of timely and, as applicable, ultimate payments of principal and interest to Covered Bondholders, as follows:

- the Covered Bond Guarantee and Charged Property provide credit support to the Covered Bondholders;
- the Pre-Maturity Test is intended to test the liquidity of the Guarantor's assets in respect of principal due on the Final Maturity Date of Hard Bullet Covered Bonds;
- the Asset Coverage Test is intended to test the asset coverage of the Guarantor's assets in respect of the Covered Bonds is maintained at a certain level;
- the Amortisation Test is intended to test the asset coverage of the Guarantor's assets in respect of the Covered Bonds following the occurrence of an Issuer Event of Default and service of a Notice to Pay on the Guarantor;
- a Reserve Fund (if the Issuer's Ratings fall below the levels specified in the Declaration of Trust) will be established by the Guarantor (or the Cash Manager on its behalf) in the GIC Account to trap Available Revenue Receipts; and
- under the terms of the Guaranteed Investment Contract, the GIC Provider has agreed to pay a variable rate of interest on all amounts held by the Guarantor in the GIC Account at a floor of 0.10 per cent. below CDOR having a term of 30 days that appears on the Reuters Screen as of 10:00 a.m. (Toronto time) on the date of determination, as reported by the GIC Provider (and if such screen is not available, any successor or similar service as may be selected by the GIC Provider) or such greater amount as the Guarantor and the GIC Provider may agree from time to time.

Certain of these factors are considered more fully in the remainder of this section.

## Covered Bond Guarantee

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

See further *Summary of the Principal Documents—Trust Deed* as regards the terms of the Covered Bond Guarantee: see further *Cashflows—Guarantee Priority of Payments* as regards the payment of amounts payable by the Guarantor to Covered Bondholders and other Secured Creditors following service of a Notice to Pay.

## Pre-Maturity Liquidity

Certain Series of Covered Bonds may be scheduled to be redeemed in full on their respective Final Maturity Dates without any provision for scheduled redemption other than on the Final Maturity Date (the "**Hard Bullet Covered Bonds**"). The applicable Final Terms Document will identify whether any Series of Covered Bonds is a Series of Hard Bullet Covered Bonds. The Pre-Maturity Test is intended to test the liquidity of the Guarantor's assets in respect of the Hard Bullet Covered Bonds when the Issuer's Ratings fall below a certain level. On each Toronto Business Day (each, a "**Pre-Maturity Test Date**") prior to the occurrence of an Issuer Event of Default or the occurrence of a Guarantor Event of Default, the Guarantor or the Cash Manager on its behalf will determine if the Pre-Maturity Test has been breached, and if so, it will immediately notify the Sellers and the Security Trustee.

The Issuer will fail and be in breach of the "**Pre-Maturity Test**" on a Pre Maturity Test Date if the Issuer's Ratings fall below the ratings set forth in the Master Definitions and Construction Agreement and the Final Maturity Date of the Series of Hard Bullet Covered Bonds falls within twelve months (in the case of the Issuer's Ratings by each of Moody's, DBRS and Fitch) or six months (solely in the case of the Issuer's Ratings by DBRS) from the relevant Pre Maturity Test Date, as applicable.

Following a breach of the Pre-Maturity Test in respect of a Series of Hard Bullet Covered Bonds, the Guarantor may offer to sell Selected Loans to Purchasers, subject to any right of pre-emption enjoyed by the Sellers pursuant to the terms of the Mortgage Sale Agreement, or the Guarantor may fund the Pre-Maturity Liquidity Ledger by obtaining a Subordinated Advance. An Issuer Event of Default will occur if the Pre-Maturity Test in respect of any Series of Hard Bullet Covered Bonds is breached and the Guarantor has not funded the Pre-Maturity Liquidity Ledger following the breach within the earlier to occur of (i) 10 Toronto Business Days from the date that the Sellers are notified of the breach of the Pre-Maturity Test and (ii) the Final Maturity Date of that Series of Hard Bullet Covered Bonds (see further: Condition 9.1). To cure a Pre-Maturity Test breach within such period, the Pre-Maturity Liquidity Ledger is to be funded (including where required by the Declaration of Trust, by the application of Available Revenue Receipts and Available Principal Receipts in accordance with the Pre-Acceleration Revenue Priority of Payments and the Pre-Acceleration Principal Priority of Payments) so that by the end of such period, there will be an amount equal to the Required Redemption Amount of that Series of Hard Bullet Covered Bonds standing to the credit of the Pre-Maturity Liquidity Ledger (after taking into account the Required Redemption Amount of all other Series of Hard Bullet Covered Bonds which mature within twelve months of the date of such calculation). The method for selling Selected Loans is described in *Summary of Principal Documents—The Trust Deed—Sales of Selected Loans if the Pre-Maturity Test is breached* above. The proceeds of sale of Selected Loans will be recorded to the Pre-Maturity Liquidity Ledger on the GIC Account.

In certain circumstances, Revenue Receipts will also be available to repay a Hard Bullet Covered Bond, as described in *Cashflows—Pre-Acceleration Revenue Priority of Payments* below.

Failure by the Issuer and/or the Guarantor to pay the full amount due in respect of a Series of Hard Bullet Covered Bonds on the Final Maturity Date thereof will constitute an Issuer Event of Default. Following service of a Notice to Pay on the Guarantor, the Guarantor will apply funds standing to the Pre-Maturity Liquidity Ledger to repay the relevant Series of Hard Bullet Covered Bonds.

If the Issuer and/or the Guarantor fully repay the relevant Series of Hard Bullet Covered Bonds on the Final Maturity Date thereof, cash standing to the credit of the Pre-Maturity Liquidity Ledger on the GIC Account will be applied by the Guarantor in accordance with the Pre-Acceleration Principal Priority of Payments, unless:

- (a) the Issuer is failing the Pre-Maturity Test in respect of any other Series of Hard Bullet Covered Bonds, in which case the cash will remain on the Pre-Maturity Liquidity Ledger in order to provide liquidity for that other Series of Hard Bullet Covered Bonds; or
- (b) the Issuer is not failing the Pre-Maturity Test, but the Cash Manager elects to retain the cash on the Pre-Maturity Liquidity Ledger in order to provide liquidity for any future Series of Hard Bullet Covered Bonds.

Amounts standing to the credit of the Pre-Maturity Liquidity Ledger following the repayment of the Hard Bullet Covered Bonds as described above may, except where the Cash Manager has elected or is required to retain such amounts on the Pre-Maturity Liquidity Ledger, also be used to repay the Advances under the Intercompany Loan Agreement, Subordinated Advances under the Subordinated Loan Agreement and Deferred Consideration, subject to the Guarantor making provision for higher ranking items in the Pre-Acceleration Principal Priority of Payments.

#### **Asset Coverage Test**

The Asset Coverage Test is intended to test whether the Guarantor can meet its obligations under the Covered Bond Guarantee. Under the Declaration of Trust, the Guarantor must ensure that as at the end of each Guarantor Calculation Period, the Adjusted Aggregate Loan Amount will be in an amount equal to or in excess of the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as at the end of such Guarantor Calculation Period as calculated on the immediately following Calculation Date. If, as at the end of any Guarantor Calculation Period, the Adjusted Aggregate Loan Amount is less than the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as at the end of such Guarantor Calculation Period as calculated on the immediately following Calculation Date, the Guarantor will use all commercially reasonable efforts to ensure that the Adjusted Aggregate Loan Amount is in compliance with the Asset Coverage Test which may involve purchasing Additional Loans and their Related Security from the Sellers, purchasing Substitution Assets, requesting further Advances under the Intercompany Loan which may be made in cash or in kind, and/or requesting an Asset Coverage Test Subordinated Advance under the Subordinated Loan Agreement to satisfy the shortfall. If, as at the end of the next following Guarantor Calculation Period, the Adjusted Aggregate Loan Amount is less than the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of all Covered Bonds as at the end of such Guarantor Calculation Period as calculated on the immediately following Calculation Date, the Asset Coverage Test will be breached and the Bond Trustee will serve an Asset Coverage Test Breach Notice on the Guarantor. The Asset Coverage Test is a formula which adjusts the Outstanding Principal Balance of the Loans in the Portfolio based on methodologies prescribed by the Rating Agencies, and has further adjustments to take into account the failure by the Sellers, in accordance with Mortgage Sale Agreement, to repurchase Loans that do not materially comply with the Loan Representations and Warranties on the relevant Transfer Date: see *Summary of the Principal Documents—Declaration of Trust—Asset Coverage Test*.

An Asset Coverage Test Breach Notice will be revoked by the Bond Trustee if, on any Calculation Date falling on or prior to the immediately succeeding Calculation Date following service of the Asset Coverage Test Breach Notice, the Asset Coverage Test is satisfied and neither a Notice to Pay nor a Guarantor Acceleration Notice has been served.

If an Asset Coverage Test Breach Notice has been served and not revoked by the Bond Trustee on or before the immediately succeeding Calculation Date following service of such Asset Coverage Test Breach Notice, then an Issuer Event of Default will occur if the Bond Trustee has certified in writing to the Issuer and the Guarantor that such breach is, in its opinion, materially prejudicial to the interests of the Covered Bondholders of any Series 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 must serve a Notice to Pay on the Guarantor.

### **Amortisation Test**

The Amortisation Test is intended to test whether if, following service of a Notice to Pay on the Guarantor (but prior to service on the Guarantor of a Guarantor Acceleration Notice), the assets of the Guarantor available to meet its obligations under the Covered Bond Guarantee have fallen to a level where Covered Bondholders may not be repaid, and in which case, a Guarantor Event of Default will occur and all amounts owing under the Covered Bonds may be accelerated. Under the Declaration of Trust, the Guarantor must ensure that, as at the end of each Guarantor Calculation Period following service of a Notice to Pay on the Guarantor, the Amortisation Test Aggregate Loan Amount will be in an amount at least equal to the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as at the end of such Guarantor Calculation Period as calculated on the immediately following Calculation Date. The Amortisation Test is a formula which adjusts the Outstanding Principal Balance of the Loans in the Portfolio based on methodologies prescribed by the Rating Agencies, and has further adjustments to take account of Loans in arrears: see *Summary of the Principal Documents—Declaration of Trust—Amortisation Test*.

### **Reserve Fund**

If at any time prior to the occurrence of an Issuer Event of Default, the Issuer's Ratings fall below the levels set out in the Declaration of Trust, the Guarantor will be required to credit Available Revenue Receipts to the Reserve Fund up to an amount equal to the Reserve Fund Required Amount. The Guarantor will not be required to maintain the Reserve Fund following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice.

The Reserve Fund Required Amount will be funded from the proceeds of deemed Subordinated Advances, after the Guarantor has paid all of its obligations in respect of items ranking higher than the Reserve Ledger in the Pre-Acceleration Revenue Priority of Payments on each Guarantor Payment Date.

A Reserve Ledger will be maintained by the Cash Manager to record the balance from time to time of the Reserve Fund. Following the occurrence of an Issuer Event of Default, service of an Issuer Acceleration Notice and service of a Notice to Pay on the Guarantor, amounts standing to the credit of the Reserve Fund will be added to certain other income of the Guarantor in calculating Available Revenue Receipts.

The balance on the Reserve Ledger in excess of the Reserve Fund Required Amount will form part of Available Revenue Receipts and be applied accordingly.

## CASHFLOWS

As described above under *Credit Structure*, until a Notice to Pay is served on the Guarantor, the Covered Bonds will be obligations of the Issuer only. The Issuer is liable to make payments when due on the Covered Bonds, whether or not it has received any corresponding payment from the Guarantor.

This section summarises the Priority of Payments of the Guarantor, as to the allocation and distribution of amounts standing to the credit of the Guarantor Accounts and their order of priority:

- (a) prior to service on the Guarantor of an Asset Coverage Test Breach Notice, a Notice to Pay, or a Guarantor Acceleration Notice or following revocation of an Asset Coverage Test Breach Notice that has been previously served on the Guarantor;
- (b) following service of an Asset Coverage Test Breach Notice (and for so long as it has not been revoked);
- (c) following service of a Notice to Pay; and
- (d) following service of a Guarantor Acceleration Notice.

### **Allocation and distribution of Available Revenue Receipts prior to service on the Guarantor of an Asset Coverage Test Breach Notice, a Notice to Pay, or a Guarantor Acceleration Notice or following revocation of an Asset Coverage Test Breach Notice that has been previously served on the Guarantor**

Prior to service on the Guarantor of an Asset Coverage Test Breach Notice, a Notice to Pay or a Guarantor Acceleration Notice or following revocation of an Asset Coverage Test Breach Notice that has been previously served on the Guarantor, Available Revenue Receipts will be allocated and distributed to the Guarantor as described below.

On the Calculation Date immediately preceding each Guarantor Payment Date, the Guarantor (or the Cash Manager on its behalf) will calculate:

- (a) the amount of Available Revenue Receipts available for distribution on the immediately following Guarantor Payment Date;
- (b) the Reserve Fund Required Amount (if applicable); and
- (c) where the Pre-Maturity Test has been breached in respect of a Series of Hard Bullet Covered Bonds, on each Calculation Date falling in the eleven months prior to the Final Maturity Date of the relevant Series of Hard Bullet Covered Bonds, whether or not the amount standing to the credit of the Pre-Maturity Liquidity Ledger at such date is less than the Required Redemption Amount for the relevant Series of Hard Bullet Covered Bonds at such date (together with the Required Redemption Amount of all other Series of Hard Bullet Covered Bonds which mature within 12 months of the date of such calculation).

On each Guarantor Payment Date, the Guarantor (or the Cash Manager on its behalf) will transfer Available Revenue Receipts from the Revenue Ledger to the Payment Ledger on the GIC Account and transfer Available Revenue Receipts from the GIC Account to the Transaction Account, in an amount equal to the lower of (i) the amount required to make the payments described below and (ii) the amount of Available Revenue Receipts standing to the credit of the GIC Account.

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

Prior to service on the Guarantor of an Asset Coverage Test Breach Notice, a Notice to Pay or a Guarantor Acceleration Notice or following revocation of an Asset Coverage Test Breach Notice that has been previously

served on the Guarantor, Available Revenue Receipts will be applied by or on behalf of the Guarantor on each Guarantor Payment Date in making the following payments and provisions (the "**Pre-Acceleration Revenue Priority of Payments**") (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

- (a) *first*, in or towards payment of any amounts due and payable by the Guarantor to the Guarantor Trustee, the Bond Trustee, the Security Trustee, each Agent and to other third parties and incurred without breach by the Guarantor of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere in this Pre-Acceleration Revenue Priority of Payments) and to provide for any such amounts expected to become due and payable by the Guarantor in the immediately succeeding Guarantor Payment Period and to discharge any liability of the Guarantor for Taxes and stamp duties;
- (b) *second*, in or towards payment of any interest amounts due or to become due and payable, in respect of the Demand Loan pursuant to the terms of the Intercompany Loan Agreement;
- (c) *third*, in or towards payment *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) if a Servicer is not a Seller or an Affiliate thereof, any remuneration then due and payable to such Servicers and any costs, charges, liabilities and expenses then due or to become due and payable to such Servicers under the provisions of the Servicing Agreement or replacement servicing agreement in the immediately succeeding Guarantor Payment Period in respect of Loans owned by the Guarantor, together with any applicable Taxes thereon as provided therein;
  - (ii) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager under the provisions of the Cash Management Agreement in the immediately succeeding Guarantor Payment Period, together with any applicable Taxes thereon as provided therein;
  - (iii) amounts (if any) due and payable to the Account Bank or GIC Provider (or, as applicable, the Standby Account Bank or Standby GIC Provider) (including any costs, charges, liabilities and expenses) pursuant to the terms of the Bank Account Agreement or Guaranteed Investment Contract, respectively (or, as applicable, the Standby Bank Account Agreement or Standby Guaranteed Investment Contract, respectively), together with any applicable Taxes thereon as 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 (i) below), together with any applicable Taxes thereon as provided therein; and
  - (v) any remuneration then due and payable to the Administrative Agent and any costs, charges, liabilities and expenses then due or to become due and payable to the Administrative Agent pursuant to the provisions of the Administration Agreement in the immediately succeeding Guarantor Payment Period, together with any applicable Taxes thereon as provided therein;
- (d) *fourth*, in or towards payment on the Guarantor Payment Date or to provide for payment on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine, of any amount due or to become due and payable to the Interest Rate Swap Provider (including any termination payment due and payable by the Guarantor under the Interest Rate Swap Agreement, but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premiums

received from the relevant replacement Interest Rate Swap Provider) pursuant to the terms of the Interest Rate Swap Agreement;

- (e) *fifth*, in or towards payment on the Guarantor Payment Date or to provide for payment on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine (and in the case of any such payment or provision, after taking into account any provisions previously made and any amounts receivable from the Interest Rate Swap Provider under the Interest Rate Swap Agreement on the Guarantor Payment Date or such date in the future as the Cash Manager may reasonably determine) of any amounts due or to become due and payable (excluding principal amounts) to the Issuer in respect of the Guarantee Loan pursuant to the terms of the Intercompany Loan Agreement;
- (f) *sixth*, if a Servicer Termination Event has occurred, all remaining Available Revenue Receipts to be credited to the GIC Account (with a corresponding credit to the Revenue Ledger) until such Servicer Termination Event is either remedied or waived by the Security Trustee or a successor Servicer is appointed to service the Portfolio (or the relevant part thereof);
- (g) *seventh*, in or towards a credit to the Reserve Ledger on the GIC 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;
- (h) *eighth*, where the Pre-Maturity Test has been breached in respect of a Series of Hard Bullet Covered Bonds, towards a credit to the GIC Account with a corresponding credit to the Pre-Maturity Liquidity Ledger of an amount up to but not exceeding the difference between:
  - (i) the Required Redemption Amount as calculated on the immediately preceding Calculation Date for the relevant Series of Hard Bullet Covered Bonds; and
  - (ii) any amounts standing to the credit of the Pre-Maturity Liquidity Ledger on the immediately preceding Calculation Date after deducting from the Pre-Maturity Liquidity Ledger the Required Redemption Amounts of all other Series of Hard Bullet Covered Bonds as calculated on that Calculation Date which mature within twelve months of the date of such calculation;
- (i) *ninth*, in or towards payment *pro rata* and *pari passu* in accordance with the respective amounts thereof of any Excluded Swap Termination Amounts due and payable by the Guarantor under the Interest Rate Swap Agreement, except to the extent that such amounts have been paid out of any premiums received from the relevant replacement Interest Rate Swap Provider;
- (j) *tenth*, in or towards payment of any indemnity amount due to the Asset Monitor pursuant to the Asset Monitor Agreement;
- (k) *eleventh*, any interest amount and principal due or to become due and payable, *pro rata* and *pari passu* in respect of each Subordinated Advance, to the Issuer pursuant to the terms of the Subordinated Loan Agreement;
- (l) *twelfth*, the remainder in excess of \$1,000 in or towards payment of Deferred Consideration due to the relevant Sellers for the sale of the Loans and their Related Security to the Guarantor (subject to deducting any amounts due to the Guarantor or the Security Trustee by way of setoff pursuant to the Intercompany Loan Agreement); and
- (m) *thirteenth*, to pay or provide \$1,000 to the Beneficiaries in accordance with their Percentage Entitlements as defined in the Declaration of Trust.

Any amounts received by the Guarantor under the Interest Rate Swap Agreement on or after the Guarantor Payment Date but prior to the next following Guarantor Payment Date will be applied, together with any provision for such payments made on any preceding Guarantor Payment Date, to make payments (other than in respect of principal) in respect of the Intercompany Loan 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 by the Guarantor under the Interest Rate Swap Agreement on or after the Guarantor Payment Date but prior to the next following Guarantor Payment Date that are not put towards a payment or provision in accordance with paragraph (e) above or the preceding paragraph will be credited to the Revenue Ledger on the GIC Account and applied as Available Revenue Receipts on the next succeeding Guarantor Payment Date.

**Allocation and distribution of Available Principal Receipts prior to service on the Guarantor of an Asset Coverage Test Breach Notice, a Notice to Pay or a Guarantor Acceleration Notice or following revocation of an Asset Coverage Test Breach Notice that has been previously served on the Guarantor**

Prior to service on the Guarantor of an Asset Coverage Test Breach Notice, a Notice to Pay or a Guarantor Acceleration Notice, or following revocation of an Asset Coverage Test Breach Notice that has been previously served on the Guarantor, Available Principal Receipts will be allocated and distributed as described below.

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

If any payments of principal are required to be made by the Guarantor on an Interest Payment Date, the distribution of Available Principal Receipts under the Pre-Acceleration Principal Priority of Payments will be delayed until the Issuer has made Scheduled Interest and/or principal payments under the Covered Bonds on that Interest Payment Date unless, payment is made by the Guarantor directly to the Bond Trustee (or the Principal Paying Agent at the direction of the Bond Trustee).

On each Guarantor Payment Date, the Guarantor (or the Cash Manager on its behalf) will transfer funds from the Principal Ledger and/or the Reserve Ledger, as the case may be, to the Payment Ledger on the GIC Account and transfer funds from the GIC Account to the Transaction Account, in an amount equal to the lower of (i) the amount required to make the payments described below and (ii) the amount of Available Principal Receipts standing to the credit of the GIC Account.

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

Prior to service on the Guarantor of an Asset Coverage Test Breach Notice, a Notice to Pay or a Guarantor Acceleration Notice or following revocation of an Asset Coverage Test Breach Notice that has been previously served on the Guarantor, Available Principal Receipts will be applied by or on behalf of the Guarantor on each Guarantor Payment Date in making the following payments and provisions (the "**Pre-Acceleration Principal Priority of Payments**") (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

- (a) *first*, if the Pre-Maturity Test has been breached by the Issuer in respect of any Series of Hard Bullet Covered Bonds, towards a credit to the Pre-Maturity Liquidity Ledger in an amount up to but not exceeding the difference between:
  - (i) the Required Redemption Amount calculated on the immediately preceding Calculation Date for the relevant Series of Hard Bullet Covered Bonds; and
  - (ii) any amounts standing to the credit of the Pre-Maturity Liquidity Ledger on the immediately preceding Calculation Date after deducting from the Pre-Maturity Liquidity Ledger the Required Redemption Amount of all other Hard Bullet Covered Bonds, as calculated on that Calculation Date, which mature within twelve months of the date of such calculation;

- (b) *second*, in or towards repayment of the principal outstanding on the Demand Loan pursuant to the terms of the Intercompany Loan Agreement;
- (c) *third*, to acquire Additional Loans and their Related Security offered to the Guarantor by the Sellers in accordance with the terms of the Mortgage Sale Agreement and to acquire Substitution Assets in an amount sufficient to ensure that, taking into account the other resources available to the Guarantor, the Guarantor is in compliance with the Asset Coverage Test;
- (d) *fourth*, to deposit the remaining Available Principal Receipts in the GIC Account (with a corresponding credit to the Principal Ledger) in an amount sufficient to ensure that, taking into account the other resources available to the Guarantor, the Guarantor is in compliance with the Asset Coverage Test;
- (e) *fifth*, in or towards repayment on the Guarantor Payment Date (or to provide for repayment on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine) of amounts (in respect of principal) due or to become due and payable to the Issuer in respect of the Guarantee Loan pursuant to the terms of the Intercompany Loan Agreement; and,
- (f) *sixth*, subject to complying with the Asset Coverage Test, in or towards payment of Deferred Consideration due to the relevant Sellers for the sale of the Loans and their Related Security to the Guarantor.

**Allocation and distribution of Available Revenue Receipts and Available Principal Receipts following service of an Asset Coverage Test Breach Notice**

At any time after service on the Guarantor of an Asset Coverage Test Breach Notice (which has not been revoked), but prior to service of a Notice to Pay or service of a Guarantor Acceleration Notice, all Available Revenue Receipts and Available Principal Receipts will continue to be applied in accordance with the Pre-Acceleration Revenue Priority of Payments and the Pre-Acceleration Principal Priority of Payments save that, while any Covered Bonds remain outstanding, no funds will be applied under paragraphs (b), (e), (k), (l) or (m) of the Pre-Acceleration Revenue Priority of Payments or paragraphs (b), (c), (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**

At any time after service of a Notice to Pay on the Guarantor, but prior to service of a Guarantor Acceleration Notice, all Available Revenue Receipts and Available Principal Receipts will be applied as described below under *Guarantee Priority of Payments*.

The Guarantor will create and maintain ledgers for each Series of Covered Bonds and record amounts allocated to such Series of Covered Bonds in accordance with 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 under the Covered Bond Swap Agreement in respect of the relevant Series of Covered Bonds on the Scheduled Payment Dates thereof.

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

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

If a Notice to Pay is served on the Guarantor in connection with the Pre-Maturity Test, the Guarantor will on the relevant Final Maturity Date apply all funds standing to the credit of the Pre-Maturity Liquidity Ledger (and transferred to the Transaction Account on the relevant Guarantor Payment Date) to repay the relevant Series of Hard Bullet Covered Bonds. Subject thereto, on each Guarantor Payment Date on and from the date of service of a Notice to Pay on the Guarantor (but prior to the occurrence of a Guarantor Event of Default and service of a Guarantor Acceleration Notice), the Guarantor (or the Cash Manager on its behalf) will apply Available Revenue Receipts and Available Principal Receipts to make the following payments 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*, any amounts due or to become due and payable, in respect of the Demand Loan pursuant to the terms of the Intercompany Loan Agreement;
- (b) *second*, in or towards payment *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) all amounts due and payable or to become due and payable to the Bond Trustee in the immediately succeeding Guarantor Payment Period under the provisions of the Trust Deed together with interest and any applicable Taxes thereon as provided therein;
  - (ii) all amounts due and payable or to become due and payable to the Security Trustee in the immediately succeeding Guarantor Payment Period under the provisions of the Security Agreement together with interest and any applicable Taxes thereon as provided therein; and
  - (iii) all amounts due and payable or to become due and payable to the Guarantor Trustee in the immediately succeeding Guarantor Payment Period under the provisions of the Declaration of Trust together with interest and any applicable Taxes thereon as provided therein.
- (c) *third*, in or towards payment *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any remuneration then due and payable to the Agents under or pursuant to the Agency Agreement together with any applicable taxes thereon as provided therein; and
  - (ii) any amounts then due and payable by the Guarantor to third parties and incurred without breach by the Guarantor of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere in this Guarantee Priority of Payments) and to provide for any such amounts expected to become due and payable by the Guarantor in the immediately succeeding Guarantor Payment Period and to pay or discharge any liability of the Guarantor for Taxes and stamp duty;
- (d) *fourth*, in or towards payment *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) if a Servicer is not a Seller or an Affiliate thereof, any remuneration then due and payable to such Servicers and any costs, charges, liabilities and expenses then due or to become due and payable to such Servicers in the immediately succeeding Guarantor Payment Period under the provisions of the Servicing Agreement in respect of Loans owned by the Guarantor together with any applicable Taxes thereon as 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 Payment Period under the provisions of the Cash Management Agreement, together with any applicable Taxes thereon as provided therein;
  - (iii) amounts (if any) due and payable to the Account Bank or GIC Provider (or, as applicable, the Standby Account Bank or Standby GIC Provider) (including any costs, charges, liabilities and expenses) pursuant to the terms of the Bank Account Agreement or Guaranteed Investment Contract, respectively (or, as applicable, the Standby Bank Account Agreement or Standby Guaranteed Investment Contract, respectively), together with any applicable Taxes thereon as provided therein;
  - (iv) amounts due and payable to the Asset Monitor (other than the amounts referred to in paragraph (l) below) pursuant to the terms of the Asset Monitor Agreement, together with any applicable Taxes thereon as provided therein; and
  - (v) any remuneration then due and payable to the Administrative Agent and any costs, charges, liabilities and expenses then due or to become due and payable to the Administrative Agent pursuant to the provisions of the Administration Agreement in the immediately succeeding Guarantor Payment Period, together with any applicable Taxes thereon as provided therein;
- (e) *fifth*, in or towards payment on the Guarantor Payment Date, or to provide for payment on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine, of any amount due or to become due and payable to the Interest Rate Swap Provider (including any termination payment due or to become due and payable by the Guarantor under the Interest Rate Swap Agreement, but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premiums received from any relevant replacement Interest Rate Swap Provider) pursuant to the terms of the Interest Rate Swap Agreement;
- (f) *sixth*, in or towards payment on the Guarantor Payment Date or to provide for payment on such date in the future of such proportion of the relevant payments falling due in the future as the Cash Manager may reasonably determine, *pro rata* and *pari passu* according to the respective amounts thereof of:
- (i) any amounts due or to become due and payable to the Covered Bond Swap Provider (other than in respect of principal) *pro rata* and *pari passu* in respect of the Covered Bond Swap Agreement (including any termination payment due and payable (other than in respect of principal) by the Guarantor under the Covered Bond Swap Agreement, but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premiums received from any relevant replacement Covered Bond Swap Provider) in accordance with the terms of the Covered Bond Swap Agreement; and
  - (ii) Scheduled Interest that is Due for Payment (or that will become Due for Payment) under the Covered Bond Guarantee in respect of each Series of Covered Bonds to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the Covered Bondholders *pro rata* and *pari passu* in respect of each Series of Covered Bonds,

but, in the case of any such payment or provision, after taking into account any amounts receivable from the Interest Rate Swap Provider under the Interest Rate Swap Agreement and, if applicable, any amounts (other than principal) receivable from the Covered Bond Swap Provider under the Covered Bond Swap Agreement on the Guarantor Payment Date or such date in the future as the Cash Manager may reasonably determine, *provided* that if the amount available for distribution

under this paragraph (f) (excluding any amounts received or to be received from the Covered Bond Swap Provider) would be insufficient to pay the Canadian Dollar Equivalent of the Scheduled Interest that is or will be Due for Payment in respect of each Series of Covered Bonds under sub-paragraph (ii) above, the shortfall will be divided amongst all such Series of Covered Bonds on a *pro rata* and *pari passu* basis and the amount payable by the Guarantor to the Covered Bond Swap Provider under the Covered Bond Swap Agreement in respect of each relevant Series of Covered Bonds or provision to be made in respect thereof under sub-paragraph (i) above 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*, in or towards payment on the Guarantor Payment Date or to provide for payment prior to the next Guarantor Payment Date, *pro rata* and *pari passu* according to the respective amounts thereof of:

(i) any amounts (in respect of principal) due or to become due and payable to any Covered Bond Swap Provider *pro rata* and *pari passu* in respect of the Covered Bond Swap Agreement (including any termination payment due and payable (in respect of principal) by the Guarantor under the Covered Bond Swap Agreement, but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premiums received from any relevant replacement Covered Bond Swap Provider) in accordance with the terms of the Covered Bond Swap Agreement; and

(ii) (where appropriate, after taking into account any amounts in respect of principal receivable from the Covered Bond Swap Provider and available to make payments in respect thereof) Scheduled Principal that is Due for Payment (or that will become Due for Payment in the immediately succeeding Guarantor Payment Period) under the Covered Bond Guarantee in respect of each Series of Covered Bonds to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the Covered Bondholders *pro rata* and *pari passu* in respect of each Series of Covered Bonds,

*provided* that if the amount available for distribution under this paragraph (g) (excluding any amounts received or to be received from the Covered Bond Swap Provider) would be insufficient to pay the Canadian Dollar Equivalent of the Scheduled Principal that is or will be Due for Payment in respect of each Series of Covered Bonds under sub-paragraph (ii) above, the shortfall will be divided amongst all such Series of Covered Bonds on a *pro rata* and *pari passu* basis and the amount payable by the Guarantor to the Covered Bond Swap Provider under the Covered Bond Swap Agreement in respect of each relevant Series of Covered Bonds or provision to be made in respect thereof under sub-paragraph (i) above will be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

(h) *eighth*, in or towards payment on the Guarantor Payment Date (if such date is an Interest Payment Date) or to provide for payment on any Interest Payment Date prior to the next following Guarantor Payment Date of the Final Redemption Amount (or portion thereof remaining unpaid) of any Series of Covered Bonds to which an Extended Due for Payment Date applies and whose Final Redemption Amount was not paid in full by the Extension Determination Date, by making the following payments, *pro rata* and *pari passu* according to the respective amounts thereof of:

(i) any amounts due or to become due and payable to the Covered Bond Swap Provider (whether or not in respect of principal) *pro rata* and *pari passu* in respect of the Covered Bond Swap Agreement (including any termination payment due and payable by the Guarantor under the Covered Bond Swap Agreement, but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premiums received from any relevant replacement Covered Bond Swap Provider) in accordance with the terms of the Covered Bond Swap Agreement; and

- (ii) the Final Redemption Amount *pro rata* and *pari passu* under the Covered Bond Guarantee in respect of each relevant Series of Covered Bonds to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the Covered Bondholders,

but, in the case of any such payment or provision, after taking into account any amounts receivable from the Interest Rate Swap Provider in respect of the Interest Rate Swap Agreement and, if applicable, any amounts (whether or not in respect of principal) receivable from the Covered Bond Swap Provider in respect of the Covered Bond Swap Agreement, *provided* that if the amount available for distribution under this paragraph (h) (excluding any amounts received or to be received from the Covered Bond Swap Provider) would be insufficient to pay the Canadian Dollar Equivalent of the Final Redemption Amount in respect of the relevant Series of Covered Bonds under sub-paragraph (ii) above, the shortfall will be divided amongst all such Series of Covered Bonds on a *pro rata* and *pari passu* basis and any amount payable by the Guarantor to the Covered Bond Swap Provider under the Covered Bond Swap Agreement in respect of each Series of Covered Bonds under sub-paragraph (i) 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;

- (i) *ninth*, to deposit the remaining funds in the GIC Account for application on the next following Guarantor Payment Date in accordance with the Priority of Payments described in paragraphs (a) to (h) (inclusive) above, until the Covered Bonds have been fully repaid or repayment in full of the Covered Bonds has been provided for (such that the Required Redemption Amount has been accumulated in respect of each outstanding Series of Covered Bonds);
- (j) *tenth*, in or towards payment *pro rata* and *pari passu* according to the respective amounts thereof of any Excluded Swap Termination Amounts due and payable by the Guarantor under the Covered Bond Swap Agreement and the Interest Rate Swap Agreement, except to the extent that such amounts have been paid out of any premiums received from any relevant replacement Swap Provider;
- (k) *eleventh*, in or towards payment of any amounts due or to become due and payable in the immediately succeeding Guarantor Payment Period (whether in respect of principal or interest) under the Intercompany Loan in respect of the Guarantee Loan pursuant to the terms of the Intercompany Loan Agreement;
- (l) *twelfth*, in or towards payment of any amounts due or to become due and payable in the immediately succeeding Guarantor Payment Period (whether in respect of principal or interest) under the Subordinated Loan Agreement, *pro rata* and *pari passu* in respect of each Subordinated Advance and certain costs, expenses and indemnity amounts due by the Guarantor to the Asset Monitor pursuant to the Asset Monitor Agreement;
- (m) *thirteenth*, thereafter any remaining funds in excess of \$1,000 will be applied in or towards payment of Deferred Consideration due to the relevant Sellers for the sale of the Loans and their Related Security to the Guarantor; and
- (n) *fourteenth*, \$1,000 will be applied to the Beneficiaries in accordance with their Percentage Entitlements as defined in the Declaration of Trust.

Any amounts received by the Guarantor under the Interest Rate Swap Agreement on or after the Guarantor Payment Date but prior to the next following Guarantor Payment Date will be applied, together with any provision for such payment made on any preceding Guarantor Payment Date, to make payments (other than in respect of principal) due and payable *pro rata* and *pari passu* in respect of the Covered Bond Swap Agreement or, as the case may be, in respect of interest due under the Covered Bond Guarantee *pro rata* and *pari passu* in respect of each relevant Series of Covered Bonds.

Any amounts received by the Guarantor under the Covered Bond Swap Agreement (whether or not in respect of principal) on or after the Guarantor Payment Date but prior to the next following Guarantor Payment Date will be applied, together with any provision for such payment made on any preceding Guarantor Payment Date, to make payments of interest or principal, as the case may be, in respect of the Covered Bond Guarantee *pro rata* and *pari passu* in respect of each relevant Series of Covered Bonds.

Any amounts received under the Interest Rate Swap Agreement or the Covered Bond Swap Agreement after the Guarantor Payment Date but prior to the next following Guarantor Payment Date that are not put towards a payment or provision in accordance with paragraph (f), (g) or (h) above or the preceding two paragraphs will be credited to the Revenue Ledger or the Principal Ledger on the GIC Account (as appropriate) and applied as Available Revenue Receipts or Available Principal Receipts, as the case may be, on the next succeeding Guarantor Payment Date.

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

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

#### **Application of funds received by the Security Trustee following service of a Guarantor Acceleration Notice and enforcement of the Security**

Under the terms of the Security Agreement, all funds received or recovered by the Security Trustee or any Receiver (other than any Tax Credit, Third Party Amount or Swap Collateral Excluded Amount) will be applied following the enforcement of the Security in the following order of priority (the "**Post-Enforcement Priority of Payments**") (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

- (a) *first*, any amounts due or to become due and payable, in respect of the Demand Loan pursuant to the terms of the Intercompany Loan Agreement;
- (b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) all amounts due and payable or to become due and payable to the Bond Trustee under the provisions of the Trust Deed together with interest and any applicable Taxes chargeable on the supply in respect of which the payment is made as provided therein;
  - (ii) all amounts due and payable or to become due and payable to the Security Trustee and any Receiver appointed by the Security Trustee under the provisions of the Security Agreement together with interest and any applicable Taxes chargeable on the supply in respect of which the payment is made as provided therein; and
  - (iii) all amounts due and payable or to become due and payable to the Guarantor Trustee in the immediately succeeding Guarantor Payment Period under the provisions of the Declaration of Trust together with interest and any applicable Taxes chargeable on the supply in respect of which the payment is made as provided therein;
- (c) *third*, in or towards satisfaction of any remuneration then due and payable to the Agents under or pursuant to the Agency Agreement together with any applicable Taxes thereon as provided therein;

- (d) *fourth*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
- (i) if a Servicer is not a Seller or an Affiliate thereof, any remuneration then due and payable to such Servicers and any costs, charges, liabilities and expenses then due or to become due and payable to such Servicers under the provisions of the Servicing Agreement in respect of Loans owned by the Guarantor, together with any applicable Taxes chargeable on the supply in respect of which the payment is made as 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 any applicable Taxes chargeable on the supply in respect of which the payment is made as provided therein;
  - (iii) amounts due to the Account Bank or GIC Provider (or, as applicable, the Standby Account Bank or Standby GIC Provider) (including any costs, charges, liabilities and expenses) pursuant to the terms of the Bank Account Agreement or Guaranteed Investment Contract, respectively (or, as applicable, the Standby Bank Account Agreement or Standby Guaranteed Investment Contract, respectively), together with any applicable Taxes chargeable on the supply in respect of which the payment is made as provided therein; and
  - (iv) any remuneration then due and payable to the Administrative Agent and any costs, charges, liabilities and expenses then due or to become due and payable to the Administrative Agent under the provisions of the Administration Agreement in the immediately succeeding Guarantor Payment Period, together with any applicable Taxes thereon as provided therein;
- (e) *fifth*, in or towards satisfaction of any amounts due and payable to any Interest Rate Swap Provider (including any termination payment, but excluding any Excluded Swap Termination Amount) pursuant to the terms of the Interest Rate Swap Agreement;
- (f) *sixth*, in or towards satisfaction of *pro rata* and *pari passu* according to the respective amounts thereof of:
- (i) any amounts due and payable to the Covered Bond Swap Provider *pro rata* and *pari passu* in respect of the Covered Bond Swap Agreement (including any termination payment due and payable by the Guarantor under the Covered Bond Swap Agreement, but excluding any Excluded Swap Termination Amount) in accordance with the terms of the Covered Bond Swap Agreement; and
  - (ii) the amounts due and payable under the Covered Bond Guarantee, to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the Covered Bondholders *pro rata* and *pari passu* in respect of interest and principal due and payable on each Series of Covered Bonds,

*provided* that if the amount available for distribution under this paragraph (f) (excluding any amounts received from the Covered Bond Swap Provider) would be insufficient to pay the Canadian Dollar Equivalent of the amounts due and payable under the Covered Bond Guarantee in respect of each Series of Covered Bonds under sub-paragraph (ii) above, the shortfall will be divided amongst all such Series of Covered Bonds on a *pro rata* and *pari passu* basis and any amount payable by the Guarantor to the Covered Bond Swap Provider under the Covered Bond Swap Agreement in respect of each relevant Series of Covered Bonds or provision to be made in

respect thereof under sub-paragraph (i) above 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*, 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 under the Covered Bond Swap Agreement and the Interest Rate Swap Agreement;
- (h) *eighth*, in or towards payment of all amounts outstanding under the Intercompany Loan in respect of the Guarantee Loan;
- (i) *ninth*, in or towards payment of any amounts outstanding under the Subordinated Loan Agreement;
- (j) *tenth*, thereafter any remaining funds in excess of \$1,000 will be applied in or towards payment of Deferred Consideration due to the relevant Sellers for the sale of the Loans and their Related Security to the Guarantor; and
- (k) *eleventh*, \$1,000 to the Beneficiaries in accordance with the Declaration of Trust.

If the Guarantor receives any Tax Credits in respect of a Swap Agreement following the occurrence of a Guarantor Event of Default and service of a Guarantor Acceleration Notice, such Tax Credits will be used to reimburse the relevant Swap Provider for any gross-up in respect of any withholding or deduction made under the relevant Swap Agreement. Following the occurrence of a Guarantor Event of Default and service of a Guarantor Acceleration Notice, any Swap Collateral Excluded Amounts in respect of a Swap Agreement will be returned to the relevant Swap Provider subject to the terms of the relevant Swap Agreement, and any Third Party Amounts will be returned to the relevant Seller, and such Seller shall pay such Third Party Amounts to the relevant third party.

## THE PORTFOLIO

The Initial Portfolio and each New Portfolio acquired by the Guarantor (collectively, the "**Portfolio**") consist of Loans and their Related Security sold by the Sellers to the Guarantor from time to time, in accordance with the terms of the *Mortgage Sale Agreement*, as more fully described under *Summary of the Principal Documents—Mortgage Sale Agreement*.

For the purposes hereof:

"**Initial Portfolio**" means the initial portfolio of Loans and their Related Security sold by the Seller(s) to the Guarantor on the First Transfer Date pursuant to the Mortgage Sale Agreement (other than any Loans and their Related Security which do not otherwise comply with the terms of the Mortgage Sale Agreement as at the First Transfer Date or which have been repurchased by a Seller from the Portfolio or otherwise sold from the Portfolio by the Guarantor), and all right, title, interest and benefit of the relevant Seller in and to:

- (a) all payments of principal and interest (including, for the avoidance of doubt, all Accrued Interest, Arrears of Interest, Capitalised Expenses and Capitalised Arrears) and other sums due or to become due in respect of such Loans and Related Security including, without limitation, the right to demand, sue for, recover and give receipts for all principal funds, interest and costs and the right to sue on all covenants and any undertakings made or expressed to be made in favour of the relevant Seller under the applicable Mortgage Terms (but excluding, in respect of any STEP Loan, any such amounts required to be distributed to a Seller or Other STEP Creditor in respect of any Additional STEP Loan having priority over (in respect of a home equity line of credit if approved by the Rating Agencies as a New Loan Type) or *pari passu* with such STEP Loans);
- (b) the right to exercise all the powers of the relevant Seller in relation thereto subject to and in accordance with the applicable Mortgage Terms;
- (c) all the estate and interest in the Mortgaged Properties vested in the relevant Seller;
- (d) to the extent they are assignable, each solicitor's or notary's report on title (in each case where available) and any right of action of the relevant Seller against any solicitor, licensed conveyancer, qualified conveyancer, valuer or other Person in connection with any report, valuation, opinion, certificate or other statement of fact or opinion given in connection with such Loans and Related Security, or any part thereof or affecting the decision of the relevant Seller to make or offer to make any such Loan or part thereof;
- (e) the right to all proceeds of all claims made by or on behalf of the relevant Seller or to which the relevant Seller is entitled under any insurance policies in respect of the Loans and their Related Security; and
- (f) all proceeds of the foregoing.

"**New Portfolio**" means each portfolio of Additional Loans and their Related Security (other than any Additional Loans and their Related Security which have been redeemed in full prior to the relevant Transfer Date or which do not otherwise comply with the terms of the Mortgage Sale Agreement as at the relevant Transfer Date, or which have been repurchased by a Seller from the Portfolio or otherwise sold from the Portfolio by the Guarantor), particulars of which are set out in the relevant Additional Loan Notice or in a document stored upon electronic media (including, but not limited to, a CD-ROM), and all right, title, interest and benefit of the relevant Seller in and to the rights and assets set out in paragraphs (a) to (f) above and the benefit of the CMHC Mortgage Insurance relating to such Additional Loans.

See also the following risk factors under *Risk Factors—Risk Factors relating to the Guarantor,—Limited description of the Portfolio,—Maintenance of the Portfolio*, and *—Changes to the Lending Criteria of the Sellers*.

## USE OF PROCEEDS

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

## BOOK-ENTRY CLEARANCE SYSTEMS

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of the Clearing Systems currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer and the Guarantor believe to be reliable, but none of the Issuer, the Guarantor, the Bond Trustee nor any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer, the Guarantor nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Covered Bonds held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

### Book-entry Systems

#### DTC

DTC has advised the Issuer that it is a limited purpose trust company organised under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC holds and provides asset servicing for securities that its participants ("**Direct Participants**") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerised book-entry transfers and pledges between Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("**DTCC**"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., and the Financial Industry Regulatory Authority. Access to the DTC system is also available to others such as securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("**Indirect Participants**"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Direct or Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of DTC Covered Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Covered Bonds on DTC's records. The ownership interest of each actual purchaser of each DTC Covered Bond ("**Beneficial Owner**") is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Covered Bonds are to be accomplished by entries made on the books of Direct or Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Covered Bonds, except in the event that use of the book-entry system for the DTC Covered Bonds is discontinued.

To facilitate subsequent transfers, all DTC Covered Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorised representative of DTC. The deposit of DTC Covered Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual

Beneficial Owners of the DTC Covered Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Covered Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the DTC Covered Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to DTC Covered Bonds unless authorised by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an omnibus proxy ("**Omnibus Proxy**") to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Covered Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Covered Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorised representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Issuer or the Principal Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct or Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Direct or Indirect Participant and not of DTC or its nominee, the Principal Paying Agent or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorised representative of DTC) is the responsibility of the Issuer or the Principal Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

Under certain circumstances, DTC will exchange the DTC Covered Bonds for Registered Definitive Covered Bonds, which it will distribute to its Direct Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Covered Bond, will be legended as set forth under *Plan of Distribution*.

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Beneficial Owner desiring to pledge DTC Covered Bonds to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Covered Bonds, will be required to withdraw its Registered Covered Bonds from DTC as described below.

### ***Euroclear and Clearstream, Luxembourg***

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and

Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

### **Book-entry Ownership of and Payments in respect of DTC Covered Bonds**

The Issuer may apply to DTC in order to have any Tranche of Covered Bonds represented by a Registered Global Covered Bond accepted in its book-entry settlement system. Upon the issue of any such Registered Global Covered Bond, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Covered Bond to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Registered Global Covered Bond will be limited to Direct Participants or Indirect Participants, including, in the case of any Regulation S Global Covered Bond, the respective depositaries of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in a Registered Global Covered Bond accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

It should be noted that DTC will only process payments of principal and interest in U.S. dollars. Payments in U.S. dollars of principal and interest in respect of a Registered Global Covered Bond accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Covered Bond.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Direct or Indirect Participants to beneficial owners of Covered Bonds will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Direct or Indirect Participant and not the responsibility of DTC, the Bond Trustee, the Security Trustee, the Agents or the Issuer. Payment of principal, premium, if any, and interest, if any, on Covered Bonds to DTC is the responsibility of the Issuer.

### **Transfers of Covered Bonds Represented by Registered Global Covered Bonds**

Transfers of any interests in Covered Bonds represented by a Registered Global Covered Bond within DTC, Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some states within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Covered Bonds represented by a Registered Global Covered Bond to such persons may depend upon the ability to exchange such Covered Bonds for Covered Bonds in definitive form. Similarly, because DTC can only act on behalf of direct participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Covered Bonds represented by a Registered Global Covered Bond accepted by DTC to pledge such Covered Bonds to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Covered Bonds may depend upon the ability to exchange such Covered Bonds for Covered Bonds in definitive form. The ability of any holder of Covered Bonds represented by a Registered Global Covered Bond accepted by DTC to resell, pledge or otherwise transfer such Covered Bonds may be impaired if the proposed transferee of such Covered Bonds is not eligible to hold such Covered Bonds through a Direct or Indirect Participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Regulation S Covered Bonds described under *Plan of Distribution*, cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Principal Paying Agent and any custodian ("**Covered Bonds Custodian**") with whom the relevant Registered Global Covered Bonds have been deposited.

On or after the Issue Date for any Series, transfers of Covered Bonds of such Series between accountholders in Clearstream, Luxembourg and Euroclear and transfers of Covered Bonds of such Series between participants in

DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Registered Global Covered Bonds will be effected through the Registrar, the Principal Paying Agent and the Covered Bonds Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Covered Bonds among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Bond Trustee, the Security Trustee, the Issuer, the Guarantor, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Covered Bonds represented by Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial interests.

## CERTAIN TAX LEGISLATION AFFECTING THE COVERED BONDS

### Canadian Taxation

The following summary describes the principal Canadian federal income tax considerations applicable to a Covered Bondholder who acquires Covered Bonds, including entitlement to all payments thereunder, pursuant to this Prospectus, and who, at all relevant times, for the purposes of the Tax Act and any applicable income tax convention, is not resident and is not deemed to be resident in Canada, deals at arm's length with the Issuer, the Guarantor and any resident (or deemed resident) in Canada to whom the holder disposes of the Covered Bonds, does not use or hold and is not deemed to use or hold Covered Bonds in the course of carrying on a business in Canada and is not an insurer that carries on an insurance business in Canada and elsewhere (a "**Non-resident Holder**").

This summary is based upon the provisions of the Tax Act and the regulations thereunder (the "**Regulations**"), in force on the date hereof and counsel's understanding of the current administrative and assessing practices and policies of the Canada Revenue Agency published in writing prior to the date hereof. This summary takes into account all specific proposals to amend the Tax Act and Regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the "**Proposed Amendments**") and assumes that all Proposed Amendments will be enacted in the form proposed. However, no assurances can be given that the Proposed Amendments will be enacted as proposed, or at all.

On March 16, 2011, the Department of Finance released draft legislation imposing withholding tax on interest (other than "**fully exempt interest**") paid in respect of a debt or other amount owing to a person with whom the Issuer does not deal at arm's length (the "**March 16 Tax Proposal**"). Interest on the Covered Bonds will not be "fully exempt interest" for this purpose. Based upon the Background and Explanatory Notes accompanying the March 16th Tax Proposal, the expressed intention of the Department of Finance was to impose withholding tax in certain circumstances where entitlement to interest is "stripped" from an underlying debt obligation. However, the March 16th Tax Proposal is more broadly worded and its scope is unclear. Taking into account counsel's understanding of the intended scope of the March 16 Tax Proposal, this summary assumes that no interest paid on the Covered Bonds or under the Covered Bond Guarantee as, on account or in lieu of payment of, or in satisfaction of, interest will be in respect of a debt or other obligation to pay an amount to a person with whom the Issuer does not deal at arm's length.

This summary does not otherwise take into account or anticipate any changes in law, or administrative or assessing practice whether by legislative, regulatory, administrative or judicial action, nor does it take into account provincial, territorial or foreign income tax legislation.

Canadian federal income tax considerations applicable to Covered Bonds may be described more particularly when such Covered Bonds are offered (and then only to the extent material) in the Final Terms Document related thereto if they are not addressed by the comments following and, in that event, the following will be superseded thereby to the extent indicated in such Final Terms Document.

**This summary is of a general nature only and is not, and is not intended to be, legal or tax advice to any particular Covered Bondholder. This summary is not exhaustive of all federal income tax considerations. Accordingly, prospective purchasers of Covered Bonds should consult their own tax advisers with respect to their particular circumstances.**

### *Payments by the Issuer in Respect of the Covered Bonds*

Interest paid or credited or deemed to be paid or credited by the Issuer on a Covered Bond (including amounts on account of or in lieu of, or in satisfaction of, interest) to a Non-resident Holder will not be subject to Canadian non-resident withholding tax where the Issuer deals at arm's length for the purposes of the Tax Act with the Non-resident Holder at the time of such payment, unless all or any portion of such interest (other than on a "prescribed obligation" described below) is contingent or dependent on the use of or production from property in Canada or is computed by reference to revenue, profit, cash flow, commodity price or any other similar criterion or by reference to dividends paid or payable to shareholders of any class or series of shares of the capital stock of a

corporation. A "prescribed obligation" is a debt obligation the terms or conditions of which provide for an adjustment to an amount payable in respect of the obligation for a period during which the obligation was outstanding which adjustment is determined by reference to a change in the purchasing power of money and no amount payable in respect thereof, other than an amount determined by reference to a change in the purchasing power of money, is contingent or dependent upon any of the criteria described in the preceding sentence. **If any interest payable on a Covered Bond, or any portion of the principal amount of a Covered Bond in excess of its issue price, is to be calculated by reference to an index or formula, such interest or principal, as the case may be, may be subject to Canadian non-resident withholding tax.**

In the event that a Covered Bond which is not exempt from Canadian withholding tax upon its terms is redeemed, cancelled, repurchased or purchased by the Issuer or any other person resident or deemed to be resident in Canada from a Non-resident Holder or is otherwise assigned or transferred by a Non-resident Holder to a person resident or deemed to be resident in Canada for an amount which exceeds, generally, the issue price thereof or in certain cases the price for which such Covered Bond was assigned or transferred to the Non-resident Holder by a person resident or deemed to be resident in Canada, the excess may be deemed to be interest and may, together with any interest that has accrued on the Covered Bond to that time, be subject to non-resident withholding tax if the Covered Bond is not considered to be an "excluded obligation" for purposes of the Tax Act. A Covered Bond that is not an "indexed debt obligation" (described below), that was issued for an amount not less than 97% of its principal amount (as defined in the Tax Act), and the yield from which, expressed in terms of an annual rate (determined in accordance with the Tax Act) on the amount for which the Covered Bond was issued does not exceed 4/3 of the interest stipulated to be payable on the Covered Bond, will be included in the definition of an "excluded obligation" for this purpose. An "indexed debt obligation" is a debt obligation the terms and conditions of which provide for an adjustment to an amount payable in respect of the obligation, for a period during which the obligation was outstanding, that is determined by reference to a change in the purchasing power of money.

Generally, there are no other taxes on income (including taxable capital gains) payable by a Non-resident Holder on interest, discount, or premium on a Covered Bond or on the proceeds received by a Non-resident Holder on the disposition of a Covered Bond (including redemption, cancellation, purchase or repurchase).

#### ***Payments by the Guarantor under the Covered Bond Guarantee***

Amounts paid or credited or deemed to be paid or credited by the Guarantor under the Covered Bond Guarantee in respect of interest on or in respect of the principal amount of the Covered Bonds will not be subject to Canadian withholding tax to the same extent such amounts, if paid or credited by the Issuer on the Covered Bonds, would be exempt from Canadian withholding tax, as discussed above.

#### **A. United Kingdom Taxation**

*The following is a summary of the United Kingdom withholding taxation treatment at the date hereof in relation to payments of principal and interest in respect of the Covered Bonds. It is based on current law and the practice of Her Majesty's Revenue and Customs ("HMRC"), which may be subject to change, sometimes with retrospective effect. The comments do not deal with other United Kingdom tax aspects of acquiring, holding or disposing of Covered Bonds. The comments relate only to the position of persons who are absolute beneficial owners of the Covered Bonds. Prospective Covered Bondholders should be aware that the particular terms of issue of any series of Covered Bonds as specified in the relevant Final Terms may affect the tax treatment of that and other series of Covered Bonds. The following is a general guide for information purposes and should be treated with appropriate caution. It is not intended as tax advice and it does not purport to describe all of the tax considerations that may be relevant to a prospective purchaser. Covered Bondholders who are in any doubt as to their tax position should consult their professional advisers. Covered Bondholders who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of the Covered Bonds are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Covered Bonds. In particular, Covered Bondholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Covered Bonds even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.*

***B. UK Withholding Tax on UK Source Interest (including, without limitation, where Covered Bonds are issued by the Issuer's London Branch)***

***B.1 UK Covered Bonds listed on a recognised stock exchange***

The Covered Bonds issued by the Issuer which carry a right to interest will constitute "quoted Eurobonds" provided they are and continue to be listed on a recognised stock exchange. Whilst the Covered Bonds are and continue to be quoted Eurobonds, payments of interest on the Covered Bonds may be made without withholding or deduction for or on account of United Kingdom income tax.

Securities will be "listed on a recognised stock exchange" for this purpose if they are admitted to trading on an exchange designated as a recognised stock exchange by an order made by the Commissioners for HMRC and either they are included in the United Kingdom official list (within the meaning of Part 6 of the Financial Services and Markets Act 2000) or they are officially listed, in accordance with provisions corresponding to those generally applicable in European Economic Area states, in a country outside the United Kingdom in which there is a recognised stock exchange.

The London Stock Exchange is a recognised stock exchange, and accordingly the Covered Bonds will constitute quoted Eurobonds provided they are and continue to be included in the United Kingdom official list and admitted to trading on the Regulated Market or Professional Securities Market of that Exchange.

***B.2 All UK Covered Bonds***

In addition to the exemption set out in B.1 above, interest on the Covered Bonds may be paid without withholding or deduction for or on account of United Kingdom income tax so long as the Issuer is a "bank" for the purposes of section 878 of the Income Tax Act 2007 and so long as such payments are made by the Issuer in the ordinary course of its business. In accordance with the published practice of HMRC, such payments will be accepted as being made by the Issuer in the ordinary course of its business unless either:

- (i) the borrowing in question conforms to any of the definitions of tier 1, 2 or 3 capital adopted by the Financial Services Authority whether or not it actually counts towards tier 1, 2 or 3 capital for regulatory purposes; or
- (ii) the characteristics of the transaction giving rise to the interest are primarily attributable to an intention to avoid United Kingdom tax.

***B.3*** In all cases falling outside the exemptions described in B.1 and B.2 above, interest on the Covered Bonds which has a UK source may fall to be paid under deduction of United Kingdom income tax at the basic rate (currently 20%) subject to such relief as may be available following a direction from HMRC pursuant to the provisions of any applicable double taxation treaty, or to any other exemption which may apply. However, this withholding will not apply if the relevant interest is paid on Covered Bonds with a maturity date of less than one year from the date of issue and which are not issued under arrangements the effect of which is to render such Covered Bonds part of a borrowing with a total term of a year or more.

***C. Payments by Guarantor***

If the Guarantor makes any payments in respect of interest on Covered Bonds issued by the Issuer (or other amounts due under such Covered Bonds other than the repayment of amounts subscribed for the Covered Bonds) and such payments have a UK source, such payments may be subject to United Kingdom withholding tax at the basic rate (currently 20%) subject to such relief as may be available under the provisions of any applicable double taxation treaty or to any other exemption which may apply. Such payments by the Guarantor may not be eligible for the exemptions described in "UK Withholding Tax on UK Source Interest (including, without limitation, where Covered Bonds are issued by the Issuer's London Branch)" above.

***D. Provision of Information***

Covered Bondholders should note that where any interest on the Covered Bonds is paid to them (or to any person acting on their behalf) by the Issuer acting through its London Branch or any person in the United Kingdom acting on behalf of the Issuer (a "paying agent"), or is received by any person in the United Kingdom acting on behalf of the relevant Covered Bondholder (other than solely by clearing or arranging the clearing of a cheque) (a "collecting agent"), then the Issuer, the paying agent or the collecting agent (as the case may be) **may, in certain cases, be required** to supply to HMRC details of the payment and certain details relating to the Covered Bondholder (including the Covered Bondholder's name and address). These provisions will apply whether or not the interest has been paid subject to withholding or deduction for or on account of United Kingdom income tax and whether or not the Covered Bondholder is resident in the United Kingdom for United Kingdom taxation purposes. In certain circumstances, the details provided to HMRC may be passed by HMRC to the tax authorities of certain other jurisdictions.

For the above purposes, "interest" should be taken, for practical purposes, as including payments made by a guarantor in respect of interest on the Covered Bonds.

The provisions referred to above may also apply, in certain circumstances, to payments made on redemption of any Covered Bonds which constitute "deeply discounted securities" for the purposes of section 18 of the Taxes Management Act 1970 (although in this regard HMRC published guidance for the year 2010/2011 indicates that HMRC will not exercise its power to obtain information in relation to such payments in that year).

Information may also be required to be reported in accordance with regulations made pursuant to the EU Savings Directive (see below).

#### ***EU Savings Directive***

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35%. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. Belgium has replaced this withholding tax with a regime of exchange of information to the Member State of residence as from 1 January 2010.

A number of non-EU countries, including Switzerland, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above. The European Parliament approved an amended version of this proposal on 24 April 2009. Investors who are in any doubt as to their position should consult their professional advisers.

#### ***E. Other Rules Relating to United Kingdom Withholding Tax***

Covered Bonds may be issued at an issue price of less than 100 per cent of their principal amount. Any discount element on any such Covered Bonds will not generally be subject to any United Kingdom withholding tax pursuant to the provisions mentioned in B above, but may be subject to reporting requirements as outlined in D above.

Where Covered Bonds are to be, or may fall to be, redeemed at a premium, as opposed to being issued at a discount, then any such element of premium may constitute a payment of interest. Payments of interest are subject to United Kingdom withholding tax and reporting requirements as outlined above.

Where interest has been paid under deduction of United Kingdom income tax, Covered Bondholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

The references to "interest" in A to E above mean "interest" as understood in United Kingdom tax law. The statements in A to E above do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the Terms and Conditions of the Covered Bonds or any related documentation. Covered Bondholders should seek their own professional advice as regards the withholding tax treatment of any payment on the Covered Bonds which does not constitute "interest" or "principal" as those terms are understood in United Kingdom tax law. Where a payment on a Covered Bond does not constitute (or is not treated as) interest for United Kingdom tax purposes, and the payment has a United Kingdom source, it would potentially be subject to United Kingdom withholding tax if, for example, it constitutes (or is treated as) an annual payment or a manufactured payment for United Kingdom tax purposes (which will be determined by, amongst other things, the terms and conditions specified by the Final Terms of the Covered Bond). In such a case, the payment may fall to be made under deduction of United Kingdom tax (the rate of withholding depending on the nature of the payment), subject to such relief as may be available following a direction from HMRC pursuant to the provisions of any applicable double taxation treaty, or to any other exemption which may apply.

#### ***No gross-up***

Covered Bondholders should note that, should any payment in respect of the Covered Bonds be subject to UK withholding tax (or withholding tax imposed by any jurisdiction outside Canada) then no additional amounts will be payable by the Issuer save as provided in Condition 7. Similarly, no additional amounts will be payable by the Guarantor should any payment under the Covered Bond Guarantee be subject to Canadian or UK withholding tax.

#### **United States Federal Income Taxation**

**The discussion of tax matters in this Prospectus is not intended or written to be used, and cannot be used by any person, for the purpose of avoiding U.S. federal, state or local tax penalties, and was written to support the promotion or marketing of the Programme. Each prospective investor should seek advice based on such person's particular circumstances from an independent tax adviser.**

The following summary discusses the principal U.S. federal income tax consequences of the ownership and disposition of the Covered Bonds. Except as specifically noted below, this discussion applies only to:

- Covered Bonds purchased on original issuance at their "issue price" (as defined below);
- Covered Bonds held as capital assets; and
- U.S. holders (as defined below).

Except as expressly set out below, this discussion does not address all aspects of U.S. federal income taxation that may be relevant to a particular holder based on such holder's particular circumstances, nor does it address any aspect of state, local, or non-U.S. tax laws or the possible application of the alternative minimum tax or excise tax or U.S. federal gift or estate taxes. In particular, this discussion does not address aspects of U.S. federal income taxation that may be applicable to holders that are subject to special treatment, including holders that are:

- financial institutions;
- insurance companies;

- dealers in securities, or foreign currencies;
- traders in securities that elect to use a mark-to-market method of accounting for their securities holdings;
- regulated investment companies;
- tax-exempt entities;
- persons holding Covered Bonds as part of a hedging transaction, “straddle,” conversion transaction or other integrated transaction;
- U.S. holders whose functional currency is not the U.S. dollar;
- real estate investment trusts;
- persons that own (or are deemed to own) ten per cent. or more of the voting shares (or interests treated as equity) of the Issuer; or
- partnerships or other entities classified as partnerships for U.S. federal income tax purposes.

This discussion is based upon the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”), existing and proposed regulations thereunder, and current administrative rulings and court decisions, each as available on the date hereof. All of the foregoing are subject to change, possibly on a retroactive basis, and any such change could affect the continuing validity of this discussion. Persons considering the purchase of the Covered Bonds should consult the applicable Final Terms for any additional discussion regarding U.S. federal income taxation and should consult their tax advisers with regard to the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction.

This summary does not discuss Bearer Covered Bonds. In general, U.S. federal income tax law imposes significant limitations on U.S. holders of Bearer Covered Bonds. U.S. holders should consult their tax advisers regarding the U.S. federal income and other tax consequences of the acquisition, ownership and disposition of Bearer Covered Bonds.

As used herein, the term “**U.S. holder**” means a beneficial owner of a Covered Bond that is for U.S. federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation created or organized in or under the laws of the United States or of any political subdivision thereof; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

The term “**U.S. holder**” also includes certain former citizens and residents of the United States.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds Covered Bonds, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and upon the activities of the partnership. Partners of partnerships holding Covered Bonds should consult with their tax advisers.

### ***Characterization of the Covered Bonds***

No statutory, judicial or administrative authority directly addresses the characterization of the Covered Bonds or instruments similar to the Covered Bonds for U.S. federal income tax purposes. As a result, significant aspects of the U.S. federal income tax consequences of an investment in the Covered Bonds are not certain. Unless otherwise indicated under the applicable Final Terms, the Issuer intends, and each holder, by purchasing the Covered Bonds,

agrees, to treat such Covered Bonds as indebtedness for U.S. federal income tax purposes. No opinion of counsel will be issued with respect to the U.S. federal income tax characterization of the Covered Bonds, and no ruling will be sought from the Internal Revenue Service (the “IRS”) regarding this, or any other, aspect of the U.S. federal income tax treatment of the Covered Bonds. Accordingly, there can be no assurances that the IRS will not contend, and that a court will not ultimately hold, that the Covered Bonds are equity in the Issuer or that any of the other items discussed below are treated differently. If any of the Covered Bonds were treated as equity in the Issuer for U.S. federal income tax purposes, there may be certain adverse tax consequences upon the sale, exchange, or other disposition of, or the receipt of certain types of distributions on, such Covered Bonds by a U.S. Holder. The discussion below assumes that the Covered Bonds will be treated as indebtedness for U.S. federal income tax purposes.

**Prospective investors should consult their own tax advisers regarding the appropriate characterization of, and U.S. federal income tax and other tax consequences of investing in the Covered Bonds in their particular circumstances.**

### *Payments of Stated Interest*

Interest paid on a Covered Bond will be taxable to a U.S. holder as ordinary interest income at the time it accrues or is received in accordance with the U.S. holder’s method of accounting for U.S. federal income tax purposes, provided that the interest is “qualified stated interest” (as defined below). Interest income earned by a U.S. holder with respect to a Covered Bond will constitute foreign-source income for U.S. federal income tax purposes, which may be relevant in calculating the U.S. holder’s foreign tax credit limitation. The rules regarding foreign tax credits are complex and prospective investors should consult their tax advisers about the application of such rules to them in their particular circumstances. Special rules governing the treatment of interest paid with respect to original issue discount Covered Bonds and foreign currency Covered Bonds are described under “*Taxation—Original Issue Discount*,” and “*—Foreign Currency Covered Bonds*.”

### *Original Issue Discount*

A Covered Bond that has an “issue price” that is less than its “stated redemption price at maturity” will be considered to have been issued at an original discount for U.S. federal income tax purposes (and will be referred to as an “**original issue discount Covered Bond**”) unless the Covered Bond satisfies a *de minimis* threshold (as described below) or is a short-term Covered Bond (as defined below). The “**issue price**” of a Covered Bond generally will be the first price at which a substantial amount of the Covered Bonds are sold to the public (which does not include sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The “**stated redemption price at maturity**” of a Covered Bond generally will equal the sum of all payments required to be made under the Covered Bond other than payments of “qualified stated interest”. “**Qualified stated interest**” is stated interest unconditionally payable (other than in debt instruments of the Issuer) at least annually during the entire term of the Covered Bond and equal to the outstanding principal balance of the Covered Bond multiplied by a single fixed rate of interest. In addition, qualified stated interest includes, among other things, stated interest on a “variable rate debt instrument” that is unconditionally payable (other than in debt instruments of the Issuer) at least annually at a single qualified floating rate of interest or at a rate that is determined at a single fixed formula that is based on objective financial or economic information. A rate is a qualified floating rate if variations in the rate can reasonably be expected to measure contemporaneous fluctuations in the cost of newly borrowed funds in the currency in which the Covered Bond is denominated.

If the difference between a Covered Bond’s stated redemption price at maturity and its issue price is less than a *de minimis* amount, *i.e.*, 1/4 of 1 percent of the stated redemption price at maturity multiplied by the number of complete years to maturity, the Covered Bond will not be considered to have original issue discount. U.S. holders of Covered Bonds with a *de minimis* amount of original issue discount will include this original issue discount in income, as capital gain, on a pro rata basis as principal payments are made on the Covered Bond or when the Covered Bond is sold.

A U.S. holder of original issue discount Covered Bonds will be required to include any qualified stated interest payments in income in accordance with the U.S. holder’s method of accounting for U.S. federal income tax purposes. U.S. holders of original issue discount Covered Bonds that mature more than one year from their date of

issuance will be required to include original issue discount in income for U.S. federal tax purposes as it accrues in accordance with a constant yield method based on a compounding of interest, regardless of whether cash attributable to this income is received.

A U.S. holder may make an election to include in gross income all interest that accrues on any Covered Bond (including stated interest, acquisition discount, original issue discount, *de minimis* original issue discount, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortizable bond premium or acquisition premium) in accordance with a constant yield method based on the compounding of interest, and may revoke such election (a “**constant yield election**”) only with the permission of the IRS.

A Covered Bond that matures one year or less from its date of issuance (a “**short-term Covered Bond**”) will be treated as being issued at a discount and none of the interest paid on the Covered Bond will be treated as qualified stated interest. In general, a cash method U.S. holder of a short-term Covered Bond is not required to accrue the discount for U.S. federal income tax purposes unless it elects to do so. U.S. holders who so elect and certain other U.S. holders, including those who report income on the accrual method of accounting for U.S. federal income tax purposes, are required to include the discount in income as it accrues on a straight-line basis, unless another election is made to accrue the discount according to a constant yield method based on daily compounding. In the case of a U.S. holder who is not required and who does not elect to include the discount in income currently, any gain realized on the sale, exchange, or retirement of the short-term Covered Bond will be ordinary income to the extent of the discount accrued on a straight-line basis (or, if elected, according to a constant yield method based on daily compounding) through the date of sale, exchange or retirement. In addition, those U.S. holders will be required to defer deductions for any interest paid on indebtedness incurred to purchase or carry short-term Covered Bonds in an amount not exceeding the accrued discount until the accrued discount is included in income.

The Issuer may have an unconditional option to redeem, or U.S. holders may have an unconditional option to require the Issuer to redeem, a Covered Bond prior to its stated maturity date. Under applicable regulations, if the Issuer has an unconditional option to redeem a Covered Bond prior to its stated maturity date, this option will be presumed to be exercised if, by utilizing any date on which the Covered Bond may be redeemed as the maturity date and the amount payable on that date in accordance with the terms of the Covered Bond as the stated redemption price at maturity, the yield on the Covered Bond would be lower than its yield to maturity. If the U.S. holders have an unconditional option to require the Issuer to redeem a Covered Bond prior to its stated maturity date, this option will be presumed to be exercised if making the same assumptions as those set forth in the previous sentence, the yield on the Covered Bond would be higher than its yield to maturity. If an option presumed to be exercised is not in fact exercised, the Covered Bond would be treated, solely for purposes of calculating original issue discount, as if it were redeemed, and a new Covered Bond were issued, on the presumed exercise date for an amount equal to the Covered Bond’s adjusted issue price on that date. The adjusted issue price of an original issue discount Covered Bond is generally defined as the sum of the issue price of the Covered Bond and the aggregate amount of previously accrued original issue discount, less any prior payments other than payments of qualified stated interest.

### ***Market Discount***

If a U.S. holder purchases a Covered Bond (other than a short-term Covered Bond) for an amount that is less than its stated redemption price at maturity or, in the case of an original issue discount Covered Bond, its adjusted issue price, the amount of the difference will be treated as market discount for U.S. federal income tax purposes, unless this difference is less than a specified *de minimis* amount.

A U.S. holder will be required to treat any principal payment (or, in the case of an original issue discount Covered Bond, any payment that does not constitute qualified stated interest) on, or any gain on the sale, exchange, retirement or other disposition of a Covered Bond, including disposition in certain nonrecognition transactions, as ordinary income to the extent of the market discount accrued on the Covered Bond at the time of the payment or disposition unless this market discount has been previously included in income by the U.S. holder pursuant to an election by the holder to include market discount in income as it accrues, or pursuant to a constant yield election by the holder as described under “*Taxation—Original Issue Discount*” above. In addition, the U.S. holder may be required to defer, until the maturity of the Covered Bond or its earlier disposition (including certain nontaxable transactions), the deduction of all or a portion of the interest expense on any indebtedness incurred or maintained to purchase or carry such Covered Bond.

If a U.S. holder makes a constant yield election (as described under “*Taxation—Original Issue Discount*”) for a Covered Bond with market discount, such election will result in a deemed election for all market discount bonds acquired by the holder on or after the first day of the first taxable year to which such election applies.

#### ***Acquisition Premium and Amortizable Bond Premium***

A U.S. holder who purchases a Covered Bond for an amount that is greater than the Covered Bond’s adjusted issue price but less than or equal to the sum of all amounts payable on the Covered Bond after the purchase date other than payments of qualified stated interest will be considered to have purchased the Covered Bond at an acquisition premium. Under the acquisition premium rules, the amount of original issue discount that the U.S. holder must include in its gross income with respect to the Covered Bond for any taxable year will be reduced by the portion of acquisition premium properly allocable to that year.

If a U.S. holder purchases a Covered Bond for an amount that is greater than the amount payable at maturity, or on an earlier call date, in the case of a Covered Bond that is redeemable at our option, the U.S. holder will be considered to have purchased the Covered Bond with amortizable bond premium equal in amount to the excess of the purchase price over the amount payable at maturity. The U.S. holder may elect to amortize this premium, using a constant yield method, over the remaining term of the Covered Bond (where the Covered Bond is not optionally redeemable prior to its maturity date). If the Covered Bond may be optionally redeemed prior to maturity after the U.S. holder has acquired it, the amount of amortizable bond premium is determined by substituting the call date for the maturity date and the call price for the amount payable at maturity, but only if the substitution results in a smaller amount of premium attributable to the period before the redemption date. A U.S. holder who elects to amortize bond premium must reduce his tax basis in the Covered Bond by the amount of the premium amortized in any year. An election to amortize bond premium applies to all taxable debt obligations then owned and thereafter acquired by the U.S. holder and may be revoked only with the consent of the IRS.

If a U.S. holder makes a constant yield election (as described under “*Taxation—Original Issue Discount*”) for a Covered Bond with amortizable bond premium, such election will result in a deemed election to amortize bond premium for all of the U.S. holder’s debt instruments with amortizable bond premium.

#### ***Sale, Exchange or Retirement of the Covered Bonds***

Upon the sale, exchange or retirement of a Covered Bond, a U.S. holder will recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange or retirement and the U.S. holder’s adjusted tax basis in the Covered Bond. A U.S. holder’s adjusted tax basis in a Covered Bond generally will equal the acquisition cost of the Covered Bond increased by the amount of OID and market discount included in the U.S. holder’s gross income and decreased by the amount of any payment received from the Issuer other than a payment of qualified stated interest and any amortizable bond premium recognized by the U.S. holder. Gain or loss, if any, will generally be U.S.-source income for purposes of computing a U.S. holder’s foreign tax credit limitation. For these purposes, the amount realized does not include any amount attributable to accrued interest on the Covered Bond. Amounts attributable to accrued interest are treated as interest as described under “*Taxation—Payments of Interest*”.

Except as described below, gain or loss realized on the sale, exchange or retirement of a Covered Bond will generally be capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange or retirement the Covered Bond has been held for more than one year. An exception to this general rule applies in the case of a short-term Covered Bond, to the extent of any accrued discount not previously included in the U.S. holder’s taxable income. See “*Taxation— Original Issue Discount*” and “*—Market Discount*”. In addition, other exceptions to this general rule apply in the case of foreign currency Covered Bonds. See “*Taxation—Foreign Currency Covered Bonds*”.

#### ***Foreign Currency Covered Bonds***

The following discussion summarizes the principal U.S. federal income tax consequences to a U.S. holder of the ownership and disposition of Covered Bonds that are denominated in a specified currency other than the U.S. dollar

or the payments of interest or principal on which are payable in or determined by reference to a currency other than the U.S. dollar (“**foreign currency Covered Bonds**”).

The rules applicable to foreign currency Covered Bonds could require some or all gain or loss on the sale, exchange or other disposition of a foreign currency Covered Bond to be recharacterized as ordinary income or loss. The rules applicable to foreign currency Covered Bonds are complex and may depend on the U.S. holder’s particular U.S. federal income tax situation. For example, various elections are available under these rules, and whether a U.S. holder should make any of these elections may depend on the U.S. holder’s particular U.S. federal income tax situation. U.S. holders are urged to consult their own tax advisers regarding the U.S. federal income tax consequences of the ownership and disposition of foreign currency Covered Bonds.

A U.S. holder who uses the cash method of accounting and who receives a payment of qualified stated interest in a foreign currency with respect to a foreign currency Covered Bond will be required to include in income the U.S. dollar value of the foreign currency payment (determined on the date the payment is received) regardless of whether the payment is in fact converted to U.S. dollars at the time, and this U.S. dollar value will be the U.S. holder’s tax basis in the foreign currency. A cash method U.S. holder who receives a payment of qualified stated interest in U.S. dollars pursuant to an option available under such foreign currency Covered Bond will be required to include the amount of this payment in income upon receipt.

An accrual method U.S. holder will be required to include in income the U.S. dollar value of the amount of interest income (including original issue discount or market discount, but reduced by acquisition premium and amortizable bond premium, to the extent applicable) that has accrued and is otherwise required to be taken into account with respect to a foreign currency Covered Bond during an accrual period. The U.S. dollar value of the accrued income will be determined by translating the income at the average rate of exchange for the accrual period or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within the taxable year. The U.S. holder will recognize ordinary income or loss with respect to accrued interest income on the date the income is actually received. The amount of ordinary income or loss recognized will equal the difference between the U.S. dollar value of the foreign currency payment received (determined on the date the payment is received) in respect of the accrual period (or, where a U.S. holder receives U.S. dollars, the amount of the payment in respect of the accrual period) and the U.S. dollar value of interest income that has accrued during the accrual period (as determined above). Rules similar to these rules apply in the case of a cash method taxpayer required to currently accrue original issue discount or market discount.

An accrual method U.S. holder may elect to translate interest income (including original issue discount) into U.S. dollars at the spot rate on the last day of the interest accrual period (or, in the case of an accrual period that spans two taxable years, the spot rate on the last day of the part of the period within the taxable year) or, if the date of receipt is within five business days of the last day of the interest accrual period, the spot rate on the date of receipt. A U.S. holder that makes this election must apply it consistently to all debt instruments from year to year and cannot change the election without the consent of the IRS.

Original issue discount, market discount, acquisition premium and amortizable bond premium on a foreign currency Covered Bond are to be determined in the relevant foreign currency. Where the taxpayer elects to include market discount in income currently, the amount of market discount will be determined for any accrual period in the relevant foreign currency and then translated into U.S. dollars on the basis of the average rate in effect during the accrual period. Exchange gain or loss realized with respect to such accrued market discount shall be determined in accordance with the rules relating to accrued interest described above.

If an election to amortize bond premium is made, amortizable bond premium taken into account on a current basis shall reduce interest income in units of the relevant foreign currency. Exchange gain or loss is realized on amortized bond premium with respect to any period by treating the bond premium amortized in the period in the same manner as on the sale, exchange or retirement of the foreign currency Covered Bond. Any exchange gain or loss will be ordinary income or loss as described below. If the election is not made, any loss realized on the sale, exchange or retirement of a foreign currency Covered Bond with amortizable bond premium by a U.S. holder who has not elected to amortize the premium will be a capital loss to the extent of the bond premium.

A U.S. holder's tax basis in a foreign currency Covered Bond, and the amount of any subsequent adjustment to the U.S. holder's tax basis, will be the U.S. dollar value amount of the foreign currency amount paid for such foreign currency Covered Bond, or of the foreign currency amount of the adjustment, determined on the date of the purchase or adjustment. A U.S. holder who purchases a foreign currency Covered Bond with previously owned foreign currency will recognize ordinary income or loss in an amount equal to the difference, if any, between such U.S. holder's tax basis in the foreign currency and the U.S. dollar fair market value of the foreign currency Covered Bond on the date of purchase.

Gain or loss realized upon the sale, exchange or retirement of a foreign currency Covered Bond that is attributable to fluctuation in currency exchange rates will be ordinary income or loss which will not be treated as interest income or expense. Gain or loss attributable to fluctuations in exchange rates will equal the difference between (i) the U.S. dollar value of the foreign currency principal amount of the Covered Bond, determined on the date the payment is received or the Covered Bond is disposed of, and (ii) the U.S. dollar value of the foreign currency principal amount of the Covered Bond, determined on the date the U.S. holder acquired the Covered Bond. Payments received attributable to accrued interest will be treated in accordance with the rules applicable to payments of interest on foreign currency Covered Bonds described above. The foreign currency gain or loss will be recognized only to the extent of the total gain or loss realized by the U.S. holder on the sale, exchange or retirement of the foreign currency Covered Bond. The source of the foreign currency gain or loss will be determined by reference to the residence of the U.S. holder or the "qualified business unit" of the U.S. holder on whose books the foreign currency Covered Bond is properly reflected. Any gain or loss realized by these U.S. holders in excess of the foreign currency gain or loss will be capital gain or loss except in the case of a short-term foreign currency Covered Bond to the extent of any discount not previously included in the U.S. holder's income. U.S. holders should consult their own tax adviser with respect to the tax consequences of receiving payments in a currency different from the currency in which payments with respect to such foreign currency Covered Bond accrue.

A U.S. holder will have a tax basis in any foreign currency received on the sale, exchange or retirement of a foreign currency Covered Bond equal to the U.S. dollar value of the foreign currency, determined at the time of sale, exchange or retirement. A cash method taxpayer who buys or sells a foreign currency Covered Bond is required to translate units of foreign currency paid or received into U.S. dollars at the spot rate on the settlement date of the purchase or sale. Accordingly, no exchange gain or loss will result from currency fluctuations between the trade date and the settlement date of the purchase or sale. An accrual method taxpayer may elect the same treatment for all purchases and sales of foreign currency obligations provided that the foreign currency Covered Bonds are traded on an established securities market. This election cannot be changed without the consent of the IRS. Any gain or loss realized by a U.S. holder on a sale or other disposition of foreign currency (including its exchange for U.S. dollars or its use to purchase foreign currency Covered Bonds) will be ordinary income or loss.

### ***Medicare Tax***

For taxable years beginning after December 31, 2012, a U.S. person that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, is subject to a 3.8% tax on the lesser of (1) the U.S. person's "net investment income" for the relevant taxable year and (2) the excess of the U.S. person's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals will be between \$125,000 and \$250,000, depending on the individual's circumstances). A U.S. holder's net investment income will generally include its interest income and its net gains from the disposition of Covered Bonds, unless such interest payments or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). A U.S. holder that is an individual, estate or trust, should consult its tax advisers regarding the applicability of the Medicare tax to its income and gains in respect of its investment in the Covered Bonds.

### ***Information with Respect to Foreign Financial Assets***

Under recently enacted legislation, individuals that own "specified foreign financial assets" with an aggregate value in excess of \$50,000 in taxable years beginning after March 18, 2010 will generally be required to file an information report with respect to such assets with their tax returns. "Specified foreign financial assets" include any financial accounts maintained by foreign financial institutions (such as the Covered Bonds), as well as any of the following, but only if they are not held in accounts maintained by financial institutions: (i) stocks and securities

issued by non-U.S. persons, (ii) financial instruments and contracts held for investment that have non-U.S. issuers or counterparties and (iii) interests in foreign entities. Individuals are urged to consult their tax advisers regarding the application of this legislation to their ownership of Covered Bonds.

### ***Backup Withholding and Information Reporting***

Information returns may be filed with the IRS in connection with payments on the Covered Bonds and the proceeds from a sale or other disposition of the Covered Bonds. A U.S. holder may be subject to U.S. backup withholding on these payments if the U.S. holder fails to provide its tax identification number to the paying agent and comply with certain certification procedures or otherwise establish an exemption from backup withholding. The amount of any backup withholding from a payment to a U.S. holder will be allowed as a credit against the U.S. holder's U.S. federal income tax liability and may entitle the U.S. holder to a refund, provided that the required information is furnished to the IRS. U.S. holders are urged to consult their tax advisers regarding additional reporting requirements as a result of the acquisition, ownership, or disposition of the Covered Bonds.

### ***Reportable Transactions***

A U.S. taxpayer that participates in a "reportable transaction" will be required to disclose its participation to the IRS. The scope and application of these rules is not entirely clear. A U.S. holder may be required to treat a foreign currency exchange loss from the Covered Bonds as a reportable transaction if the loss exceeds certain thresholds in a single taxable year. In the event the acquisition, ownership or disposition of Covered Bonds constitutes participation in a "reportable transaction" for purposes of these rules, a U.S. holder will be required to disclose its investment by filing Form 8886 with the IRS. Prospective purchasers should consult their tax advisers regarding the application of these rules to the acquisition, ownership or disposition of Covered Bonds.

**The U. S. federal income tax discussion set forth above is included for general information only and may not be applicable depending upon a U.S. holder's particular situation. U.S. holders should consult their own tax advisers with respect to the tax consequences to them of the acquisition, ownership and disposition of the Covered Bonds, including the tax consequences under state, local, foreign and other tax laws and the possible effects of changes in U.S. federal or other tax laws.**

## ERISA AND CERTAIN OTHER U.S. CONSIDERATIONS

Unless otherwise provided in the Final Terms Document, as discussed further below, plans (as defined below) may generally purchase a Covered Bond. The U.S. Employee Retirement Income Security Act of 1974, as amended (“**ERISA**”), imposes certain requirements on “employee benefit plans” (as defined in Section 3(3) of ERISA) subject to ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, “**ERISA Plans**”) and on those persons who are fiduciaries with respect to ERISA Plans. Each fiduciary of an ERISA Plan should consider the fiduciary standards of ERISA in the context of the plan’s particular circumstances before authorizing an investment in the Covered Bonds. Accordingly, among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the plan.

Section 406 of ERISA and Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”), which are among the ERISA and Code fiduciary provisions governing plans, prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, “**Plans**”)) and certain persons (referred to as “**parties in interest**” or “**disqualified persons**”) having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if any Covered Bonds are acquired by a Plan with respect to which any of the Issuer, the Guarantor, the Guarantor Trustee, the Bond Trustee, the Security Trustee or the Dealers or any of their respective affiliates are a party in interest or a disqualified person. A violation of these prohibited transaction rules could result in an excess tax or other liabilities under ERISA and/or Section 4975 for such persons.

Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire Covered Bonds and the circumstances under which such decision is made. Those exemptions include prohibited transaction exemption (“**PTCE**”) 96-23 (for certain transactions determined by in-house asset managers), PTCE 95-60 (for certain transactions involving insurance company general accounts), PTCE 91-38 (for certain transactions involving bank collective investment funds), PTCE 90-1 (for certain transactions involving insurance company separate accounts), PTCE 84-14 (for certain transactions determined by independent qualified asset managers).

In addition, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code provide statutory exemptive relief for certain arm’s-length transactions with a person that is a party in interest solely by reason of providing services to Plans or being an affiliate of such a service provider (the “**Service Provider Exemption**”). The Service Provider Exemption is generally applicable for otherwise-prohibited transactions between a Plan and a person or entity that is a party in interest or disqualified person with respect to such Plan solely by reason of providing services to the Plan (other than a party in interest that is a fiduciary, or its affiliate, that has or exercises discretionary authority or control or renders investment advice with respect to the assets of the Plan involved in the transaction), provided, that there is “adequate consideration” for the transaction. Any Plan fiduciary relying on the Service Provider Exemption and purchasing the Covered Bonds on behalf of a Plan must initially make a determination that (x) the Plan is paying no more than, and is receiving no less than, “adequate consideration” in connection with the transaction and (y) neither the Issuer, the Guarantor, the Guarantor Trustee, the Bond Trustee, the Security Trustee or the Dealers or any of their respective affiliates directly or indirectly exercises any discretionary authority or control or renders investment advice with respect to the assets of the Plan which such fiduciary is using to purchase, both of which are necessary preconditions to reliance on the Service Provider Exemption. If the Issuer, the Guarantor, the Guarantor Trustee, the Bond Trustee, the Security Trustee or the Dealers or any of their respective affiliates provides fiduciary investment management services with respect to a Plan’s acquisition of Covered Bonds, the Service Provider Exemption may not be available, and in that case, other exemptive relief would be required as precondition for purchasing the Covered Bonds. If the Covered Bonds are traded on a generally-recognized market, the adequate consideration determination is based on the prevailing price for the Covered Bonds on the relevant national exchange or, in the case of Covered Bonds not traded on a national securities exchange, the current independently-quoted offering price, in both instances taking into account the size of the transaction and the marketability of the Covered Bonds. If the Covered Bonds are not traded on a generally-recognized market, the adequate consideration determination is to be made by the fiduciary in good faith in accordance with regulations to be issued by the U.S. Department of Labor.

Any Plan fiduciary considering reliance on the Service Provider Exemption is encouraged to consult with counsel regarding the availability of the exemption.

There can be no assurance that any exemption will be available with respect to any particular transaction involving the Covered Bonds, or that, if an exemption is available, it will cover all aspects of any particular transaction.

Governmental plans and certain church and other U.S. plans, while not subject to the fiduciary responsibility provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to state or other federal laws that are substantially similar to ERISA and the Code. Fiduciaries of any such plans should consult with their counsel before purchasing any Covered Bonds.

Because the Issuer, the Guarantor, the Guarantor Trustee, the Bond Trustee, the Security Trustee or the Dealers or any of their respective affiliates may be considered a party in interest with respect to many ERISA Plans, the Covered Bonds may not be purchased, held or disposed of by any ERISA Plan, unless such purchase, holding or disposition is eligible for exemptive relief, including relief available under PTCE 96-23, 95-60, 91-38, 90-1, or 84-14 or the Service Provider Exemption, or such purchase, holding or disposition is otherwise not prohibited. Except as otherwise set forth in any applicable Final Terms Document, by its purchase of any Covered Bonds (or any interest in a Covered Bond), each purchaser (whether in the case of the initial purchase or in the case of a subsequent transferee) will be deemed to have represented and agreed that either (i) it is not and for so long as it holds a Covered Bond (or any interest therein) will not be an ERISA Plan or other Plan, an entity whose underlying assets include the assets of any such ERISA Plan or other Plan, or a governmental or other employee benefit plan which is subject to any U.S. federal, state or local law, that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code, or (ii) its purchase and holding of the Covered Bonds will not constitute or result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or, in the case of such a governmental or other employee benefit plan, any such substantially similar U.S. federal, state or local law for which an exemption is not available.

The foregoing discussion is general in nature and not intended to be all-inclusive. Any Plan fiduciary who proposes to cause a Plan to purchase any Covered Bonds should consult with its counsel and other advisers regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code to such an investment, and to confirm that such investment will not constitute or result in a prohibited transaction or any other violation of an applicable requirement of ERISA.

The sale of Covered Bonds to a Plan is in no respect a representation by the Issuer, the Guarantor, the Guarantor Trustee, the Bond Trustee, the Security Trustee or the Dealers that such an investment meets all relevant requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

## PLAN OF DISTRIBUTION

The Dealers will, in a programme agreement (as the same may be amended and/or supplemented and/or restated from time to time, the "**Programme Agreement**") agree with the Issuer and the Guarantor on a basis upon which such Dealers or any of them may from time to time agree to purchase Covered Bonds. The Issuer may pay the Dealers commissions from time to time in connection with the sale of any Covered Bonds. In the Programme Agreement, the Issuer will agree to reimburse and indemnify the Dealers for certain of their expenses and liabilities in connection with the establishment and any future updates of the Programme and the issue of Covered Bonds under the Programme. The Dealers are entitled to be released and discharged from their obligations in relation to any agreement to purchase Covered Bonds under the Programme Agreement in certain circumstances prior to payment to the Issuer.

### Transfer Restrictions

*As a result of the following restrictions, purchasers of Covered Bonds in the United States are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Covered Bonds.*

Each purchaser of Registered Covered Bonds or person wishing to transfer an interest from one Registered Global Covered Bond to another will be required to acknowledge, represent and agree as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

- (a) that either: (i) it is a QIB, purchasing (or holding) the Covered Bonds for its own account or for the account of one or more QIBs and it is aware and each beneficial owner of such Covered Bond has been advised that any sale to it is being made in reliance on Rule 144A or (ii) it is outside the United States and is not a U.S. person and it is not purchasing (or holding) the Covered Bonds for the account or benefit of a U.S. person;
- (b) that the Covered Bonds are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Covered Bonds and the Covered Bond Guarantee have not been and will not be registered under the Securities Act or any applicable U.S. State securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth in this section;
- (c) it agrees that neither the Issuer nor the Guarantor has any obligation to register the Covered Bonds or the Covered Bond Guarantee under the Securities Act;
- (d) that, unless it holds an interest in a Regulation S Global Covered Bond and either is a person located outside the United States or is not a U.S. person, if in the future it decides to resell, pledge or otherwise transfer the Covered Bonds or any beneficial interests in the Covered Bonds, it will do so, prior to the date which is one year after the later of the last Issue Date for the Series and the last date on which the Issuer or an affiliate of the Issuer was the owner of such Covered Bonds, only (i) to the Issuer or any affiliate thereof, (ii) inside the United States to a person whom the seller reasonably believes is a QIB purchasing the Covered Bonds for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (iii) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act or (iv) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. State securities laws;
- (e) that either (A) it is not and for so long as it holds a Covered Bond (or any interest therein) will not be (i) an "employee benefit plan" as defined in Section 3(3) of ERISA that is subject to Title I of ERISA, (ii) a "plan" as defined in and subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the **Code**), (iii) an entity whose underlying assets include the assets of any such employee benefit plan subject to ERISA or other plan subject to Section 4975 the Code, or (iv) a governmental, church or other non-US employee benefit plan which is subject to any U.S. federal, state, local or non-US law, that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code, or (B) its purchase and holding of the Covered Bonds will not result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or, in the case of such a governmental, church or other non-US

employee benefit plan, any such substantially similar U.S. federal, state, local or non-US law for which an exemption is not available;

- (f) it will, and will require each subsequent holder to, notify any purchaser of the Covered Bonds from it of the resale restrictions referred to in paragraph (d) above, if then applicable;
- (g) that Covered Bonds initially offered in the United States to QIBs will be represented by one or more Rule 144A Global Covered Bonds, and that Covered Bonds initially offered outside the United States in reliance on Regulation S will be represented by one or more Regulation S Global Covered Bonds;
- (h) that the Covered Bonds represented by a Rule 144A Global Covered Bond and Definitive Rule 144A Covered Bonds will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY AND ANY GUARANTEE IN RESPECT THEREOF HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING THIS SECURITY FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS; (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THIS SECURITY EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT IN RESPECT OF THIS SECURITY (THE "**AGENCY AGREEMENT**") AND, PRIOR TO THE DATE WHICH IS ONE YEAR AFTER THE LATER OF THE LAST ISSUE DATE FOR THE SERIES AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH SECURITY OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING THE SECURITY FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDER OF SUCH SECURITY SENT TO ITS REGISTERED ADDRESS, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO REALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).

BY ITS PURCHASE AND HOLDING OF THIS COVERED BOND (OR ANY INTEREST THEREIN), THE PURCHASER OR HOLDER WILL BE DEEMED TO HAVE REPRESENTED AND AGREED

THAT EITHER (A) IT IS NOT AND FOR SO LONG AS IT HOLDS THIS COVERED BOND (OR ANY INTEREST HEREIN) WILL NOT BE (I) AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**") THAT IS SUBJECT TO TITLE I OF ERISA, (II) A "PLAN" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "**CODE**"), (III) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE THE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN SUBJECT TO ERISA OR OTHER PLAN SUBJECT TO SECTION 4975 OF THE CODE, OR (IV) A GOVERNMENTAL, CHURCH OR OTHER NON-US EMPLOYEE BENEFIT PLAN WHICH IS SUBJECT TO ANY U.S. FEDERAL, STATE, LOCAL OR NON-US LAW, THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE, OR (B) ITS PURCHASE AND HOLDING OF THE COVERED BONDS WILL NOT RESULT IN A PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR, IN THE CASE OF SUCH A GOVERNMENTAL, CHURCH OR OTHER NON-US EMPLOYEE BENEFIT PLAN, ANY SUCH SUBSTANTIALLY SIMILAR U.S. FEDERAL, STATE, LOCAL OR NON-US LAW FOR WHICH AN EXEMPTION IS NOT AVAILABLE.

PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT THE SELLER OF THIS SECURITY MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A.";

- (i) if it is outside the United States and is not a U.S. person, that if it should resell or otherwise transfer the Covered Bonds prior to the expiration of the distribution compliance period (defined as 40 days after the completion of the distribution of the Tranche of Covered Bonds of which such Covered Bonds are a part), it will do so only (a)(i) outside the United States in compliance with Rule 903 or 904 of Regulation S under the Securities Act or (ii) to a QIB in compliance with Rule 144A and (b) in accordance with all applicable U.S. State securities laws; and it acknowledges that the Covered Bonds represented by a Regulation S Global Covered Bond and Definitive Regulation S Covered Bonds will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY AND ANY GUARANTEE IN RESPECT THEREOF HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR ANY APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT IN RESPECT OF THIS SECURITY (THE "**AGENCY AGREEMENT**") AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. UNTIL THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF THE TRANCHE OF COVERED BONDS OF WHICH THIS COVERED BOND FORMS PART, SALES MAY NOT BE MADE IN THE UNITED STATES OR TO U.S. PERSONS UNLESS MADE (I) PURSUANT TO RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT OR (II) TO "QUALIFIED INSTITUTIONAL BUYERS" AS DEFINED IN, AND IN TRANSACTIONS PURSUANT TO, RULE 144A UNDER THE SECURITIES ACT.";

BY ITS PURCHASE AND HOLDING OF THIS COVERED BOND (OR ANY INTEREST THEREIN), THE PURCHASER OR HOLDER WILL BE DEEMED TO HAVE REPRESENTED AND AGREED THAT EITHER (A) IT IS NOT AND FOR SO LONG AS IT HOLDS THIS COVERED BOND (OR ANY INTEREST HEREIN) WILL NOT BE (I) AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**") THAT IS SUBJECT TO TITLE I OF ERISA, (II) A "PLAN" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "**CODE**"), (III) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE THE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN SUBJECT TO ERISA OR OTHER PLAN SUBJECT TO SECTION 4975 OF THE CODE, OR (IV) A GOVERNMENTAL, CHURCH OR OTHER

NON-US EMPLOYEE BENEFIT PLAN WHICH IS SUBJECT TO ANY U.S. FEDERAL, STATE, LOCAL OR NON-US LAW, THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE, OR (B) ITS PURCHASE AND HOLDING OF THE COVERED BONDS WILL NOT RESULT IN A PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR, IN THE CASE OF SUCH A GOVERNMENTAL, CHURCH OR OTHER NON-US EMPLOYEE BENEFIT PLAN, ANY SUCH SUBSTANTIALLY SIMILAR U.S. FEDERAL, STATE, LOCAL OR NON-US LAW FOR WHICH AN EXEMPTION IS NOT AVAILABLE; and

- (j) that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Covered Bonds as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

No sale of Rule 144A Covered Bonds in the United States to any one purchaser will be for less than U.S.\$100,000 (or the approximate equivalent in another Specified Currency) principal amount and no Rule 144A Covered Bond will be issued in connection with such a sale in a smaller principal amount. If the purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least U.S.\$100,000 (or the approximate equivalent in another Specified Currency) principal amount of Registered Covered Bonds.

Dealers may arrange for the resale of Covered Bonds to QIBs pursuant to Rule 144A and each such purchaser of Covered Bonds is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate principal amount of Covered Bonds which may be purchased by a QIB pursuant to Rule 144A is U.S.\$100,000 (or the approximate equivalent in another Specified Currency). To the extent that the Issuer and the Guarantor are not subject to or does not comply with the reporting requirements of Section 13 or 15(d) of the Exchange Act or the information furnishing requirements of Rule 12g3-2(b) thereunder, the Issuer and the Guarantor have agreed to furnish to holders of Covered Bonds and to prospective purchasers designated by such holders, upon request, such information as may be required by Rule 144A(d)(4).

### **Selling Restrictions**

#### *Canada*

Each Dealer has acknowledged and each further Dealer appointed under the Programme will be required to acknowledge that the Covered Bonds have not been and will not be qualified for sale under the securities laws of Canada or any province or territory thereof and has represented and agreed that it has not offered, sold or distributed, and that it will not offer, sell or distribute, any Covered Bonds, directly or indirectly, in Canada or to, or for the benefit of, any resident thereof in contravention of the securities laws of Canada or any province or territory thereof. Each Dealer has also agreed and each further Dealer appointed under the Programme will be required to agree not to distribute or deliver this Prospectus, or any other offering material relating to the Covered Bonds in Canada in contravention of the securities laws of Canada or any province or territory thereof.

#### *United States*

Regulation S, Category 2, TEFRA D Rules apply, unless TEFRA C Rules are specified as applicable in the applicable Final Terms or unless TEFRA Rules are not applicable. Rule 144A eligible sales will be permitted if so specified in the applicable Final Terms.

Each Dealer will acknowledge, and each further Dealer appointed under the Programme Agreement will be required to acknowledge, that the Covered Bonds and the Covered Bond Guarantee have not been and will not be registered under the Securities Act or under any state securities laws and may not be offered or sold or delivered, directly or indirectly, within the United States, its territories or possessions or to, or for the account or benefit of, U.S. persons

except pursuant to an exemption from, or in transactions not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Covered Bonds in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. person, except in certain transactions permitted by U.S. tax regulations. Each Dealer has agreed it will not offer, sell or deliver a Covered Bond in bearer form within the United States or to U.S. persons. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and regulations thereunder.

In connection with any Covered Bonds that are offered or sold outside the United States in reliance on Regulation S ("**Regulation S Covered Bonds**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver such Regulations S Covered Bonds (i) as part of its distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Tranche of Covered Bonds of which such Covered Bonds are a part, as determined and certified by the relevant Dealer, in the case of a non-syndicated issue, or the lead manager, in the case of a syndicated issue, and except in either case in accordance with Regulation S under the Securities Act. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Regulation S Covered Bonds during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Regulation S Covered Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Covered Bonds within the United States by any Dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act (if available).

With respect to the issuance of Rule 144A Covered Bonds, the Programme Agreement provides that selected Dealers, through their selling agents which are registered broker dealers in the United States, may resell Covered Bonds in the United States to QIBs pursuant to Rule 144A under the Securities Act.

With respect to the issuance of Rule 144A Covered Bonds, Dealers may arrange for the resale of Covered Bonds to QIBs pursuant to Rule 144A and each such purchaser of Covered Bonds is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate principal amount of Covered Bonds which may be purchased by a QIB pursuant to Rule 144A will be specified in the applicable Final Terms in U.S. dollars (or the approximate equivalent in another Specified Currency).

Each Dealer appointed under the Programme Agreement will be required to represent and agree in respect of transactions under Rule 144A that it has not (and will not), nor has (nor will) any person acting on its behalf, (a) made offers or sales of any security, or solicited officers to buy, or otherwise negotiated in respect of, any security, under circumstances that would require the registration of the Covered Bonds under the Securities Act; or (b) engaged in any form of general solicitation or general advertising (within the meaning of Rule 502(c) under the Securities Act) in connection with any offer or sale of Covered Bonds in the United States.

### *Japan*

The Covered Bonds have not been and will not be registered under the Financial Instruments and Exchange Law of Japan and each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will not offer or sell any Covered Bonds, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law of Japan and any other applicable laws, regulations and ministerial guidelines of Japan.

### *European Economic Area*

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Covered Bonds which are the subject of the offering contemplated by this Prospectus as completed by the Final Terms Document in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Covered Bonds to the public in that Relevant Member State:

- (a) if the Final Terms Document in relation to the Covered Bonds specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a **Non-exempt Offer**), following the date of publication of a prospectus in relation to such Covered Bonds which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;
- (b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (c) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive;

provided that no such offer of Covered Bonds referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

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

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

## **UK**

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Covered Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Guarantor or, in the case of the Issuer, would not, if the Issuer was not an authorised person, apply to the Issuer; and
- (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Covered Bonds in, from or otherwise involving the UK.

## ***Republic of Italy***

As of the date of this Prospectus, the Issuer is not licensed to “collect deposits and other funds with the obligation to reimburse” in Italy in accordance with the provisions of Legislative Decree No. 385 of 1 September 1993, as amended, and therefore, each Dealer has represented and agreed that no Covered Bonds may be offered, sold or delivered, nor may copies of the Prospectus or of any other document relating to the Covered Bonds be distributed in the Republic of Italy until such license has been obtained. Once the licence has been obtained investors should note the following restrictions.

The offering of the Covered Bonds has not been registered pursuant to Italian securities legislation and, accordingly, no Covered Bonds may be offered, sold or delivered, nor may copies of the Prospectus or of any other document relating to the Covered Bonds be distributed in the Republic of Italy, except:

- (i) to qualified investors (*investitori qualificati*), as referred to in Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the Financial Services Act) and defined in Article 34-ter, paragraph 1, letter b) of CONSOB regulations No. 11971 of 14 May 1999, as amended (Regulation No. 11971); or
- (ii) in any other circumstances which are exempted from the rules on public offerings pursuant to the Financial Services Act or Regulation No. 11971.

Any offer, sale or delivery of the Covered Bonds or distribution of copies of the Prospectus or any other document relating to the Covered Bonds in the Republic of Italy under (i) or (ii) above must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October 2007 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended (the Banking Act); and
- (b) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or other Italian authority.

*Please note that in accordance with Article 100-bis of the Financial Services Act, where no exemption from the rules on solicitation of investments applies under (a) and (b) above, the subsequent distribution of the Covered Bonds on the secondary market in Italy must be made in compliance with the public offer and the prospectus requirement rules provided under the Financial Services Act and Regulation No. 11971. Failure to comply with such rules may result in the sale of such Covered Bonds being declared null and void and in the liability of the intermediary transferring the financial instruments for any damages suffered by the investors.*

### ***Republic of France***

Each of the Dealers and the Issuer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold and will not offer or sell, directly or indirectly, Covered Bonds to the public in France, and it has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, this Prospectus, the relevant Final Terms Document or any other offering material relating to the Covered Bonds, and such offers, sales and distributions have been and will only be made in France to (A) providers of investment services relating to portfolio management for the account of third parties, and/or (B) qualified investors (*investisseurs qualifiés*) all as defined in, and in accordance with, articles L.411-1, L.411-2 and D.411-1 to D.411-3 of the French Code *monétaire et financier*.

### ***Spain***

Each Dealer has represented and agreed that the Covered Bonds may not be offered or sold in Spain by means of a public offer as defined and construed in Chapter I of Title III of Law 24/1998, of 28 July, on the Spanish Securities Act (as amended by Royal Decree Law 5/2005, of 11 March) and related legislation.

### ***The Netherlands***

- (a) Covered Bonds (including rights representing an interest in a covered bond in global form) may not be offered, sold, transferred or delivered in The Netherlands other than to *professional market parties* (*professionele marktpartijen*) within the meaning of the Dutch Financial Markets Supervision Act (*Wet op het financieel toezicht*, the "FMSA") provided that, if article 5:20(5) of the FMSA will be applied as from 1 January 2012, as from such date Covered Bonds (including rights representing an interest in a covered bond in global form) may not be offered, sold, transferred or delivered in The Netherlands other than to *qualified investors* (*gekwalficeerde beleggers*) within the meaning of the FMSA.
- (b) Notwithstanding (a) above, Zero Coupon Covered Bonds may not, directly or indirectly, as part of their initial distribution (or immediately thereafter) or as part of any re offering be offered, sold, transferred or delivered in The Netherlands. For purposes of this paragraph "**Zero Coupon Covered Bonds**" are Covered Bonds that are in bearer form (whether in definitive or in global form) and that constitute a claim for a fixed sum against the Issuer and on which interest does not become due during their tenor or on which no interest is due whatsoever".

### ***General***

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Covered Bonds or possesses or distributes this Prospectus or any other offering material or any Final Terms Document and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Covered Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer, the Guarantor, the Bond Trustee, the Security Trustee nor any of the Dealers will have any responsibility therefor.

None of the Issuer, the Guarantor, the Bond Trustee, the Security Trustee or any of the Dealers represents that Covered Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer(s) will be required to comply with such other restrictions as the Issuer and the relevant Dealer(s) will agree as a term of issue and purchase as indicated in the applicable Final Terms Document.

## GENERAL INFORMATION

1. Trading information in relation to Covered Bonds admitted to the Official List and admitted to trading on the Market or the PSM will be expressed as a percentage of their principal amount (exclusive of accrued interest). It is expected that listing of the Covered Bonds on the Official List and admission to trading on the Market or the PSM will be granted on the relevant Issue Date, subject only to the issue of a Global Covered Bond of the relevant type in respect of each Tranche. Prior to official listing, however, dealings will be permitted by the UK Listing Authority, the Market and the PSM in accordance with their respective rules. Transactions will normally be effected for delivery on the third working day after the day of the transaction. However, Covered Bonds may be issued pursuant to the Programme which will not be listed on the Official List and admitted to trading on the Market, the PSM or any other stock exchange.
2. The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Covered Bonds. The establishment of the Programme and the issue of Covered Bonds thereunder was authorised by Resolutions of the Board of Directors of the Bank passed on 28 August 2007.
3. Each Bearer Covered Bond, Coupon and Talon will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".
4. There has been no significant change in the financial or trading position of the Bank and its Subsidiaries taken as a whole since 30 April 2011, being the date of the latest published interim results, and no material adverse change in the prospects of the Bank and its Subsidiaries taken as a whole since 31 October 2010, being the date of the latest published consolidated financial statements of the Bank.

There has been no significant change in the financial or trading position of the Guarantor since it was established on 24 January 2008 and there has been no material adverse change in the prospects of the Guarantor since 24 January 2008.

5. There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Guarantor is aware) against the Guarantor since 24 January 2008, being the date of its establishment.
6. The Covered Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Tranche of Covered Bonds allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms Document. In addition, the Issuer may make an application for any Registered Covered Bonds to be accepted for trading in book-entry form by DTC. The CUSIP and/or CINS numbers for each Tranche of Registered Covered Bonds cleared through DTC, together with the relevant ISIN and Common Code, will be specified in the applicable Final Terms Document. Euroclear, Clearstream, Luxembourg and DTC are the entities in charge of keeping the records, as applicable. If the Covered Bonds are to clear through an additional or alternative clearing system, the appropriate information will be specified in the applicable Final Terms Document.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

7. From the date hereof and for so long as the Programme remains in effect or any Covered Bonds remain outstanding, the following documents (collectively, the "**Transaction Documents**") will be available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), at the Executive Offices of the Bank and at the specified office of the Principal Paying Agent:
  - (i) the Trust Deed (which includes the Covered Bond Guarantee and true form of the Global Covered Bonds, the Definitive Covered Bonds, the Coupons and the Talons);

- (ii) the Security Agreement (and any documents entered into pursuant to the Security Agreement);
- (iii) the Mortgage Sale Agreement;
- (iv) the Servicing Agreement;
- (v) the Declaration of Trust;
- (vi) the Administration Agreement;
- (vii) the Intercompany Loan Agreement;
- (viii) the Subordinated Loan Agreement;
- (ix) the Interest Rate Swap Agreement;
- (x) the Covered Bond Swap Agreement;
- (xi) the Asset Monitor Agreement;
- (xii) the Cash Management Agreement;
- (xiii) the Guaranteed Investment Contract;
- (xiv) the Standby Guaranteed Investment Contract;
- (xv) the Bank Account Agreement;
- (xvi) the Standby Bank Account Agreement;
- (xvii) the Agency Agreement;
- (xviii) the Programme Agreement;
- (xix) each Final Terms Document for Covered Bonds which are listed on the Official List and admitted to trading on the Market, the PSM or offered to the public in the European Economic Area;
- (xx) a copy of each subscription agreement for Covered Bonds issued on a syndicated basis which are listed on the Official List and admitted to trading on the Market, the PSM or offered to the public in the European Economic Area; and
- (xxi) the Master Definitions and Construction Agreement.

8. Copies of the latest annual financial statements, annual management's discussion and analysis of financial condition and results of operations, interim financial statements and interim management's discussion and analysis of financial condition and results of operations to the shareholders of the Bank may be obtained, and copies of the Agency Agreement will be available for inspection, at the specified offices of each of the Agents and at the Executive Offices of the Bank during normal business hours, so long as any of the Covered Bonds are outstanding.

This Prospectus may also be viewed on the website of the Regulatory News Service operated by the London Stock Exchange at [www.londonstockexchange.com/en-gb/pricenews/marketnews/](http://www.londonstockexchange.com/en-gb/pricenews/marketnews/) under the name of the Issuer and the headline "Publication of Prospectus".

9. *Conditions for determining price* — The price and amount of Covered Bonds to be issued under the Programme will be determined by the Issuer and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions.
10. *Post-issuance information* — The Issuer does not intend to provide any post-issuance information in relation to any issues of Covered Bonds.
11. Settlement arrangements will be agreed between the Issuer, the relevant Dealer(s) and the Paying Agent or, as the case may be, the Registrar in relation to each Tranche of Covered Bonds.

## GLOSSARY

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| <b>\$ or Canadian Dollar(s)</b> .....              | The lawful currency for the time being of Canada  |
| <b>€ or Euro</b> .....                             | The meaning given on page 98  |
| <b>£ or Sterling</b> .....                         | The lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland  |
| <b>2010 Annual Report</b> .....                    | The meaning given on page 42  |
| <b>30/360, 360/360 or Bond Basis</b> .....         | The meaning given in Condition 4.5(c)(vi)   |
| <b>30E/360 or Eurobond Basis</b> .....             | The meaning given in Condition 4.5(c)(vii)  |
| <b>U.S.\$ or U.S. Dollars or US Dollars</b> .....  | The lawful currency for the time being of the United States of America  |
| <b>¥, Yen or JPY</b> .....                         | The lawful currency for the time being of Japan   |
| <b>ABMs</b> .....                                  | The meaning given on page 55  |
| <b>Account Bank</b> .....                          | The Bank and any other financial institution which accedes to the Bank Account Agreement as an Account Bank or enters into an agreement in form and substance similar to the Bank Account Agreement   |
| <b>Accrual Yield</b> .....                         | In relation to a Zero Coupon Covered Bond, the meaning given in the applicable Final Terms Document   |
| <b>Accrued Interest</b> .....                      | In relation to a Loan as at any date, interest accrued but not yet due and payable on the Loan from (and including) the Monthly Payment Day immediately preceding the relevant date to (but excluding) the relevant date  |
| <b>Actual/Actual (ICMA)</b> .....                  | The meaning given in Condition 4.5(c)(i)  |
| <b>Actual/Actual or Actual/Actual (ISDA)</b> ..... | The meaning given in Condition 4.5(c)(ii)   |
| <b>Actual/360</b> .....                            | The meaning given in Condition 4.5(c)(v)  |
| <b>Actual/365 (Fixed)</b> .....                    | The meaning given in Condition 4.5(c)(iii)  |
| <b>Actual/365 (Sterling)</b> .....                 | The meaning given in Condition 4.5(c)(iv)   |
| <b>Additional Business Centre</b> .....            | The meaning (if any) given in the applicable Final Terms Document   |
| <b>Additional Loan Advance</b> .....               | A further drawing (including, but not limited to, Further Advances) in respect of Loans sold by a Seller to the Guarantor. Unless and until a New Loan Type is approved by the Rating Agencies which requires an Additional Loan Advance, such as a home equity line of credit, the Sellers do not expect that any Loan included in the Portfolio will require an Additional Loan Advance |
| <b>Additional Loan Notice</b> .....                | A notice in the form set out in the Mortgage Sale Agreement served in accordance with the terms of the Mortgage Sale Agreement  |

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| <b>Additional Loans</b> .....                       | Loans, other than the Loans comprised in the Initial Portfolio, which a Seller may sell to the Guarantor after the First Transfer Date pursuant to the Mortgage Sale Agreement, including each Additional STEP Loan   |
| <b>Additional STEP Loans</b> .....                  | Additional Loans made by a Seller to a particular STEP Borrower which are subject to a STEP Plan and which are originated subsequent to the sale of the related First STEP Loan to the Guarantor  |
| <b>Adjusted Aggregate Loan Amount</b> .....         | The meaning given on page 142   |
| <b>Adjusted Outstanding Principal Balance</b> ..... | The meaning given on page 142   |
| <b>Adjusted Required Redemption Amount</b> .....    | The Canadian Dollar Equivalent of: <ul style="list-style-type: none"> <li>(a) the Required Redemption Amount; plus or minus</li> <li>(b) any swap termination amounts payable to or by the Guarantor under the Covered Bond Swap Agreement less (where applicable) amounts standing to the credit of the GIC Account and the principal balance of any Substitution Assets and Authorised Investments (excluding all amounts to be applied on the next following Guarantor Payment Date to pay or repay higher ranking amounts in the Guarantee Priority of Payments and those amounts that are required to repay any Series of Covered Bonds which mature within 12 months of the date of such calculation); plus or minus</li> <li>(c) any swap termination amounts payable to or by the Guarantor under the Interest Rate Swap Agreement</li> </ul> |
| <b>Administration Agreement</b> .....               | The administration agreement dated the Programme Date between the Guarantor, the Administrative Agent and the Security Trustee (as amended and/or supplemented and/or restated from time to time), under which the Bank has agreed to act as Administrative Agent to the Guarantor  |
| <b>Administrative Agent</b> .....                   | The Bank in its capacity as administrative agent to the Guarantor under the Administration Agreement  |
| <b>Advance</b> .....                                | An advance denominated in Canadian Dollars under the Intercompany Loan pursuant to the terms of the Intercompany Loan Agreement   |
| <b>Affiliate</b> .....                              | Any company which is for the time being an affiliate (within the meaning of Section 2 of the Bank Act)  |
| <b>Agency Agreement</b> .....                       | The meaning given on page 80  |
| <b>Agents</b> .....                                 | The meaning given on page 80  |
| <b>AMA</b> .....                                    | Advanced Measurement Approach under Basel II  |
| <b>Amortisation Test</b> .....                      | The test as to whether the Amortisation Test Aggregate Loan Amount is at least equal to the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as at the end of each Guarantor   |

Calculation Period after a Notice to Pay has been served on the Guarantor (but prior to service on the Guarantor of a Guarantor Acceleration Notice) as calculated on the immediately following Calculation Date

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| <b>Amortisation Test Aggregate Loan Amount</b> .....                 | The meaning given on page 146   |
| <b>Amortisation Test Outstanding Principal Balance</b> .....         | The meaning given on page 146.  |
| <b>Amortised Face Amount</b> .....                                   | The meaning given in Condition 6.7(b)   |
| <b>Arrangers</b> .....   | Barclays Capital Inc. and Scotia Capital Inc.   |
| <b>Arrears of Interest</b> .....                                     | In relation to a Loan as at any date, the aggregate of all interest and expenses which are due and payable and unpaid on that date  |
| <b>Asset Coverage Test</b> .....                                     | The test as to whether the Adjusted Aggregate Loan Amount is at least equal to the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as at the end of each Guarantor Calculation Period as calculated on the immediately following Calculation Date   |
| <b>Asset Coverage Test Breach Notice</b> .....                       | The notice required to be served by the Bond Trustee if the Adjusted Aggregate Loan Amount is less than the Canadian Dollar Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as at the end of two consecutive Guarantor Calculation Periods as calculated on the immediately following Calculation Dates   |
| <b>Asset Coverage Test Subordinated Advance</b> .....                | The meaning given on page 151   |
| <b>Asset Monitor</b> .....   | KPMG LLP, in its capacity as asset monitor under the Asset Monitor Agreement together with any successor or additional asset monitor appointed from time to time thereunder   |
| <b>Asset Monitor Agreement</b> .....                                 | The asset monitor agreement entered into on the Programme Date, between the Asset Monitor, the Guarantor, the Cash Manager, the Bond Trustee and the Security Trustee, as amended and restated by the amended and restated asset monitor agreement dated 3 November 2009, and as further amended and restated by the second amended and restated asset monitor agreement dated on or before 22 July 2010 (and as further amended and/or supplemented and/or restated from time to time) |
| <b>Asset Monitor Report</b> .....                                    | The results of the tests conducted by the Asset Monitor in accordance with the Asset Monitor Agreement to be delivered to the Cash Manager, the Guarantor, the Issuer, the Bond Trustee and the Security Trustee  |
| <b>Asset Percentage</b> .....  | The meaning given on page 145   |
| <b>Asset Percentage Adjusted Outstanding Principal Balance</b> ..... | The meaning given on page 143   |

**Authorised Investments** ..... Investments of a type or class for which Rating Agency Confirmation has been received, including, for example, Canadian short-term provincial and federal bonds and money market securities

**Available Principal Receipts** ..... On a relevant Calculation Date, an amount equal to the aggregate of (without double counting):

- (a) the amount of Principal Receipts received during the immediately preceding Calculation Period and credited to the Principal Ledger on the GIC Account;
- (b) any other amount standing to the credit of the Principal Ledger including (i) the proceeds of any Intercompany Loan (where such proceeds have not been applied to acquire Additional Loans and their Related Security, refinance an Advance and/or invest in Substitution Assets or Authorised Investments), and (ii) the proceeds from any sale of Loans (including, but not limited to, Selected Loans) pursuant to the terms of the Declaration of Trust or the Mortgage Sale Agreement to the extent that such proceeds represent principal, but excluding any amount of principal received under the Covered Bond Swap Agreement;
- (c) following repayment of any Hard Bullet Covered Bonds by the Issuer and the Guarantor on the Final Maturity Date thereof, any amounts standing to the credit of the Pre-Maturity Liquidity Ledger in respect of such Series of Hard Bullet Covered Bonds (except where the Guarantor has elected to or is required to retain such amounts on the Pre-Maturity Liquidity Ledger); and
- (d) the amount of any termination payment received from a Swap Provider which is not applied to acquire a replacement for the relevant terminated Swap Agreement,

*Less*

- (e) any Swap Collateral Excluded Amounts

**Available Revenue Receipts** ..... On a relevant Calculation Date, an amount equal to the aggregate of (without double counting):

- (a) the amount of Revenue Receipts received during the immediately preceding Calculation Period and credited to the Revenue Ledger on the GIC Account;
- (b) other revenue of the Guarantor including all amounts of interest received on the Guarantor Accounts, the Substitution Assets and any Authorised Investments in the preceding Calculation Period, and the proceeds from any sale of Loans (including, but not limited to, Selected Loans) pursuant to the terms of the Declaration of Trust or the Mortgage Sale Agreement to the extent that such proceeds comprise Accrued Interest and Arrears of Interest or other interest amounts, but excluding amounts received by the Guarantor under the Interest Rate Swap Agreement and in respect of interest received by the Guarantor under the Covered Bond Swap Agreement;

- (c) prior to the service of a Notice to Pay or an Asset Coverage Test Breach Notice or following service of an Asset Coverage Test Breach Notice which has been revoked, amounts standing to the credit of the Reserve Fund in excess of the Reserve Fund Required Amount;
- (d) following service of a Notice to Pay or an Asset Coverage Test Breach Notice which has not been revoked, amounts standing to the credit of the Reserve Fund;
- (e) any other revenue receipts not referred to in paragraphs (a) to (d) above received during the previous Calculation Period and standing to the credit of the Revenue Ledger on the GIC Account; and
- (f) the amount of any premium received by the Guarantor from a new Swap Provider as consideration for the entry by the Guarantor into a new Swap Agreement, except to the extent applied to pay any termination payment under the relevant Swap Agreement being replaced,

*Less*

- (g) Third Party Amounts, which will be paid on receipt in cleared funds to a Seller;
- (h) Tax Credits; and
- (i) Swap Collateral Excluded Amounts

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| <b>Bank</b> .....                       | The meaning given on the cover page  |
| <b>Bank Account Agreement</b> .....     | Bank account agreement entered into on the Programme Date between the Guarantor, the Account Bank, the Cash Manager, the GIC Provider and the Security Trustee, and as amended and restated by the amended and restated bank account agreement dated on or before 22 July 2010 (and as further amended and/or supplemented and/or restated from time to time)  |
| <b>Bank Act</b> .....                   | The meaning given on page 44   |
| <b>Bearer Covered Bonds</b> .....       | Covered Bonds in bearer form   |
| <b>Bearer Definitive Covered Bond</b> . | A Bearer Covered Bond in definitive form issued or, as the case may require, to be issued by the Issuer in accordance with the provisions of the Programme Agreement or any other agreement between the Issuer and the relevant Dealer(s), the Agency Agreement and the Trust Deed in exchange for either a Temporary Global Covered Bond or part thereof or a Permanent Global Covered Bond (all as indicated in the applicable Final Terms Document), such Bearer Covered Bond in definitive form being in the form or substantially in the form set out in the relevant schedule to the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer(s) or lead manager (in the case of syndicated issues) and having the Terms and Conditions endorsed thereon or, if permitted by the relevant Stock Exchange, incorporating the Terms and Conditions by reference as indicated in the applicable Final Terms Document and having the relevant information |

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|  | supplementing, replacing or modifying the Terms and Conditions appearing in the applicable Final Terms Document endorsed thereon or attached thereto and (except in the case of a Zero Coupon Covered Bond in bearer form) having Coupons and, where appropriate Talons attached thereto on issue   |
| <b>Bearer Global Covered Bonds</b> ..... | Global Covered Bonds in bearer form, comprising Temporary Global Covered Bonds and Permanent Global Covered Bonds   |
| <b>Beneficial Owner</b> .....            | Each actual purchaser of each DTC Covered Bond  |
| <b>Beneficiaries</b> .....               | The meaning given on page 141   |
| <b>Bond Trustee</b> .....                | Computershare Trust Company of Canada, in its capacity as bond trustee under the Trust Deed together with any successor or additional bond trustee appointed from time to time thereunder   |
| <b>Borrower</b> .....                    | In relation to a Loan, each individual specified as such in the relevant Mortgage Terms together with each individual (if any) who assumes from time to time an obligation to repay such Loan or any part of it, and includes a STEP Borrower   |
| <b>Broken Amount</b> .....               | The meaning (if any) given in the applicable Final Terms Document   |
| <b>Business Day</b> .....                | In the case of any Covered Bond, the meaning given in Condition 4.5(a) in respect of such Covered Bonds and in all other cases a Toronto Business Day   |
| <b>Business Day Convention</b> .....     | In respect of a Tranche of Covered Bonds and either the Interest Periods or the Interest Payment Dates, the business day convention specified in the applicable Final Terms Document and determined in accordance with Condition 4.5(b)   |
| <b>Calculation Agent</b> .....           | The meaning given in the ISDA Definitions   |
| <b>Calculation Amount</b> .....          | The meaning given in the applicable Final Terms Document  |
| <b>Calculation Date</b> .....            | The third Toronto Business Day prior to each Guarantor Payment Date   |
| <b>Calculation Period</b> .....          | The period from (and including) one Calculation Date to (but excluding) the next following Calculation Date, except that the first Calculation Period will commence on (and include) the first Issue Date under the Programme and end on (but exclude) the next following Calculation Date  |
| <b>Canadian Dollar Equivalent</b> .....  | In relation to a Series of Covered Bonds (including any calculations of the Required Redemption Amount of such Series of Covered Bonds) which is denominated in (a) a currency other than Canadian Dollars, the Canadian Dollar equivalent of such amount ascertained using the relevant Covered Bond Swap Exchange Rate relating to the Guarantee Loan applicable to such Series of Covered Bonds, and (b) Canadian Dollars, the applicable amount in Canadian Dollars |
| <b>Canadian GAAP</b> .....               | The meaning given on page 34.   |
| <b>Capital Requirements Directive</b> .. | Directive 2006/48 of the European Parliament and the Council dated 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (recast) (implementing the Basel II framework) (as the same may be varied,   |

amended or re-enacted from time to time)

**Capitalised Arrears** ..... In relation to a Loan on any date (the "determination date"), the amount (if any) at such date of any Arrears of Interest in respect of which, on or prior to the determination date, each of the following conditions has been satisfied:

- (a) a Seller (or a Servicer on the Guarantor's behalf) has, by arrangement with the relevant Borrower, agreed to capitalise such Arrears of Interest; and
- (b) such Arrears of Interest have been capitalised and added, in the relevant accounts of a Seller (or, if the determination date occurs after the First Transfer Date, the Guarantor), to the principal amount outstanding in respect of such Loan

**Capitalised Expenses** ..... In relation to a Loan, the amount of any expense, charge, fee, premium or payment (excluding, however, any Arrears of Interest) capitalised and added to the principal amount outstanding of that Loan in accordance with the relevant Mortgage Terms (including any high loan-to-value fee)

**Cash Management Agreement** .... The cash management agreement entered into on the Programme Date between the Guarantor, the Cash Manager, the GIC provider, the Sellers, the Servicers and the Security Trustee, as amended and restated by the amended and restated cash management agreement dated 3 November 2009, and as further amended and restated by the second amended and restated cash management agreement dated on or before 22 July 2010 (and as further amended and/or supplemented and/or restated from time to time)

**Cash Manager** ..... The Bank, in its capacity as cash manager under the Cash Management Agreement or any successor or additional cash manager appointed from time to time thereunder

**Cash Manager Termination**

**Event** ..... If any of the following events occur:

- (a) the Cash Manager defaults in the payment on the due date of any payment due and payable by it under the Cash Management Agreement or in the performance of its obligations thereunder and such default continues unremedied for a period of five Toronto Business Days after the earlier of the Cash Manager becoming aware of such default and receipt by the Cash Manager of written notice from the Security Trustee requiring the same to be remedied; or
- (b) the Cash Manager defaults in the performance or observance of any of its other covenants and obligations under the Cash Management Agreement, which in the reasonable opinion of the Security Trustee is materially prejudicial to the interests of the Secured Creditors and such default continues unremedied for a period of thirty (30) days after the earlier of the Cash Manager becoming aware of such default and receipt by the Cash Manager of written notice from the Security Trustee requiring the same to be remedied; or
- (c) an Insolvency Event occurs in respect of the Cash Manager, or
- (d) the Ratings of the Cash Manager fall below the level specified in the Cash Management Agreement (unless the Cash Manager obtains an

unconditional and unlimited guarantee of its obligations under the Cash Management Agreement from a credit support provider that has the Rating(s) required by the relevant Rating Agencies within thirty (30) Toronto Business Days of the first downgrade below the level specified in the Cash Management Agreement or takes such other action as it may agree with the relevant Rating Agencies)

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| <b>CDOR</b> .....                                    | Canadian Deposit Offering Rate for Canadian Dollar deposits having the relevant maturity   |
| <b>Cessation Date</b> .....                          | The meaning given on page 115  |
| <b>Charged Property</b> .....                        | The meaning given on page 157  |
| <b>Clearing Systems</b> .....                        | Euroclear and/or Clearstream, Luxembourg   |
| <b>Clearstream, Luxembourg</b> .....                 | Clearstream Banking, société anonyme or its successors   |
| <b>CMHC</b> .....                                    | Canada Mortgage and Housing Corporation, a Canadian federal Crown corporation  |
| <b>CMHC Approved Lender</b> .....                    | In respect of CMHC Mortgage Insurance, any "approved lender" thereunder  |
| <b>CMHC Insured Loan</b> .....                       | A Loan which is insured as to principal and interest by CMHC in accordance with the terms of the applicable CMHC Mortgage Insurance  |
| <b>CMHC Mortgage Insurance</b> .....                 | In respect of each Loan, the mortgage loan insurance in respect of a Loan issued to the related Seller by CMHC including and subject to, in each case, the <i>National Housing Act</i> (Canada), the National Housing Loan Regulations, the CMHC Master Loan Policy, the applicable Accelerated Claim Payment Plan Agreement and CMHC's policies, procedures, requirements and guidelines, each as amended from time to time |
| <b>CMHC Rating</b> .....                             | The long-term debt credit rating assigned to CMHC by Moody's and DBRS and to Canada by Fitch   |
| <b>Common Depository</b> .....                       | The common depository for Euroclear and Clearstream, Luxembourg  |
| <b>Common Safekeeper</b> .....                       | The common safekeeper for Euroclear and Clearstream, Luxembourg  |
| <b>CONSOB</b> .....                                  | The Italian Securities Exchange Commission   |
| <b>Consolidated Financial Statements</b> .....       | The meaning given in the Consent of KPMG LLP on page 240   |
| <b>Couponholders</b> .....                           | The meaning given on page 81   |
| <b>Coupons</b> .....                                 | The meaning given on page 81   |
| <b>Covered Bond Guarantee</b> .....                  | The meaning given on page 86   |
| <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 Issuer and service of a Notice to Pay on the Guarantor, and (ii) a Guarantor Event of Default and service of a Guarantor   |

Acceleration Notice on the Issuer and the Guarantor

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| <b>Covered Bond Swap</b> .....                         | Each transaction between the Guarantor, the Covered Bond Swap Provider and the Security Trustee in respect of a Series or Tranche, as applicable, of Covered Bonds which provides a hedge against certain interest rate, currency and/or other risks in respect of amounts received by the Guarantor under the Interest Rate Swap and amounts payable by the Guarantor under the Covered Bond Guarantee in respect of Covered Bonds (after service of a Notice to Pay) |
| <b>Covered Bond Swap Agreement</b> ..                  | The agreement dated on or before 22 July 2010 between the Guarantor and the Covered Bond Swap Provider governing any Covered Bond Swap in the form of an ISDA Master Agreement, including a schedule and one or more confirmations thereunder for each Tranche and/or Series of Covered Bonds entered into at the time such Covered Bonds are issued (as amended and/or restated and/or supplemented from time to time)  |
| <b>Covered Bond Swap Early Termination Event</b> ..... | The meaning given on page 154  |
| <b>Covered Bond Swap Exchange Rate</b> .....           | In relation to a Series of Covered Bonds, the exchange rate specified in the Covered Bond Swap relating to such Covered Bonds or, if the Covered Bond Swap Agreement has terminated, the applicable spot rate  |
| <b>Covered Bond Swap Provider</b> .....                | The Bank and, from time to time, any additional provider(s) of a Covered Bond Swap under the Covered Bond Swap Agreement, together with any successor covered bond swap provider(s)  |
| <b>Covered Bondholders</b> .....                       | The meaning given on page 81   |
| <b>Covered Bonds</b> .....                             | Each covered bond issued or to be issued pursuant to the Programme Agreement and which is or is to be constituted under the Trust Deed, which covered bond may be represented by a Global Covered Bond or any Definitive Covered Bond and includes any replacements for a Covered Bond issued pursuant to Condition 6.11 and Condition 10  |
| <b>Covered Bonds Custodian</b> .....                   | The meaning given on page 178  |
| <b>Customer Files</b> .....                            | The file or files relating to each Loan and its Related Security containing, <i>inter alia</i> :<br><br>(a) all material correspondence relating to that Loan; and<br><br>(b) the completed mortgage documentation applicable to the Loan including the Valuation Report and the solicitor's, notary's or licensed or qualified conveyancer's certificate of title,<br><br>whether original documentation, or in electronic form or otherwise                          |
| <b>Cut-off Date</b> .....                              | The second Toronto Business Day following the Calculation Date preceding a relevant Transfer Date or (in the case of a Product Switch or Additional Loan Advance) the Guarantor Payment Date, as the case may be   |

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| <b>Day Count Fraction</b> .....                          | The applicable meaning given in Condition 4.5(c)  |
| <b>DBRS Limited</b> .....                                | DBRS Ltd. or its successors   |
| <b>Dealer</b> .....                                      | Each dealer appointed from time to time in accordance with the Programme Agreement, which appointment may be for a specific issue or on an ongoing basis. References in this Prospectus to the relevant Dealer(s) will, in the case of an issue of Covered Bonds being (or intended to be) subscribed for or purchased by more than one Dealer, be to all Dealers agreeing to subscribe for or purchase such Covered Bonds  |
| <b>Declaration of Trust</b> .....                        | The declaration of trust dated 24 January 2008 pursuant to which the Guarantor was established, as amended and restated by the amended and restated declaration of trust dated the Programme Date, as further amended and restated by the amended and restated declaration of trust dated 3 November 2009, and as further amended and restated by the second amended and restated declaration of trust dated on or before 22 July 2010 (and as further amended and/or restated and/or supplemented from time to time) |
| <b>Deferred Consideration</b> .....                      | The amount payable to the Seller(s) in respect of the Loans sold to the Guarantor from time to time, being the amount equal to the aggregate of (i) the amount which is paid after making payments of a higher order of priority as set out in the applicable Priority of Payments, and (ii) the amount that is paid by way of set-off against, or other application of, Deferred Consideration Subordinated Advances in accordance with the Declaration of Trust   |
| <b>Deferred Consideration Shortfall</b>                  | The meaning given on page 150   |
| <b>Deferred Consideration Subordinated Advance</b> ..... | The meaning given on page 150   |
| <b>Definitive Covered Bond</b> .....                     | The meaning given on page 80  |
| <b>Demand Loan</b> .....                                 | The meaning given on page 118   |
| <b>Demand Loan Contingent Amount</b> .....               | The meaning given on page 120   |
| <b>Demand Loan Repayment Event</b>                       | The meaning given on page 119   |
| <b>Designated Account</b> .....                          | The meaning given in Condition 5.4  |
| <b>Designated Bank</b> .....                             | The meaning given in Condition 5.4  |
| <b>Designated Maturity</b> .....                         | The meaning given in the ISDA Definitions   |
| <b>Determination Date</b> .....                          | The meaning given in the applicable Final Terms Document  |
| <b>Determination Period</b> .....                        | The meaning given in Condition 4.5(d)   |
| <b>Direct Participants</b> .....                         | Direct participants in DTC  |
| <b>Directors</b> .....                                   | The directors for the time being of the Issuer  |

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| <b>Distribution Compliance Period</b> ..... | The meaning given on page 85  |
| <b>DTC</b> .....                            | The Depository Trust Company, or its successors                           |
| <b>DTC Covered Bonds</b> .....              | Registered Covered Bonds accepted into DTC's book-entry settlement system |
| <b>DTCC</b> .....                           | The Depository Trust & Clearing Corporation or its successors             |
| <b>Due for Payment</b> .....                | The requirement by the Guarantor to pay any Guaranteed Amount:            |

(a) following service of a Notice to Pay but prior to service of a Guarantor Acceleration Notice:

(i) (except where paragraph (ii) below applies) on the date on which the Scheduled Payment Date in respect of such Guaranteed Amount is reached, or, if the applicable Final Terms Document specified that an Extended Due for Payment Date is applicable to the relevant Series of Covered Bonds, on the Interest Payment Date that would have applied if the Final Maturity Date of such Series of Covered Bonds had been the Extended Due for Payment Date or such other Interest Payment Date(s) specified in the applicable Final Terms Document (the "**Original Due for Payment Date**"); and

(ii) in relation to any Guaranteed Amount in respect of the Final Redemption Amount payable on the Final Maturity Date of a Series of Covered Bonds for which an Extended Due for Payment Date is specified in the applicable Final Terms Document, on the Extended Due for Payment Date, but only to the extent that the Guarantor, having received the Notice to Pay no later than the date falling one Business Day prior to the Extension Determination Date, does not pay Guaranteed Amounts corresponding to the full amount of the Final Redemption Amount in respect of such Series of Covered Bonds by the Extension Determination Date, because the Guarantor has insufficient funds available under the Guarantee Priority of Payments to pay such Guaranteed Amounts in full on the earlier of (1) the date which falls two Business Days after service of the Notice to Pay on the Guarantor or, if later, the Final Maturity Date (in each case after the expiry of the grace period set out in Condition 9.2(a)) and (2) the Extension Determination Date

For the avoidance of doubt, Due for Payment does not refer to any earlier date upon which payment of any Guaranteed Amounts may become due under the guaranteed obligations, by reason of prepayment, acceleration of maturity, mandatory or optional redemption or otherwise; or

(b) following service of a Guarantor Acceleration Notice, on the date on which the Guarantor Acceleration Notice is served on the Issuer and the Guarantor

#### **Earliest Maturing Covered**

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| <b>Bonds</b> .....                                | At any time, the Series of the Covered Bonds (other than any Series which is fully collateralised by amounts standing to the credit of the GIC Account) that has or have the earliest Final Maturity Date as specified in the applicable Final Terms Document (ignoring any acceleration of amounts due under the Covered Bonds prior to service of a Guarantor Acceleration Notice) |
| <b>Early Redemption Amount</b> .....              | The amount calculated in accordance with Condition 6.7   |
| <b>Eligibility Criteria</b> .....                 | The meaning given on page 127  |
| <b>Established Rate</b> .....                     | The meaning given in Condition 5.9   |
| <b>EU</b> .....                                   | European Union   |
| <b>euro LIBOR or EURIBOR</b> .....                | Euro-zone inter-bank offered rate  |
| <b>Euroclear</b> .....                            | Euroclear Bank S.A./N.V. or its successors   |
| <b>European Economic Area</b> .....               | Member States of the EU together with Iceland, Norway and Liechtenstein  |
| <b>Excess Proceeds</b> .....                      | The meaning given on page 106  |
| <b>Exchange Agent</b> .....                       | The meaning given on page 79   |
| <b>Exchange Date</b> .....                        | The meaning given on page 64   |
| <b>Exchange Event</b> .....                       | In the case of Bearer Covered Bonds, the meaning given on page 64 and in the case of Registered Covered Bonds, the meaning given on page 66  |
| <b>Exchange Notice</b> .....                      | The meaning given on page 98   |
| <b>Excluded Scheduled Interest Amounts</b> .....  | The meaning given in the definition of " <b>Scheduled Interest</b> "   |
| <b>Excluded Scheduled Principal Amounts</b> ..... | The meaning given in the definition of " <b>Scheduled Principal</b> "  |
| <b>Excluded Swap Termination Amount</b> .....     | In relation to a Swap Agreement, an amount equal to the amount of any termination payment due and payable under that Swap Agreement (a) to the relevant Swap Provider as a result of a Swap Provider Default with respect to such Swap Provider, or (b) to the relevant Swap Provider following a Swap Provider Downgrade Event with respect to such Swap Provider                   |
| <b>Executive Offices</b> .....                    | The meaning given on page 44   |
| <b>Existing Covered Bonds</b> .....               | The meaning given on page 103  |
| <b>Extended Due for Payment Date</b> .            | In relation to any Series of Covered Bonds, the date, if any, specified as such in the applicable Final Terms Document to which the payment of all or (as applicable) part of the Final Redemption Amount payable on the Final Maturity Date will be deferred in the event that the Final Redemption Amount is not paid in full by the Extension Determination Date                  |

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| <b>Extension Determination Date</b> .....      | In relation to any Series of Covered Bonds, the date falling two Business Days after the expiry of seven days from (and including) the Final Maturity Date of such Series of Covered Bonds  |
| <b>Extraordinary Resolution</b> .....          | A resolution of the Covered Bondholders passed as such under the terms of the Trust Deed  |
| <b>Final Maturity Date</b> .....               | The Interest Payment Date on which a Series of Covered Bonds will be redeemed at the Final Redemption Amount in accordance with the Terms and Conditions  |
| <b>Final Redemption Amount</b> .....           | The meaning given in the relevant Final Terms Document  |
| <b>Final Terms Document</b> .....              | The final terms document which, with respect to each Tranche of Covered Bonds to be admitted to the Official List and admitted to trading by the London Stock Exchange, will be delivered to the UK Listing Authority and the London Stock Exchange on or before the date of issue of the applicable Tranche of Covered Bonds and sets out the final terms for that Tranche               |
| <b>First STEP Loan</b> .....                   | The first Loan made by a Seller to a particular STEP Borrower subject to the relevant STEP Plan which is sold to the Guarantor  |
| <b>First Transfer Date</b> .....               | The date on which the Initial Portfolio was sold, assigned and transferred to the Guarantor pursuant to the terms of the Mortgage Sale Agreement, which was the Programme Date  |
| <b>Fitch</b> .....                             | Fitch Inc. or its successors  |
| <b>Fixed Coupon Amount</b> .....               | The meaning given in the applicable Final Terms Document  |
| <b>Fixed Interest Period</b> .....             | The meaning given on page 92  |
| <b>Fixed Rate</b> .....                        | The meaning given in the ISDA Definitions   |
| <b>Fixed Rate Covered Bonds</b> .....          | Covered Bonds that pay a Fixed Rate of interest on such date or dates as may be agreed between the Issuer and the relevant Dealer(s) and on redemption calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s)  |
| <b>Floating Rate</b> .....                     | The meaning given in the ISDA Definitions   |
| <b>Floating Rate Convention</b> .....          | The meaning given in Condition 4.5(b)(i)  |
| <b>Floating Rate Covered Bond Margin</b> ..... | In respect of a Floating Rate Covered Bond, the percentage rate per annum (if any) specified in the applicable Final Terms Document   |
| <b>Floating Rate Covered Bonds</b> .....       | Covered Bonds which bear interest at a rate determined: <ul style="list-style-type: none"> <li>(a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the ISDA Definitions; or</li> <li>(b) on the basis of a Reference Rate appearing on the agreed screen page</li> </ul> |

of a commercial quotation service; or

- (c) on such other basis as may be agreed between the Issuer and the relevant Dealer(s),

as set out in the applicable Final Terms Document

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| <b>Floating Rate Option</b> .....              | The meaning given in the ISDA Definitions  |
| <b>Following Business Day Convention</b> ..... | The meaning given in Condition 4.5(b)(ii)  |
| <b>FSA</b> .....                               | The meaning given on the cover page  |
| <b>FSMA</b> .....                              | The meaning given on the cover page  |
| <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>GIC Account</b> .....                       | The account in the name of the Guarantor held with the Bank and maintained subject to the terms of the Guaranteed Investment Contract, the Bank Account Agreement and the Security Agreement or such additional or replacement account as may for the time being be in place with the prior consent of the Security Trustee and designated as such   |
| <b>GIC Provider</b> .....                      | The Bank, in its capacity as GIC provider under the Guaranteed Investment Contract or any successor or additional GIC provider appointed from time to time thereunder  |
| <b>Global Covered Bond</b> .....               | The meaning given on page 80   |
| <b>Governmental Authority</b> .....            | Includes any domestic or foreign legislative, executive, judicial or administrative body having or purporting to have jurisdiction in the relevant circumstances   |
| <b>Guarantee Loan</b> .....                    | The meaning given on page 118  |
| <b>Guarantee Priority of Payments</b> ..       | The meaning given on page 168  |
| <b>Guaranteed Amounts</b> .....                | Prior to service of a Guarantor Acceleration Notice, with respect to any Original Due for Payment Date or, if applicable, any Extended Due for Payment Date, the sum of Scheduled Interest and Scheduled Principal, in each case, payable on that Original Due for Payment Date or, if applicable, any Extended Due for Payment Date, or after service of a Guarantor Acceleration Notice, an amount equal to the relevant Early Redemption Amount as specified in the Terms and Conditions plus all accrued and unpaid interest and all other amounts due and payable in respect of the Covered Bonds (other than additional amounts payable under Condition 7), including all Excluded Scheduled Interest Amounts, all Excluded Scheduled Principal Amounts (whenever the same arose) and all amounts payable by the Issuer under the Trust Deed |

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| <b>Guaranteed Amounts Due Date ..</b>             | The meaning given on page 117  |
| <b>Guaranteed Investment Contract or GIC.....</b> | The guaranteed investment contract between the Guarantor, the GIC Provider, the Security Trustee and the Cash Manager dated the Programme Date (as amended and/or supplemented and/or restated from time to time)  |
| <b>Guarantor.....</b>                             | The meaning given on the cover page  |
| <b>Guarantor Acceleration Notice....</b>          | The meaning given on page 107  |
| <b>Guarantor Accounts.....</b>                    | The GIC Account and the Transaction Account and any additional or replacement accounts opened in the name of the Guarantor, including the Standby GIC Account and Standby Transaction Account  |
| <b>Guarantor Calculation Period.....</b>          | Each period from, but excluding, the last Toronto Business Day of each month to, and including, the last Toronto Business Day of the next succeeding month, provided that (i) the first Guarantor Calculation Period begins on, and includes, the Programme Date, and (ii) the final Guarantor Calculation Period will end on, but exclude, the Termination Date |
| <b>Guarantor Event of Default.....</b>            | The meaning given in Condition 9.2   |
| <b>Guarantor Payment Date.....</b>                | The 17 <sup>th</sup> day of each month or if not a Toronto Business Day the next following Toronto Business Day  |
| <b>Guarantor Payment Period .....</b>             | The period from (and including) a Guarantor Payment Date to (but excluding) the next following Guarantor Payment Date  |
| <b>Guarantor Trustee.....</b>                     | Montreal Trust Company of Canada, in its capacity as trustee under the Declaration of Trust together with any successor or additional trustee appointed from time to time thereunder   |
| <b>Hard Bullet Covered Bonds.....</b>             | The meaning given on page 160  |
| <b>IAS .....</b>                                  | International Accounting Standards   |
| <b>ICMA .....</b>                                 | International Capital Market Association   |
| <b>ICMA Rule Book .....</b>                       | The meaning given on page 91   |
| <b>IFRS.....</b>                                  | The meaning given on page 43   |
| <b>Independent Beneficiary .....</b>              | A Canadian non-profit organisation or registered charity to be determined from time to time  |
| <b>Indirect Participants</b>                      | Indirect participants in DTC that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly  |
| <b>Initial Advance.....</b>                       | In relation to a Loan, the original principal amount advanced by a Seller including any retention(s) advanced to the relevant Borrower after completion of the Mortgage  |
| <b>Initial Portfolio.....</b>                     | The meaning given on page 175  |

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| <b>Insolvency Event</b> .....                           | If a Seller or a Servicer has become insolvent, or if the Superintendent has taken control of the assets of a Seller or a Servicer or a Seller or a Servicer itself, or if a liquidator of a Seller or a Servicer, as applicable, or Person with similar powers, has been appointed pursuant to a winding up order or otherwise  |
| <b>Intercompany Loan</b> .....                          | The meaning given on page 118  |
| <b>Intercompany Loan Agreement</b> ..                   | The Intercompany Loan Agreement dated the Programme Date, between the Issuer, the Guarantor, the Cash Manager and the Security Trustee, as amended and restated by the amended and restated intercompany loan agreement dated 3 November 2009, and as further amended and restated by the second amended and restated intercompany loan agreement dated on or before 22 July 2010 (and as further amended and/or restated and/or supplemented from time to time) |
| <b>Intercompany Loan Ledger</b> .....                   | The ledger of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record all payments of interest and repayments of principal on each of the Advances  |
| <b>Interest Amount</b> .....                            | The meaning given on page 89   |
| <b>Interest Basis</b> .....                             | The meaning given in the applicable Final Terms Document   |
| <b>Interest Commencement Date</b> .....                 | In the case of interest-bearing Covered Bonds, the date specified in the applicable Final Terms Document from (and including) which the relevant Covered Bonds will accrue interest  |
| <b>Interest Determination Date</b> .....                | In respect of Floating Rate Covered Bonds to which Screen Rate Determination is applicable, the meaning given in the applicable Final Terms Document   |
| <b>Interest Payment Date</b> .....                      | In respect of Fixed Rate Covered Bonds, the meaning given in the applicable Final Terms Document and in respect of Floating Rate Covered Bonds, the meaning given in Condition 4.2(a)  |
| <b>Interest Period</b> .....                            | The meaning given on page 92   |
| <b>Interest Rate Swap</b> .....                         | The Interest rate swap entered into in connection with the Covered Bonds under the terms of the Interest Rate Swap Agreement   |
| <b>Interest Rate Swap Agreement</b> .....               | The agreement dated on or before 22 July 2010 between the Guarantor and an Interest Rate Swap Provider governing the Interest Rate Swap in the form of an ISDA Master Agreement, including a schedule and one or more confirmations thereunder for each Tranche and/or Series of Covered Bonds entered into at the time such Covered Bonds are issued (as amended and/or restated and/or supplemented from time to time)   |
| <b>Interest Rate Swap Early Termination Event</b> ..... | The meaning given on page 153  |
| <b>Interest Rate Swap Provider</b> .....                | The Bank and, from time to time, any additional provider(s) of an Interest Rate Swap under the Interest Rate Swap Agreement together with any successor interest rate swap provider(s)   |

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| <b>Investor Put</b> .....               | The meaning given in Condition 6.4  |
| <b>Investor's Currency</b> .....        | The meaning given on page 40  |
| <b>ISA</b> .....                        | International Standards on Auditing   |
| <b>ISDA</b> .....                       | International Swaps and Derivatives Association, Inc.   |
| <b>ISDA Definitions</b> .....           | The 2006 ISDA Definitions, as published by ISDA, unless otherwise specified in the applicable Final Terms Document  |
| <b>ISDA Determination</b> .....         | If specified as applicable in the applicable Final Terms Document, the manner in which the Rate of Interest on Floating Rate Covered Bonds is to be determined in accordance with Condition 4.2(b)(i)   |
| <b>ISDA Master Agreement</b> .....      | The 2002 ISDA Master Agreement (as published by ISDA), unless otherwise specified in the applicable Final Terms Document  |
| <b>ISDA Rate</b> .....                  | The meaning given in Condition 4.2(b)(i)  |
| <b>Issue Date</b> .....                 | Each date on which the Issuer issues a Tranche of Covered Bonds under the Programme, as specified in the applicable Final Terms Document  |
| <b>Issue Price</b> .....                | The price, generally expressed as a percentage of the nominal amount of the Covered Bonds, at which a Series or Tranche of Covered Bonds will be issued   |
| <b>Issuer</b> .....                     | The meaning given on the cover page   |
| <b>Issuer Acceleration Notice</b> ..... | The meaning given in Condition 9.1  |
| <b>Issuer Call</b> .....                | The meaning given in Condition 6.3  |
| <b>Issuer Event of Default</b> .....    | The meaning given in Condition 9.1  |
| <b>Issuer Ratings Threshold</b> .....   | The meaning given on page 138   |
| <b>Late Payment</b> .....               | The meaning given in Condition 6.10   |
| <b>Late Payment Date</b> .....          | The meaning given in Condition 6.10   |
| <b>Latest Valuation</b> .....           | In relation to any Mortgaged Property, the value given to that Mortgaged Property by the most recent Valuation Report addressed to the relevant Seller or the purchase price of that Mortgaged Property or current property tax assessment, as applicable |
| <b>Ledger</b> .....                     | Each of the Revenue Ledger, the Principal Ledger, the Intercompany Loan Ledger, the Subordinated Loan Ledger, the Reserve Ledger, the Payment Ledger and the Pre-Maturity Liquidity Ledger  |
| <b>Legislative Exchange</b> .....       | The meaning given in Condition 6.11   |
| <b>Lending Criteria</b> .....           | The lending criteria of a 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

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| <b>LIBOR</b> .....   | London Interbank Offered Rate   |
| <b>Loan</b> .....  | Each mortgage loan or (if approved by the Rating Agencies as a New Loan Type) home equity line of credit secured, in each case, by a Mortgage on Mortgaged Property which has the benefit of CMHC Mortgage Insurance, referenced by its mortgage loan identifier number and comprising the aggregate of all principal sums, interest, costs, charges, expenses and other funds (including all Additional Loan Advances) due or owing with respect to that mortgage loan under the relevant Mortgage Terms by a Borrower on the security of a Mortgage from time to time outstanding or, as the context may require, the Borrower's obligations in respect of the same |
| <b>Loan Representations and Warranties</b> .....           | The representations and warranties relating to the Loans set out in the Mortgage Sale Agreement   |
| <b>Loan Repurchase Notice</b> .....                        | A notice in substantially the form set out in the Mortgage Sale Agreement served by the Guarantor on a Seller in relation to the purchase of Loans in the Portfolio by a Seller in accordance with the terms of the Mortgage Sale Agreement   |
| <b>Loan-to-Value Ratio</b> .....                           | The ratio of the outstanding balance of a Loan to the value of the Mortgaged Property securing that Loan  |
| <b>London Stock Exchange</b> .....                         | The meaning given on the cover page   |
| <b>Long Maturity Covered Bond</b> .....                    | The meaning given on page 94  |
| <b>Market</b> .....  | The meaning given on the cover page   |
| <b>Markets in Financial Instruments Directive</b> .....    | The meaning given on the cover page   |
| <b>Master Definitions and Construction Agreement</b> ..... | The meaning given on page 82  |
| <b>Maximum Rate of Interest</b> .....                      | In respect of Floating Rate Covered Bonds the percentage rate per annum (if any) specified in the applicable Final Terms Document   |
| <b>Maximum Redemption Amount</b> ..                        | The amount specified as such in the applicable Final Terms Document   |
| <b>Member State</b> .....                                  | The meaning given on page ii  |
| <b>Minimum Rate of Interest</b> .....                      | In respect of Floating Rate Covered Bonds the percentage rate per annum (if any) specified in the applicable Final Terms Document   |
| <b>Minimum Redemption Amount</b> ..                        | The amount specified as such in the applicable Final Terms Document   |
| <b>Minister</b> .....                                      | The meaning given on page 59  |
| <b>Modified Following Business Day Convention</b> .....    | The meaning given in Condition 4.5(b)(iii)  |

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| <b>Monthly Asset Coverage Report</b> .. | The report substantially in the form set out in Schedule 3 to the Cash Management Agreement  |
| <b>Monthly Payment</b> .....            | The amount which the relevant Mortgage Terms require a Borrower to pay on each Monthly Payment Day in respect of that Borrower's Loan  |
| <b>Monthly Payment Day</b> .....        | The date on which interest (and principal in relation to a repayment mortgage) is due to be paid by a Borrower on a Loan or, if any such day is not a Toronto Business Day, the next following Toronto Business Day  |
| <b>Moody's</b> .....                    | Moody's Investors Service, Inc. or its successors  |
| <b>Mortgage</b> .....                   | The legal charge, mortgage, hypothec, standard security or charge securing a Loan, and includes a Step Collateral Mortgage   |
| <b>Mortgage Conditions</b> .....        | The terms and conditions applicable to the Loans as contained in a Seller's "Mortgage Conditions" booklets for Canadian mortgage loans, applicable from time to time (or the equivalent documentation published by a New Seller, as the case may be) and including, in respect of a STEP Loan, the STEP Plan   |
| <b>Mortgage Sale Agreement</b> .....    | The mortgage sale agreement made as of the Programme Date as between the Sellers, the Security Trustee and the Guarantor (as amended, modified, supplemented or restated from time to time) and, where the context so requires, including any New Mortgage Sale Agreement entered into from time to time between any New Seller, the Guarantor and the Security Trustee  |
| <b>Mortgage Terms</b> .....             | All of the terms and conditions applicable to a Loan, including, without limitation, the applicable Mortgage Conditions and Offer Conditions and including, in respect of a STEP Loan, the STEP Plan   |
| <b>Mortgaged Property</b> .....         | Freehold or leasehold residential property located in Canada which is subject to a Mortgage  |
| <b>Negative Carry Factor</b> .....      | The meaning given on page 145  |
| <b>New Covered Bonds</b> .....          | The meaning given in Condition 6.11  |
| <b>New Global Covered Bond</b> .....    | A Temporary Global Covered Bond in the form set out in Part 1 of Schedule 2 to the Trust Deed or a Permanent Global Covered Bond in the form set out in Part 2 of Schedule 2 to the Trust Deed, in either case where the applicable Final Terms Document specifies that the Covered Bonds are in NGCB form   |
| <b>New Loan Type</b> .....              | A new type of loan originated or acquired by a Seller (such as a home equity line of credit) and insured by CMHC Mortgage Insurance (or equivalent insurance provided by CMHC), which such Seller intends to transfer to the Guarantor, the terms and conditions of which are materially different (in the opinion of such Seller, acting reasonably) from the Loans. For the avoidance of doubt, a loan will not constitute a New Loan Type if it differs from the Loans in the Portfolio due to it having different interest rates and/or interest periods and/or time periods |
| <b>New Mortgage Sale Agreement</b> ...  | Any new mortgage sale agreement entered into between any New Seller, the Guarantor and the Security Trustee (as amended, modified, supplemented or restated from time to time), which will be substantially in the same form and   |

contain substantially the same provisions as the mortgage sale agreement made as of the Programme Date between the Sellers, the Security Trustee and the Guarantor (as amended, modified, supplemented or restated from time to time)

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| <b>New Portfolio</b> .....                | The meaning given on page 175  |
| <b>New Seller</b> .....                   | Any member of the Scotiabank Group (other than the Bank and Scotia Mortgage Corporation) that accedes to the relevant Transaction Documents in accordance with the terms thereof and sells Additional Loans and their Related Security to the Guarantor in the future pursuant to the Mortgage Sale Agreement or a New Mortgage Sale Agreement                         |
| <b>NGCB</b> .....                         | New Global Covered Bond  |
| <b>Non-exempt Offer</b> .....             | The meaning given on page 199  |
| <b>Non-Performing Loan</b> .....          | Any Loan in the Portfolio which is 90 days or more in arrears  |
| <b>Non-resident Holder</b> .....          | The meaning given on page 180  |
| <b>Notice to Pay</b> .....                | The meaning given in Condition 9.1   |
| <b>Offer Conditions</b> .....             | The terms and conditions applicable to a specified Loan as set out in the relevant offer letter to the Borrower  |
| <b>Official List</b> .....                | The meaning given on the cover page  |
| <b>Omnibus Proxy</b> .....                | The omnibus proxy mailed by DTC to the Issuer as soon as possible after the record date in accordance with DTC's usual procedures  |
| <b>Optional Redemption Amount</b> ....    | The meaning (if any) given in the applicable Final Terms Document  |
| <b>Optional Redemption Date</b> .....     | The meaning (if any) given in the applicable Final Terms Document  |
| <b>Original Due for Payment Date</b> ...  | The meaning given in paragraph (a) of the definition of Due for Payment  |
| <b>OSFI</b> .....                         | The meaning given on page 34   |
| <b>Other STEP Creditor</b> .....          | With respect to any Other STEP Product, a third party purchaser of such Other STEP Product from the related Seller   |
| <b>Other STEP Products</b> .....          | Other than mortgage loans, all other STEP Accounts extended by a Seller to a particular STEP Borrower which are subject to the STEP Plan. If home equity lines of credit are approved by the Rating Agencies as a New Loan Type, then such home equity lines of credit extended to STEP Borrowers subject to the STEP Plan will not be included in Other STEP Products |
| <b>Outstanding Principal Balance</b> .... | In relation to any Loan at any date (the " <b>determination date</b> "), the aggregate at such date (but avoiding double counting) of: <ul style="list-style-type: none"> <li>(a) the Initial Advance;</li> <li>(b) Capitalised Expenses;</li> </ul>   |

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|  | (c) Capitalised Arrears, and   |
|  | (d) any increase in the principal amount due under that Loan due to any form of Additional Loan Advance,   |
|  | in each case relating to such Loan less any prepayment, repayment or payment of any of the foregoing made on or prior to the determination date  |
| <b>Partial Portfolio</b> .....                               | Part of any portfolio of Selected Loans  |
| <b>Paying Agents</b> .....                                   | The meaning given on page 80   |
| <b>Payment Day</b> .....                                     | The meaning given in Condition 5.6   |
| <b>Payment Ledger</b> .....                                  | The ledger on the GIC Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record the credits and debits of Available Revenue Receipts and Available Principal Receipts for application in accordance with the applicable Priority of Payments             |
| <b>Permanent Global Covered Bond</b>                         | The meaning given on page 64   |
| <b>Persons</b> .....   | Includes individuals, corporations, limited and unlimited liability companies, general and limited partnerships, associations, trusts, unincorporated organisations, joint ventures and Governmental Authority   |
| <b>Portfolio</b> .....                                       | The meaning given on page 175  |
| <b>Post-Enforcement Priority of Payments</b> .....           | The meaning given on page 172  |
| <b>Potential Guarantor Event of Default</b> .....            | The meaning given in Condition 14  |
| <b>Potential Issuer Event of Default.</b>                    | The meaning given in Condition 14  |
| <b>PPSA</b> .....  | The personal property security legislation, as amended, supplemented or replaced from time to time, as in effect in each province and territory of Canada (other than Québec), and the Civil Code of Québec, as amended, supplemented or replaced from time to time, as in effect in Québec            |
| <b>Pre-Acceleration Principal Priority of Payments</b> ..... | The meaning given on page 166  |
| <b>Pre-Acceleration Revenue Priority of Payments</b> .....   | The meaning given on page 164  |
| <b>Pre-Maturity Liquidity Ledger ...</b>                     | The ledger on the GIC Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record the credits and debits of funds available to repay any Series of Hard Bullet Covered Bonds on the Final Maturity Date thereof if the Pre-Maturity Test has been breached |
| <b>Pre-Maturity Test</b> .....                               | The meaning given on page 160  |

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| <b>Pre-Maturity Test Date</b> .....            | The meaning given on page 160   |
| <b>Preceding Business Day Convention</b> ..... | The meaning given in Condition 4.5(b)(iv)   |
| <b>Principal Amount Outstanding</b> ...        | The meaning given on page 93  |
| <b>Principal Ledger</b> .....                  | The ledger on the GIC Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record the credits and debits of Principal Receipts in accordance with the terms of the Declaration of Trust   |
| <b>Principal Paying Agent</b> .....            | The meaning given on page 80  |
| <b>Principal Receipts</b> .....                | Any payment received in respect of principal in respect of any Loan (including payments pursuant to any insurance policies), whether as all or part of a Monthly Payment in respect of such Loan, on redemption (including partial redemption) of such Loan, on enforcement of such Loan (including the proceeds of sale of the relevant Mortgaged Property) or on the disposal of such Loan or otherwise (without double counting but including principal received or treated as received after completion of the enforcement procedures) (but excluding, in respect of any STEP Loan, any such amounts required to be distributed to a Seller or Other STEP Creditor in respect of any Additional STEP Loan having priority over or <i>pari passu</i> with such STEP Loans) |
| <b>Priority of Payments</b> .....              | The orders of priority for the allocation and distribution of amounts standing to the credit of the Guarantor Accounts in different circumstances   |
| <b>Product Switch</b> .....                    | The meaning given on page 128   |
| <b>Programme</b> .....                         | U.S.\$15 billion global public sector covered bond programme established by the Issuer on the Programme Date which may be increased by the Issuer and the Guarantor in accordance with the terms of the Programme Agreement and applicable regulatory requirements  |
| <b>Programme Agreement</b> .....               | The meaning given on page 194   |
| <b>Programme Date</b> .....                    | 28 March 2008   |
| <b>Programme Resolution</b> .....              | The meaning given on page 110   |
| <b>Programme Size</b> .....                    | U.S.\$15 billion (or its equivalent in other currencies at the date of issue) which may be increased by the Issuer and the Guarantor in accordance with the terms of the Programme Agreement and applicable regulatory requirements   |
| <b>Proposed Amendments</b> .....               | The meaning given on page 180   |
| <b>Prospectus</b> .....                        | The meaning given on the cover page   |
| <b>Prospectus Directive</b> .....              | The meaning given on page 199   |
| <b>PSM</b> .....                               | The meaning given on the cover page   |

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| <b>Purchaser</b> .....                  | Any third party or a Seller to whom a Servicer offers to sell Selected Loans pursuant to the Mortgage Sale Agreement and/or the Declaration of Trust   |
| <b>Put Notice</b> .....                 | The meaning given in Condition 6.4   |
| <b>QIB</b> .....                        | A "qualified institutional buyer" within the meaning of Rule 144A  |
| <b>Randomly Selected Loans</b> .....    | Loans and, if applicable, their Related Security, in the Portfolio, selected in accordance with the terms of the Declaration of Trust 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 Portfolio, except with respect to identifying such Loans and their Related Security as having been acquired by the Guarantor from a particular Seller, if applicable, <i>provided</i> that for such purpose, all STEP Loans made to the same STEP Borrower which are owned by the Guarantor shall be considered as a single Loan |
| <b>Rate of Interest</b> .....           | In respect of a Series of interest-bearing Covered Bonds, the rate of interest payable from time to time in respect of such Covered Bonds determined in accordance with the Terms and Conditions and the applicable Final Terms Document   |
| <b>Rating Agencies</b> .....            | Fitch, Moody's and DBRS each, a " <b>Rating Agency</b> ", and any other internationally recognised rating agency that may rate the Covered Bonds from time to time   |
| <b>Rating Agency Confirmation</b> ..... | A confirmation in writing by the Rating Agencies that the then current ratings of the Existing Covered Bonds will not be downgraded or withdrawn as a result of the relevant event or matter   |
| <b>Ratings</b> .....                    | With respect to any entity, (a) the long-term or short-term rating given by Moody's to such entity's, unsecured, unguaranteed and unsubordinated debt, (b) the long-term or short-term issuer default rating given to such entity by Fitch and (c) the long-term or short-term rating given by DBRS to such entity's, unsecured, unguaranteed and unsubordinated debt  |
| <b>Receiver</b> .....                   | Any Person or Persons appointed (and any additional Person or Persons appointed or substituted) as an administrative receiver, receiver, manager, or receiver and manager of the Charged Property by the Security Trustee pursuant to the Security Agreement following service of a Guarantor Acceleration Notice on the Guarantor   |
| <b>Record Date</b> .....                | The meaning given in Condition 5.4   |
| <b>Records</b> .....                    | With respect to each Loan, all documents and information (other than the Customer File) including, without limitation, computer programs, tapes, discs, punch cards, data processing software and related property and rights, maintained by a Seller or a Servicer with respect to such Loan, the Related Security and the related Borrower   |
| <b>Redeemed Covered Bonds</b> .....     | The meaning given in Condition 6.3   |
| <b>Redenomination Date</b> .....        | The meaning given in Condition 5.9   |

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| <b>Reference Bank</b> .....                       | In the case of a determination of CDOR, four major Canadian Schedule I chartered banks; in the case of a determination of LIBOR, four major banks in the London interbank market; and, in the case of a determination of EURIBOR, four major banks in the Euro-zone interbank market   |
| <b>Reference Price</b> .....                      | In respect of a Zero Coupon Covered Bond, the meaning given in the applicable Final Terms Document   |
| <b>Reference Rate</b> .....                       | In respect of Floating Rate Covered Bonds to which Screen Rate Determination applies, the meaning given in the applicable Final Terms Document   |
| <b>Register</b> .....                             | The meaning given on page 95   |
| <b>Registered Covered Bond</b> .....              | A Covered Bond in registered form  |
| <b>Registered Global Covered Bonds</b> .....      | Global Covered Bonds in registered form, comprising Rule 144A Global Covered Bonds and Regulation S Global Covered Bonds   |
| <b>Registrable Transfers</b> .....                | Each transfer, assignment or conveyance in appropriate form that is required to assign the relevant Loan and its Related Security in the Portfolio to the Guarantor or as the Guarantor directs, containing all necessary information (including mortgage registration number and a legal description of the Mortgaged Property subject to the Mortgage that complies with local law) and executed as necessary (including witnessed and under seal, if necessary) and accompanied by all required affidavits and certificates, for registration in the land registry or land titles office for the location where the real property subject thereto is situate or filing under the PPSA, as the case may be |
| <b>Registrar</b> .....                            | The meaning given on page 80   |
| <b>Regulation S</b> .....                         | The meaning given on the cover page  |
| <b>Regulation S Covered Bond</b> .....            | The meaning given on page 198  |
| <b>Regulation S Definitive Covered Bond</b> ..... | The meaning given in Condition 2.7   |
| <b>Regulation S Global Covered Bond</b> .....     | The meaning given in Condition 2.7   |
| <b>Regulations</b> .....                          | The meaning given on page 180  |
| <b>Related Security</b> .....                     | With respect to any Loan, subject to paragraphs (A), (B) and (C) of this definition in respect of any STEP Loan, all of a Seller's right, title and interest in: <ul style="list-style-type: none"> <li>(a) all security interests or liens and property subject thereto from time to time purporting to secure payment of such Loan and all proceeds thereof or realised thereunder, including, without limitation: <ul style="list-style-type: none"> <li>(i) the Mortgage and the security interest granted to such Seller by the related Borrower in the related Mortgaged Property as security for or pursuant to such Loan, and all Records</li> </ul> </li> </ul>                                     |

related thereto

- (ii) all PPSA financing statements or other filings relating thereto;
- (b) the related Customer File;
- (c) all guaranties, indemnities, insurance (other than blanket insurance coverage maintained by a Seller) and other agreements or arrangements of whatever character from time to time supporting or documenting payment of such Loan, which are or should be included in the Customer Files, and all proceeds of the foregoing;
- (d) the proceeds of any claims made under the blanket insurance coverage maintained by a Seller where such proceeds relate to such Loan; and
- (e) the benefit of the insurance in respect of such Loan provided under the applicable CMHC Mortgage Insurance to the extent required so that when sold to the Guarantor such Loan remains an insured loan within the meaning of the *National Housing Act* (Canada), including the right to all related insurance proceeds paid or payable under the applicable CMHC Mortgage Insurance in respect of claims made in respect of such Loan, subject to the terms and conditions of the applicable CMHC Mortgage Insurance;

and in relation to a STEP Loan:

- (A) as to (a), (b), (c), (d) and (e) above, all of the Seller's right, title and interest therein, *provided* that upon the transfer and/or assignment of which (excluding any such property relating solely to such STEP Loan or any related STEP Loan owned by the Guarantor from time to time) to the Guarantor, the Guarantor will hold (i) an undivided interest in such property for the sole and absolute account and benefit of the Guarantor to the extent of the indebtedness owing under such Loan or any related STEP Loan owned by the Guarantor from time to time, and (ii) an undivided interest in such property as agent, nominee and bare trustee for the relevant Seller and/or Other STEP Creditor (except for (e) above with respect to any Other STEP Creditor) to the extent of any amounts of indebtedness owing under any Additional STEP Loans and Other STEP Products outstanding under the STEP Plan from time to time, in each case, subject to the applicable priority arrangement described in *Summary of the Principal Documents—Mortgage Sale Agreement—Scotia Total Equity Plan and STEP Loans*;
- (B) notwithstanding (A) above, with respect to STEP Loans for which interests in Other STEP Products have been sold to a third party purchaser, all of the Seller's right, title and interest in (b), (c), (d) and (e) above will be transferred to the Guarantor except such interests of such purchaser as required to enforce the rights of such purchaser in respect of such Other STEP Products; and
- (C) notwithstanding (A) and (B) above, with respect to STEP Loans in the Province of Québec, as to (a) above, the Guarantor will become a

beneficiary of the security interests or liens and property subject thereto from time to time purporting to secure payment of such Loan and all proceeds thereof or realised thereunder, and will become, together with the relevant Seller and any Other STEP Creditor of a related STEP Account, a secured party as to any Mortgage and other security interest granted by the related Borrower in the related Mortgaged Property as security for or pursuant to such Loan.

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| <b>Relevant Date</b> .....                                 | The meaning given in Condition 7  |
| <b>Relevant Implementation Date</b> ....                   | The meaning given on page 199   |
| <b>Relevant Member State</b> .....                         | The meaning given on page ii.   |
| <b>Relevant Period</b> .....                               | The meaning given in Condition 14   |
| <b>Relevant Screen Page</b> .....                          | In respect of Floating Rate Covered Bonds to which Screen Rate Determination applies, the meaning given in the Final Terms Document   |
| <b>Report</b> .....  | The meaning given in the Consent of KPMG LLP on page 240  |
| <b>Repurchase Amount</b> .....                             | With respect to a Loan at any time, the sum of the Outstanding Principal Balance of such Loan and all Arrears of Interest and Accrued Interest thereon  |
| <b>Requesting Party</b> .....                              | The meaning given on page 115   |
| <b>Required Outstanding Principal Balance Amount</b> ..... | The meaning given on page 147   |
| <b>Required Redemption Amount</b> ...                      | The meaning given on page 148   |
| <b>Reserve Fund</b> .....                                  | The reserve fund that the Guarantor will be required to establish on the GIC Account which will be credited with Available Revenue Receipts up to an amount equal to the Reserve Fund Required Amount   |
| <b>Reserve Fund Required Amount.</b>                       | Nil, unless the Issuer's Ratings fall below the ratings specified in the Master Definitions and Construction Agreement and then an amount equal to the Canadian Dollar Equivalent of two months' interest due on each Series of Covered Bonds together with an amount equal to one-sixth of the anticipated aggregate annual amount payable in respect of the items specified in paragraphs (a) to (c) and if applicable (d) of the Pre-Acceleration Revenue Priority of Payments |
| <b>Reserve Ledger</b> .....                                | The ledger on the GIC Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement, to record the crediting of Available Revenue Receipts to the Reserve Fund and the debiting of such Reserve Fund in accordance with the terms of the Declaration of Trust   |
| <b>Reset Date</b> .....                                    | The meaning given in the ISDA Definitions   |
| <b>Responsible Persons</b> .....                           | The meaning given on page i.  |
| <b>Revenue Ledger</b> .....                                | The ledger on the GIC Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement, to record credits and  |

debits of Revenue Receipts in accordance with the terms of the Declaration of Trust

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| <b>Revenue Receipts</b> .....                  | Any payment received in respect of any Loan, including payments pursuant to any insurance policies and any payment received from a Seller in respect of interest amounts on a Loan (otherwise than in respect of a Loan that has been repurchased by a Seller), whether as all or part of a Monthly Payment in respect of such Loan, on redemption (including partial redemption) of such Loan, on enforcement of such Loan (including the proceeds of sale of the relevant Mortgaged Property) or on the disposal of such Loan or otherwise, which in any such case is not a Principal Receipt in respect of such Loan (but excluding, in respect of any STEP Loan, any such amounts required to be distributed to a Seller or Other STEP Creditor in respect of any Additional STEP Loan having priority over or <i>pari passu</i> with such STEP Loans)  |
| <b>Rule 144A</b> .....                         | Rule 144A under the Securities Act  |
| <b>Rule 144A Covered Bond</b> .....            | A Covered Bond represented by a Rule 144A Global Covered Bond or a Rule 144A Definitive Covered Bond  |
| <b>Rule 144A Definitive Covered Bond</b> ..... | A Registered Covered Bond sold in the United States to QIBs in reliance on Rule 144, which is in definitive form  |
| <b>Rule 144A Global Covered Bond</b> .....     | A Registered Global Covered Bond representing Covered Bonds sold in the United States to QIBs in reliance on Rule 144A  |
| <b>Rules</b> .....                             | The rules, regulations and procedures creating and affecting DTC and its operations   |
| <b>Scheduled Interest</b> .....                | In relation to a Series of Covered Bonds, an amount equal to the amount in respect of interest which is or would have been due and payable under such Covered Bonds on each Interest Payment Date as specified in Condition 4 (but excluding any additional amounts relating to premiums, default interest or interest upon interest (" <b>Excluded Scheduled Interest Amounts</b> ") payable by the Issuer following service of an Issuer Acceleration Notice, but including such amounts (whenever the same arose) following service of a Guarantor Acceleration Notice), as if such Covered Bonds had not become due and repayable prior to their Final Maturity Date and (if the applicable Final Terms Document specified that an Extended Due for Payment Date is applicable to the relevant Covered Bonds) as if the maturity date of the Covered Bonds had been the Extended Due for Payment Date (but taking into account any principal repaid in respect of such Covered Bonds or any Guaranteed Amounts paid in respect of such principal prior to the Extended Due for Payment Date) or, where applicable, after the Final Maturity Date, such other amount of interest as may be specified in the applicable Final Terms Document but not including any additional amounts the Issuer would be obliged to pay as a result of any gross-up in respect of any withholding or deduction made under the circumstances set out in Condition 7 |
| <b>Scheduled Payment Date</b> .....            | In relation to payments under the Covered Bond Guarantee in respect of a Series of Covered Bonds, each Interest Payment Date or the Final Maturity Date as if such Covered Bonds had not become due and repayable prior to  |

their Final Maturity Date

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| <b>Scheduled Principal</b> .....        | In relation to a Series of Covered Bonds, an amount equal to the amount in respect of principal which is or would have been due and repayable under such Covered Bonds on each Interest Payment Date or the Final Maturity Date (as the case may be) as specified in Conditions 6.1 and 6.7 (but excluding any additional amounts relating to prepayments, early redemption, broken funding indemnities, penalties, premiums or default interest (" <b>Excluded Scheduled Principal Amounts</b> ")) payable by the Issuer following service of an Issuer Acceleration Notice, but including such amounts (whenever the same arose) following service of a Guarantor Acceleration Notice), as if such Covered Bonds had not become due and repayable prior to their Final Maturity Date and (if the Final Terms Document specified that an Extended Due for Payment Date is applicable to such relevant Covered Bonds) as if the maturity date of such Covered Bonds had been the Extended Due for Payment Date |
| <b>Scotiabank Group</b> .....           | The Bank and its Subsidiaries collectively   |
| <b>Screen Rate Determination</b> .....  | If specified as applicable in the applicable Final Terms Document, the manner in which the Rate of Interest on Floating Rate Covered Bonds is to be determined in accordance with Condition 4.2(b)(ii)   |
| <b>Secured Creditors</b> .....          | The Security Trustee (in its own capacity and on behalf of the other Secured Creditors and on behalf of the Covered Bondholders), the Covered Bondholders, the Couponholders, the lender under the Intercompany Loan Agreement, the Subordinated Loan Provider, the Sellers, the Servicers, the Bond Trustee, the Account Bank, the GIC Provider, the Standby Account Bank, the Standby GIC Provider, the Cash Manager, the Swap Providers, the Agents, the Administrative Agent, the Guarantor Trustee and any other Person which becomes a Secured Creditor pursuant to the Security Agreement   |
| <b>Securities Act</b> .....             | The meaning given on the cover page  |
| <b>Security</b> .....                   | The meaning given on page 157  |
| <b>Security Agreement</b> .....         | The meaning given on page 81   |
| <b>Security Trustee</b> .....           | Computershare Trust Company of Canada, in its capacity as security trustee under the Security Agreement together with any successor security trustee appointed from time to time   |
| <b>Selected Loan Offer Notice</b> ..... | A notice from the Guarantor served on a Seller offering to sell Selected Loans for an offer price equal to the greater of (i) the sum of the then Outstanding Principal Balance of the Selected Loans and any swap termination payments due and payable by the Guarantor under a Swap Agreement as a result of such sale, and (ii) the sum of the Adjusted Required Redemption Amount for the relevant Series of Covered Bonds   |
| <b>Selected Loan Repurchase Notice</b>  | A notice from a Seller served on the Guarantor accepting an offer set out in a Selected Loan Offer Notice  |
| <b>Selected Loans</b> .....             | Loans and their Related Security in the Portfolio to be sold by the Guarantor, pursuant to the terms of the Declaration of Trust or the Mortgage Sale  |

Agreement, having in aggregate the Required Outstanding Principal Balance Amount. For such purposes, all STEP Loans made to the same STEP Borrower which are owned by the Guarantor shall be considered a single Loan

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| <b>Selection Date</b> .....         | The meaning given in Condition 6.3  |
| <b>Seller Arranged Policy</b> ..... | Any property insurance policy arranged by the relevant Seller for the purposes of the Borrower insuring the Mortgaged Property for an amount equal to the full rebuilding cost of the Mortgaged Property  |
| <b>Sellers</b> .....                | The Bank and Scotia Mortgage Corporation, and any New Seller  |
| <b>Series</b> .....                 | The meaning given on page 81  |
| <b>Series Reserved Matter</b> ..... | In relation to Covered Bonds of a Series: <ul style="list-style-type: none"><li>(a) reduction or cancellation of the amount payable or, where applicable, modification of the method of calculating the amount payable or modification of the date of payment or, where applicable, modification of the method of calculating the date of payment in respect of any principal or interest in respect of the Covered Bonds other than in accordance with the terms thereof;</li><li>(b) alteration of the currency in which payments under the Covered Bonds and Coupons are to be made;</li><li>(c) alteration of the majority required to pass an Extraordinary Resolution;</li><li>(d) any amendment to the Covered Bond Guarantee or the Security Agreement (except in a manner determined by the Bond Trustee not to be materially prejudicial to the interests of the Covered Bondholders of any Series or an amendment which is in the sole opinion of the Bond Trustee or the Security Trustee (as the case may be) of a formal, minor or technical nature or to correct a manifest error or an error which is, in the sole opinion of the Bond Trustee or the Security Trustee (as the case may be) proven or is to comply with mandatory provisions of law);</li><li>(e) the sanctioning of any such scheme or proposal for the exchange or sale of the Covered Bonds or the conversion of the Covered Bonds into, or the cancellation of the Covered Bonds in consideration of, shares, stock, covered bonds, bonds, debentures, debenture stock and/or other obligations and/or securities of the Issuer, or any other company formed or to be formed, or for or into or in consideration of cash, or partly for or into or in consideration of such shares, stock, bonds, covered bonds, debentures, debenture stock and/or other obligations and/or securities as aforesaid and partly for or into or in consideration of cash and for the appointment of some Person with power on behalf of the Covered Bondholders to execute an instrument of transfer of the Registered Covered Bonds held by them in favour of the Persons with or to whom the Covered Bonds are to be exchanged or sold respectively; and</li></ul> |

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|   | (f) alteration of the proviso to paragraph 5 or paragraph 6 of Schedule 5 to the Trust Deed  |
| <b>Servicer</b> .....                       | The Sellers in their capacity as servicers under the Servicing Agreement (and any successor servicers)   |
| <b>Servicer Downgrade</b> .....             | With respect to any Servicer that is an Affiliate of the Issuer, a downgrade in the Ratings of the Issuer or, with respect to any other Servicer, a downgrade in the Ratings of such Servicer or its guarantor, in each case below the levels specified in the Servicing Agreement   |
| <b>Servicer Termination Event</b> .....     | The meaning given on page 138  |
| <b>Servicing Agreement</b> .....            | The servicing agreement made as of the Programme Date as between the Servicers, the Sellers, the Cash Manager, the Security Trustee and the Guarantor, as amended and restated by the amended and restated servicing agreement dated 3 November 2009, and as further amended and restated servicing agreement dated on or before 22 July 2010 (and as further amended, modified, supplemented or restated from time to time) |
| <b>Specified Currency</b> .....             | Subject to any applicable legal or regulatory restrictions, euro, Sterling, U.S. Dollars, Canadian Dollars and such other currency or currencies as may be agreed from time to time by the Issuer, the relevant Dealer(s), the Principal Paying Agent and the Bond Trustee and specified in the applicable Final Terms Document  |
| <b>Specified Denomination</b> .....         | The meaning given in the applicable Final Terms Document   |
| <b>Specified Time</b> .....                 | 11:00 a.m. (London time, in the case of determination of LIBOR, or Brussels time, in the case of a determination of EURIBOR)   |
| <b>Stabilising Manager</b> .....            | If specified as applicable in the applicable Final Terms Document, the stabilising manager for that Series of Covered Bonds, and any successor stabilising manager or Person acting on behalf of the stabilising manager   |
| <b>Stand-Alone Prospectus</b> .....         | The meaning given on page 43   |
| <b>Standardised Approach</b> .....          | Annex VI (Standardised Approach) to the Capital Requirements Directive (or, after any amendment, variation, enactment or implementation of such Directive, the corresponding Annex)  |
| <b>Standby Account Bank</b> .....           | Canadian Imperial Bank of Commerce, acting through its offices at 11 <sup>th</sup> Floor, 161 Bay Street, Toronto, Ontario, M5J 2S8, in its capacity as standby account bank under the Standby Bank Account Agreement, together with any successor standby account bank  |
| <b>Standby Account Bank Notice</b> .....    | A notice in substantially the form set out in the Standby Bank Account Agreement served by the Guarantor (or the Cash Manager on its behalf) on the Standby Account Bank   |
| <b>Standby Bank Account Agreement</b> ..... | Standby bank account agreement entered into on the Programme Date between the Guarantor, the Standby Account Bank, the Standby GIC Provider, the Cash Manager and the Security Trustee, as amended and restated by the amended and restated standby bank account agreement dated 3   |

November 2009, and as further amended and restated by the second amended and restated standby bank account agreement dated on or before 22 July 2010 (and as further amended and/or supplemented and/or restated from time to time)

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| <b>Standby GIC Account</b> .....                    | The account in the name of the Guarantor held with the Standby Account Bank and maintained subject to the terms of the Standby Guaranteed Investment Contract, the Standby Bank Account Agreement and the Security Agreement or such additional or replacement account as may be in place from time to time |
| <b>Standby GIC Provider</b> .....                   | Canadian Imperial Bank of Commerce, acting through its offices at 11 <sup>th</sup> Floor, 161 Bay Street, Toronto, Ontario, M5J 2S8, in its capacity as standby GIC provider under the Standby Guaranteed Investment Contract, together with any successor standby GIC provider                             |
| <b>Standby Guaranteed Investment Contract</b> ..... | Standby guaranteed investment contract between the Standby Account Bank, the Standby GIC Provider, the Guarantor, the Cash Manager and the Security Trustee dated the Programme Date (as amended and/or supplemented and/or restated from time to time)   |
| <b>Standby Transaction Account</b> .....            | The account in the name of the Guarantor held with the Standby Account Bank and maintained subject to the terms of the Standby Bank Account Agreement and the Security Agreement or such additional or replacement account as may be in place from time to time   |
| <b>STEP Account</b> .....                           | In respect of the STEP Plan, one or more separate loans or credit products made available by a Seller to the relevant STEP Borrower within certain specified categories, being mortgage loans, lines of credit, credit cards, term loans and/or overdraft protection  |
| <b>STEP Borrower</b> .....                          | The Borrower under a STEP Loan  |
| <b>STEP Collateral Mortgage</b> .....               | In respect of a STEP Loan, the Mortgage that secures the outstanding indebtedness owing under such STEP Loan and all related STEP Accounts extended by a Seller to the same STEP Borrower   |
| <b>STEP Loan</b> .....                              | Each Loan made by a Seller to a particular Borrower that is subject to the STEP Plan from time to time, and includes the First STEP Loan and each Additional STEP Loan advanced to such Borrower  |
| <b>STEP Plan</b> .....                              | With respect to any Borrower, the umbrella agreement with the related Seller for the provision of multiple secured credit products, which is currently marketed as the Scotia Total Equity Plan   |
| <b>Sterling LIBOR</b> .....                         | LIBOR for sterling deposits having the relevant maturity  |
| <b>Subordinated Advances</b> .....                  | Collectively, Deferred Consideration Subordinated Advances, Asset Coverage Test Subordinated Advances and the other advances permitted under the terms of the Subordinated Loan Agreement   |
| <b>Subordinated Loan</b> .....                      | Subordinated loan made available by the Subordinated Loan Provider to the Guarantor, on a secured basis, pursuant to the terms of the Subordinated Loan   |

Agreement

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| <b>Subordinated Loan Agreement ...</b>  | The loan agreement entered into on the Programme Date between the Guarantor, the Subordinated Loan Provider, the Cash Manager and the Security Trustee (as amended and/or supplemented and/or restated from time to time)  |
| <b>Subordinated Loan Facility .....</b> | The meaning given on page 150  |
| <b>Subordinated Loan Ledger .....</b>   | The ledger maintained by the Cash Manager on behalf of the Guarantor in respect of the Subordinated Loan to record the balance of the Subordinated Loan from time to time  |
| <b>Subordinated Loan Provider .....</b> | The Bank, in its capacity as subordinated loan provider under the Subordinated Loan Agreement, or any successor or additional subordinated loan provider appointed from time to time thereunder  |
| <b>Subsidiary .....</b>                 | Any company which is for the time being a subsidiary (within the meaning of Section 2 of the Bank Act)   |
| <b>Substitution Assets .....</b>        | <p>The classes and types of assets from time to time eligible under the Capital Requirements Directive to collateralise covered bonds which may include the following, <i>provided</i> that the total exposure to such Substitution Assets will not exceed 10 per cent. of the (Canadian Dollar Equivalent of the) aggregate Principal Amount Outstanding of the Covered Bonds:</p> <ul style="list-style-type: none"><li>(a) exposures to institutions that qualify for a 10 per cent. risk weighting under the Standardised Approach;</li><li>(b) exposures to institutions that qualify for a 20 per cent. risk weighting under the Standardised Approach; and</li><li>(c) Canadian Dollar denominated residential mortgage backed securities <i>provided</i> that such class of investments have received Rating Agency Confirmation;</li></ul> <p>in each case, <i>provided</i> that</p> <ul style="list-style-type: none"><li>(i) such exposures will have certain minimum long-term and short-term ratings from the Rating Agencies, as specified by such Rating Agencies from time to time;</li><li>(ii) the maximum aggregate total exposures in general to classes of assets with certain ratings by the Rating Agencies will, if specified by the Rating Agencies, be limited to the maximum percentages specified by such Rating Agencies; and</li><li>(iii) in respect of investments of Available Revenue Receipts in such classes and types of assets, the Interest Rate Swap Provider has given its consent to investments in such classes and types of assets</li></ul> |
| <b>Sub-unit .....</b>                   | The meaning given on page 93   |
| <b>Superintendent .....</b>             | The meaning given on page 33   |

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| <b>Swap Agreements</b> .....                  | The Covered Bond Swap Agreement together with the Interest Rate Swap Agreement, and each a " <b>Swap Agreement</b> "   |
| <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 as collateral in respect of the performance by such Swap Provider of its obligations under the relevant Swap Agreement together with any income or distributions received in respect of such asset and any equivalent of such asset into which such asset is transformed   |
| <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, including Swap Collateral which is to be returned to the relevant Swap Provider upon termination of the relevant Swap Agreement  |
| <b>Swap Provider Default</b> .....            | The occurrence of an Event of Default (as defined in the relevant Swap Agreement) with respect to the relevant Swap Provider, where the relevant Swap Provider is the Defaulting Party (as defined in the relevant Swap Agreement)   |
| <b>Swap Provider Downgrade Event</b> .....    | The occurrence of an Additional Termination Event (as defined in the relevant Swap Agreement) following a failure by a Swap Provider to comply with the requirements of the ratings downgrade provisions set out in the relevant Swap Agreement  |
| <b>Swap Providers</b> .....                   | The Covered Bond Swap Provider and the Interest Rate Swap Provider, and each a " <b>Swap Provider</b> "  |
| <b>Talons</b> .....                           | The meaning given on page 81   |
| <b>TARGET System</b> .....                    | The meaning given on page 90   |
| <b>Tax Act</b> .....                          | The meaning given on page 31   |
| <b>Tax Credit</b> .....                       | The meaning given in the relevant Swap Agreement   |
| <b>Taxes</b> .....                            | All present and future taxes, levies, imposts, duties (other than stamp duty), fees, deductions, withholdings or charges of any nature whatsoever and wheresoever imposed, including, without limitation, income tax, corporation tax, goods and services tax or other tax in respect of added value and any franchise, transfer, sales, gross receipts, use, business, occupation, excise, personal property, real property or other tax imposed by any national, local or supranational taxing or fiscal authority or agency together with any penalties, fines or interest thereon and " <b>Tax</b> " and " <b>Taxation</b> " will be construed accordingly |
| <b>TEFRA</b> .....                            | United States Tax Equity and Fiscal Responsibility Act of 1982   |
| <b>TEFRA C Rules</b> .....                    | The meaning given on page 67   |
| <b>TEFRA D Rules</b> .....                    | The meaning given on page 67   |

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| <b>Temporary Global Covered Bond</b> .....      | The meaning given on page 64   |
| <b>Termination Date</b> .....                   | The earlier to occur of (a) 24 January 2028, and (b) the date which is 60 days after the date on which all Covered Bonds have been repaid in full and no longer remain outstanding and the Guarantor has satisfied all of its obligations under the Transaction Documents  |
| <b>Terms and Conditions or Conditions</b> ..... | The terms and conditions of the Covered Bonds as set out herein  |
| <b>Third Party Amounts</b> .....                | Each of: <ul style="list-style-type: none"> <li>(a) payments of insurance premiums, if any, due to an insurer in respect of any Seller Arranged Policy to the extent not paid or payable by such Seller;</li> <li>(b) amounts under an unpaid direct debit which are repaid by a Seller to the bank making such payment if such bank is unable to recoup that amount itself from its customer's account; and</li> <li>(c) any amount received from a Borrower for the express purpose of payment being made to a third party for the provision of a service (including giving insurance cover) to any of that Borrower or a Seller or the Guarantor;</li> </ul> <p style="margin-left: 100px;">which amounts will be paid on receipt by the Guarantor to a Seller from funds on deposit in the GIC Account</p> |
| <b>Title Trigger Event</b> .....                | The meaning given on page 129  |
| <b>Toronto Business Day</b> .....               | A day (other than a Saturday or Sunday) on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in Toronto  |
| <b>Total Assets</b> .....                       | The meaning given on page 34   |
| <b>Total Credit Commitment</b> .....            | The combined aggregate amount available to be drawn by the Guarantor under the terms of the Intercompany Loan Agreement, subject to increase and decrease in accordance with the terms of the Intercompany Loan Agreement, which amount is initially \$16.5 billion  |
| <b>Tranche</b> .....                            | The meaning given on page 81   |
| <b>Transaction Account</b> .....                | The account in the name of the Guarantor held with the Account Bank and maintained subject to the terms of the Bank Account Agreement and the Security Agreement or such additional or replacement account as may for the time being be in place with the prior consent of the Security Trustee and designated as such   |
| <b>Transaction Documents</b> .....              | The meaning given on page 202  |
| <b>Transfer Agent</b> .....                     | The meaning given on page 80   |

|  |  |
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| <b>Transfer Date</b> .....             | Each of the First Transfer Date and each other date on which a Loan and its Related Security is sold by the Sellers to the Guarantor in accordance with the terms of the Mortgage Sale Agreement   |
| <b>Treaty</b> .....                    | The meaning given in Condition 5.9   |
| <b>Trust Deed</b> .....                | The meaning given on page 80   |
| <b>UK Listing Authority</b> .....      | The meaning given on the cover page  |
| <b>Valuation Report</b> .....          | The valuation report or reports for mortgage purposes, obtained by a Seller in respect of each Mortgaged Property or a valuation report in respect of a valuation of a Mortgaged Property made using a methodology that would be acceptable to reasonable and prudent institutional mortgage lenders in the Seller's market and which has been approved by the relevant officers of a Seller |
| <b>Zero Coupon Covered Bonds</b> ..... | Covered Bonds which will be offered and sold at a discount to their nominal amount and which will not bear interest  |

*The following is a consent statement from KPMG LLP. In relation to this consent statement and the incorporation by reference of the auditors' report dated 8 December 2009, KPMG LLP has given and not withdrawn their consent to their inclusion in this Prospectus in the form and context in which they are included, and have authorised their contents for the purposes of Prospectus Rule 5.5.4R(2)(f) of the Prospectus Rules of the Financial Services Authority.*

#### **CONSENT OF KPMG LLP**

We have read the Prospectus dated [●] July 2011 of The Bank of Nova Scotia (the "**Bank**") or (the "**Issuer**") relating to the Issuer's U.S.\$15,000,000,000 Global Public Sector Covered Bond Programme. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the above-mentioned Prospectus of our auditors' report to the shareholders of the Bank on the consolidated balance sheets of the Bank as at 31 October 2010 and 2009 and the consolidated statements of income, changes in shareholders' equity, comprehensive income and cash flows for each of the years in the three-year period ended 31 October 2010 (the "**Consolidated Financial Statements**"). Our report is dated 3 December 2010.

For the purposes of Prospectus Rule 5.5.4R(2)(f), we are responsible for this statement "Auditors' Consent" and for our report to the shareholders of The Bank of Nova Scotia on the Consolidated Financial Statements of The Bank of Nova Scotia (the "**Report**") to be incorporated by reference as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this statement and the Reports are, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect their import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex XI of the Prospectus Rules of the Financial Services Authority.

**KPMG LLP**  
**Chartered Accountants, Licensed Public Accountants**

Toronto, Canada  
[●] July 2011

**HEAD OFFICE OF THE BANK**

1709 Hollis Street  
Halifax, Nova Scotia B3J 3B7

**EXECUTIVE OFFICES OF THE BANK**

Scotia Plaza  
44 King Street West  
Toronto, Ontario M5H 1H1

**PRINCIPAL PAYING AGENT, REGISTRAR,  
TRANSFER AGENT AND PAYING AGENT**

**The Bank of Nova Scotia, London Banking Division**  
Scotia House  
33 Finsbury Square  
London EC2A 1BB

**BOND TRUSTEE AND SECURITY TRUSTEE**

**Computershare Trust Company of Canada**  
100 University Avenue  
11th Floor, North Tower  
Toronto, Ontario M5J 2Y1

**PAYING AGENT, REGISTRAR, TRANSFER  
AGENT AND EXCHANGE AGENT**

**The Bank of Nova Scotia Trust Company  
of New York**  
One Liberty Plaza  
23rd Floor  
New York, New York 10006

**AUDITORS**

**KPMG LLP**  
Bay Adelaide Centre  
333 Bay Street, Suite 4600  
Toronto, ON M5H 2S5

**LEGAL ADVISERS**

*To the Issuer*

*(as to Canadian Law)*

**Osler, Hoskin & Harcourt LLP**  
620 8th Avenue  
36th Floor  
New York, NY 10018

*(as to U.S. law)*

**Clifford Chance US LLP**  
31 West 52nd Street  
New York, New York 10019

*(as to U.S. law)*

**Shearman & Sterling LLP**  
Commerce Court West, Suite 4405  
Toronto, Ontario M5L 1E8

*(as to English law)*

**Clifford Chance LLP**  
10 Upper Bank Street  
London E14 5JJ

*To the Dealers*

*(as to Canadian Law)*

**Stikeman Elliott LLP**  
Commerce Court West  
53rd Floor, P.O. Box 85  
Toronto, Ontario M5L 1B9

*(as to U.S. law)*

**Morrison & Foerster LLP**  
1290 Avenue of the Americas  
New York, NY 10104

**DEALERS**

**Banc of America Securities LLC**  
One Bryant Park  
New York, New York 10036

**Barclays Bank PLC**  
5 The North Colonnade  
Canary Wharf  
London E14 4BB

**Barclays Capital Inc.**  
745 Seventh Avenue  
New York, New York 10019

**BNP Paribas**  
10 Harewood Avenue  
London NW1 6AA

**Citigroup Global Markets Inc.**  
388 Greenwich Street, 35th Floor  
New York, New York 10013

**Deutsche Bank Aktiengesellschaft**  
Große Gallusstraße 10-14  
Frankfurt am Main  
Germany

**HSBC Bank plc**  
8 Canada Square  
London E14 5HQ

**Merrill Lynch International**  
2 King Edward Street  
London EC1A 1HQ

**Morgan Stanley & Co. International plc**  
25 Cabot Square  
Canary Wharf  
London E14 4QA

**Scotia Capital (USA) Inc.**  
1 Liberty Plaza  
165 Broadway  
New York, New York 10006

**Citigroup Global Markets Limited**  
Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB

**Deutsche Bank Securities Inc.**  
60 Wall Street  
New York, New York 10005

**HSBC Securities (USA) Inc.**  
452 Fifth Avenue  
New York, New York 10018

**Morgan Stanley & Co. LLC**  
1585 Broadway  
New York, New York 10036

**Scotia Capital Inc.**  
Scotia House  
33 Finsbury Square  
London EC2A 1BB